

Journey To East Malaysia

Vast growth potential on the horizon

Summary

- **Trip to the East.** We recently took a trip to East Malaysia and came away feeling fruitful of the journey after being equipped with better insights of the operating landscapes at Sabah and Samalaju Industrial Park, Sarawak. We were briefed on the current operations, future plans and undertook site visits over 4 companies, namely; Suria Capital Holdings Bhd (SURIA), OM Holdings Ltd (OMH), Cahya Mata Sarawak Bhd (CMSB) and Bintulu Port Holdings Bhd (BIPORT).
- **Not discounting East Malaysia as an economic powerhouse.** In 2021, both Sabah and Sarawak GDP rose 1.1% YoY and 2.9% YoY to RM78.70bn and RM131.20bn respectively. Collectively, the 2 states were ranked in top 6 for the contribution makes up to approximately 15.3% of 2021 of Malaysia's GDP at RM1.37trn.
- **Leveraging onto higher Budget allocation.** Recall that allocation to East Malaysia (under Budget 2023) continues to make bigger strides with cumulative amount at RM11.70bn for works related to infrastructure projects in the water, electricity, roads, health and education sector. These comprise of RM6.30bn for Sabah and RM5.40bn to Sarawak. The figure is also well above the combined RM9.83bn for both the aforementioned states allocation under Budget 2022.
- **Suria Capital Holdings Bhd (HOLD; TP: RM1.12) will be focusing on their ongoing execution of ports expansion plan.** We understand that the upgrade of port facilities is necessary to upstage the group into a new level in order to position the group as a transshipment hub to serve the BIMP-EAGA sub-region participating countries.
- **OM Holdings Ltd (BUY; TP: RM2.86) aims to deliver generate higher production output in FY23 and commencing the production of Metallic Silicon (MetSi) in December 2022.** Expansions of existing production will strengthen their position as a vertically integrated manganese ore and ferroalloy player, while the acquisition of the remaining 25.0% stakes in both OM Material (Sarawak) Sdn Bhd and OM Materials (Samalaju) Sdn Bhd will be earnings accretive over the long run.
- **Cahya Mata Sarawak Bhd (NR; TP: RM1.29) rides onto a revenue stream from the first yellow phosphate production plant in Malaysia.** Through 60.0% owned-Malaysian Phosphate Additives Sarawak (MPAS) complex, CMSB aims to commission 4 furnaces by December 2022. The phosphorous and derivatives market is expected to deliver improvement in coming years, supported by the higher usage in the lithium iron phosphate battery market and fertilisers application.
- **Bintulu Port Holdings Bhd (NR; TP: RM5.98) will be leveraging onto the existing and upcoming industrial players relocation or expansion plans.** The Samalaju Industrial Port (SIP) that covers approximately 393.0-ha is strategically located and features a modern deep-sea port operated by BIPORT can handle both bulk and liquid cargos, with a total berth capacity of 18.0m tonnes/pa, at present.

Thematic Report

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Company	Price (RM)	Rating	Fair Value (RM)	Dividend Yield (%)	Potential Upside / Downside (%)
SURIA	1.03	HOLD	1.12	3.9%	12.6%
OMH	1.86	BUY	2.86	3.8%	57.5%
CMSB	0.825	NR	1.29	2.4%	58.8%
BIPORT	4.82	NR	5.98	2.9%	27.0%

OM Holdings Ltd

Ramping up production output

- **Smelting operations progressing well.** We visited OM Holdings Ltd's flagship smelter complex situated on approximately 500.0-ac of land at Samalaju Industrial Park, Bintulu. Current production includes Ferrosilicon (FeSi) that are used to deoxidise molten steel during the steelmaking process and Manganese (Mn) are used to deoxidise molten steel during and act as a hardening agent for the production of all carbon steels.
- **Operating 12 furnaces.** Presently, we gather that OMH is currently operating 12 out of 16 furnaces (6 Mn and 6 FeSi) is well on track to meet targeted production of 340,000-360,000 tonnes/pa. Already, 1H22 saw total production of 190,236 tonnes (68,929 FeSi and 121,307 Mn).
- **Operations supported by renewable hydro-power at competitive rate.** The smelting plant operations are supported by a power purchase agreement with 500MW, locked in for a period of 20-years generated from Bakun Dam. While enjoying a 10-year tax break, the move also positioned OMH as the lowest cost quartile smelter complex in the region.
- **Phase 2 of expansion still in infant stage.** OMH will be focusing onto current operations to stabilise production and to undertake the conversion of furnaces into the production of Metallic Silicon (MetSi) with targeted production 30,000 tonnes/pa. Upon completion of ramping up production and furnaces conversions, OMH is expected to produce up to 610,000-640,000 tonnes/pa.
- **Worker shortages still mildly affecting production.** We gather that OMH is currently operating 12 out of 16 furnaces. The slow arrival of foreign workers may continue to further derail business prospects of recovery/growth. Nevertheless, we reckon that current production activities are sufficient to keep the group busy overtime.
- **Steel demand partly impacted by China's property slowdown.** China's property market slump that began in 2021 as Beijing step up their efforts to pare mortgage growth and funding for property developers in bid to tame the soaring property prices and reduce financial risk resulted in the weakening of global steel demand. We believe that steel prices may stay lackluster, in view of the soaring energy prices and rising risk of recession.
- **Material prices turning stable.** The surge in FeSi and SiMn prices back in 2021 appears to be unsustainable as material prices appears to have tapered since early 2022. This came mainly due to global economic slowdown and global ferroalloy inventory build-up. Moving forward, we expect inventory levels to remain at current levels over the foreseeable future amid the prolonged slowdown in demand in view of the rising recessionary risk. Still, 9M22 FeSi prices at USD1,984/MT (+10.8% YoY) and SiMn at USD1,519/MT (+13.5% YoY) were above 2021 average for the remainder of the year.

Company Update

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BUY

Share price	RM1.86
Target price	RM2.86
Previous TP	RM2.86
Capital upside	53.8%
Dividend return	3.8%
Total return	57.5%

Company profile

Principally involved in the manufacturing and trading of raw ores, smelting, and marketing of processed ferroalloys

Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	1,388.6
52W High/Low	3.93 / 1.60
Est. Free float	55.5
Beta	0.7
3-mth avg vol ('000)	82.8
Shariah compliant	Yes

Major shareholders

	%
Huang Gang	14.0
Amplewood Resources Ltd	12.8
Low Ngee Tong	9.3

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-1.1	-1.1	-50.9
Absolute	1.1	-0.5	-44.8
Relative			

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	254.9	354.3	300.9
EPS (sen)	34.5	48.0	40.7
P/E (x)	3.9	4.6	4.3

Relative performance chart



Valuation & Recommendation

- With expansion plans largely on track, we made no changes to our earnings forecast and we maintain our **BUY** recommendation on OMH, with an unchanged 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 8.7x of selected larger scale mining and smelting companies listed on Bursa Malaysia.
- 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.

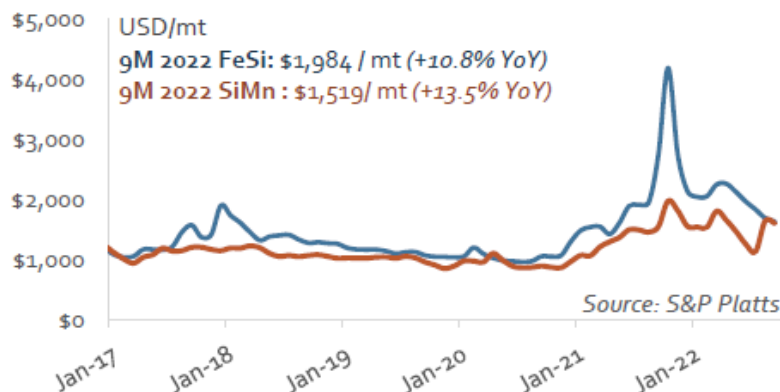
Key Financial Data

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	2,224.3	2,441.5
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)	88.5	5.4	3.9	4.6	4.3
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%	3.2%	3.2%	3.8%	4.0%
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)	0.9	0.7	0.6	0.6	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						

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Appendix 3: FeSi & SiMn Prices



Source: OMH, S&P Platts

Appendix 4: Production Development Plan

	Pre-COVID	2021	2022 Conversion + Maintenance	Future
Fesi 65-70 mt / day	10 of 10 23oktpa	~6 of 10 12oktpa	4 to 6 furnaces 110-130ktpa	6 of 6 130-140ktpa
Mn Alloys 100-110 mt / day	6 of 6 24oktpa	~6 of 6 24oktpa	4 to 6 furnaces 200-220ktpa	8 of 8 300-310ktpa
MetSi 30-35 mt / day	-	-	-	2 of 2 30ktpa
Mn Alloys New 33 MVA 200-220 mt / day	-	-	-	2 of 2 150-160ktpa
Total Plant Output (Est.)	47oktpa	36oktpa	34oktpa – 36oktpa	610-64oktpa
		<ul style="list-style-type: none"> Workforce shortages, mid-year stoppage Sustained 12 furnaces into 2022 	<ul style="list-style-type: none"> Major maintenance for all furnaces Planned leave rotations and slower manpower recovery 	



Source: OMH