

Stock Digest

Tuesday, 30 Aug, 2022

OM Holdings Ltd

Earnings at infection point

Summary

- OM Holdings Ltd's (OMH) 1HFY22 net profit jumped 267.9% YoY to RM202.0m, driven by the higher transacted prices of manganese ores and ferroalloys. Revenue for the period added 34.9% YoY to RM1.92bn.
- The reported earnings came above expectations, making up to 79.8% of our forecasted net profit of RM253.2m and 79.9% of consensus net profit of RM252.6m. The variance is mainly due to the higher-than-expected FeSi and Mn alloy prices during 1HFY22, amid the uncertainty of ferroalloy supply following the geopolitical tension between Ukraine and Russia.
- We gather that FeSi prices has begun to normalise, falling from USD2,225/MT as at end-1Q22 to USD1,925/MT (-13.5% QoQ) as at end-2Q22. Meanwhile, SiMn prices also pullback from USD1,775/MT as at end-1Q22 to USD1,225/MT (-31.0% QoQ) as at end-2Q22. The weakness was due to softer demand from steel mills as a result from higher energy costs and weaker global steel market. Price of 44.0% Mn ore also fell -6.8% QoQ to USD 7.27/dmtu CIF China, during the period.
- We reckon that purchases are keeping their hands off from stocking up inventory levels amid concern over potentially slower demand with the global economy struggles to stave off the persistently high inflation and slowdown in economic activities. The high energy costs (Brent oil steady above USD90/bbl) would remain as a key factor of slowing demand from steel mill players.
- At Samalaju, OMH continues to operate with 12 out of 16 furnaces (6 FeSi and 6 Mn alloy). Of the remaining 4 furnaces, 1 furnace is undergoing conversion to produce manganese alloys, 1 furnace is undergoing scheduled major maintenance and another 2 furnaces are undergoing conversion to produce silicon metal (Metsi) that is target for completion by end-2022. We are sanguine over the furnace conversion to produce higher value-added products with OMH aiming to diversify their client base into the aluminum, chemicals and solar downstream industry.
- With the quicker-than-expected change of tide in demand, material prices, both FeSi and SiMn are expected remain unexciting over the foreseeable future (below USD2,000/MT and USD1,300/MT respectively). We believe uncertainties persisted surrounding the global inflationary pressure may continue to sap demand.

Quarterly performance					
FYE Dec (RM m)	1HFY21	2HFY21	1HFY22	1H vs 2H (%)	YoY (%)
Revenue	1,424.2	1,809.4	1,921.6	6.2	34.9
EBITDA	196.0	464.0	420.9	(9.3)	114.8
PBT	63.5	283.7	335.7	18.3	429.0
PAT	74.2	263.2	246.1	(6.5)	231.5
Core PATMI	54.9	197.9	202.0	2.1	267.9
Reported PATMI	54.9	197.9	202.0	2.1	267.9
Core EPS (sen)	1.6	5.8	5.9	2.1	267.9
EBITDA margin (%)	13.8	25.6	21.9		
PBT margin (%)	4.5	15.7	17.5		
Core PATMI margin (%)	3.9	10.9	10.5		

Results Note – 1HFY22

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BUY

Share price	RM2.14
Target price	RM2.86
Previous TP	RM2.84
Capital upside	33.6%
Dividend return	3.3%
Total return	36.9%

Company profile

Principally involved in the provision of engineering services, construction and general trading

Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	1,580.7
52W High/Low	4.07 / 1.83
Est. Free float	55.6
Beta	0.7
3-mth avg vol ('000)	67.0
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	5.9	-19.5	153.6
Relative	5.3	-17.1	-18.8

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	254.9	354.3	300.9
EPS (sen)	34.5	48.0	40.7
P/E (x)	6.2	4.5	5.3

Relative performance chart



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Valuation & Recommendation

- Amid the stronger-than-expected results, we tweaked our earnings higher by 39.9% for FY22f in view of the stronger-than-expected average selling prices during 1HFY22 and slight upward adjustment in bottomline for both FY23f (+1.1% to RM300.9m) and FY24f (+0.7% to RM319.5m) as we reckon that prices may stabilise in subsequent 2 years, while net margins may also return to the norm at high single digit.
- Following the earnings revision, we maintain our **BUY** recommendation on OMH, with a slightly higher target price of RM2.86.
- We derive our target price by assigning targeted P/E multiple of 7.0x to FY23f EPS of 40.7 sen. The assigned target P/E represents a slight discount to the average of 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	3,352.1	3,699.2	3,951.0	Cash	195.0	339.9	736.3	650.1	779.6
EBITDA	196.3	526.1	754.2	554.9	572.9	Receivables	194.9	170.5	174.5	192.6	194.8
EBIT	70.2	404.9	639.1	442.6	462.9	Inventories	669.1	1,069.0	1,274.3	1,254.2	1,339.5
Net finance income/ (cost)	(78.1)	(57.7)	(68.0)	(73.0)	(71.1)	PPE	1,989.7	1,919.2	1,871.1	1,832.8	1,801.8
Associates & JV	(47.9)	(16.8)	(16.8)	(18.5)	(19.8)	Others	457.5	432.5	433.7	518.8	570.1
Profit before tax	(13.5)	350.4	576.4	375.5	398.9	Assets	3,506.2	3,931.1	4,489.8	4,448.4	4,685.9
Tax	5.0	(10.2)	(138.3)	(37.5)	(39.9)	Debts	1,289.1	1,260.9	1,513.1	1,475.2	1,438.3
Net profit	(8.5)	340.2	438.1	337.9	359.0	Payables	502.0	560.9	537.7	496.6	551.9
Minority interest	(24.0)	85.3	83.8	37.0	39.5	Others	266.7	262.8	249.6	252.2	254.1
Core earnings	15.5	254.9	354.3	300.9	319.5	Liabilities	2,057.7	2,084.5	2,300.4	2,224.0	2,244.4
Exceptional items	-	-	-	-	-	Shareholder's equity	1,085.9	1,162.9	1,385.3	1,695.2	1,944.4
Reported earnings	15.5	254.9	354.3	300.9	319.5	Minority interest	212.2	317.8	350.7	136.4	89.5
						Equity	1,448.4	1,846.5	2,189.4	2,243.3	2,411.5
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	354.3	300.9	319.5	Core EPS (sen)	2.1	34.5	48.0	40.7	43.3
Depreciation & amortisation	161.4	179.4	115.2	112.3	110.0	P/E (x)	101.9	6.2	4.5	5.3	4.9
Changes in working capital	50.2	(296.8)	183.2	(59.5)	142.0	DPS (sen)	-	6.0	6.0	7.0	7.5
Share of JV profits	-	-	-	-	-	Dividend yield	0.0%	2.8%	2.8%	3.3%	3.5%
Taxation	18.6	(3.6)	(7.4)	(6.5)	(7.8)	BVPS (RM)	1.96	2.50	2.96	3.01	3.31
Others	(90.1)	59.7	(200.0)	(200.0)	(150.0)	P/B (x)	1.1	0.9	0.7	0.7	0.6
Operating cash flow	137.0	197.3	452.6	153.7	421.4	EBITDA margin	8.6%	16.2%	22.5%	15.0%	14.5%
Net capex	(48.9)	(28.1)	(70.6)	(48.1)	(38.3)	EBIT margin	3.1%	12.5%	19.1%	12.0%	11.7%
Others	16.1	48.4	(15.0)	(20.0)	(150.0)	PBT margin	-0.6%	10.8%	17.2%	10.1%	10.1%
Investing cash flow	(32.8)	20.4	(85.6)	(68.1)	(188.3)	PAT margin	-0.4%	10.5%	13.1%	9.1%	9.1%
Changes in borrowings	(76.7)	(110.8)	(100.0)	(100.0)	(100.0)	Core PAT margin	0.7%	7.9%	10.6%	8.1%	8.1%
Issuance of shares	-	-	-	-	-	ROE	1.1%	13.8%	16.2%	13.5%	13.1%
Dividends paid	(21.4)	-	(44.3)	(51.7)	(55.4)	ROA	0.4%	6.5%	7.9%	6.8%	6.8%
Others	(6.6)	12.2	-	-	-	Net gearing	75.5%	49.9%	35.5%	37.1%	27.0%
Financing cash flow	(104.6)	(98.7)	(144.3)	(151.7)	(155.4)						
Net cash flow	(0.5)	119.0	222.8	(66.1)	77.7						
Forex	(8.1)	8.6	8.6	8.6	8.6						
Others	-	-	-	-	-						
Beginning cash	140.5	131.9	259.5	490.9	433.4						
Ending cash	131.9	259.5	490.9	433.4	519.7						