

COMPANY UPDATE

OM Holdings (OMH MK)

Favourable Supply-Demand Dynamics To Support Ferroalloy Prices

Strength in ferroalloy prices continues to be supported by the ongoing structural supply shortage as China and Europe reduce production on the back of the decarbonisation trend and rising electricity prices. We raise our earnings forecasts for 2022-23 to reflect higher ferroalloy prices. It is a major recovery play in 2022 as OMH is set to achieve a multi-year profit bonanza, supported by robust demand, strong prices and improved production. Maintain BUY with a higher target price of RM4.21.

WHAT'S NEW

- Unprecedented global supply crunch...** The ongoing power crisis, especially in Europe, China and India, has put further pressure to the current supply constraints for ferroalloys. Record high electricity and coal prices in Europe has led some producers to either cut or completely shut down their production for good, despite the fact that ferroalloy prices currently are at an all-time high. For example, Ferroglobe shut down some of their furnaces in Spain and OFZ Slovakia also shut down half of its ferroalloy production. Producers in India are also pressured by the country's power cuts and surge in power prices as India's coal supply is no longer sufficient to meet the surging demand. As of 6 Oct 21, about 80% of the country's 135 coal-powered plants had less than eight days of stocks left with over 50% of them having inventories worth two days at most.
- ...continues to push ferroalloy prices.** As of 29 Sep 21, ferrosilicon alloy (FeSi) price had jumped significantly to US\$4,150/tonne (+104% mom, +276% yoy) according to S&P Global Platts. Prices of manganese (Mn) alloy have also hit a record-high of over US\$1,800/mt (+10% mom, +60% yoy). We expect prices to remain high, at least in the short term, as we believe the global power crisis may not be alleviated anytime soon, especially in China. The winter season in the country will further exacerbate the power issue. With the Beijing Winter Olympics coming up next February, we believe the strict enforcement of environmental regulations may persist. Higher freight costs and China's increase in export tax of 25% for Fesi will continue to provide strength to the prices.
- Power liberalisation will further support prices.** Recently, China announced it will allow coal-fired power plants to charge based on market rates for electricity, ultimately lifting the government-set pricing system. Commercial and industrial users are expected to buy power directly from exchanges or via agents over the grid. Electricity prices will be allowed to rise by up to 20% from base levels (vs current cap of 10%). This reform is in response to China's ongoing power cut because the energy companies could not pass on the high costs from the soaring coal prices to consumers previously. With this new policy, we can expect power prices to increase, reflecting the high coal prices. This will translate into higher ferroalloy prices as the production cost will increase in tandem.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net Turnover	2,976.7	2,275.4	3,123.2	4,238.8	4,443.9
EBITDA	317.0	164.1	344.7	540.9	570.5
Operating Profit	176.2	22.2	224.6	399.7	417.1
Net Profit (Reported/Actual)	164.3	15.5	194.4	348.0	373.2
Net Profit (Adjusted)	185.3	14.0	194.4	348.0	373.2
EPS (sen)	22.3	1.9	26.4	47.2	50.7
PE (x)	15.5	183.0	14.1	7.9	7.3
P/B (x)	1.7	1.9	1.7	1.4	1.2
EV/EBITDA (x)	12.5	22.9	11.3	6.9	5.9
Dividend Yield (%)	0.8	-	0.9	1.7	1.8
Net Margin (%)	6.2	0.6	6.2	8.2	8.4
Net Debt/(Cash) to Equity (%)	55.7	47.8	43.2	38.9	28.2
Interest Cover (x)	1.9	0.3	2.8	5.5	6.7
ROE (%)	15.0	1.2	13.7	20.1	18.0

Source: OMH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.72
Target Price	RM4.21
Upside	+13.2%
(Previous TP)	RM4.01

COMPANY DESCRIPTION

ASX-listed OM Holdings is an integrated manganese player engaged in the mining, smelting, trading and marketing of manganese ores, manganese alloys and ferrosilicon. Its smelting plants in Sarawak operate using low-cost sustainable energy – hydropower.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	OMH MK
Shares issued (m):	738.6
Market cap (RMm):	2,667.6
Market cap (US\$m):	641.3
3-mth avg daily t'over (US\$m):	

Price Performance (%)

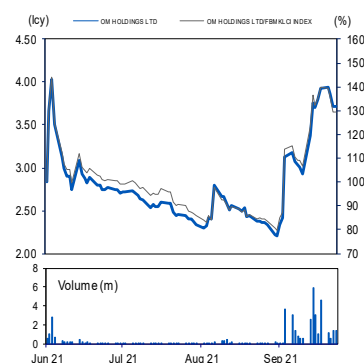
52-week high/low	RM4.69/RM2.18			
1mth	3mth	6mth	1yr	YTD
57.0	32.9	31.5	31.5	31.5

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2

FY21 NAV/Share (RM)	2.0
FY21 Net Debt/Share (RM)	1.3

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- OMH's low-cost advantage over global peers.** As the smelting of ferroalloys is an energy intensive activity (at least 3,000 kWh/mt for Mn alloy and 8,000 kWh/mt for FeSi), ferroalloy producers are heavily impacted by this crisis. This gives OM Holdings (OMH) a significant advantage over its peers, further enhancing its strategic position as OMH's smelters in Sarawak offer lower costs than its peers' mainly due to the 20-year power purchase agreement with Sarawak Energy. The agreement provides OMH with 300MW of low-cost environmentally-friendly hydropower, placing OMH in the lowest quartile for production costs (fifth-largest FeSi producer, ex-China). Note that prior to the pandemic, comparable Chinese smelters run at a cost that is about 30% higher.
- Expect strong earnings ahead.** Despite the Movement Control Order (MCO) disruption, OMH posted strong core earnings of RM80m for 1H21 (+7.6% yoy). With the easing of the lockdown, OMH is now operating at 100% workforce capacity with 12 furnaces (6 FeSi and 6 Mn alloy) running. A more meaningful growth will be seen in 2022 when the remaining four furnaces are fully restarted once manpower constraints have been alleviated with the border reopening. As such, we can expect stronger earnings moving forward as OMH ramps up its production on the back of robust ferroalloy prices. While prices may ease gradually entering 2022, we believe prices will remain firm in the long run, albeit not at the current high, as the structural supply issue may persist. OMH may also potentially see some increased in demand, benefiting from the spillover effect – filling up the void left by some global producers as they exit the market due to the high power prices.
- Strategically mitigating the impact of price volatility.** Generally, about half of OMH's contracts with its customers use fixed prices (lock spot prices on the agreement date) for delivery in the upcoming months (typically 1-3 months). While the remaining half, which are for OMH's long-term-contract customers, use a formulated (floating) price based on the spot prices one month prior to the delivery date, allowing OMH to benefit from any potential uplift in the future price while hedging the volatility price risk.

EARNINGS REVISION/RISK

- Raise 2022-23 net profit forecasts.** We raise our 2022-23 earnings forecasts by 12.4%, and 13.2% respectively as we increase our ASP assumptions of FeSi alloy to US\$1,900 and US\$1,700 per mt for 2022-23 accordingly. If prices continue to rise, based on our sensitivity analysis, every US\$100/mt increase to our FeSi and Mn alloy price assumptions will boost earnings by about 25% per year.

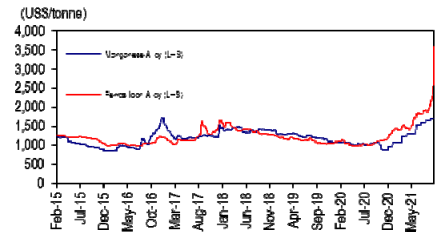
VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM4.21.** Our SOTP-based target price implies 9x 2022F PE (5-year PE mean: 15x). If FeSi price remains at its current high of about US\$3,500/mt in 2022, this could result in 37% upside to our target price of RM4.21 to RM5.79 (6x 2022F PE). As the world's lowest cost quartile manganese smelter, OMH is set to achieve strong 3-year earnings CAGR of 192% for 2020-23 as it benefits from the strong ferroalloy prices, low-cost hydropower and production recovery.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

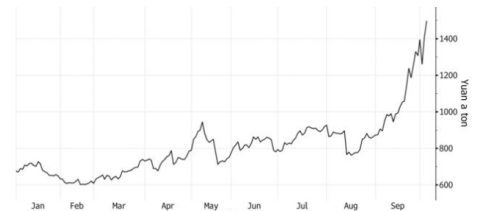
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> OMH's smelters in Sarawak are powered by a long-term 300MW of low-cost environmental-friendly hydropower from SESCO, which helps to lower its carbon footprint by reducing carbon dioxide emissions by 2.2m mt per annum.
<ul style="list-style-type: none"> Social <ul style="list-style-type: none"> OMH donated over RM1m worth of laptops and personal protective equipment to the Bintulu Division Health Office to facilitate the COVID-19 vaccination programmes. OMH offers career opportunities and provides training to the indigenous community in the Northern Territory of Australia where Bootu Creek Mine is located.
<ul style="list-style-type: none"> Governance <ul style="list-style-type: none"> OMH's board comprises of a majority of independent directors (five out of seven independent non-executive directors), coming from various background and industries.

FERROSILICON AND MANGANESE ALLOY PRICES



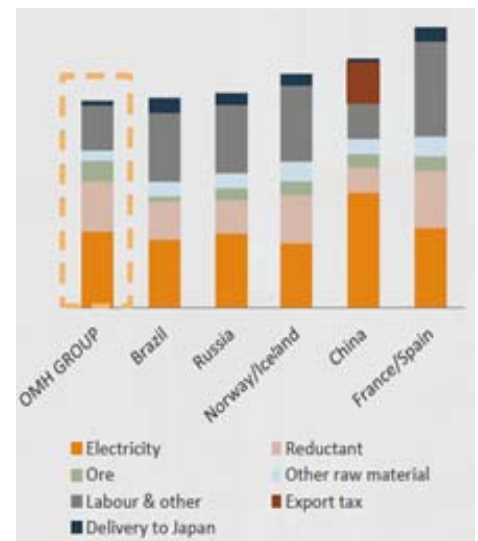
Source: Bloomberg, UOB Kay Hian

CHINA THERMAL COAL PRICES



Source: Bloomberg

FEESI PRODUCTION COST COMPARISON



Source: OMH

KEY ASSUMPTIONS

	2020	2021F	2022F	2023F
Production ('000 mt)				
Mn Ore				
Australia	738	1,000	615	700
S. Africa	3,359	3,527	3,703	3,888
Alloy				
Malaysia - FeSi	167	115	180	190
Malaysia - Mn	227	170	300	370
China - Mn	10	68	85	90
ASP (US\$/mt)				
Mn ore	4.66	5.15	4.70	4.50
FeSi alloy	1,100	2,000	1,900	1,700
Mn alloy	1,000	1,500	1,400	1,300

Source: OMH, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	2,275	3,123	4,239	4,444
EBITDA	164	345	541	570
Deprec. & amort.	(142)	(120)	(141)	(153)
EBIT	22	225	400	417
Associate contributions	48	94	96	99
Net interest income/(expense)	(84)	(81)	(73)	(63)
Pre-tax profit	(14)	238	423	454
Tax	5	(36)	(64)	(68)
Minorities	24	(8)	(12)	(12)
Net profit	16	194	348	373
Net profit (adj.)	14	194	348	373

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	222	215	325	507
Pre-tax profit	(14)	238	423	454
Tax	5	(36)	(64)	(68)
Deprec. & amort.	142	120	141	153
Working capital changes	85	(107)	(176)	(32)
Other operating cashflows	0	0	0	0
Investing	(31)	(33)	(126)	(95)
Capex (growth)	(4)	(2)	(2)	(2)
Investments	0	(31)	(124)	(93)
Proceeds from Sale of Assets	(45)	0	0	0
Others	18	0	0	0
Financing	(192)	(119)	(201)	(204)
Dividend payments	(21)	(25)	(45)	(49)
Issue of shares	0	0	0	0
Proceeds from borrowings	38	0	0	0
Loan repayment	(96)	(93)	(156)	(156)
Others/interest paid	(112)	0	0	0
Net cash inflow (outflow)	0	63	(1)	208
Beginning cash & cash equivalent	142	152	215	214
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	133	215	214	421

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	1,777	2,052	2,270	2,445
Other LT assets	502	297	35	-228
Cash/ST investment	183	215	214	421
Other current assets	826	1,128	1,526	1,599
Total assets	3,287	3,693	4,044	4,237
ST debt	368	394	394	394
Other current liabilities	499	643	864	905
LT debt	836	804	648	492
Other LT liabilities	226	226	209	192
Shareholders' equity	1,159	1,420	1,735	2,072
Minority interest	199	206	194	182
Total liabilities & equity	3,287	3,693	4,044	4,237

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	7.2	11.0	12.8	12.8
Pre-tax margin	(0.6)	7.6	10.0	10.2
Net margin	0.6	6.2	8.2	8.4
ROA	0.4	5.3	8.6	8.8
ROE	1.2	13.7	20.1	18.0
Growth				
Turnover	(23.6)	27.9	35.7	4.8
EBITDA	(48.2)	95.8	56.9	5.5
Pre-tax profit	(107.9)	(1,739.9)	78.2	7.2
Net profit	(92.5)	1,197.9	79.0	7.2
EPS	(91.5)	1,197.9	79.0	7.2
Leverage				
Debt to total capital	(0.4)	(0.3)	(0.3)	(0.2)
Debt to equity	(1.0)	(0.8)	(0.6)	(0.4)
Net debt/(cash) to equity	0.9	0.7	0.5	0.2
Interest cover (x)	0.3	2.8	5.5	6.7

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