

OM Holdings (OMH MK) Main Market

Diversification Strategy to Stimulate Growth

We recently visited the smelting plants of OM Holdings Ltd (OMH) and came back feeling upbeat on the Group's business prospects. OMH's outlook trajectory is set to be driven by competitive advantage particularly its low-cost structure as the lowest cost quartile ferroalloy smelter in the region thanks to a 20-year hydropower power purchase agreement (PPA) with Sarawak Energy and 10-year tax holiday. OMH is also set to embark on diversification initiative with a new production capacity for silicon metal on top of additional capacity for traditional product, manganese alloys.

At the current price, the stock is trading at an attractive discount to its historical PE average and therefore, undervalued at this juncture.

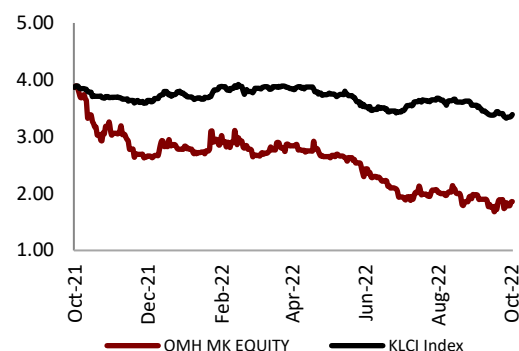
- Conveying business expansion.** OMH's plant is currently running at 72% utilisation rate with 340k-360k metric tonne per annum production capacity. Nevertheless, only 12 out of 16 furnaces were operating since 2021 due to workforce shortage and mid-year stoppage, thus reducing its total output by 23.4%. Note that the Group is currently undergoing major maintenance for all its furnaces and on track to convert two existing ferrosilicon (FeSi) furnaces into manganese alloys (Mn) furnaces and another two existing FeSi furnaces to metallic silicon (MetSi) furnaces. Looking forward, the Group is optimistic to hit 610k-640k metric tonne capacity per annum following the additional capacity of 150k-160K metric tonne per annum from Mn alloys. Note that Mn alloys production has higher productivity rate compared to FeSi alloys production, with 100-110 metric tonne output per day (versus FeSi alloy: 65-70 metric tonne per day).
- A low-carbon smelter player with competitive cost structure.** OMH smelters are run using hydropower supply from the Bakun Dam which is to their advantage as they are the lowest cost quartile ferroalloy producer in the region. Note that their smelter plants have locked-in a competitive tariff thanks to a 20-year PPA with the Sarawak State Energy. This will ensure steady energy supply and cost competitive compared to other producers, for example in China and Europe, which are exposed to higher electricity costs due to higher fuel prices. We understand that OMH's smelter plant in Qinzhou (China) has to stop their production following persistent hike in energy costs on top of decarbonization agenda by the Chinese government. This setback could push the prices for FeSi and Mn alloys, directly benefiting OMH business growth.
- Commendable financial highlight.** As at 1HFY22, revenue and EBITDA surged by 34.9% YoY and 114.8% YoY respectively thanks to higher average selling price from FY21 contract which was delivered during 1Q22 as well as sustainable earnings from the smelting segment. On that score, the Group is upbeat to reduce its gearing from the current level of 0.54x as at 1HFY22 (vs FY21: 0.67x). Outlook wise, the Group has set its eye on capital investment that will be centered on furnace conversion, major maintenance and sustaining capex.

Non-Rated

Share Price RM1.88

Target Price N/A

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(1.1)	(1.1)	(49.8)
vs FBM KLCI	0.6	(1.1)	(45.2)

Stock Data

Mkt Cap (RM)	1,388.6
Free float (%)	63.8
Issued shares (m)	738.6
52w H/L (RM)	3.93 / 1.6
3m avg daily volume (m)	82,786

Major Shareholders (%)

Gang Huang	14.0
Amplewood Resources	12.8
Low Ngee Tong	9.3

FYE Dec (A\$ mn)	FY18	FY19	FY20	FY21	1HFY22
Revenue	1,510.4	1,026.5	784.6	1,040.8	737.4
EBITDA	392.6	154.5	81.4	204	165.3
PBT	190.0	28.5	-21.2	107.2	129.6
PAT	184.7	56.1	-2.9	109.3	77.9
EPS adj (sen)	21.8	7.7	0.7	11.1	10.6
PER (x)	0.1	0.2	2.5	0.2	0.2
DPS (sen)	0.05	0.02	-	0.02	-
D.yield (%)	2.7%	1.1%	-	1.1%	-
P/B (x)	11.4	14.6	16.6	16.1	1.8
Net gearing (x)	1.1	0.9	0.9	0.7	0.5

*1HFY22 ratios not annualised,

1HFY22 figure converted rate: 1USD:AUD1.58

Key Ratios (%)

ROE	153.7%	59.6%	-3.5%	128.3%	10.1%
ROA	102.1%	34.4%	-1.9%	71.3%	5.2%
EBITDA margin	26.0%	15.1%	10.4%	19.6%	22.4%
PBT margin	12.6%	2.8%	-2.7%	10.3%	17.6%

Source: Bloomberg, BIMB Securities

Nursuhaiza Hashim

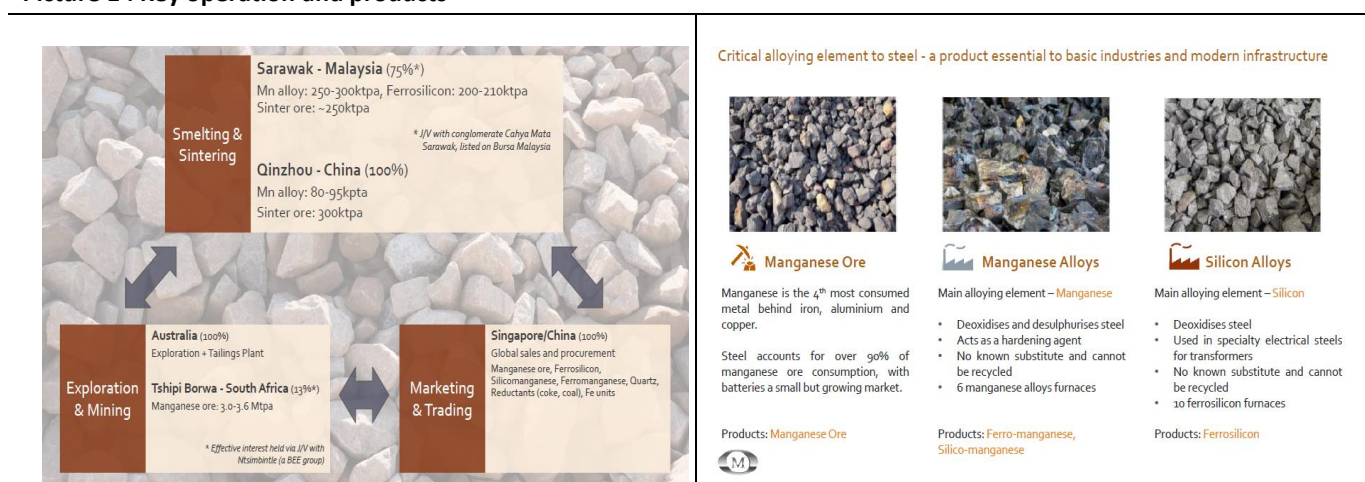
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Company Background

OM Holdings Limited (OMH) and its subsidiaries have an established track record of over 20 years in exploration, project development, operations and marketing and trading. With vertically integrated operations globally in exploration, mining, smelting, sintering and marketing and trading, the Group is able to capture significant value and margins along the entire value chain. The Group's three core businesses are comprised of exploration and mining of manganese ore, production of manganese alloys and ferrosilicon and marketing and trading of manganese ore and ferroalloys. Today, the Group is one of the world's major manganese ore, ferrosilicon and manganese alloy producers and has operation in Australia, China, Japan, Malaysia and South Africa. Listed on both the Australian Securities Exchange (ASX) and Bursa Malaysia, the Group has unique exposure to the niche manganese and silicon space essential to the modern world.

Indicative Valuation. At the current rice, OMH is currently trading at a 3x PE based on annualized 1HFY22 EPS RM0.63 (AUD21.2 cent converted to MYR at 1AUD:RM2.63 rate). Valuation wise, the stock is trading at 17% discount to its 3-year average historical PE of 3.6x. Hence, the stock is undervalued at this juncture.

Picture 1 : Key operation and products



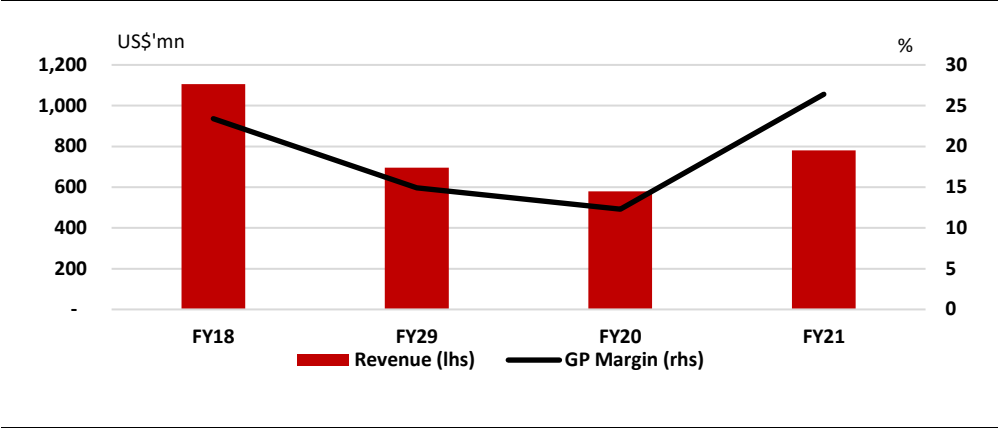
Source: Company, BIMB Securities Research

Table 1 : Production and Sales

Year ended 31 December						
Products (tonnes)	FY16	FY17	FY18	FY19	FY20	FY21
Production						
FeSi	126,261	174,540	220,515	230,735	167,443	131,059
Mn	876	173,911	242,341	248,163	227,406	216,539
Mn Sinter Ore (trial)					24,125	99,824
Sales						
Fesi	129,025	182,316	225,746	219,828	171,546	113,783
Mn	222	159,533	241,166	240,280	231,129	203,938
Mn Sinter Ore (trial)					-	7,132

Source: Company Annual Report, BIMB Securities Research

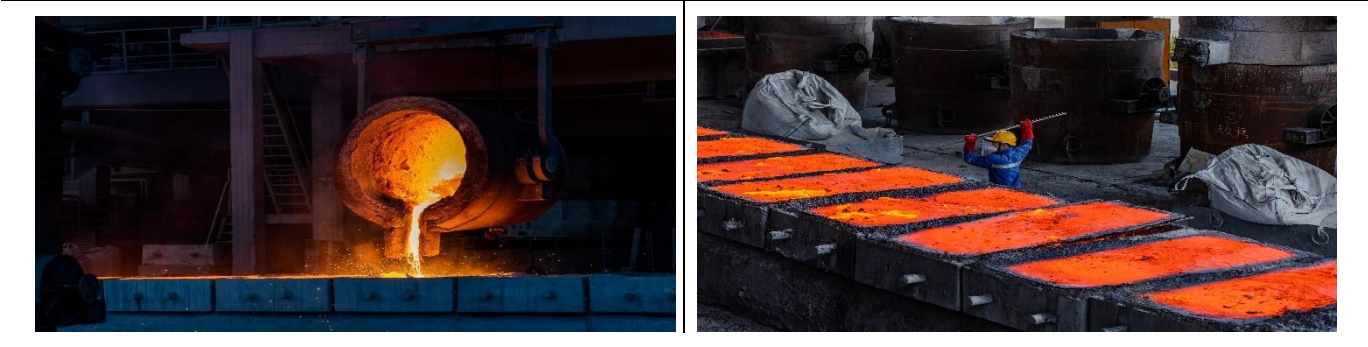
Chart 1: OMH Revenue and Gross Profit Margin



Source: Company, BIMB Securities Research

Appendix

Picture 2 : Casting



Source: Company, BIMB Securities Research

Picture 3 : Finished products warehouse



Source: Company, BIMB Securities Research

Picture 4 : OMSA Aerial View



Source: Company, BIMB Securities Research

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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A handwritten signature in black ink, appearing to read "Dr. Rosnani Rasul".

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