



OM Holdings Ltd (OMH.ASX)

Minority acquisition both earnings and value accretive

Event:

- Acquisition of Sarawak minority; Earnings and PT changes.

Investment Highlights:

- OMH completed the acquisition of the 25% OM Sarawak minority on 6 December 2022, bringing its effective ownership of Malaysian smelters to 100%.** The price was as previously guided by the company: US\$120M less shareholder loans (appx. US\$11M), and the acquisition completed within the timeframe flagged (on or before December 13th).
- Non-dilutive funding utilised.** OMH used a combination of existing cash and new debt to fund the purchase, the latter comprising a private bond of up to A\$30.9M (US\$21M) issued to private investors including OMH Chair Low Ngee Tong and related parties, and management. This was positive in avoiding equity dilution. Bond terms include interest of 10% p.a. and a three year maturity.
- Debt still adequately serviceable: interest coverage of 8.3x.** Post-acquisition we estimate OMH's FY23e interest coverage (EBIT/net interest expense) is 8.3x, while net operating cash flow/net interest expense is 6.6x. We estimate cash on balance sheet of approximately US\$108M post-acquisition.
- Value-accretive acquisition.** We previously estimated the US\$120M was a value-accretive price, given it implied an EV for Sarawak (100%) of US\$689M or A\$1,077M, which was about 30% below our own Sarawak EV estimate of A\$1,543M.
- Earnings accretive as well.** The minority acquisition is also earnings accretive: see Earnings and Valuation below.
- Ferro-manganese (FeMn) and Mn ore prices climbing.** Since our previous OMH research report of 2 November 2022, FeMn prices (Europe) have risen 8% to US\$1,320/t from US\$1,221/t. Meanwhile Mn 37% RSA fob prices have climbed 16%, positive for OMH's investment in Tshipi.

Earnings and Valuation:

- We increase OMH attributable NPAT in FY23e and FY24e by 25% and 22% to US\$128M and US\$96M from US\$102M and US\$79M,** based on the increased interest in Sarawak earnings (100% from 75%) more than offsetting higher interest expense. Adjusted EPS increases in FY23e and FY24e by 21% and 18% to \$0.17 and \$0.13 from \$0.14 and \$0.11.
- Similarly, our share valuation (1.0 x NPV₁₀ nominal) of OMH increases to \$1.78 from \$1.60,** from the acquired Sarawak minority.

Recommendation:

- We maintain our Buy on OMH and raise our 12-month PT to \$1.78 from \$1.60,** based on our increase in risked valuation.
- Catalysts for share price** include 1) Commissioning of Si metal furnaces; 2) Higher production; 3) examination of downstream Si and Mn opportunities for applications such as EVs and renewable energy; and 4) Dividend policy.

Disclosures

The analyst does not own OMH securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own OMH securities.

Cranport Pty Ltd does not own OMH securities.

Refer details end of report.

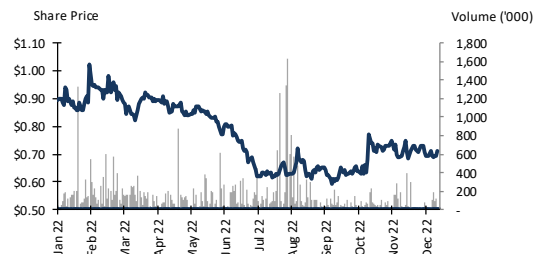
Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.78			
Previous	\$1.60			
Share price (A\$)	\$ 0.71			
ASX code	OMH			
52 week low-high	\$0.58-1.03			
Valuation (A\$/share)	\$ 1.78			
Methodology	NPV10 nominal			
Capital structure				
Shares on Issue (M)	739			
Market cap (A\$M)	524			
Net cash (debt) attributable (A\$M)	-408			
EV (A\$M)	932			
Ave daily volume ('000)	151			
Earnings Y/e Dec US\$M	FY21a	FY22e	FY23e	FY24e
Sales adj*	738	688	1,131	1,071
EBITDA adj.*	115	152	195	159
NPAT adj*	61	92	128	96
EPS adj. \$*	0.08	0.12	0.17	0.13
PE x	5.8x	3.7x	2.9x	4.0x
EV/EBITDA x	2.8x	2.1x	2.2x	2.8x
DPS \$	0.01	0.0	0.0	0.0
Yield %	3.1%	0.0%	0.0%	0.0%

* Adj = underlying attributable

Board

Low Ngee Tong	Executive Chair & CEO
Zainul Abidin Rasheed	Non-Executive Director
Julie Anne Wolseley	Non-Executive Director
Tang Peng Chin	Non-Executive Director
Dato Abdul Hamid Bin Sh Mohamed	Non-Executive Director
Tan Ming-li	Non-Executive Director

Share price graph



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OM Holdings (OMH)

Full Year Ended 31 December

Profit and Loss US\$M	2021a	2022e	2023e	2024e
Attributable:				
Revenue	738	688	1131	1071
Operating costs adj.	623	537	936	913
EBITDA adj.	115	152	195	159
D&A	38	24	31	32
EBIT adj.	77	128	163	127
Net Interest exp / (income)	11	13	19	15
PBT adj.	66	115	145	112
Tax exp / (benefit) adj.	5	23	16	16
NPAT adj.	61	92	128	96
EPS diluted adj. (\$)	0.08	0.12	0.17	0.13
DPS (\$)	0.01	0.00	0.00	0.00

Cashflow US\$M	2021a	2022e	2023e	2024e
EBITDA reported	138	172	174	138
Change in WC	-72	40	-25	10
Tax	1	-7	-11	-11
Other	4	1	0	0
Operating cashflow	71	205	138	137
PPE	-6	-23	-24	-24
Acquisitions	0	-110	0	0
Capitalised expenses	-1	0	0	0
Investment	2	0	0	0
Dividend from associate	10	10	11	11
Interest income	0	1	1	1
Other	0	0	0	0
Investing cashflows	5	-121	-13	-12
Equity issue	0	0	0	0
Debt proceeds	17	22	0	0
Debt repayment	-38	-48	-50	-50
Dividend paid	0	-11	0	0
Capital by minority	2	1	6	6
Interest expense	-16	-18	-5	-4
Other	1	1	0	0
Financing cashflow	-35	-53	-49	-48
Net cashflow	41	31	75	76

Balance Sheet US\$M	2021a	2022e	2023e	2024e
Cash	82	108	184	260
Receivables	41	28	39	37
Inventories	256	141	193	183
PPE	444	557	552	545
Associate investment	87	84	87	89
Capitalised exploration	4	4	4	5
Intangibles	13	11	11	11
Other	18	17	17	17
Assets	944	950	1,086	1,147
Payables	168	80	117	114
Provisions	7	3	4	4
Debt	297	260	210	160
Other	28	67	86	103
Liabilities	500	409	417	382
Capital	368	445	573	670
Equity attributable	368	445	573	670
Minorities	76	95	95	95
Equity	444	541	669	765

Half year splits	1H FY21a	2H FY21a	1H FY22a	2H FY23e
Alloy shipments, kt	175	184	183	186
Sales adj., US\$M	332	405	413	275
EBITDA adj., US\$M	36	79	86	66
NPAT adj., US\$M	13	47	49	42

Financial Metrics	2021a	2022e	2023e	2024e
Wtd ave shares (M)	739	739	739	739
Wtd ave share diluted (M)	739	739	739	739
EPS growth %	nm	51%	40%	-25%
Gearing (ND/ND+E)	33%	22%	4%	-15%
Interest Cover (EBIT/net int)	6.9x	9.8x	8.7x	8.7x
Average ROE %	18%	23%	25%	16%
Average ROA %	11%	17%	19%	13%

Valuation multiples	2021a	2022e	2023e	2024e
P/E x	6.2	4.0	2.9	4.0
EV/EBITDA x	3.6	2.7	2.2	2.8
Yield %	2.8%	0%	0%	0%

Company Valuation		
DCF 10% dr nominal		
Segment	A\$M	A\$/share
Sarawak smelter	1,325	\$1.79
Qinzhou smelter	6	\$0.01
Bootu Creek & exploration	12	\$0.02
Bootu Creek rehabilitation	-13	-\$0.02
Tshipi	228	\$0.31
Marketing	291	\$0.39
Corporate	-86	-\$0.12
Working capital	-44	-\$0.06
Net Cash attributable	-408	-\$0.55
Total	1,312	\$1.78

Capital structure	M
Ordinary shares	739
Fully diluted	739

Assumptions	2021a	2022e	2023e	2024e
FeSi Japan CIF, US\$/t	2,314	1,906	1,514	1,367
SiMn Japan, US\$/t	1,606	1,316	1,133	1,073
Si metal 553 US\$/t	-	3,000	2,700	2,400
Mn ore 44% China CIF US\$/dmtu	5.21	6.18	5.57	5.03
A\$:US\$	0.72	0.69	0.71	0.73

Shipments kt (100%):	2021a	2022e	2023e	2024e
FeSi	114	140	135	135
Mn alloys	146	353	400	400
Si metal	0	0	30	30
Total	359	369	518	565

Ave realised price US\$/t alloy	1,337	1,766	1,596	1,488
Cash costs US\$/t alloy	974	1,337	1,288	1,259

JORC Resources	Ore Mt	Mn grade %
100%:		
Bootu Creek	6.9	13.2%
Bryah Basin	1.8	21.0%
Tshipi	431.7	33.2%
Total	440.4	32.8%

Attributable	Ore Mt	Mn grade %
Bootu Creek (100%)	6.9	13.2%
Bryah Basin (51%)	0.9	21.0%
Tshipi (13%)	56.1	33.2%
Total	64.0	30.9%

Substantial shareholders	%
Huang Gang	14.0%
Amplewood Resources Ltd	13.6%
Low Ngee Tong	9.3%
Heng Siow Kee	9.0%

Source: Company; Foster Stockbroking estimates.



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Specific disclosure: The analyst attended a company site visit in June 2022, for which the analysts' flights and accommodation were paid for by the company.

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