

### COMPANY UPDATE

## OM Holdings (OMH MK)

2022 Production Finishes Strong

**Unwavering demand and ongoing supply constraints have pushed commodities prices higher entering 2023 amid the reopening of China. OMH is set to achieve a multi-year profit bonanza with expanded capacity, as hydro-powered smelters' cost advantage has significantly widened vs global competitors'. OMH is currently trading at an undemanding valuation of 3-4x 2023F PE, with the full consolidation of Sarawak operation to enhance earnings further. Maintain BUY. Target price: RM3.53.**

### WHAT'S NEW

- Ferroalloy production is expected to improve...** 4Q22 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloy have eased to 34,332mt (-7.4% qoq) and 41,495mt (-23.2% qoq) respectively. The decline is due to the temporary suspension of one FeSi furnace and four Mn alloy furnaces during the quarter as they underwent scheduled maintenance works. However, 2022 total output for FeSi and Mn alloy still increased yoy to 140,355mt (+7.1% yoy) and 216,813mt (+0.1% yoy) respectively, forming about 100% of our full-year forecasts. This is mainly due to the absence of lockdowns as well as the reopening of borders in Malaysia. In 2022, sales volumes of FeSi and Mn alloy also increased to 113,783mt (+28.9% yoy) and 203,938mt (+6.2% yoy).
- ...with the new expanded capacity.** In Jan, OM Holdings (OMH) announced that it has successfully converted one of its FeSi furnaces to produce silicon metal (MetSi). The furnace has entered the hot commissioning and performance testing phase. Once completed, it will be ramped up to its capacity of 10,500-12,250 mt/year. As at end-22, OMH operates with 10 out of 16 furnaces (five FeSi, four Mn alloy and one silicon metal). Four furnaces have completed maintenance so far while the other eight furnaces will undergo the maintenance in phases throughout 2023, to minimise disruptions to production.
- Ferroalloy: Riding on steel recovery...** In 2H22, ferroalloy prices were pressured by: a) soft demand from steel mills amid the lockdown in China, and b) elevated global power costs and weak sentiment in the rising rates environment. World crude steel production in Nov 22 declined 2.6% yoy, largely due to the slowdown in global steel production, especially in China and Europe. As such, FeSi and Mn alloy prices eased to around US\$1,600/mt (-16% qoq) and US\$1,000/mt (-15% qoq) towards end-22. However, the prices are gradually rebounding to US\$1,675/mt and US\$1,100/mt respectively on the back of the steel mills' recovery in China as the country is the largest player in the industry, consuming and producing about 60-70% of global ferroalloy.
- ...amid rising demand from China and supply disruption in Russia.** In 4Q22, 28 Mn alloy producers halted production in China, resulting in about a 25% yoy decrease in production. Meanwhile, in Ukraine, the second-largest Mn alloy producer in the world, the export of ferroalloy dropped 48% yoy in 2022 as the country reduced production by 32% due to the war. Russia is also the second-biggest exporter of FeSi in the world. In Europe, more than 20% of the ferroalloy production capacity had been shut off in 4Q22 mainly due to the elevated power costs.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net Turnover	2,275.4	3,164.1	3,468.7	3,801.1	4,060.9
EBITDA	164.1	559.0	636.5	723.1	763.2
Operating Profit	22.2	386.0	498.8	573.5	602.6
Net Profit (Reported/Actual)	15.5	249.0	340.5	445.6	482.4
Net Profit (Adjusted)	14.0	306.8	340.5	445.6	482.4
EPS (sen)	1.9	41.5	46.1	60.3	65.3
PE (x)	101.2	4.8	4.4	3.3	3.1
P/B (x)	1.0	0.8	0.7	0.6	0.5
EV/EBITDA (x)	15.6	4.8	3.6	2.7	2.1
Dividend Yield (%)	-	3.2	3.5	4.6	5.0
Net Margin (%)	0.6	9.7	9.8	11.7	11.9
Net Debt/(Cash) to Equity (%)	47.8	43.2	38.9	28.2	28.2
Interest Cover (x)	0.3	6.4	6.6	8.7	10.7
ROE (%)	1.2	20.0	18.6	20.2	18.4

Source: OMH, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM2.30
Target Price	RM3.53
Upside	+53.4%

### COMPANY DESCRIPTION

ASX-listed OM Holdings is an integrated manganese player engaged in the mining, smelting, trading and marketing of manganese ores, manganese alloys and ferrosilicon. Its smelting plants in Sarawak operate using low-cost sustainable energy – hydropower.

### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	OMH MK
Shares issued (m):	738.6
Market cap (RMm):	1,515.3
Market cap (US\$m):	338.7
3-mth avg daily t'over (US\$m):	

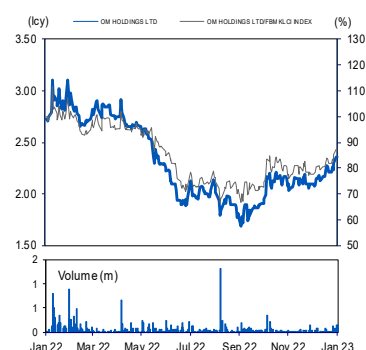
### Price Performance (%)

52-week high/low	RM4.07/RM1.83			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
0.5	(22.5)	(29.1)	(20.6)	(29.3)

### Major Shareholders

Major Shareholders	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2
FY22 NAV/Share (RM)	2.9
FY22 Net Debt/Share (RM)	0.8

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

**Hazmy Hazin**  
 +603 2147 1934  
 noorhazmy@uobkayhian.com

### STOCK IMPACT

- Diversification of product offerings to capture further growth potential.** OMH is diversifying into MetSi in order to deliver higher value-added products. It aims to produce the highest grade (98-99% purity level) it possibly can as silicon metal commands higher margins. It is used in different industries based on the level of contaminants and is typically used for manufacturing microchips, steel and solar cells. This marks OMH's first step in diversifying into the aluminium, chemicals and solar downstream industries. The MetSi furnaces are expected to also be able to produce FeSi for more flexibility in terms of product mix. Depending on the grade, MetSi prices are currently hovering at US\$3,000-4,000/mt vs. historical average of around US\$2,000/mt. The price trajectory and cost structure are similar to FeSi. The only major difference is it commands 50% higher for power intensity.
- Prices recovery in 2023.** Going into 2023, after almost three years, China finally reopened its borders and this news sent positive signals to the commodity market. We believe the commodity prices will be supported by: a) higher demand from the construction and industrial sectors amid the recovery of the second biggest economy in the world, b) restocking after the Lunar New Year holidays, and c) stimulus from the Chinese government to boost its economy. China has been dishing out favourable policies to help the ailing property market recover from its historical slump. The government plans to help improve the balance sheet of the developers by extending debt and providing equity financing for them. This will help to improve homebuyers' confidence with household savings remaining elevated after years of limited consumption, implying strong pent-up demand potential for properties.
- Bumpy recovery expected.** Market sentiment is still expected to remain volatile in the near term given that a commodity rally will add to the ongoing inflationary pressures, which central bankers are trying to get under control. There are still rampant COVID-19 infections in China currently, which may dampen the recovery. A robust and consistent fiscal policy is required to see a substantial and sustained increase in commodity prices. Nevertheless, we believe ferroalloy prices will remain at the higher end of the historical range, backed by favourable long-term structural supply-demand dynamics and the global decarbonisation agenda. We expect OMH to post healthy earnings growth this year as the industry is entering a prolonged period of high selling prices and margins backed by greater traction for commodities due to growing global demand.
- Favourable structural supply-demand dynamics** may have yet to be fully reflected in the share price as the rising global energy prices have widened the cost differential gap between OMH and other fossil-fuel dependent smelters. This gives OMH significant low-cost advantage due to its long-term access to 300MW of inexpensive hydropower in Sarawak. Generally, electricity accounts for 40% of smelting cost. For OMH, we estimate electricity costs at US\$0.04-0.06/kwhr, with a 1.5-2.5% p.a. escalation, placing OMH in the lowest quartile for production costs (fifth-largest FeSi producer, ex-China). Comparable global smelters run at a cost that can be 2x or 3x higher. Freight rates are also gradually easing to the levels in Sep 21 (-18% qoq). With the global border reopening, we expect freight rates to further normalise.

### EARNINGS REVISION/RISK

- None.** Based on our sensitivity analysis, every US\$100/mt increase in our FeSi and Mn alloy price assumptions would boost OMH's earnings by about 20% annually.

### VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM3.53**, implying 8x 2023F PE (five-year PE mean: 15x). OMH is currently trading at an undemanding valuation of 3-4x 2023F PE. As the world's lowest cost quartile manganese smelter, OMH is in a sweet spot to benefit from ferroalloy prices recovery, backed by structurally favourable supply-demand dynamics and the company's use of low-cost eco-friendly hydropower.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

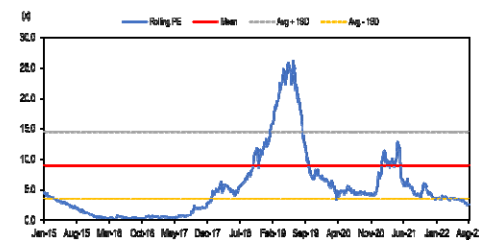
<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>Eco-friendly smelters help to reduce carbon dioxide emissions by 2.2m mt p.a.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li> <b>Social</b> <ul style="list-style-type: none"> <li>OMH offers career opportunities and provides training to the indigenous community.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>Majority of the board are independent directors (5 out of 7 non-exec directors).</li> </ul> </li> </ul>

### KEY ASSUMPTIONS

Production ('000 mt)	2021	2022	2023F	2024F
<b>Alloy</b>				
Malaysia - FeSi	131	130	135	140
Malaysia - Mn	217	220	320	400
<b>ASP (US\$/mt)</b>				
FeSi alloy	2,200	1,900	1,700	1,500
Mn alloy	1,600	1,400	1,300	1,200

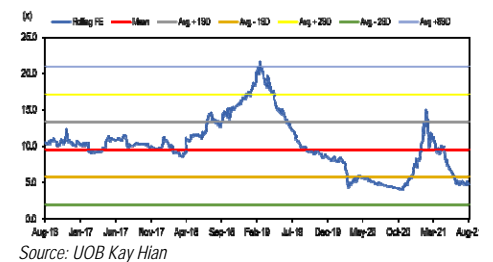
Source: OMH, UOB Kay Hian

### OMH HISTORICAL FORWARD PE



Source: UOB Kay Hian

### MSC HISTORICAL FORWARD PE



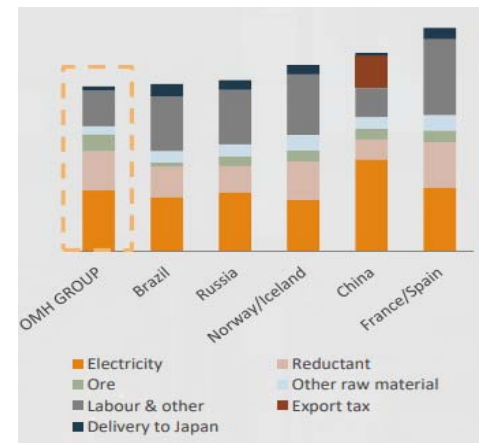
Source: UOB Kay Hian

### PMETAL HISTORICAL FORWARD PE



Source: UOB Kay Hian

### FESI PRODUCTION COST COMPARISON



Source: OMH

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>3,164</b>	<b>3,468</b>	<b>3,801</b>	<b>4,060</b>
EBITDA	559	636	723	763
Deprec. & amort.	(120)	(141)	(153)	(161)
EBIT	386	498	573	602
Associate contributions	94	96	99	104
Net interest income/(expense)	(81)	(73)	(63)	(66)
<b>Pre-tax profit</b>	<b>342</b>	<b>466</b>	<b>586</b>	<b>634</b>
Tax	(36)	(64)	(68)	(71)
Minorities	(8)	(12)	(12)	(13)
<b>Net profit</b>	<b>249</b>	<b>340</b>	<b>445</b>	<b>482</b>
Net profit (adj.)	306	340	445	482

### BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Fixed assets</b>	<b>2,052</b>	<b>2,270</b>	<b>2,445</b>	<b>2,567</b>
Other LT assets	297	35	(228)	(239)
Cash/ST investment	215	214	421	442
Other current assets	1,128	1,526	1,599	1,679
<b>Total assets</b>	<b>3,949</b>	<b>4,192</b>	<b>4,485</b>	<b>4,801</b>
ST debt	394	394	394	414
Other current liabilities	643	864	905	950
LT debt	804	648	492	517
Other LT liabilities	226	209	192	202
Shareholders' equity	1,420	1,735	2,072	2,176
Minority interest	206	194	182	191
<b>Total liabilities &amp; equity</b>	<b>3,949</b>	<b>4,192</b>	<b>4,485</b>	<b>4,801</b>

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>286</b>	<b>640</b>	<b>542</b>	<b>605</b>
Pre-tax profit	342	466	586	634
Tax	(36)	(64)	(68)	(71)
Deprec. & amort.	120	141	153	161
Working capital changes	(107)	(176)	(32)	(34)
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>21</b>	<b>(123)</b>	<b>(93)</b>	<b>(85)</b>
Capex (growth)	(2)	(2)	(2)	(2)
Investments	(31)	(124)	(93)	(98)
Proceeds from Sale of Assets	0	0	0	0
Others	0	0	0	0
<b>Financing</b>	<b>(163)</b>	<b>(277)</b>	<b>(283)</b>	<b>(272)</b>
Dividend payments	(25)	(45)	(49)	(51)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(93)	(156)	(156)	(164)
Others/interest paid	0	0	0	0
<b>Net cash inflow (outflow)</b>	<b>143</b>	<b>240</b>	<b>167</b>	<b>239</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>148</b>	<b>292</b>	<b>214</b>	<b>225</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>215</b>	<b>214</b>	<b>321</b>	<b>342</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	11.0	12.8	12.8	13.2
Pre-tax margin	7.6	10.0	10.2	10.5
Net margin	6.2	8.2	8.4	8.7
ROA	5.3	8.6	8.8	9.1
ROE	13.7	20.1	18.0	18.5
<b>Growth</b>				
Turnover	27.9	35.7	4.8	4.9
EBITDA	95.8	56.9	5.5	5.7
Pre-tax profit	(1,739.9)	78.2	7.2	7.4
Net profit	1,197.9	79.0	7.2	7.4
EPS	1,197.9	79.0	7.2	7.4
<b>Leverage</b>				
Debt to total capital	(0.3)	(0.3)	(0.2)	(0.2)
Debt to equity	(0.8)	(0.6)	(0.4)	(0.4)
Net debt/(cash) to equity	0.7	0.5	0.2	0.2
Interest cover (x)	2.8	5.5	6.7	6.9

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