

Sarawak & Sabah Field Trip

The Land of Abundance

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We recently visited the smelting plants of PMETAL and OMH, and the phosphoric plant of CMSB in Samalaju Industrial Park, the two seaports of BIPORT in Bintulu and Samalaju respectively, and the operator of Sabah ports, i.e., SURIA, in Kota Kinabalu, Sabah. We were pleased to see a significant boost in activities as the economy reopens. With a substantial long-term cost advantage over their international peers thanks to the accessibility to cheap hydro power from the Bakun dam (especially against a backdrop of skyrocketing fossil fuel cost at present), we believe the smelters will do well financially as well as being darlings to ESG-focused investors. Meanwhile, Sabah and Sarawak are well positioned to benefit from: (1) trade diversion (away from China) given their locations along the intra-Asia shipping path; (2) the massive development of the new capital city of Indonesia called Nusantara in the neighbouring East Kalimantan (particularly, ports in Sabah being the entry points for construction materials); and (3) being earmarked as part of China's Belt-and-Road Initiative.

Smelters are in good position to capitalise on cheap and clean hydro power. Many global smelters are cutting their production as their operations have become barely profitable amidst elevated energy costs. **Press Metal Aluminium Holdings Bhd (PMETAL; OP; TP: RM5.95)** and **OM Holdings Ltd (OMH; NOT RATED)** are spared given the stable cost of their energy source, i.e., hydro power. In fact, prior to the recent surge in fossil fuel cost, by virtue of them using the cheaper hydro power, they already enjoyed significant cost advantage over their international competitors. With reduced production from fossil fuel-powered smelters in the world, the supply of end-products will remain tight, keeping their prices firm over the short term. Meanwhile, PMETAL will see the first full-year impact in FY22 from its Phase 3 expansion commissioned back in Oct 2022, boasting an additional aluminium smelting capacity of 320,000 MT/annum, while OMH is currently converting its four existing ferrosilicon (FeSi) furnaces into two manganese alloys (Mn Alloys) furnaces and two metallic silicon (MetSi) furnaces (of which end-products command better margins). In addition, OMH has plans to add two more new Mn Alloys furnaces, increasing its total plant output to 610,000-640,000 MT/annum (from 470,000 MT/annum prior to the pandemic). Samalaju Industrial Port of **Bintulu Port Holdings Bhd (BIPORT; OP; TP: RM5.95)** is poised to benefit from higher throughput backed by a higher aggregate output from the expanded production capacity of key players in Samalaju Industrial Park.

Riding on Samalaju Industrial Park. Cahya Mata Sarawak Bhd (CMSB; NOT RATED) is a key driving force behind Sarawak Corridor of Renewable Energy (SCORE). It is involved in the development of Samalaju Industrial Park as well as a new township in Samalaju, it runs the workers' hostel and Samalaju Resort Hotel and owns a 25% equity stake in OMH (which it is in the midst of divesting). Its 60%-owned phosphate additives plant under Malaysian Phosphate Additives (Sarawak) Sdn Bhd will fire up its first furnace this month, with the remaining three to gradually come onstream by the end of the year (after a delay of more than two years due to the disruptions from the pandemic). The venture is expected to achieve cash flow breakeven in 2023 before delivering its maiden P&L profits in 2024.

Indonesia's Nusantara development to boost throughput at seaports in Sabah. Sabah and Sarawak are well positioned to benefit from trade diversion (away from China) given their locations along the intra-Asia shipping path. In addition, they have also been earmarked as part of China's Belt-and-Road Initiative. Seaports in Sabah, especially Tawau Port adjacent to Nusantara of **Suria Capital Holdings Bhd (SURIA; NOT RATED)**, are poised to benefit from the massive development of Nusantara in the neighbouring East Kalimantan as they will handle the import of building materials for the construction of the new capital city of Indonesia. We understand local companies in Sabah and Sarawak, including those we visited, have already received a deluge of enquires from their potential new clients/partners in Indonesia. We gathered that the USD32.5b Nusantara project will kick start this month and will last another 15-20 years.

Valuation Comparison

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	CNP Growth (%)		Target Price (RM)	Rating
			FY21	FY22	FY23				FY22	FY23		
BIPORT	5.20	2,392.0	24.2	21.3	16.9	2.1	23.7	1.4	13.8	26.0	5.95	OP
CMSB	0.94	1,009.7	5.1	4.6	5.1	2.9	7.0	0.3	4.0	-5.0	NR	NR
OMH	1.95	1,440.3	8.1	5.6	3.8	3.1	18.1	N.A.	1.0	49.0	NR	NR
PMETAL	4.70	38,726.2	45.9	19.5	18.3	2.0	25.5	12.2	92.4	6.8	5.95	OP
SURIA	1.09	376.9	8.5	8.4	7.8	4.2	3.5	0.3	18.0	6.0	NR	NR

Source: Kenanga Research, Bloomberg

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OM Holdings Ltd

Back on Growth Path after Initial Hiccups

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Expansion on the way. Due to workforce shortage and mid-year stoppage, OMH only operated 12 out of its 16 furnaces at its Samalaju Industrial Park Plant in 2021. Four out of its ten ferro silicon (FeSi) furnaces were shut down while six manganese alloys (Mn Alloys) furnaces remained operational. This reduced total plant output to 360,000 MTPA from 470,000 MTPA pre-COVID. Currently, the plant is undergoing maintenance and it is converting two existing FeSi furnaces into Mn Alloys furnaces and another two existing FeSi furnaces to metallic silicon (MetSi) furnaces. In addition, OMH has planned to add two new Mn Alloys furnaces in the future, increasing total plant output to 610,000-640,000 MTPA. Meanwhile, OMH is expected to conclude the acquisition of 25% stake in the Samalaju Industrial Park plant from CMSB for USD120m in 3QCY22.

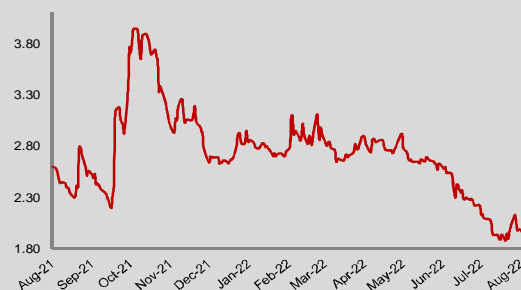
Lowest cost quartile ferroalloy smelter in the region. OMH is also a first cost quartile smelter thanks mainly to a 20-year hydropower supply from Bakun Dam at a competitive tariff rate. As a result, OMH has huge structural cost advantage over international peers in view of current high electricity costs as fuel prices have surged. Similarly, the skyrocketing power cost has also led to some European smelters cutting production as their cash cost is higher than spot prices while strict environmental requirements have forced some Chinese smelters to shut down production. This will keep FeSi and Mn Alloys prices elevated which would benefit OMH eventually. In fact, OMH had stopped production at its Qinzhou smelting plant in China given the unbearably high energy costs. As of now, the company has not firmed up whether to sell the plant or to turn it into a logistic hub as it is located next to the Qinzhou port.

A high socio-economic return to Sarawak economy. The Samalaju Industrial Park plant employs c.1,400 workers of which 70% are local Sarawakian. Similarly, to those plants in the Samalaju Industrial Park, OMH houses its workers in hostels that are managed by CMS located about 10 minutes driving distance from the plant. The company has emphasized on growing local employment through training and skill development. It has collaborated with University of Malaysia, Sarawak (UNIMAS) for the award of the Certificate in Manufacturing Technology (Smelting) Program to upskill and elevate competencies of local employees as well as enhance career and income growth opportunities of local operators. So far, this Samalaju plant had recorded a monthly RM70m being contributed to the Sarawak economy in 2021. Meanwhile, we appraised its ESG score at 3-star rating.

NOT RATED

Price: **RM1.95**
Target Price: **N/A**

Share Price Performance



KLCI	1,492.33
YTD KLCI chg	-4.8%
YTD stock price chg	-31.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK
Market Cap (RM m)	1,440.3
Shares Outstanding	738.6
52-week range (H)	4.07
52-week range (L)	1.83
3-mth avg daily vol:	72,322
Free Float	56%
Beta	N.A.

Major Shareholders

Gang Huang	14.0%
Amplewood Resources	12.8%
Low Ngee Tong	9.2%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	3239	3217	4087
EBITDA	654	794	858
PBT	394	534	531
Net Profit (NP)	291	250	373
Core Net Profit	291	250	373
Consensus (NP)		82.4	123
Core EPS (sen)	3.9	3.4	5.0
Core EPS growth (%)	956.3	-13.6	47.9
NDPS (sen)	6.2	6.1	6.1
BV/Share (RM)	N.A.	N.A.	N.A.
PER (x)	8.1	5.6	3.8
PBV (x)	1.3	N.A.	N.A.
Net Gearing (x)	2.7	N.A.	N.A.
Net Dividend Yield (%)	3.2	3.1	3.1

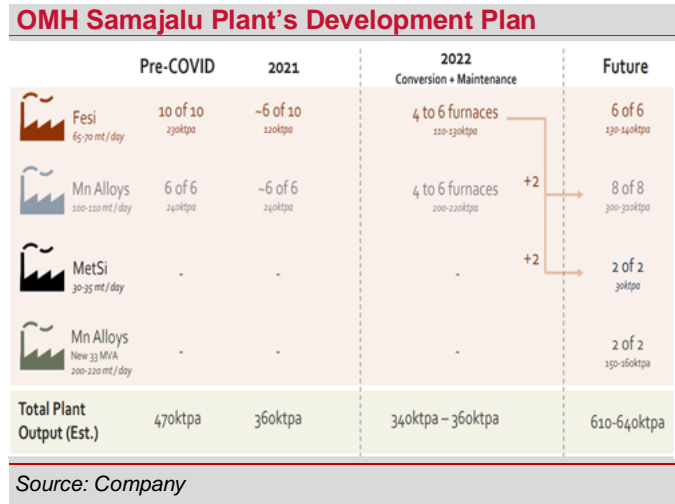
Note: Forecast is based on Bloomberg

Company Background

OM Holdings Limited (OMH), listed in Australia Stock Exchange and Bursa Malaysia, is a vertically integrated Mn ore and ferroalloy company with 25 years of history where it trades raw ores, smelting and marketing of processed ferroalloys. For upstream, it has a wholly-owned Mn ore mine, Bootu Creek in the Northern Territory of Australia which is currently idle while it has a 13% stake in a Mn ore mine, Tshipi Borwa in South Africa while for midstream activity, it has two Mn alloy smelting plants in Sarawak and Qinzhou, China. The marketing and trading are handled from its Singapore and China offices.



Source: Company



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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★			
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Renewable Energy Source	★	★	★	★	★
	Resource Efficiency	★	★	★		
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★		
	Workers Welfare	★	★	★	☆	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP