

Stock Digest

Tuesday, 17 Jan, 2023

OM Holdings Ltd

Gearing towards metallic silicon production

Summary

- **Successful conversion.** OM Holdings Ltd (OMH) wholly owned subsidiary, OM Materials (Sarawak) Sdn Bhd has successfully modified and converted one of its ferrosilicon (FeSi) furnaces to produce metallic silicon (Metsi). The metallic silicon furnace has entered the hot commissioning and performance testing phase, prior to ramping up to its design capacity of 10,500-12,250 tonnes/pa.
- **Operating 12 furnaces.** Following the aforementioned conversion, we gather that OMH continues to operate 12 out of 16 furnaces. Coming into FY23f, we reckon that OMH will be able to deliver a total production of 360,000 tonnes/pa. Already, 9M22 saw total production of 281,341 tonnes (106,023 FeSi and 175,318 Mn) which accounts to 78.2% of our assumption of 360,000 tonnes.
- **Metallic silicon a key growth driver.** We are sanguine over the conversion of furnaces into the production metallic silicon. OMH is now able to tap into the green energy sector alongside with the rising adoption of green energy products such as solar photovoltaic panels and electric vehicle batteries. Meanwhile, we also gather that MetSi is able to command better margins against other ferroalloys.
- **Surge in freight rates is normalising.** While material prices have turned softer, we also gather that freight rates appears to have normalised and is lingering at levels back in September 2021. We expect global freight rates to see further normalisation, on the back of the easing of tightness in freight capacity and weaker freight volumes as global economic recovery moderates. This bodes well for OMH, given that majority of their sales are exported particular to the Asia region.
- **Material prices stabilising.** Although FeSi prices has come off sharply from the peak in September 2021, we gather that prices have since staged a mild recovery from approximately USD1,200/MT in October 2021 to USD1,630/MT in early January 2023. Moving forward, we expect prices to see trade at current levels as the elevated power cost may deter European players to ramp up production and certain Chinese smelters to shut down production to comply with the strict environmental requirements enforced by the government. However, this may also be offset by the prospect of weaker demand in tandem with the expected slowdown in economic growth.

Valuation & Recommendation

- Given that the operations progress is well on track, we made no changes to our earnings forecast pending the release of FY22 financial figures, tentatively by end of the month. Therefore, 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.

Company Update

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

BUY

Share price	RM2.17
Target price	RM2.86
Previous TP	RM2.86
Capital upside	31.8%
Dividend return	3.2%
Total return	35.0%

Company profile

Principally involved in the exploration and mining as well as trading and smelting of manganese ore and ferroalloys

Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	1,602.8
52W High/Low	3.21 / 1.60
Est. Free float	55.5
Beta	0.7
3-mth avg vol ('000)	38.9
Shariah compliant	Yes

Major shareholders

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

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.9	21.2	-21.6
Relative	-0.1	12.2	-18.7

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	254.9	354.3	300.9
EPS (sen)	34.5	48.0	40.7
P/E (x)	6.3	4.5	5.3

Relative performance chart



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- 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)	103.3	6.3	4.5	5.3	5.0
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%	2.8%	2.8%	3.2%	3.5%
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)	1.1	0.9	0.7	0.7	0.7
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						