

# Stock Digest

Friday, 06 May, 2022

## OM Holdings Ltd

### Full control in East Malaysia

#### Summary

- OM Holdings Ltd (OMH)'s 100.0% owned subsidiary, OM Materials (S) Pte Ltd has entered into a binding letter of offer with Salamaju Industries Sdn Bhd (SISB) for the latter to sell all its shares held in OM Materials (Sarawak) Sdn Bhd (OM Sarawak).
- OM Sarawak owns and operates a ferrosilicon and manganese alloy smelter in Sarawak, East Malaysia equipped with 16 units of 25.5 MVA furnaces that has an annual production capacity of approximately 200,000-210,000 MT of ferrosilicon (FeSi) and approximately 250,000-300,000 MT of manganese alloy (Mn alloy). The plant also consists of a sinter plant that has a design capacity to produce 250,000MT of sinter ore per annum.
- The acquisition that entails 165.6m ordinary shares (25.0% of issued and paid-up capital of OM Sarawak) and 43.7m of irredeemable convertible preference shares in OM Sarawak as well as 32.1m ordinary shares in OM Salamaju is for a total consideration of USD 120.0m. The acquisition will be funded through a combination of existing cash reserves (AUD112.3m as of 31st December 2021), future operating cash flows, and/or bank borrowings, and/or equity raising in 2H22. We reckon that there is still room to leverage onto external borrowings to finance the deal as net gearing level is only 0.5x as of 31st December 2021.
- We understand the OMH currently owns an effective 75.0% stake in OM Sarawak as well as OM Salamaju. Upon completion of the abovementioned deal, both OM Sarawak and OM Salamaju would be a wholly-owned subsidiary of OMH. Consequently, we expect bottom line to be beef up by additional earnings contribution of approximately RM25.0-30.0m per annum (assuming Fesi and Mn alloy prices stays at current levels) through an assumed debt-to-equity funding of 70:30 ratio.
- We are sanguine on the deal as the move will cement OMH position as one of the largest vertically integrated manganese ore and ferroalloy player in South East Asia market that is operating as the world's low-cost quartile smelter. The move that would be earnings accretive over the long run would benefit OMH that is tapping into the rising demand for building material products alongside with leveraging into the soaring raw material prices.
- Moving forward, OMH remains committed on their expansion plans to convert 2 ferrosilicon furnaces to produce manganese alloy that is already in progress. With the gradual arrival of Chinese contractors since December 2021, we expect the conversion process to see no major hiccups and is on track be commissioned in 3Q22.
- In the meantime, plans to convert 2 ferrosilicon furnaces into production of silicon metal is also underway with the hot commissioning and testing works expected to take place in December 2022. Silicon metal typically yields better margins will enable OMH to tap into other industries such as the aluminum, chemicals and solar.

#### Company Update

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#### BUY

Share price	RM2.92
Target price	RM4.01
Previous TP	RM3.65
Capital upside	37.4%
Dividend return	3.1%
Total return	40.5%

#### Company profile

Principally involved in the exploration and mining as well as trading and smelting of manganese ore and ferroalloys

#### Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	2,156.8
52W High/Low	4.69 / 2.18
Est. Free float	55.6
Beta	0.8
3-mth avg vol ('000)	128.4
Shariah compliant	No

#### Major shareholders

Gang Huang	14.0
Amplewood Resources Ltd	12.8
Low Ngee Tong	9.2

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.7	6.2	-
Relative	1.7	1.2	-

#### Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	286.7	329.2	348.9
EPS (sen)	38.8	44.6	47.2
P/E (x)	7.5	6.6	6.2

#### Relative performance chart



## Valuation & Recommendation

- Following the acquisition, we raised our earnings forecast by 4.4%-10.1% to RM286.7m, RM329.2m and RM348.9m for FY22f, FY23f and FY24f respectively to reflect the additional contribution from 25.0% equity stake in OM Sarawak and OM Salamaju. Consequently, we maintained our **BUY** recommendation on OMH with a higher target price of RM4.01.
- We derive our target price by assigning targeted P/E multiple of 9.0x to its revised FY23f EPS of 44.6 sen. The assigned target P/E represents a slight discount to the average of 10.8x of selected mining and smelting companies listed on Bursa Malaysia as well as international scale. The discount is premised to OMH smaller market capitalisation.
- Risks to our recommendation and target price include weaker-than-expected production and ferroalloy prices. OMH is also exposed to currency risk, whereby a weaker USD against the ringgit would be a drawback and vice versa.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	2,275.0	3,238.8	3,534.0	3,907.4	4,171.5	Cash	195.0	339.9	232.6	437.1	673.2
EBITDA	196.3	526.1	556.6	566.6	584.0	Receivables	194.9	170.5	184.0	203.4	205.7
EBIT	70.2	404.9	441.5	454.1	473.6	Inventories	669.1	1,069.0	1,016.6	1,043.8	1,114.3
Net finance income/ (cost)	(78.1)	(57.7)	(68.6)	(73.9)	(71.5)	PPE	1,989.7	1,919.2	1,874.7	1,840.4	1,813.4
Associates & JV	(47.9)	(16.8)	(17.7)	(19.5)	(20.9)	Others	457.5	432.5	389.3	353.3	320.6
<b>Profit before tax</b>	<b>(13.5)</b>	<b>350.4</b>	<b>377.3</b>	<b>385.0</b>	<b>408.0</b>	<b>Assets</b>	<b>3,506.2</b>	<b>3,931.1</b>	<b>3,697.3</b>	<b>3,877.9</b>	<b>4,127.2</b>
Tax	5.0	(10.2)	(18.9)	(19.3)	(20.4)	Debts	1,289.1	1,260.9	1,513.1	1,475.2	1,438.3
<b>Net profit</b>	<b>(8.5)</b>	<b>340.2</b>	<b>358.4</b>	<b>365.8</b>	<b>387.6</b>	Payables	502.0	560.9	629.4	647.8	670.3
Minority interest	(24.0)	85.3	71.7	36.6	38.8	Others	266.7	262.8	251.0	253.8	255.8
<b>Core earnings</b>	<b>15.5</b>	<b>254.9</b>	<b>286.7</b>	<b>329.2</b>	<b>348.9</b>	<b>Liabilities</b>	<b>2,057.7</b>	<b>2,084.5</b>	<b>2,393.5</b>	<b>2,376.9</b>	<b>2,364.4</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	1,085.9	1,162.9	1,385.3	1,034.8	1,297.5
Reported earnings	15.5	254.9	286.7	329.2	348.9	Minority interest	212.2	317.8	125.5	60.1	43.2
						<b>Equity</b>	<b>1,448.4</b>	<b>1,846.5</b>	<b>1,303.8</b>	<b>1,501.0</b>	<b>1,762.8</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	15.5	254.9	286.7	329.2	348.9	Core EPS (sen)	2.1	34.5	38.8	44.6	47.2
Depreciation & amortisation	161.4	179.4	115.2	112.5	110.4	P/E (x)	139.0	8.5	7.5	6.6	6.2
Changes in working capital	50.2	(296.8)	14.7	47.0	94.0	DPS (sen)	-	6.0	8.0	9.0	9.5
Share of JV profits	-	-	-	-	-	Dividend yield	0.0%	2.1%	2.7%	3.1%	3.3%
Taxation	18.6	(3.6)	(2.3)	(4.4)	(6.7)	BVPS (RM)	1.96	2.50	1.77	2.03	2.39
Others	(90.1)	59.7	(200.0)	(200.0)	(150.0)	P/B (x)	1.5	1.2	1.7	1.4	1.2
<b>Operating cash flow</b>	<b>137.0</b>	<b>197.3</b>	<b>216.6</b>	<b>288.7</b>	<b>403.3</b>	EBITDA margin	8.6%	16.2%	15.8%	14.5%	14.0%
Net capex	(48.9)	(28.1)	(70.6)	(44.5)	(34.3)	EBIT margin	3.1%	12.5%	12.5%	11.6%	11.4%
Others	16.1	48.4	(100.0)	(50.0)	(50.0)	PBT margin	-0.6%	10.8%	10.7%	9.9%	9.8%
<b>Investing cash flow</b>	<b>(32.8)</b>	<b>20.4</b>	<b>(170.6)</b>	<b>(94.5)</b>	<b>(84.3)</b>	PAT margin	-0.4%	10.5%	10.1%	9.4%	9.3%
Changes in borrowings	(76.7)	(110.8)	(100.0)	-	(100.0)	Core PAT margin	0.7%	7.9%	8.1%	8.4%	8.4%
Issuance of shares	-	-	-	-	-	ROE	1.1%	13.8%	22.0%	21.9%	19.8%
Dividends paid	(21.4)	-	(59.1)	(66.5)	(70.2)	ROA	0.4%	6.5%	7.8%	8.5%	8.5%
Others	(6.6)	12.2	-	-	-	Net gearing	75.5%	49.9%	98.2%	69.2%	43.4%
<b>Financing cash flow</b>	<b>(104.6)</b>	<b>(98.7)</b>	<b>(159.1)</b>	<b>(66.5)</b>	<b>(170.2)</b>						
<b>Net cash flow</b>	<b>(0.5)</b>	<b>119.0</b>	<b>(113.0)</b>	<b>127.7</b>	<b>148.8</b>						
Forex	(8.1)	8.6	8.6	8.6	8.6						
Others	-	-	-	-	-						
Beginning cash	140.5	131.9	259.5	155.1	291.4						
Ending cash	131.9	259.5	155.1	291.4	448.8						