

OM Holdings Ltd

(OMH \$0.79) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	1 st September 2021	\$1.37/sh ▲ from \$1.19/sh

How to build a simple model

Event

OMH reported 1H NPAT of \$17.4m. No DPS. EBITDA was \$63.4m;

Selling prices remain very strong, and production should rebound in 2H21;

Impact

We have increased our Sarawak earnings estimates. This has resulted in an increase in our valuation;

Action

We maintain our Buy recommendation.

OMH is viewed as a complicated business. We point to the following simplifications. It demonstrates substantial profits are likely for OMH over the coming year if prices remain strong:

- A. Follow the prices of SiMn prices (BBerg ticker IREF2 Commdty <Go>) and FeSi prices (BBerg ticker IREA Commdty <Go>).
 - a. Production split rule of thumb is 65% SiMn and 35% FeSi;
 - b. Assume 360kt total volume sales CY22 (less than the 450-500ktpa at full production);
 - c. Assume annual operating costs -A\$500m pa (average unit cash cost US\$1050/t);
 - d. Simple maths at spot is
 - i. $[65\% \times \text{US}\$1,450 + 35\% \times \text{US}\$2,000 - \text{US}\$1,050] / 0.75 \times 360\text{kt} = \text{A}\284m pa
 - ii. OMH owns 75% of Sarawak, hence at spot prices, CY22 attributed EBITDA is around A\$213m pa at current spot prices and assuming production remains lower than capacity;
 - e. The net contribution in 1H21 from the other divisions (mining, marketing, Tshipi and Qinzhou) was a small profit, so for a back-of-the-envelope model, they can be ignored (or treated as upside);
- B. Or for something even simpler, follow the shareprice of the main listed peer, Ferroglobe PLC (ticker 5FG.etr, GSM.nas);

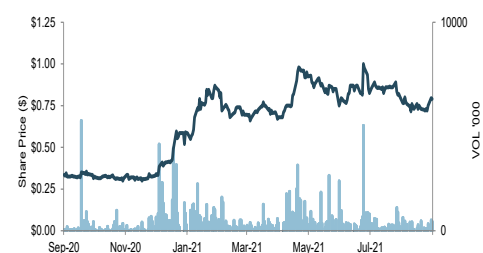
Key Catalysts

- Sept Qtrly - October;
- Bootu Creek Court Case - October
- Dec Qtrly - January;
- FY21 results - February;

OM Holdings Ltd	Year End 30 June	
Share Price	0.79	A\$/sh
Price Target	1.37	A\$/sh
Valuation (DCF)	1.05	A\$/sh
WACC	9.0%	
Terminal Growth	3.0%	
Shares on issue	739 m,	diluted
Market Capitalisation	583.5	A\$m
Enterprise Value	912.5	A\$m
Cash (30 Jun 21a)	77.9	A\$m
Debt (30 Jun 21a) inc AASB16	406.9	A\$m

Key Financials	2020a	2021a	2022f
Revenue (A\$m)	784.6	778.7	755.5
EBITDA (A\$m)	82.0	128.4	133.7
EBITA (A\$m)	26.6	74.8	81.0
Reported NPAT (A\$m)	-3.8	36.5	27.2
Normalised NPAT (A\$m)	-3.1	22.0	27.2
Op Cashflow (A\$m)	76.6	37.8	90.1
Capex (A\$m)*	-16.9	-13.9	-69.6
Op. Free Cashflow (A\$m)	59.7	23.9	20.4
Revenue Growth (%)	-24%	-1%	-3%
EBITDA Growth (%)	-47%	57%	4%
Norm. NPAT Growth (%)	-74%	182%	8%
Normalised EPS (Ac)	-0.4	2.9	3.7
Norm. EPS growth (%)	nm	nm	26%
PER (x)	nm	27.1	21.5
EV:EBITDA (x)	11.1	7.1	6.8
EV:EBIT (x)	34.3	12.2	11.3
DPS (Ac)	0.0	0.0	2.0
Dividend Yield (%)	0.0%	0.0%	2.5%
Net Debt (A\$m)	352.0	328.1	315.0
Net Debt:Equity (%)	75%	65%	60%
Interest Cover (x)	0.9	2.8	3.2

Share Price Chart



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Analysis

Our new earnings estimates are presented below.

Profit & Loss (\$m)	12/20A	12/21F			12/22F			12/23F		
	Actual	Old	New	% diff	Old	New	% diff	Old	New	% diff
Revenue	784.6	779.8	778.7	-0.1%	933.1	755.5	-19.0%	935.7	919.4	-1.7%
- growth		-0.6%	-0.8%		19.7%	-3.0%		0.3%	21.7%	
EBITDA	82.0	113.0	128.4	13.5%	136.6	133.7	-2.2%	137.9	163.4	18.5%
- margin	10.5%	14%	16%	13.7%	14.6%	18%	20.8%	14.7%	17.8%	20.6%
Sarawak	50.0	73.9	112.7	52.5%	90.0	92.2	2.5%	82.2	108.4	32.0%
Qinzhou	17.2	9.2	9.2	0.0%	9.2	9.2	0.0%	9.2	9.2	0.0%
Bootu Ck	1.2	7.1	-23.9	-436.2%	6.5	5.0	-22.9%	11.1	10.7	-3.1%
Logistics, marketing & trading	32.1	19.7	19.6	-0.1%	23.5	19.0	-19.0%	23.6	23.2	-1.7%
Tshipi - 13% (Assoc. Income)	16.5	14.8	14.8	0.0%	18.2	18.2	0.0%	26.3	26.3	0.0%
Depreciation/Amortisation	-55.4	-53.6	-53.6	0.0%	-52.7	-52.7	0.0%	-54.4	-54.4	0.0%
- Depreciation	-55.4	-53.6	-53.6	0.0%	-52.7	-52.7	0.0%	-54.4	-54.4	0.0%
- Amortisation	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
EBITA	26.6	59.5	74.8	25.7%	83.9	81.0	-3.5%	83.5	109.0	30.5%
- margin	3.4%	7.6%	9.6%	25.9%	9.0%	10.7%	19.2%	8.9%	11.9%	32.8%
Net Interest	-28.8	-26.3	-26.3	0.0%	-25.0	-25.0	0.0%	-27.6	-27.6	0.0%
Norm Pretax Profit b4 Amort.	-2.3	33.2	48.5	46.1%	58.9	56.0	-5.0%	56.0	81.5	45.6%
Norm. Tax	-0.8	-10.0	-14.6	46.1%	-17.7	-16.8	-5.0%	-16.8	-24.4	45.6%
NPAT Pre Minorities	-3.1	23.3	34.0	46.1%	41.2	39.2	-5.0%	39.2	57.0	45.6%
Minorities	0.0	0.0	-12.0		0.0	-12.0		0.0	-12.0	
Norm. Net Profit After Tax*	-3.1	23.3	22.0	-5.5%	41.2	27.2	-34.1%	39.2	45.0	15.0%
- growth		nm	nm		77%	24%		-5%	66%	
- margin	-0.4%	3.0%	2.8%		4.4%	3.6%		4.2%	4.9%	
Abnormals (net of tax)	-0.7	10.0	14.6		0.0	0.0		0.0	0.0	
Reported Profit	-3.8	33.2	36.5	10.0%	41.2	27.2	-34.1%	39.2	45.0	15.0%
Capex	-16.9	-13.9	-13.9	0.0%	-69.6	-69.6	0.0%	-69.4	-69.4	0.0%
Net Debt (cash)	352.0	294.9	328.1	11.3%	325.4	315.0	-3.2%	319.1	362.0	13.5%
DPS	0.0	0.0	0.0	nm	2.0	2.0	0.0%	2.7	3.0	15.0%

Our simple maths for a back-of-the-envelope OMH EBITDA are presented on the front page. Below is the CIX function if you have a Bloomberg terminal. This is based on the China prices, which are lower than international prices, and hence should be used as a conservative case / momentum indicator rather than an absolute calculator of OMH's Sarawak EBITDA. To compensate for the China prices being lower than international prices, we scale up our Bloomberg index by 125%. It is not a perfect model, but should help guide investors to the right ballpark.

$(1.25 * (\text{IREA Comdty} * 0.35 + \text{IMRA Comdty} * 0.65) * \text{CNYAUD Curncy} - 1050 / \text{AUDUSD Curncy}) * 360000 * 0.75 / 1000000$

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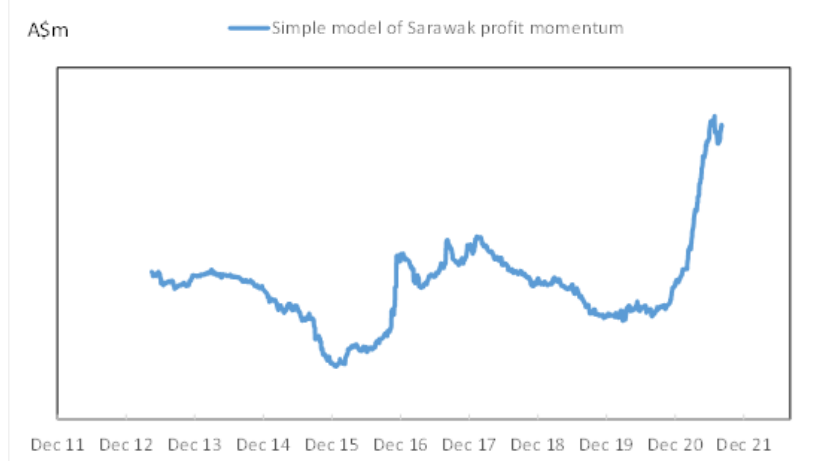
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Indicators of FeSi and SiMi prices



Source: Asian Metals, Euroz Hartleys

Indicators of Sarawak profit momentum (first production was in 2014)



Source: Asian Metals, Euroz Hartleys

Result Summary

- OMH reported 1H NPAT of \$17.5m. No DPS;
- EBITDA was \$63.4m. Operating cashflow was \$11.7m, lower than EBITDA mainly due to the low utilisation in 1H meant that unused electricity is paid for (cash), but booked as inventory in the P&L (ie a consequence of the take-or-pay electricity contract);
- Net debt was \$329m (down from \$354m at end December);
- Selling prices remain very strong. The Company reports that “The price of FeSi has been supported in 1H 2021 due to policy changes relating to power consumption in Inner Mongolia, reducing supply from the largest FeSi producing region in China.”
- Platts reported that prices of FeSi continued an upward trend from December 2020, closing at US\$1,465 per metric tonne CIF Japan at the end of March 2021, and continued to rally to close at US\$1,920 per metric tonne CIF Japan at the end of June 2021. The price of SiMn to Japan also closed higher at US\$1,280 per metric tonne CIF Japan at the end of March 2021, and continued to increase to close at US\$1,545 per metric tonne CIF Japan at the end of June 2021;

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Price Target

We increase our price target to \$1.37 (from \$1.19)

OMH Price Target Methodology	Weighting	Spot	12 mth out
Sum-of-parts	50%	\$1.05	\$1.03
- at Spot prices	15%	\$2.59	\$2.77
12mth base EV/EBITDA of 12x (high)	8%	\$1.71	\$2.02
12mth base EV/EBITDA of 4x (low)	8%	\$0.28	\$0.36
12mth spot EV/EBITDA of 12x (high)	4%	\$2.54	\$4.48
12mth spot EV/EBITDA of 4x (low)	4%	\$0.61	\$1.33
Net cash	8%	\$0.00	\$0.00
12mth fwd Div Yield of 2.8% (Gross yield=4.0%)	3%	\$0.00	\$0.71
Risk weighted composite		\$1.20	\$1.37
12 Months Price Target		\$1.37	
Shareprice - Last		\$0.790	
12 mth total return (% to 12mth target + dividend)		74.0%	
		<i>P / E (FY22) at price target</i>	<i>37.4x</i>
		<i>P / E (FY23) at price target</i>	<i>22.6x</i>
		<i>EV/EBITDA (FY23F) at price target</i>	<i>8.1x</i>
		<i>EV/EBITA (FY23F) at price target</i>	<i>12.2x</i>

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Financial Statements	2020a	2021a	2022f	2023f	Performance Ratios	2020a	2021a	2022f	2023f
Selling Price FeSi (US\$)	1459	1773	1463	1350	Growth & Margins				
Selling Price HCFeMn (US\$)	1295	1377	1313	1250	Revenue Growth	-24%	-1%	-3%	22%
Sarawak					EBITDA Growth	-47%	57%	4%	22%
FeSi - 100%	172	101	123	179	EBITA Growth	-74%	182%	8%	35%
Mn Alloys - 100%	236	207	240	338	Reported NPAT Growth	nm	nm	-26%	66%
EBITDA - 75%	50.0	112.7	92.2	108.4	Normalized Net Profit Growth	nm	nm	24%	66%
Qinzhou					EBITDA margin	10%	16%	18%	18%
FeSi - 100%	-	-	-	-	EBIT margin	3%	10%	11%	12%
Mn Alloys - 100%	10	48	48	48	Normalized net profit margin	0%	3%	4%	5%
EBITDA	-6.1	17.2	13.1	9.2	Effective tax rate	37%	0%	30%	30%
Bootu Ck					Liquidity				
Mt	0.64	0.82	0.39	0.25	Capex/depreciation (x)	0.3	0.3	1.3	1.3
EBITDA	1.2	-23.9	5.0	10.7	Current ratio (x)	0.9	1.1	1.0	1.3
Logistics, marketing and trading					Quick ratio (x)	0.3	0.3	0.3	0.4
Volumes pcp %	13.1%	43.3%	6.0%	0.0%	Receivable days	29.3	30.0	30.0	30.0
EBITDA	32.1	19.6	19.0	23.2	Payable days	15.9	60.0	60.0	60.0
Tshipi - 13% (Assoc. Income)	16.5	14.8	18.2	26.3	Risk Measures				
Group Revenue	784.6	778.7	755.5	919.4	ROIC (pre-tax)	0%	0%	54%	50%
growth	-23.6%	-0.8%	-3.0%	21.7%	Net interest cover (x)	0.9	2.8	3.2	4.0
EBITDA - Divisions	93.8	140.4	147.5	177.9	Net debt/nd+equity (%)	43%	39%	38%	40%
EBITDA - Group	82.0	128.4	133.7	163.4	Returns				
growth	-47%	57%	4%	22%	Return on Assets	0%	2%	2%	4%
EBITDA / Sales	10.5%	16.5%	17.7%	17.8%	Return on Equity	-1%	5%	5%	8%
Depreciation/Amortisation	-55.4	-53.6	-52.7	-54.4	Share Data/Valuation	2020a	2021a	2022f	2023f
- depreciation	-55.4	-53.6	-52.7	-54.4	Share Data				
- amortisation	0.0	0.0	0.0	0.0	Issued shares (m)	738.6	738.6	738.6	738.6
EBITA	26.6	74.8	81.0	109.0	Weighted ave shares (m)	738.6	738.6	738.6	738.6
EBITA / Sales	3.4%	9.6%	10.7%	11.9%	Fully diluted shares (m)	738.6	755.0	738.6	738.6
Net Interest	-28.8	-26.3	-25.0	-27.6	Basic EPS (c)	-0.5	4.9	3.7	6.1
Norm. Pretax Profit pre Amort	-2.3	48.5	56.0	81.5	YoY change (%)	nm	nm	-26%	66%
- margin	-0.3%	6.2%	7.4%	8.9%	Fully diluted EPS (c)	-0.5	4.8	3.7	6.1
Norm Tax	-0.8	-14.6	-16.8	-24.4	YoY change (%)	nm	nm	-24%	66%
Effective Tax Rate	-36.9%	30.0%	30.0%	30.0%	Fully diluted normalised EPS (c)	-0.4	2.9	3.7	6.1
NPAT Pre Minorities	-3.1	10.0	15.2	33.0	YoY change (%)	nm	nm	26%	66%
Minorities	0.0	-12.0	-12.0	-12.0	Dividend/share (c)	0.00	0.00	2.00	3.0
Normalised NPATA to equity	-3.1	22.0	27.2	45.0	Franking (%)	0%	0%	0%	0%
Norm. Net Profit / Sales	-0.4%	2.8%	3.6%	4.9%	Gross cashflow/share (c)	10.4	5.1	12.2	5.3
Abnormals / discontinued	-0.7	14.6	0.0	0.0	NBV/share (\$)	0.63	0.68	0.71	0.75
Reported Profit to equity	-3.8	36.5	27.2	45.0	NTA/Share (\$)	0.63	0.68	0.71	0.75
margin	-0.5%	4.7%	3.6%	4.9%	Valuation				
Cash flow (A\$m)	2020a	2021a	2022f	2023f	PER (Basic) (x)	nm	16.0	21.5	13.0
Cash receipts	784.6				PER (Fully diluted) (x)	nm	16.3	21.5	13.0
EBITDA	82.0	128.4	133.7	163.4	PER (Fully diluted, normalized) (x)	nm	27.1	21.5	13.0
Working Capital Change	30.3	-64.3	-1.9	-72.6	P/CFPS (x)	7.6	15.4	6.5	15.0
Cash from Operations	112.3	64.1	131.8	90.8	Price/NBV (x)	1.2	1.2	1.1	1.1
Net interest Paid	-29.3	-26.3	-25.0	-27.6	Price/NTA (x)	1.2	1.2	1.1	1.1
Tax Paid	-6.4	0.0	-16.8	-24.4	Dividend Yield (%)	0.0%	0.0%	2.5%	3.9%
Net Operating Cash Flow	76.6	37.8	90.1	38.8	EV/EBITDA (x)	11.1x	7.1x	6.8x	5.6x
Capex	-16.9	-13.9	-69.6	-69.4	EV/EBIT (x)	34.3x	12.2x	11.3x	8.4x
Asset Sales	0.0	0.0	0.0	0.0	EV/Revenue (x)	1.2x	1.2x	1.2x	1.0x
Other (inc Investments)	-0.5	0.0	0.0	0.0	Other Information				
Net Investing Cash Flow	-11.3	-13.9	-69.6	-69.4	Estimated free float:				90.8%
Proceeds from Equity Issues	0.0	0.0	0.0	0.0	12-mth High/Low (A\$/sh)				\$1.06 - \$0.29
Net Change in Debt & Leases	-28.7	-20.0	-20.0	100.0	Average daily volume (A\$m)				0.36
Dividends Paid	-7.4	0.0	-7.4	-16.4	ASX Code				OMH
Net Financing Cash Flow	-36.1	-20.0	-27.4	83.6	Next result				Feb 22
Movement in Cash	29.2	3.9	-6.9	53.0	Company Description				
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	OMH is a manganese and silica smelter with high financial and operating leverage.				
Ratio PPE to deprec. (yrs)	11.6	11.3	11.8	11.7					
Balance Sheet (\$m)	2020a	2021a	2022f	2023f					
Cash	63.0	67.0	60.0	113.0					
Receivables	63.0	64.0	62.1	75.6					
Inventories	216.3	316.6	304.6	372.4					
Other	5.4	5.4	5.4	5.4					
Total Current Assets	347.7	452.9	432.1	566.3					
Property, Plant & Equipment	645.1	605.4	622.3	637.3					
Intangibles	0.0	0.0	0.0	0.0					
Other	140.6	140.6	140.6	140.6					
Total Non Current Assets	785.7	746.0	762.9	778.0					
Total Assets	1,133.4	1,199.0	1,195.0	1,344.3					
Accounts Payable	54.8	103.8	100.0	120.6					
Interest Bearing Liabilities	288.3	288.3	288.3	288.3					
Other	23.2	23.2	23.2	23.2					
Total Current Liabilities	366.3	415.3	411.6	432.2					
Accounts Payable	155.8	155.8	155.8	155.8					
Interest Bearing Liabilities	126.8	106.8	86.8	186.8					
Other	16.4	16.4	16.4	16.4					
Total Non Current Liabilities	298.9	278.9	258.9	358.9					
Total Liabilities	665.2	694.2	670.5	791.1					
Net Assets	468.2	504.8	524.6	553.2					
Net Debt (net cash) inc AASB16	353.7	329.7	316.7	363.7					
Net Debt (net cash)	352.0	328.1	315.0	362.0					

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