

Stock Digest

Thursday, 28 Jul, 2022

OM Holdings Ltd

1H22 Review: Tapering ASP overwhelm improved sales

Summary

- OM Holdings Ltd (OMH) has announced their 1H22 production figures that saw their Samalaju Smelting Complex recorded production output of 33,004 MT (+3.2% QoQ) of ferrosilicon (FeSi), 60,767 MT (+0.4% QoQ) of manganese alloys (Mn alloys) and 30,446 MT (+18.7% QoQ) of manganese sinter ore. Meanwhile, a total of 37,779 MT (+23.0% QoQ) of FeSi and 52,172 MT (-9.5% QoQ) of Mn alloys were sold during the quarter. The improved sales of FeSi came as the delayed shipments at the end 1Q22 was resolved.
- Over at their Australia operations, a total of 59,056 MT (-30.8% QoQ) of manganese products were exported. We note that the mine's processing plant has ceased production since 24th January 2022. On a brighter note, a total of 422,380 MT (+4.2% QoQ) of ores and alloys were sold in 2Q22.
- Although sales improved during the quarter, we gather that the price of 44.0% Mn ore fell -6.8% QoQ to USD 7.27/dmtu CIF China, while FeSi and silicon manganese (SiMn) price declined -13.5% QoQ and -31.0% QoQ to USD 1,925/MT and USD 1,225/MT, respectively. The downward pressure in price came amid weaker demand from steel mills as China's steel production remained in sluggish situation.
- Meanwhile, we note that OMH has successfully modified and converted 2 FeSi furnaces to produce manganese alloys with hot commissioning and performance testing on 27th June 2022 and 25th July 2022 respectively. This will boost total annual production capacity to 333,000-400,000 MT per annum of manganese alloys. In the meantime, 2 units of FeSi furnaces are still undergoing conversion works (demolition works completed and civil modification works are ongoing) that will be able to generate 21,000-24,500 MT per annum of metallic silicon (MetSi) upon completion.
- Following the quicker-than-expected change of tide in demand, we reckon that material prices, both FeSi and SiMn are expected remain unexciting over the foreseeable future (below USD2,000/MT and USD1,300/MT respectively) as the uncertainties persisted surrounding the global inflationary pressure continues to sap demand. Still, we expect improved production to provide some cushion to the falling average selling prices. Meanwhile, we note that major maintenance works at Salamaju Smelting Complex have commenced since June 2022.

Valuation & Recommendation

- Although the total production and sales came in within our expectations, we trimmed our earnings forecast by 8.0-12.5% to RM253.4m, RM299.4m and RM318.9m for FY22f-FY224f, taking into account of the downward revision in ASP. Consequently, we maintained our **BUY** recommendation on OMH, but with a lower target price of RM2.84.
- We derive our target price by assigning targeted P/E multiple of 7.0x to FY23f EPS of 40.6 sen. The assigned target P/E represents a slight discount to the average of

Company Update

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BUY

Share price	RM1.90
Target price	RM2.84
Previous TP	RM4.01
Capital upside	49.4%
Dividend return	4.7%
Total return	54.1%

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)	1,403.4
52W High/Low	4.07 / 1.83
Est. Free float	55.6
Beta	0.7
3-mth avg vol ('000)	80.2
Shariah compliant	Yes

Major shareholders

Gang Huang	14.0
Amplewood Resources Ltd	12.8
Low Ngee Tong	9.2

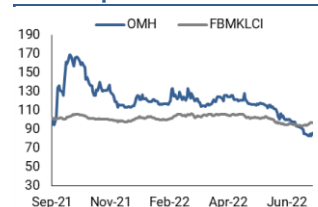
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-16.7	-31.2	-28.3
Relative	-17.6	-25.2	-27.8

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	254.9	253.4	299.4
EPS (sen)	34.5	34.3	40.5
P/E (x)	5.5	5.5	4.7

Relative performance chart



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8.8x 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	3,150.3	3,481.9	3,716.5	Cash	195.0	339.9	200.3	187.2	235.8
EBITDA	196.3	526.1	504.0	522.3	538.9	Receivables	194.9	170.5	164.0	181.3	183.3
EBIT	70.2	404.9	388.9	410.3	429.4	Inventories	669.1	1,069.0	906.2	1,073.2	1,221.9
Net finance income/ (cost)	(78.1)	(57.7)	(68.7)	(74.2)	(72.3)	PPE	1,989.7	1,919.2	1,867.0	1,824.7	1,789.5
Associates & JV	(47.9)	(16.8)	(15.8)	(17.4)	(18.6)	Others	457.5	432.5	387.8	426.7	468.9
Profit before tax	(13.5)	350.4	326.6	343.0	365.3	Assets	3,506.2	3,931.1	3,525.4	3,693.0	3,899.3
Tax	5.0	(10.2)	(9.8)	(10.3)	(11.0)	Debts	1,289.1	1,260.9	1,513.1	1,475.2	1,438.3
Net profit	(8.5)	340.2	316.8	332.7	354.3	Payables	502.0	560.9	588.1	571.4	578.3
Minority interest	(24.0)	85.3	63.4	33.3	35.4	Others	266.7	262.8	248.1	250.6	252.4
Core earnings	15.5	254.9	253.4	299.4	318.9	Liabilities	2,057.7	2,084.5	2,349.3	2,297.3	2,269.1
Exceptional items	-	-	-	-	-	Shareholder's equity	1,085.9	1,162.9	1,385.3	1,001.5	1,234.4
Reported earnings	15.5	254.9	253.4	299.4	318.9	Minority interest	212.2	317.8	31.1	17.8	3.7
						Equity	1,448.4	1,846.5	1,176.1	1,395.7	1,630.3
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	253.4	299.4	318.9	Core EPS (sen)	2.1	34.5	34.3	40.5	43.2
Depreciation & amortisation	161.4	179.4	115.2	112.0	109.5	P/E (x)	90.4	5.5	5.5	4.7	4.4
Changes in working capital	50.2	(296.8)	(138.5)	151.6	156.5	DPS (sen)	-	6.0	8.0	9.0	9.5
Share of JV profits	-	-	-	-	-	Dividend yield	0.0%	3.2%	4.2%	4.7%	5.0%
Taxation	18.6	(3.6)	(2.0)	(1.9)	(2.4)	BVPS (RM)	1.96	2.50	1.59	1.89	2.21
Others	(90.1)	59.7	(200.0)	(200.0)	(150.0)	P/B (x)	1.0	0.8	1.2	1.0	0.9
Operating cash flow	137.0	197.3	30.1	363.0	434.9	EBITDA margin	8.6%	16.2%	16.0%	15.0%	14.5%
Net capex	(48.9)	(28.1)	(70.6)	(52.1)	(42.4)	EBIT margin	3.1%	12.5%	12.3%	11.8%	11.6%
Others	16.1	48.4	(15.0)	(50.0)	(100.0)	PBT margin	-0.6%	10.8%	10.4%	9.8%	9.8%
Investing cash flow	(32.8)	20.4	(85.6)	(102.1)	(142.4)	PAT margin	-0.4%	10.5%	10.1%	9.6%	9.5%
Changes in borrowings	(76.7)	(110.8)	(20.0)	(100.0)	(100.0)	Core PAT margin	0.7%	7.9%	8.0%	8.6%	8.6%
Issuance of shares	-	-	-	-	-	ROE	1.1%	13.8%	21.5%	21.5%	19.6%
Dividends paid	(21.4)	-	(59.1)	(66.5)	(70.2)	ROA	0.4%	6.5%	7.2%	8.1%	8.2%
Others	(6.6)	12.2	-	-	-	Net gearing	75.5%	49.9%	111.6%	92.3%	73.8%
Financing cash flow	(104.6)	(98.7)	(79.1)	(166.5)	(170.2)						
Net cash flow	(0.5)	119.0	(134.6)	94.4	122.3						
Forex	(8.1)	8.6	8.6	8.6	8.6						
Others	-	-	-	-	-						
Beginning cash	140.5	131.9	259.5	133.5	124.8						
Ending cash	131.9	259.5	133.5	124.8	157.2						