

OM Holdings Ltd

(OMH \$0.93) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	2 nd March 2022	\$1.44/sh ▲ from \$1.35/sh

2cps dividend. Selling prices remain strong

Event

OMH reported CY21 NPAT of \$81.9m. Company estimated EBITDA was \$204m (we expected \$195m). A 2cps DPS was declared (we expected 1.25cps);

Operating cash flow was \$94m (we expected \$62m). Net debt was \$301m (as expected);

Impact

Result was overall in-line with expectations;

We have downgraded our Mn alloy production given we assume Qinzhou will be on care and maintenance for the foreseeable future due to high energy costs in China;

We have increased our selling prices, which has increased our earnings estimates. We have also added in the targeted 30ktpa of MetSi production for Sarawak from CY23;

Action

We maintain our Buy recommendation. Our selling price assumptions appear very conservative versus current prices. The geopolitical and energy uncertainty should be very bullish for OMH profitability, but our model does not capture the upside (other than via our spot valuation scenario). There remains balance sheet risk, in particular given CY22 will be a heavy capex year (we assume -A\$80m net to OMH). However, on our estimates the capex can be financed, and on spot prices easily financed;

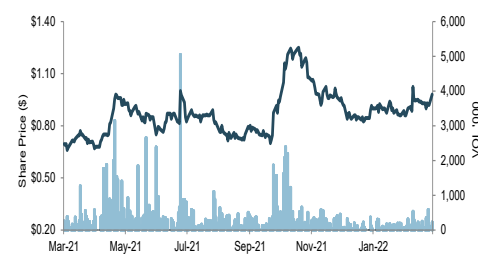
Key Catalysts

- Q1 production - April
- Bootu Creek court case - CY22
- Mid-CY22 - fid on expansion of Sarawak
- MarQ CY23 - first MetSi production
- CY24 - first production from expanded Sarawak

OM Holdings Ltd	Year End 30 June	
Share Price	0.93	A\$/sh
Price Target	1.44	A\$/sh
Valuation (DCF)	1.19	A\$/sh
WACC	9.0%	
Terminal Growth	3.0%	
Shares on issue	739 m,	diluted
Market Capitalisation	686.9	A\$m
Enterprise Value	875.8	A\$m
Cash (31 Dec 21a)	112.3	A\$m
Debt (31 Dec 21a) inc AASB16	301.2	A\$m

Key Financials	2020a	2021a	2022f
Revenue (A\$m)	1040.8	672.7	894.1
EBITDA (A\$m)	190.0	144.4	181.5
EBITA (A\$m)	132.4	80.8	111.3
Reported NPAT (A\$m)	81.9	61.6	90.2
Normalised NPAT (A\$m)	51.4	27.7	40.6
Op Cashflow (A\$m)	94.2	132.0	62.1
Capex (A\$m)*	-9.0	-78.8	-56.3
Op. Free Cashflow (A\$m)	85.2	53.2	5.8
Revenue Growth (%)	33%	-35%	33%
EBITDA Growth (%)	132%	-24%	26%
Norm. NPAT Growth (%)	398%	-39%	38%
Normalised EPS (Ac)	7.0	3.8	5.5
Norm. EPS growth (%)	nm	-46%	46%
PER (x)	13.4	24.8	16.9
EV:EBITDA (x)	4.6	6.1	4.8
EV:EBIT (x)	6.6	10.8	7.9
DPS (Ac)	2.0	2.0	2.0
Dividend Yield (%)	2.2%	2.2%	2.2%
Net Debt (A\$m)	296.7	265.6	274.6
Net Debt:Equity (%)	49%	42%	40%
Interest Cover (x)	6.7	4.2	5.3

Share Price Chart



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Analysis

Earnings Changes Below

Profit & Loss (\$m)	12/20A		12/21A		12/22F			12/23F		
	Actual	F-cast	Actual	% diff	Old	New	% diff	Old	New	% diff
Prices										
FeSi	1,459	2,201	2,201	0.0%	1,650	1,725	4.5%	1,350	1,500	11.1%
Manganese Alloys (SiMn, HCFeMn)	1,295	1,425	1,425	0.0%	1,250	1,400	12.0%	1,250	1,300	4.0%
MetSi	nm		nm			nm			2,800	
Production										
FeSi	171,546	113,783	113,783	0.0%	118,125	118,125	0.0%	133,875	133,875	0.0%
Manganese Alloys (SiMn, HCFeMn)	245,842	251,493	251,493	0.0%	250,000	202,500	-19.0%	351,000	303,750	-13.5%
MetSi	0	0	0		0	0		0	27,000	
Revenue										
Revenue	784.6	939.6	1,040.8	10.8%	712.5	672.7	-5.6%	807.2	894.1	10.8%
- growth		19.8%	32.6%		-24.2%	-35.4%		13.3%	32.9%	
EBITDA										
EBITDA	82.0	195.2	190.0	-2.6%	132.9	144.4	8.6%	134.9	181.5	34.5%
- margin	10.5%	21%	18%	-12.1%	18.7%	21%	15.0%	16.7%	20.3%	21.4%
Sarak										
Sarawak	50.0	183.1	168.8	-7.8%	96.8	110.4	14.0%	87.7	130.7	49.0%
Qinzhou	-6.1	9.2	5.0	-45.9%	9.2	-2.8	-129.8%	9.2	-2.7	-129.4%
Bootu Ck	1.2	-31.5	-12.8	-59.5%	8.2	8.2	0.0%	11.1	11.1	0.0%
Logistics, marketing & trading										
Logistics, marketing & trading	32.1	23.7	29.2	23.4%	18.0	19.6	9.0%	20.4	26.0	27.8%
Tshipi - 13% (Assoc. Income)										
Tshipi - 13% (Assoc. Income)	16.5	8.0	5.4	-32.5%	10.4	9.3	-10.6%	20.9	16.7	-20.2%
Depreciation/Amortisation										
Depreciation/Amortisation	-55.4	-53.6	-57.6	7.7%	-52.7	-63.6	20.6%	-54.4	-70.1	28.9%
- Depreciation	-55.4	-53.6	-57.6	7.7%	-52.7	-63.6	20.6%	-54.4	-70.1	28.9%
- Amortisation	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
EBITA										
EBITA	26.6	141.6	132.4	-6.5%	80.2	80.8	0.7%	80.5	111.3	38.3%
- margin	3.4%	15.1%	12.7%	-15.6%	11.3%	12.0%	6.7%	10.0%	12.5%	24.8%
Net Interest										
Net Interest	-28.8	-26.3	-19.8	-24.7%	-25.0	-19.1	-23.3%	-27.6	-21.1	-23.6%
Norm Pretax Profit b4 Amort.										
Norm Pretax Profit b4 Amort.	-2.3	115.3	112.6	-2.4%	55.2	61.6	11.6%	52.9	90.2	70.4%
Norm. Tax										
Norm. Tax	-0.8	-34.6	-33.8	-2.4%	-16.6	-18.5	11.6%	-15.9	-27.1	70.4%
NPAT Pre Minorities										
NPAT Pre Minorities	-3.1	80.7	78.8	-2.4%	38.6	43.1	11.6%	37.1	63.2	70.4%
Minorities										
Minorities	0.0	-12.0	-27.4		-12.0	-15.4		-12.0	-22.6	
Norm. Net Profit After Tax*										
Norm. Net Profit After Tax*	-3.1	68.7	51.4	-25.2%	26.6	27.7	4.0%	25.1	40.6	62.0%
- growth		nm	nm		-61%	-46%		-6%	46%	
- margin	-0.4%	7.3%	4.9%		3.7%	4.1%		3.1%	4.5%	
Abnormals (net of tax)										
Abnormals (net of tax)	-0.7	34.6	30.5		0.0	18.5		0.0	27.1	
Reported Profit										
Reported Profit	-3.8	103.3	81.9	-20.7%	26.6	46.2	73.4%	25.1	67.7	170.0%
Capex										
Capex	-16.9	-13.9	-9.0	-34.9%	-69.6	-78.8	13.1%	-69.4	-56.3	-19.0%
Net Debt (cash)										
Net Debt (cash)	353.7	303.6	301.2	-0.8%	237.8	270.1	13.6%	282.1	279.1	-1.1%
DPS										
DPS	0.0	1.25	2.00	60.0%	2.00	2.00	0.0%	1.70	2.00	17.9%

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Results Summary

Working capital movements continue to be volatile. We would prefer to see less volatility in working capital given combined with the financial leverage it creates uncertainty. At 31 December inventory was higher than expected, due to stockpile of inputs (and mark-to-market of stockpiles) and delays of two shipments of finished product past the balance date;

Pleasingly though, payables fell whilst receivables remained relatively flat;

Profit & Loss (\$m)	Jun-19a	Dec-19a	Jun-20a	Dec-20a	Jun-21a	Dec-21e
Group Revenue	534.6	491.9	386.5	398.1	450.6	590.2
sequential growth		-8.0%	-21.4%	3.0%	13.2%	31.0%
EBITDA - Divisions	86.0	33.9	55.3	21.9	73.7	116.6
EBITDA - Group	109.6	46.5	53.3	28.7	63.4	126.6
sequential growth		-57.6%	14.8%	-46.2%	121.2%	99.6%
EBITDA / Sales	20.5%	9.4%	13.8%	7.2%	14.1%	21.5%
Depreciation/Amortisation	-26.3	-27.4	-28.5	-26.9	-26.9	-30.7
- depreciation	-26.3	-27.4	-28.5	-26.9	-26.9	-30.7
- amortisation	0.0	0.0	0.0	0.0	0.0	0.0
EBITA	83.3	19.0	24.8	1.8	36.5	95.9
EBITA / Sales	15.6%	3.9%	6.4%	0.4%	8.1%	16.2%
Net Interest	-21.4	-10.8	-17.4	-11.5	-10.0	-9.8
Norm. Pretax Profit pre Amort	61.9	8.2	7.4	-9.7	26.6	86.1
- margin	11.6%	1.7%	1.9%	-2.4%	5.9%	14.6%
Norm tax	8.9	-5.5	0.3	-1.1	-4.5	-29.3
Effective Tax Rate	-14.4%	67.5%	-4.3%	-11.9%	17.0%	34.0%
NPAT Pre Minorities	70.8	2.7	7.8	-10.8	9.8	14.2
Minorities	0.0	0.0	0.0	0.0	-6.1	-21.3
Normalised NPATA to equity	70.8	2.7	7.8	-10.8	15.9	35.5
Norm. Net Profit / Sales	13.3%	0.5%	2.0%	-2.7%	3.5%	6.0%
Abnormals / discontinued	-21.4	3.4	6.8	-7.5	7.6	22.9
Reported Profit to equity	49.4	6.1	14.6	-18.4	23.5	58.4
margin	9.2%	1.2%	3.8%	-4.6%	5.2%	9.9%

Cashflow Statement (\$m)	Jun-19a	Dec-19a	Jun-20a	Dec-20a	Jun-21a	Dec-21e
Cash receipts	534.6	491.9	386.5	398.1	450.6	590.2
EBITDA	109.6	46.5	53.3	28.7	63.4	126.6
Working Capital Change	-42.5	48.2	1.4	28.9	-40.3	-37.2
Cash from Operations	67.0	94.6	54.8	57.5	23.2	89.4
Net interest Paid	-20.8	-12.0	-16.8	-12.5	-11.9	-7.5
Tax Paid	-16.7	-13.5	-2.0	-4.4	0.5	0.7
Net Operating Cash Flow	29.6	69.1	35.9	40.6	11.7	82.5
Capital Expenditure	-38.8	-44.1	-9.9	-6.9	-7.0	-2.0
Asset Sales	0.0	0.1	0.0	0.0	2.6	0.0
Other (inc Investments)	14.1	-14.1	2.9	-3.4	11.9	-12.4
Net Investing Cash Flow	-24.8	-17.7	-7.0	-4.3	7.5	-1.4
Proceeds from Equity Issues	0.0	22.5	0.0	0.0	0.0	2.6
Net Change in Debt & Leases	-27.7	-25.2	-31.5	2.7	-4.7	-30.9
Dividends Paid	-14.7	-8.6	-3.7	-3.7	0.0	0.0
Net Financing Cash Flow	-42.5	-11.4	-35.1	-1.0	-4.7	-28.4
Movement in Cash	-37.7	40.1	-6.2	35.4	14.5	52.7
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0
Ratio PPE to deprec. (yrs)	13.7	13.5	12.9	-1.2	12.0	10.3

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Balance Sheet (\$m)	Jun-19a	Dec-19a	Jun-20a	Dec-20a	Jun-21a	Dec-21e
Cash	56.0	63.7	59.0	63.0	77.9	112.3
Receivables	59.4	37.8	40.2	63.0	55.5	56.4
Inventories	298.8	228.3	265.1	216.3	297.3	353.3
Other	5.1	4.8	4.2	5.4	2.0	5.2
Total Current Assets	419.4	334.6	368.6	347.7	432.8	527.2
Property, Plant & Equipment	717.9	740.4	735.0	645.1	645.1	634.3
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Other	140.4	127.8	134.7	140.6	139.8	137.8
Total Non Current Assets	858.3	868.2	869.7	785.7	784.8	772.1
Total Assets	1,277.7	1,202.7	1,238.3	1,133.4	1,217.6	1,299.3
Accounts Payable	113.8	60.2	182.3	54.8	212.9	176.5
Interest Bearing Liabilities	377.9	385.5	119.2	288.3	107.2	124.6
Other	27.5	29.4	16.3	23.2	18.2	25.1
Total Current Liabilities	519.3	475.2	317.8	366.3	338.3	326.2
Accounts Payable	139.3	113.2	35.5	155.8	53.9	54.3
Interest Bearing Liabilities	113.8	88.4	334.5	126.8	291.4	284.4
Other	16.9	18.2	25.6	16.4	26.5	24.0
Total Non Current Liabilities	270.0	219.7	395.5	298.9	371.8	362.8
Total Liabilities	789.2	694.9	713.3	665.2	710.1	689.0
Net Assets	488.5	507.9	525.0	468.2	507.5	610.3
Net Asset Value / Share (\$)	0.66	0.63	0.71	0.83	0.69	0.86
NTA / Share (\$)	0.66	0.63	0.71	0.83	0.69	0.86
Net Debt (net cash) inc AASB16	441.1	417.3	399.0	353.7	329.0	301.2
Net Debt (net cash)	435.7	410.2	394.6	352.0	320.7	296.7
	47.1%	44.7%	42.9%	42.9%	38.7%	32.7%
net debt EBITDA	1.99	4.41	3.70	6.14	2.53	1.17

Price Target

We have increased our price target to \$1.44 (from \$1.35/shr)

OMH Price Target Methodology	Weighting	Spot	12 mth out
Sum-of-parts	50%	\$1.19	\$1.23
- at Spot prices	15%	\$1.67	\$1.98
12mth base EV/EBITDA of 12x (high)	8%	\$2.06	\$2.83
12mth base EV/EBITDA of 4x (low)	8%	\$0.43	\$0.78
12mth spot EV/EBITDA of 12x (high)	4%	\$3.13	\$4.27
12mth spot EV/EBITDA of 4x (low)	4%	\$0.79	\$1.26
Net cash	8%	\$0.00	\$0.00
12mth fwd Div Yield of 2.9% (Gross yield=4.1%)	3%	\$1.05	\$0.70
Risk weighted composite		\$1.23	\$1.44
12 Months Price Target		\$1.44	
Shareprice - Last		\$0.930	
12 mth total return (% to 12mth target + dividend)		58.2%	
P / E (FY22) at price target			26.2x
P / E (FY23) at price target			18.0x
EV/EBITDA (FY23F) at price target			7.3x
EV/EBITA (FY23F) at price target			12.0x

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