

# OM Holdings Ltd

## (OMH \$0.88) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	9 <sup>th</sup> May 2022	\$1.55/sh ▲ from \$1.44/sh

### Acquires balance of Sarawak

#### Event

OMH announced it will acquire the balance (25%) of Sarawak (the main OMH asset);

The acquisition price is US\$120m (look through for 100% US\$480m);

This compares to our base Sarawak 100% valuation (-US\$850m) and out spot valuation (-US\$1.3b);

Rising energy prices have increased the cost of production for marginal producers (OMH is not affected, given its on hydro power);

The Company's smelting production guidance for the year remains unchanged (110-130kt FeSi and 200-220kt SiMn);

#### Impact

We have increased our long run selling prices to US\$1800/t FeSi (from US\$1500) and US\$1450/t for SiMn (from US\$1300/t) based on globally higher energy costs;

We have incorporated the acquisition into our model;

Our net debt estimate increases considerably, and gearing (nd/nd+e) increases to 41% at December 2022;

We have increased our CY22 EBITDA estimate to A\$258m, which is still conservative when compared to 2H21 EBITDA of \$127m;

#### Action

We maintain our **Buy** recommendation;

Post-acquisition, gearing levels will be high, but at current selling prices appear very manageable. The Company does mention a possible equity raising in 2HCY22. We understand this is discretionary, and it makes sense on our estimates (more equity would be nice, but not necessary on our selling price assumptions);

Also remember that Sarawak does not use all the hydro power under the take-or-pay agreement. OMH, after the transaction, would therefore have 100% of the excess hydro power, and could use that for future energy intensive industry (expansion or new products);

We see announcements on potential new production as material possible catalysts;

#### Key Catalyst

- June Qtrly - July
- 1H22 results - August
- Sarawak acquisition completes - Sept Qtr
- 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	0.88	A\$/sh
Price Target	1.55	A\$/sh
Valuation (DCF)	1.63	A\$/sh
WACC	9.0%	
Terminal Growth	3.0%	
Shares on issue	739 m, diluted	
Market Capitalisation	653.7	A\$m
Enterprise Value	1,119.0	A\$m
Cash 31 Dec 21a	112.3	A\$m
Debt (est post acq)	577.6	A\$m

Key Financials	2021A	2022F	2023F
Revenue (A\$m)	1040.8	1037.0	1347.7
EBITDA (A\$m)	190.0	258.9	283.5
EBITA (A\$m)	132.4	197.1	205.7
Reported NPAT (A\$m)	112.4	120.9	163.0
Normalised NPAT (A\$m)	51.4	81.0	122.7
Op Cashflow (A\$m)	94.2	97.1	128.7
Capex (A\$m)*	-9.0	-105.0	-79.0
Op. Free Cashflow (A\$m)	85.2	-7.9	49.7
Revenue Growth (%)	33%	0%	30%
EBITDA Growth (%)	132%	36%	10%
Norm. NPAT Growth (%)	398%	49%	4%
Normalised EPS (Ac)	7.0	11.0	16.6
Norm. EPS growth (%)	nm	58%	51%
PER (x)	12.7	8.1	5.3
EV:EBITDA (x)	5.9	4.3	3.9
EV:EBIT (x)	8.5	5.7	5.4
DPS (Ac)	2.0	2.0	2.0
Dividend Yield (%)	2.3%	2.3%	2.3%
Net Debt (A\$m)	296.7	498.2	463.2
Net Debt:Equity (%)	49%	70%	54%
Interest Cover (x)	6.7	8.3	6.8

#### Share Price Chart



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## Analysis

Our earnings estimates are below

Profit & Loss (\$m)	Actual	12/22F			12/23F			12/24F			
		Old	New	% diff	Old	New	% diff	Old	New	% diff	
<b>Prices</b>											
FeSi	US\$	2,201	1,725	2,033	17.9%	1,500	1,850	23.3%	1,500	1,800	20.0%
Manganese Alloys (SiMn, HCFeMn)	US\$	1,425	1,400	1,648	17.7%	1,300	1,500	15.4%	1,300	1,450	11.5%
MetSi	US\$	nm	nm	nm		2,800	2,800	0.0%	2,800	2,800	0.0%
<b>Production</b>											
FeSi		113,783	118,125	119,312	1.0%	133,875	133,875	0.0%	133,875	133,875	0.0%
Manganese Alloys (SiMn, HCFeMn)		251,493	202,500	209,507	3.5%	303,750	303,750	0.0%	405,000	411,750	1.7%
MetSi		0	0	0		27,000	27,000	0.0%	27,000	27,000	0.0%
<b>Revenue</b>	<b>A\$m</b>	<b>1,040.8</b>	<b>672.7</b>	<b>1,037.0</b>	<b>54.1%</b>	<b>894.1</b>	<b>1,347.7</b>	<b>50.7%</b>	<b>1,054.4</b>	<b>1,577.8</b>	<b>49.6%</b>
- growth		32.6%	-35.4%	-0.4%		32.9%	30.0%		17.9%	17.1%	
<b>Cash Costs</b>	<b>A\$m</b>	<b>-850.8</b>	<b>-528.1</b>	<b>-778.1</b>	<b>47.3%</b>	<b>-712.6</b>	<b>-1,064.2</b>	<b>49.3%</b>	<b>-826.3</b>	<b>-1,258.7</b>	<b>52.3%</b>
<b>EBITDA</b>	<b>A\$m</b>	<b>190.0</b>	<b>144.7</b>	<b>258.9</b>	<b>79.0%</b>	<b>181.5</b>	<b>283.5</b>	<b>56.2%</b>	<b>228.1</b>	<b>319.1</b>	<b>39.9%</b>
- margin	A\$m	18%	21.5%	25%	16.1%	20.3%	21.0%	3.6%	21.6%	20.2%	-6.5%
Sarawak	A\$m	168.8	110.4	229.0	107.4%	130.7	237.2	81.5%	170.7	265.5	55.5%
Qinzhou	A\$m	5.0	-2.8	-2.8	0.0%	-2.7	-2.7	0.0%	-2.7	-2.7	0.0%
Bootu Ck	A\$m	-12.8	8.2	2.0	-75.7%	11.1	5.1	-53.8%	11.1	5.6	-49.7%
Logistics, marketing & trading	A\$m	29.2	19.6	30.2	54.1%	26.0	39.2	50.7%	30.7	45.9	49.6%
Tshipi - 13% (Assoc. Income)	A\$m	5.4	9.5	14.1	47.5%	16.8	18.9	12.8%	18.7	19.8	5.8%
Depreciation/Amortisation	A\$m	-57.6	-63.6	-61.8	-2.9%	-70.1	-77.8	11.0%	-73.4	-82.0	11.7%
- Depreciation	A\$m	-57.6	-63.6	-61.8	-2.9%	-70.1	-77.8	11.0%	-73.4	-82.0	11.7%
- Amortisation	A\$m	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
<b>EBITA</b>	<b>A\$m</b>	<b>132.4</b>	<b>81.0</b>	<b>197.1</b>	<b>143.3%</b>	<b>111.4</b>	<b>205.7</b>	<b>84.7%</b>	<b>154.7</b>	<b>237.1</b>	<b>53.3%</b>
- margin	A\$m	12.7%	12.0%	19.0%	57.8%	12.5%	15.3%	22.5%	14.7%	15.0%	2.4%
Net Interest	A\$m	-19.8	-19.1	-23.8	24.4%	-21.1	-30.4	44.4%	-23.0	-32.3	40.7%
<b>Norm Pretax Profit b4 Amort.</b>	<b>A\$m</b>	<b>112.6</b>	<b>61.9</b>	<b>173.3</b>	<b>180.1%</b>	<b>90.3</b>	<b>175.3</b>	<b>94.1%</b>	<b>131.7</b>	<b>204.8</b>	<b>55.5%</b>
Norm. Tax	A\$m	-33.8	-18.6	-52.0	180.1%	-27.1	-52.6	94.1%	-39.5	-61.4	55.5%
<b>NPAT Pre Minorities</b>	<b>A\$m</b>	<b>78.8</b>	<b>43.3</b>	<b>121.3</b>	<b>180.1%</b>	<b>63.2</b>	<b>122.7</b>	<b>94.1%</b>	<b>92.2</b>	<b>143.3</b>	<b>55.5%</b>
Minorities	A\$m	-27.4	-15.5	-40.3		-22.6	0.0		-32.9	0.0	
<b>Norm. Net Profit After Tax*</b>	<b>A\$m</b>	<b>51.4</b>	<b>27.8</b>	<b>81.0</b>	<b>191.0%</b>	<b>40.6</b>	<b>122.7</b>	<b>201.9%</b>	<b>59.3</b>	<b>143.3</b>	<b>141.8%</b>
- growth	nm		-46%	58%		46%	51%		45.8%	16.8%	
- margin		4.9%	4.1%	7.8%		4.5%	9.1%		5.6%	9.1%	
Abnormals (net of tax)	A\$m	30.5	18.6	39.9		27.1	40.3		39.5	47.1	
<b>Reported Profit</b>	<b>A\$m</b>	<b>81.9</b>	<b>46.4</b>	<b>120.9</b>	<b>160.5%</b>	<b>67.7</b>	<b>163.0</b>	<b>140.7%</b>	<b>98.8</b>	<b>190.4</b>	<b>92.8%</b>
Capex	A\$m	-9.0	-78.8	-105.0	33.3%	-56.3	-79.0	40.4%	0.0	-8.0	
<b>Net Debt (cash)</b>	<b>A\$m</b>	<b>301.2</b>	<b>269.9</b>	<b>502.7</b>	<b>86.2%</b>	<b>278.8</b>	<b>467.7</b>	<b>67.7%</b>	<b>169.4</b>	<b>296.0</b>	<b>74.7%</b>
<b>DPS</b>	<b>A\$ cps</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>0.0%</b>	<b>2.00</b>	<b>2.00</b>	<b>0.0%</b>	<b>2.00</b>	<b>2.00</b>	<b>0.0%</b>

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## Price Target

We have increased our price target to **\$1.55** (from \$1.44)

OMH Price Target Methodology	Weighting	Spot	12 mth out
Sum-of-parts	50%	\$1.63	\$1.83
- at Spot prices	2%	\$2.51	\$2.78
12mth base EV/EBITDA of 12x (high)	4%	\$3.99	\$4.58
12mth base EV/EBITDA of 4x (low)	15%	\$1.09	\$1.37
12mth spot EV/EBITDA of 12x (high)	1%	\$4.68	\$6.54
12mth spot EV/EBITDA of 4x (low)	4%	\$1.32	\$2.03
Net cash	15%	\$0.00	\$0.00
12mth fwd Div Yield of 3.4% (Gross yield=4.9%)	9%	\$0.87	\$0.58
<b>Risk weighted composite</b>		<b>\$1.24</b>	<b>\$1.55</b>
<b>12 Months Price Target</b>		<b>\$1.55</b>	
Shareprice - Last		\$0.885	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>78.5%</b>	
	<i>P / E (FY22) at price target</i>		9.3x
	<i>P / E (FY23) at price target</i>		8.0x
	<i>EV/EBITDA (FY23F) at price target</i>		5.8x
	<i>EV/EBITA (FY23F) at price target</i>		8.0x

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Financial Statements	2020A	2021A	2022F	2023F	Performance Ratios	2020A	2021A	2022F	2023F
Group Revenue	784.6	1,040.8	1,007.8	1,321.0	<b>Growth &amp; Margins</b>				
growth	-23.6%	32.6%	-3.2%	31.1%	Revenue Growth	-24%	33%	-3%	31%
EBITDA - Divisions	93.8	195.7	238.1	255.2	EBITDA Growth	-47%	132%	25%	7%
EBITDA - Group	82.0	190.0	237.8	254.9	EBITA Growth	-74%	398%	33%	1%
growth	-47%	nm	25%	7%	Reported NPAT Growth	nm	nm	-6%	28%
EBITDA / Sales	10.5%	18.3%	23.6%	19.3%	Normalized Net Profit Growth	nm	nm	38%	44%
Depreciation/Amortisation	-55.4	-57.6	-61.8	-77.8	EBITDA margin	10%	18%	24%	19%
- depreciation	-55.4	-57.6	-61.8	-77.8	EBIT margin	3%	13%	17%	13%
- amortisation	0.0	0.0	0.0	0.0	Normalized net profit margin	0%	5%	7%	8%
EBITA	26.6	132.4	176.0	177.1	Effective tax rate	37%	3%	7%	7%
EBITA / Sales	3.4%	12.7%	17.5%	13.4%	<b>Liquidity</b>				
Net Interest	-28.8	-19.8	-23.8	-30.4	Capex/depreciation (x)	0.3	0.2	1.7	1.0
Norm. Pretax Profit pre Amort	-2.3	112.6	152.2	146.7	Current ratio (x)	0.9	1.6	2.0	2.7
- margin	-0.3%	10.8%	15.1%	11.1%	Quick ratio (x)	0.3	0.5	0.7	1.1
Norm Tax	-0.8	-33.8	-45.7	-44.0	Receivable days	29.3	19.8	30.0	30.0
Effective Tax Rate	-36.9%	30.0%	30.0%	30.0%	Payable days	15.9	45.4	45.4	45.4
NPAT Pre Minorities	-3.1	24.0	35.8	102.7	<b>Risk Measures</b>				
Minorities	0.0	-27.4	-35.4	0.0	Payout ratio (%)	0%	29%	21%	14%
Normalised NPATA to equity	-3.1	51.4	71.2	102.7	Net interest cover (x)	0.9	6.7	7.4	5.8
Norm. Net Profit / Sales	-0.4%	4.9%	7.1%	7.8%	Net debt/nd+equity (%)	43%	33%	42%	38%
Abnormals / discontinued	-0.7	61.0	35.0	33.7	<b>Returns</b>				
Reported Profit to equity	-3.8	112.4	106.2	136.4	ROIC (pre-tax)	0%	13%	15%	13%
margin	-0.5%	10.8%	10.5%	10.3%	Return on Assets	0%	4%	5%	6%
					Return on Equity	-1%	10%	11%	14%
<b>Cash flow (A\$m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>Share Data/Valuation</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>
Cash receipts	784.6	1,040.8			<b>Share Data</b>				
EBITDA	82.0	190.0	237.8	254.9	Issued shares (m)	738.6	738.6	738.6	738.6
Working Capital Change	30.3	-77.5	-116.1	-115.4	Weighted ave shares (m)	738.6	738.6	738.6	738.6
Cash from Operations	112.3	112.5	121.8	139.5	Fully diluted shares (m)	738.6	738.6	738.6	738.6
Net interest Paid	-29.3	-19.5	-23.8	-30.4	Basic EPS (c)	-0.5	15.2	14.4	18.5
Tax Paid	-6.4	1.2	-10.7	-10.3	YoY change (%)	nm	nm	-6%	28%
Net Operating Cash Flow	76.6	94.2	87.3	98.8	Fully diluted EPS (c)	-0.5	15.2	14.4	18.5
Capex	-16.9	-9.0	-105.0	-79.0	YoY change (%)	nm	nm	-6%	28%
Asset Sales	0.0	2.6	0.0	0.0	Fully diluted normalised EPS (c)	-0.4	7.0	9.6	13.9
Other (inc Investments)	-0.5	-0.5	-171.4	0.0	YoY change (%)	nm	nm	38%	44%
Net Investing Cash Flow	-11.3	6.0	-276.4	-79.0	Dividend/share (c)	0.00	2.00	2.00	2.00
Proceeds from Equity Issues	0.0	2.6	0.0	0.0	Franking (%)	0%	0%	0%	0%
Net Change in Debt & Leases	-28.7	-35.6	175.0	100.0	Gross cashflow/share (c)	10.4	12.8	11.8	13.4
Dividends Paid	-7.4	0.0	-22.2	-14.8	NBV/share (\$)	0.63	0.83	0.94	1.10
Net Financing Cash Flow	-36.1	-33.0	152.8	85.2	NTA/Share (\$)	0.63	0.83	0.94	1.10
Movement in Cash	29.2	67.2	-36.3	105.1	<b>Valuation</b>				
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	PER (Basic) (x)	nm	5.8	5.4	4.0
Ratio PPE to deprec. (yrs)	11.6	11.0	13.7	10.9	PER (Fully diluted) (x)	nm	5.8	5.4	4.0
					PER (Fully diluted, normalized) (x)	nm	12.7	8.1	5.3
<b>Balance Sheet (\$m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	P/CFPS (x)	8.5	6.9	6.7	5.1
Cash	63.0	112.3	76.0	181.1	Price/NBV (x)	1.4	1.1	0.9	0.8
Receivables	63.0	56.4	82.8	108.6	Price/NTA (x)	1.4	1.1	0.9	0.8
Inventories	216.3	353.3	318.2	440.4	Dividend Yield (%)	0.0%	226.0%	2.3%	2.3%
Other	5.4	5.2	5.2	5.2	EV/EBITDA (x)	13.6x	5.9x	4.3x	3.9x
Total Current Assets	347.7	527.2	482.2	735.2	EV/EBIT (x)	42.1x	8.5x	5.7x	5.4x
Property, Plant & Equipment	645.1	634.3	848.9	850.1	EV/Revenue (x)	1.4x	1.1x	1.1x	0.8x
Intangibles	0.0	0.0	0.0	0.0	<b>Other Information</b>				
Other	140.6	137.8	137.8	137.8	Estimated free float:				90.8%
Total Non Current Assets	785.7	772.1	986.7	987.9	12-mth High/Low (A\$/sh)				\$1.28 - \$0.7
Total Assets	1,133.4	1,299.3	1,469.0	1,723.1	Average daily volume (A\$m)				0.32
Accounts Payable	54.8	176.5	87.2	119.7	ASX Code				OMH
Interest Bearing Liabilities	288.3	124.6	124.6	124.6	Next result				Aug-22
Other	23.2	25.1	25.1	25.1					
Total Current Liabilities	366.3	326.2	236.9	269.4	<b>Company Description</b>				
Accounts Payable	155.8	54.3	54.3	54.3	OMH is a manganese and silica smelter with high financial and operating leverage.				
Interest Bearing Liabilities	126.8	284.4	459.4	559.4					
Other	16.4	24.0	24.0	24.0					
Total Non Current Liabilities	298.9	362.8	537.8	637.8					
Total Liabilities	665.2	689.0	774.7	907.2					
Net Assets	468.2	610.3	694.3	815.9					
Net Debt (net cash) inc AASB16	353.7	301.2	512.5	507.4					
Net Debt (net cash)	352.0	296.7	508.0	502.9					

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