

OM Holdings Ltd

(OMH \$0.69) Speculative Buy, change from Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	2 nd September 2022	\$1.00/sh ▼ from \$1.55/sh

Bear marking in selling prices...but with rising energy prices it can only be a matter of time before another spike?

Event

OMH reported 1H22 NPAT of US\$60m (-A\$83m). No DPS was declared (none expected);

1H22 EBITDA was US\$104m (-A\$144m). Operating cash flow was US\$72m (-A\$90m);

Guidance for 2H CY22 production is for 40-60kt FeSi and 80-100kt Mn alloy – lower than 1H due to maintenance;

Capex for 2H -A\$60m; CY23 capex -US\$90m, but contingent on fid decision for expansion (our model assumes expansion);

Impact

We have adjusted our earnings estimates;

Lower selling prices and reduced production in 2H imply lower earnings;

Action

A key aspect to remember is the potential for volatile selling prices – for which we have entered a bear market now (see chart over page). Large supply comes from Ukraine/Russia, and hence is subject to war/ geopolitics risk. At the moment demand appears softer due to slowing global construction. However, risks from either supply shocks or stimulus could cause another rapid spike in prices. OMH has cheap hydro power in Malaysia, versus the marginal cost of industry supply powered by variable power in India & China...hence the potential for margins to rebound strongly again;

As a reminder, OMH is acquiring the balance (25%) of Sarawak (the main OMH asset). The acquisition price is US\$120m (look through for 100% US\$480m). Our model assumes it is debt/cash flow funded and we estimate net debt of A\$460m at December (from \$255m at end June);

We move to Speculative Buy (from Buy) recommendation given our valuation assumes a rebound in selling prices. Additional risks are financing and completing the acquisition of the 25% interest in Sarawak;

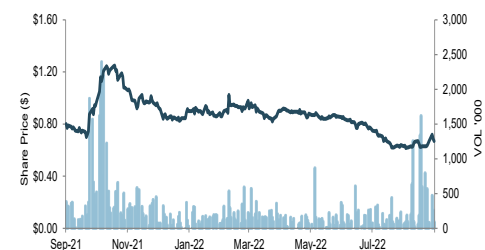
Key Catalysts

- Sarawak acquisition completes – Sept/Dec 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	0.69	A\$/sh
Price Target	1.00	A\$/sh
Valuation (DCF)	1.48	A\$/sh
WACC	9.0%	
Terminal Growth	3.0%	
Shares on issue	739 m,	diluted
Market Capitalisation	506.0	A\$m
Enterprise Value	931.5	A\$m
Cash 30 Jun 22a	115.0	A\$m
Debt (est post acq)	540.5	A\$m

Production F/Cast	2021a	2022f	2023f
Revenue (A\$m)	1040.8	1043.2	1153.6
EBITDA (A\$m)	190.0	222.9	176.4
EBITA (A\$m)	132.4	179.5	118.8
Reported NPAT (A\$m)	112.4	108.5	82.2
Normalised NPAT (A\$m)	51.4	72.8	61.8
Op Cashflow (A\$m)	94.2	107.9	92.7
Capex (A\$m)*	-9.0	-80.0	-127.0
Op. Free Cashflow (A\$m)	85.2	27.9	-34.3
Revenue Growth (%)	33%	0%	11%
EBITDA Growth (%)	132%	17%	-21%
Norm. NPAT Growth (%)	398%	36%	-34%
Normalised EPS (Ac)	7.0	9.9	8.4
Norm. EPS growth (%)	nm	42%	-15%
PER (x)	9.8	7.0	8.2
EV:EBITDA (x)	4.9	4.2	5.3
EV:EBIT (x)	7.0	5.2	7.8
DPS (Ac)	2.0	0.0	1.0
Dividend Yield (%)	2.9%	0.0%	1.5%
Net Debt (A\$m)	296.7	455.0	489.3
Net Debt:Equity (%)	49%	65%	62%
Interest Cover (x)	6.7	7.5	3.9

Share Price Chart



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Analysis

Our earnings changes are below

Profit & Loss (\$m)		12/21A	12/22F			12/23F			12/24F		
		Actual	Old	New	% diff	Old	New	% diff	Old	New	% diff
Prices											
FeSi	US\$	2,201	2,033	1,974	-2.9%	1,850	1,850	0.0%	1,800	1,800	0.0%
Manganese Alloys (SiMn, HCFeMn)	US\$	1,425	1,648	1,502	-8.8%	1,500	1,282	-14.5%	1,450	1,450	0.0%
MetSi	US\$	nm	nm	nm		2,800	2,800	0.0%	2,800	2,800	0.0%
Production											
FeSi		113,783	119,312	123,622	3.6%	133,875	133,875	0.0%	133,875	133,875	0.0%
Manganese Alloys (SiMn, HCFeMn)		251,493	209,507	211,054	0.7%	303,750	278,438	-8.3%	411,750	411,750	0.0%
MetSi		0	0	0		27,000	27,000	0.0%	27,000	27,000	0.0%
Revenue	A\$m	1,040.8	1,061.0	1,043.2	-1.7%	1,347.7	1,153.6	-14.4%	1,577.8	1,555.0	-1.4%
- growth		32.6%	1.9%	0.2%		27.0%	10.6%		17.1%	34.8%	
Cash Costs	A\$m	-850.8	-794.7	-820.4	3.2%	-1,065.4	-977.2	-8.3%	-1,259.7	-1,243.0	-1.3%
EBITDA	A\$m	190.0	266.3	222.9	-16.3%	282.3	176.4	-37.5%	318.0	312.0	-1.9%
- margin	A\$m	18%	25%	21%	-14.9%	21%	15%	-27.0%	20%	20%	-0.5%
Sarawak	A\$m	168.8	234.9	191.1	-18.6%	237.2	141.7	-40.3%	265.5	265.5	0.0%
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	2.0	2.9	43.5%	5.1	0.4	-91.5%	5.6	0.2	-96.6%
Logistics, marketing & trading	A\$m	29.2	30.9	30.4	-1.7%	39.2	33.6	-14.4%	45.9	45.2	-1.4%
Tshipi - 13% (Assoc. Income)	A\$m	5.4	14.9	14.9	0.0%	17.6	17.6	0.0%	18.7	18.7	0.0%
Depreciation/Amortisation	A\$m	-57.6	-61.8	-43.4	-29.7%	-77.8	-57.6	-25.9%	-82.0	-62.4	-23.9%
- Depreciation	A\$m	-57.6	-61.8	-43.4	-29.7%	-77.8	-57.6	-25.9%	-82.0	-62.4	-23.9%
- Amortisation	A\$m	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
EBITA	A\$m	132.4	204.5	179.5	-12.2%	204.4	118.8	-41.9%	236.0	249.6	5.7%
- margin	A\$m	12.7%	19.3%	17.2%	-10.8%	15.2%	10.3%	-32.1%	15.0%	16.1%	7.3%
Net Interest	A\$m	-19.8	-23.8	-23.8	0.0%	-30.4	-30.4	0.0%	-32.3	-32.3	0.0%
Norm Pretax Profit b4 Amort.	A\$m	112.6	180.7	155.6	-13.9%	174.0	88.3	-49.2%	203.7	217.2	6.7%
Norm. Tax	A\$m	-33.8	-54.2	-46.7	-13.9%	-52.2	-26.5	-49.2%	-61.1	-65.2	6.7%
NPAT Pre Minorities	A\$m	78.8	126.5	108.9	-13.9%	121.8	61.8	-49.2%	142.6	152.1	6.7%
Minorities	A\$m	-27.4	-42.0	-36.2		0.0	0.0		0.0	0.0	
Norm. Net Profit After Tax*	A\$m	51.4	84.5	72.8	-13.9%	121.8	61.8	-49.2%	142.6	152.1	6.7%
- growth		nm	64%	42%		44%	-15%		17.1%	145.9%	
- margin		4.9%	8.0%	7.0%		9.0%	5.4%		9.0%	9.8%	
Abnormals (net of tax)	A\$m	30.5	41.6	35.8		40.0	20.3		46.8	50.0	
Reported Profit	A\$m	81.9	126.0	108.5	-13.9%	161.8	82.2	-49.2%	189.4	202.0	6.7%
Capex	A\$m	-9.0	-105.0	-80.0	-23.8%	-79.0	-127.0	60.8%	-8.0	-8.0	
Net Debt (cash)	A\$m	301.2	504.8	459.5	-9.0%	463.8	493.8	6.5%	293.0	346.0	18.1%
DPS	A\$ cps	2.00	2.00	0.00	-100.0%	2.00	1.00	-50.0%	2.00	2.00	0.0%

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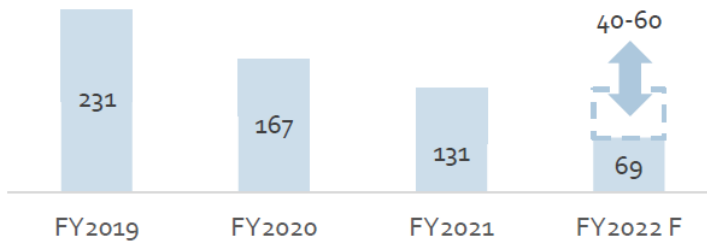
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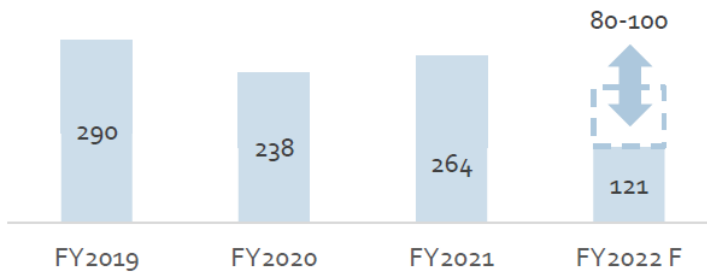
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Guidance is for lower 2H production

FeSi Production Volume (kmt)

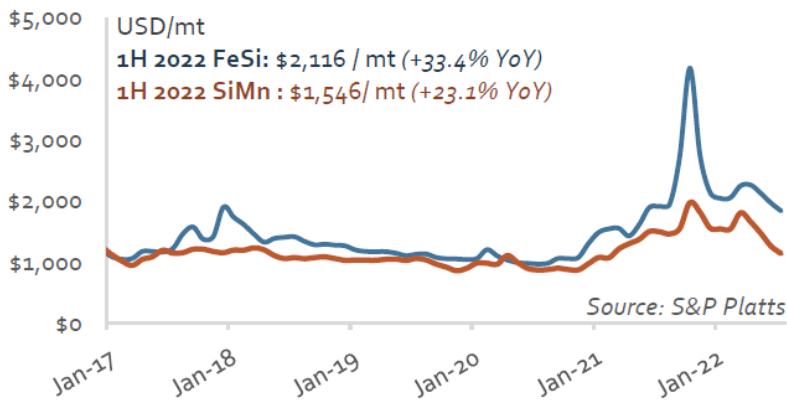


Mn Alloy Production Volume^(a) (kmt)



Source: OMH

Selling prices have retraced



Source: OMH

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Result summary

Profit & Loss (\$m)	Jun-19a	Dec-19a	Jun-20a	Dec-20a	Jun-21a	Dec-21a	Jun-22a	Dec-22e
Group Revenue	534.6	491.9	386.5	398.1	450.6	590.2	648.2	395.1
sequential growth		-8.0%	-21.4%	3.0%	13.2%	31.0%	9.8%	-39.1%
EBITDA - Group	109.6	46.5	53.3	28.7	63.4	126.6	144.3	78.6
sequential growth		-57.6%	14.8%	-46.2%	121.2%	99.6%	14.0%	-45.6%
EBITDA / Sales	20.5%	9.4%	13.8%	7.2%	14.1%	21.5%	22.3%	19.9%

Cashflow Statement (\$m)	Jun-19a	Dec-19a	Jun-20a	Dec-20a	Jun-21a	Dec-21a	Jun-22a	Dec-22e
Cash receipts	534.6	491.9	386.5	398.1	450.6	590.2	648.2	
EBITDA	109.6	46.5	53.3	28.7	63.4	126.6	144.3	78.6
Working Capital Change	-42.5	48.2	1.4	28.9	-40.3	-37.2	-37.8	-42.5
Cash from Operations	67.0	94.6	54.8	57.5	23.2	89.4	106.6	36.1
Net interest Paid	-20.8	-12.0	-16.8	-12.5	-11.9	-7.5	-11.5	-12.3
Tax Paid	-16.7	-13.5	-2.0	-4.4	0.5	0.7	-6.0	-4.9
Net Operating Cash Flow	29.6	69.1	35.9	40.6	11.7	82.5	89.1	18.9
Capital Expenditure	-38.8	-44.1	-9.9	-6.9	-7.0	-2.0	-25.3	-54.7
Asset Sales	0.0	0.1	0.0	0.0	2.6	0.0	0.0	0.0
Other (inc Investments)	14.1	-14.1	2.9	-3.4	11.9	-12.4	5.5	-176.9
Net Investing Cash Flow	-24.8	-17.7	-7.0	-4.3	7.5	-1.4	-19.8	-231.6
Proceeds from Equity Issues	0.0	22.5	0.0	0.0	0.0	2.6	0.0	0.0
Net Change in Debt & Leases	-27.7	-25.2	-31.5	2.7	-4.7	-30.9	-47.6	222.6
Dividends Paid	-14.7	-8.6	-3.7	-3.7	0.0	0.0	-14.7	-0.1
Net Financing Cash Flow	-42.5	-11.4	-35.1	-1.0	-4.7	-28.4	-62.3	222.5
Movement in Cash	-37.7	40.1	-6.2	35.4	14.5	52.7	7.0	9.8
HP Lease Capex (non-cash)	0.0	0.0	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	15.8	18.2

Balance Sheet (\$m)	Jun-19a	Dec-19a	Jun-20a	Dec-20a	Jun-21a	Dec-21e	Jun-22a	Dec-22e
Cash	56.0	63.7	59.0	63.0	77.9	112.3	115.0	129.1
Receivables	59.4	37.8	40.2	63.0	55.5	56.4	69.6	57.2
Inventories	298.8	228.3	265.1	216.3	297.3	353.3	345.6	339.0
Other	5.1	4.8	4.2	5.4	2.0	5.2	6.3	5.2
Total Current Assets	419.4	334.6	368.6	347.7	432.8	527.2	536.5	530.4
Property, Plant & Equipment	717.9	740.4	735.0	645.1	645.1	634.3	641.5	842.3
Intangibles	0.0	0.0	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	131.5	137.8
Total Non Current Assets	858.3	868.2	869.7	785.7	784.8	772.1	773.1	980.1
Total Assets	1,277.7	1,202.7	1,238.3	1,133.4	1,217.6	1,299.3	1,309.5	1,510.5
Accounts Payable	113.8	60.2	182.3	54.8	212.9	176.5	141.7	118.9
Interest Bearing Liabilities	377.9	385.5	119.2	288.3	107.2	124.6	99.9	124.6
Other	27.5	29.4	16.3	23.2	18.2	25.1	10.8	25.1
Total Current Liabilities	519.3	475.2	317.8	366.3	338.3	326.2	252.4	268.6
Accounts Payable	139.3	113.2	35.5	155.8	53.9	54.3	68.8	54.3
Interest Bearing Liabilities	113.8	88.4	334.5	126.8	291.4	284.4	263.6	459.4
Other	16.9	18.2	25.6	16.4	26.5	24.0	46.0	24.0
Total Non Current Liabilities	270.0	219.7	395.5	298.9	371.8	362.8	378.4	537.8
Total Liabilities	789.2	694.9	713.3	665.2	710.1	689.0	630.7	806.4
Net Assets	488.5	507.9	525.0	468.2	507.5	610.3	678.8	704.1
Net Debt (net cash) inc AASB16	441.1	417.3	399.0	353.7	329.0	301.2	254.1	459.5
Net Debt (net cash)	435.7	410.2	394.6	352.0	320.7	296.7	248.5	455.0

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Price Target

Our price target is lowered to \$1.00 (from \$1.55)

OMH Price Target Methodology	Weighting	Spot	12 mth out
Sum-of-parts	39%	\$1.48	\$1.59
- at Spot prices	15%	\$0.35	\$0.38
12mth base EV/EBITDA of 12x (high)	1%	\$2.46	\$3.81
12mth base EV/EBITDA of 6x (low)	15%	\$0.90	\$1.64
12mth spot EV/EBITDA of 12x (high)	1%	\$1.52	\$1.30
12mth spot EV/EBITDA of 6x (low)	4%	\$0.40	\$0.27
Net cash	15%	\$0.00	\$0.00
12mth fwd Div Yield of 4.5% (Gross yield=6.5%)	10%	\$0.00	\$0.22
Risk weighted composite		\$0.82	\$1.00
12 Months Price Target		\$1.00	
Shareprice - Last		\$0.685	
12 mth total return (% to 12mth target + dividend)		46.6%	
		<i>P / E (FY23) at price target</i>	<i>12.0x</i>
		<i>P / E (FY24) at price target</i>	<i>4.9x</i>
		<i>EV/EBITDA (FY23F) at price target</i>	<i>6.8x</i>
		<i>EV/EBITA (FY23F) at price target</i>	<i>10.1x</i>

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Financial Statements	2020a	2021a	2022f	2023f	Performance Ratios	2020a	2021a	2022f	2023f
Selling Price FeSi (US\$)	1459	2201	1974	1850	Growth & Margins				
Selling Price HCFeMn (US\$)	1295	1425	1502	1282	Revenue Growth	-24%	33%	0%	11%
Selling Price Met Si (US\$)				2800	EBITDA Growth	-47%	132%	17%	-21%
Sarawak					EBITA Growth	-74%	398%	36%	-34%
FeSi - 100%	172	114	124	134	Reported NPAT Growth	nm	nm	-3%	-24%
Mn Alloys - 100%	236	204	211	278	Normalized Net Profit Growth	nm	nm	42%	-15%
Met Si - 100%	-	-	-	27	EBITDA margin	10%	18%	21%	15%
EBITDA - 100%	50.0	168.8	191.1	141.7	EBIT margin	3%	13%	17%	10%
Qinzhou					Normalized net profit margin	0%	5%	7%	5%
FeSi - 100%	-	-	-	-	Effective tax rate	37%	3%	7%	7%
Mn Alloys - 100%	10	48	-	-	Liquidity				
EBITDA	-6.1	5.0	-2.8	-2.7	Capex/depreciation (x)	0.3	0.2	1.8	2.2
Bootu Ck					Current ratio (x)	0.9	1.6	2.0	2.3
Mt	0.64	0.70	0.14	0.13	Quick ratio (x)	0.3	0.5	0.7	0.9
EBITDA	1.2	-12.8	2.9	0.4	Receivable days	29.3	19.8	20.0	20.0
Logistics, marketing and trading					Payable days	15.9	45.4	60.0	60.0
Volumes pcp %	13.1%	43.3%	6.0%	0.0%	Risk Measures				
EBITDA	32.1	29.2	30.4	33.6	Payout ratio (%)	0%	29%	0%	12%
Tshipi - 13% (Assoc. Income)	16.5	5.4	14.9	17.6	Net interest cover (x)	0.9	6.7	7.5	3.9
					Net debt/nd+equity (%)	43%	33%	39%	38%
Group Revenue	784.6	1,040.8	1,043.2	1,153.6	Returns				
growth	-23.6%	32.6%	0.2%	10.6%	ROIC (pre-tax)	0%	13%	16%	8%
EBITDA - Divisions	93.8	195.7	236.4	190.6	Return on Assets	0%	4%	5%	4%
EBITDA - Group	82.0	190.0	222.9	176.4	Return on Equity	-1%	10%	11%	8%
growth	-47%	nm	17%	-21%	Share Data/Valuation				
EBITDA / Sales	10.5%	18.3%	21.4%	15.3%	Share Data				
Depreciation/Amortisation	-55.4	-57.6	-43.4	-57.6	Issued shares (m)	738.6	738.6	738.6	738.6
- depreciation	-55.4	-57.6	-43.4	-57.6	Weighted ave shares (m)	738.6	738.6	738.6	738.6
- amortisation	0.0	0.0	0.0	0.0	Fully diluted shares (m)	738.6	738.6	738.6	738.6
EBITA	26.6	132.4	179.5	118.8	Basic EPS (c)	-0.5	15.2	14.7	11.1
EBITA / Sales	3.4%	12.7%	17.2%	10.3%	YoY change (%)	nm	nm	-3%	-24%
Net Interest	-28.8	-19.8	-23.8	-30.4	Fully diluted EPS (c)	-0.5	15.2	14.7	11.1
Norm. Pretax Profit pre Amort	-2.3	112.6	155.6	88.3	YoY change (%)	nm	nm	-3%	-24%
- margin	-0.3%	10.8%	14.9%	7.7%	Fully diluted normalised EPS (c)	-0.4	7.0	9.9	8.4
Norm Tax	-0.8	-33.8	-46.7	-26.5	YoY change (%)	nm	nm	42%	-15%
Effective Tax Rate	-36.9%	30.0%	30.0%	30.0%	Dividend/share (c)	0.00	2.00	0.00	1.00
NPAT Pre Minorities	-3.1	24.0	36.6	61.8	Franking (%)	0%	0%	0%	0%
Minorities	0.0	-27.4	-36.2	0.0	Gross cashflow/share (c)	10.4	12.8	14.6	12.5
Normalised NPATA to equity	-3.1	51.4	72.8	61.8	NBV/share (\$)	0.63	0.83	0.95	1.06
Norm. Net Profit / Sales	-0.4%	4.9%	7.0%	5.4%	NTA/Share (\$)	0.63	0.83	0.95	1.06
Abnormals / discontinued	-0.7	61.0	35.8	20.3	Valuation				
Reported Profit to equity	-3.8	112.4	108.5	82.2	PER (Basic) (x)	nm	4.5	4.7	6.2
margin	-0.5%	10.8%	10.4%	7.1%	PER (Fully diluted) (x)	nm	4.5	4.7	6.2
					PER (Fully diluted, normalized) (x)	nm	9.8	7.0	8.2
					P/CFPS (x)	6.6	5.4	4.7	5.5
					Price/NBV (x)	1.1	0.8	0.7	0.6
					Price/NTA (x)	1.1	0.8	0.7	0.6
					Dividend Yield (%)	0.0%	292.0%	0.0%	1.5%
					EV/EBITDA (x)	11.4x	4.9x	4.2x	5.3x
					EV/EBIT (x)	35.1x	7.0x	5.2x	7.8x
					EV/Revenue (x)	1.2x	0.9x	0.9x	0.8x
					Other Information				
					Estimated free float:				90.8%
					12-mth High/Low (A\$/sh)				\$1.28 - \$0.605
					Average daily volume (A\$m)				0.24
					ASX Code				OMH
					Next result				Feb-23
					Company Description				
					OMH is a manganese and silica smelter with high financial and operating leverage.				
Balance Sheet (\$m)	2020a	2021a	2022f	2023f					
Cash	63.0	112.3	129.1	194.7					
Receivables	63.0	56.4	57.2	63.2					
Inventories	216.3	353.3	339.0	403.8					
Other	5.4	5.2	5.2	5.2					
Total Current Assets	347.7	527.2	530.4	666.9					
Property, Plant & Equipment	645.1	634.3	842.3	911.7					
Intangibles	0.0	0.0	0.0	0.0					
Other	140.6	137.8	137.8	137.8					
Total Non Current Assets	785.7	772.1	980.1	1,049.5					
Total Assets	1,133.4	1,299.3	1,510.5	1,716.3					
Accounts Payable	54.8	176.5	118.9	142.6					
Interest Bearing Liabilities	288.3	124.6	124.6	124.6					
Other	23.2	25.1	25.1	25.1					
Total Current Liabilities	366.3	326.2	268.6	292.3					
Accounts Payable	155.8	54.3	54.3	54.3					
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	806.4	930.1					
Net Assets	468.2	610.3	704.1	786.2					
Net Debt (net cash) inc AASB16	353.7	301.2	459.5	493.8					
Net Debt (net cash)	352.0	296.7	455.0	489.3					

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