

OM Holdings Ltd (OMH MK) **Main Market**

Business Augmentation on Track

We met OM Holdings Limited (OMH) recently to have more insight of the company. They were represented by Mr Low Ngee Tong and Mr Adrian Low, the Executive Chairman and Managing Director of the Group. We continue to like the company given their low-cost structure as the lowest cost quartile ferroalloy smelter in the region thanks to their hydropower power purchase agreement (PPA) with Sarawak Energy. Note that the Group is currently ramping up on diversification initiative through the conversion of ferrosilicon (Fesi) furnaces to manganese alloy (Mn) furnaces as well as conversion FeSi furnaces to metallic silicon (MetSi) furnaces – with the aim to improve their products mix. Valuation wise, the stock is trading at an attractive discount to its historical PER average and therefore, undervalued at this juncture.

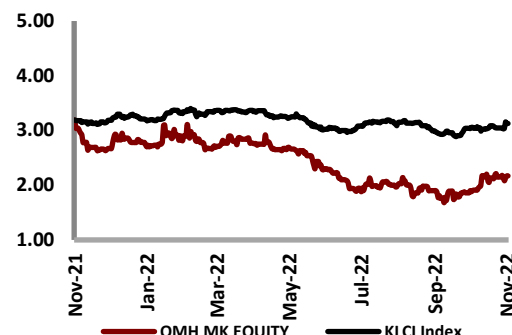
- Conversion of furnaces still on the ride.** OMH is currently undergoing conversion and maintenance of two Fesi furnaces into Mn furnaces and another two existing FeSi furnaces into metallic silicon (MetSi) furnaces. The Group is optimistic to achieve production capacity of 130-140ktpa for Fesi alloy, 300-310ktpa and 30ktpa respectively for both Mn alloy and Metsi alloy, with 16 furnaces in total, moving forward. We understand that the conversion and maintenance activities are taking about six months to complete. OMH is also set to add another capacity for Mn alloy or another 150-160ktp production capacity with additional two more Mn furnaces. This new additional capacity is expected to be built in the next two to three years, thus pushing cumulative total production to 610-640ktpa (versus current 340-360ktpa production capacity).
- Relishing noteworthy hydropower energy rate.** The smelters are running using hydropower supply from the Bakun Dam and have locked-in a competitive power tariff, thanks to a 20-year PPA with the Sarawak State Energy. The Group is able to secure a competitive electricity tariff rate through the PPA, with incremental tariff of c.2.5% per annum. This agreement is expected to expire in 2033 and the group is planning to negotiate the extension of the contract. Note that all the smelting production are currently coming from their Sarawak plant as they have closed their Qinzhou plant in China since 3QCY21 due to rising power costs as well as unfavourable policy by China government. The Group is still considering whether to sell the plant or turn it into a warehouse/logistic hub given its strategic location which is closed to Qinzhou Port.
- Update on upstream business.** OMH owns and operates the Bootu Creek manganese ore mine in Northern Territory, Australia. Nevertheless, this mine has stop its mining activity since December 2021 as it has reached natural mine life. Now the mine is at recycle and recycle stages and this process is expected to hover around six to seven years before closing the whole mine. Moreover, OMH own 13% interest stake in the Tshipi Borwa mine through a strategic partnership with Ntsimbintle Mining, a leading South African miner and explorer. This mine has manganese ore production with 3-3.6mntpa.

Non-Rated

Share Price RM2.17

Target Price N/A

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	13.6	6.9	(27.0)
vs FBM KLCI	10.6	7.9	(27.4)

Stock Data

Mkt Cap (RM)	1,602.8
Free float (%)	63.8
Issued shares (m)	738.6
52w H/L (RM)	3.21 / 1.6
3m avg daily volume (m)	82,378

Major Shareholders (%)

Huang Gang	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	0.3	3.0	0.2	0.2
DPS (sen)	0.05	0.02	-	0.02	-
D.yield (%)	2.3%	0.9%	-	0.9%	-
P/B (x)	13.4	17.1	19.4	18.9	2.1
Net gearing (x)	1.1	0.9	0.9	0.7	0.5

*1HFY22 ratios not annualised,

1HYF22 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

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- **3QCY22 snapshot.** OMH is expected to conclude the acquisition of remaining share of OM Material (Sarawak) Sdn Bhd from Cahya Mata Sarawak Berhad (CMSB) in December 2022. Note that OM Sarawak is a 75/25 joint venture between the Group and CMSB where the share purchase agreement has been signed in June 2022. The Group also remains upbeat to reduce its gearing from the current level of 0.54x as at 1HFY22 (versus 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.
- **Indicative Valuation.** At the current price, OMH is currently trading at a 3.44x 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 5.2% discount to its 3-year average historical PE of 3.63x. Hence, the stock is deemed undervalued at this juncture.

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.

Figure 1 : Key operation and products



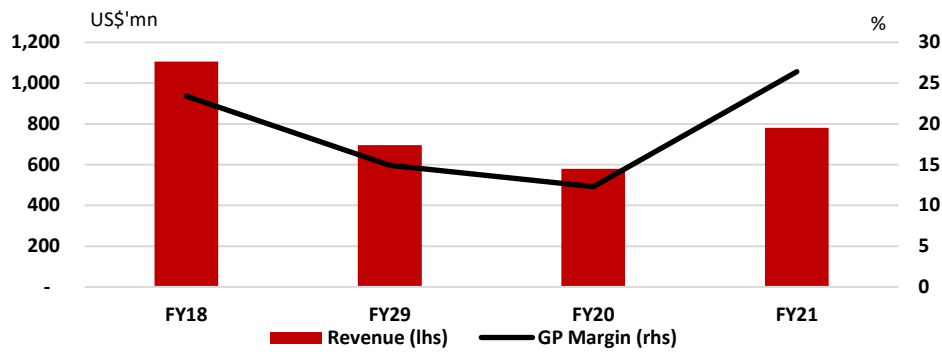
Source: Company, BIMB Securities Research

Table 1 : Production and Sales

Products (tonnes)	Year ended 31 December					
	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

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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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