

OM Holdings

Buoyed by China's Reopening

By Teh Kian Yeong | tehky@kenanga.com.my

OMH is positioned to capitalise on the economic recovery in China. It has completed its furnace conversion to produce high-margin product i.e., metallic silicon. Also, it has the flexibility in terms of timing for maintenance works (depending on product demand). With China's reopening coupled with supply constraints in Europe, ASPs are set to recover in 2023 after a lacklustre 2H 2022. We maintain our forecasts but raise our TP by 20% to RM3.05 (from RM2.54) based on a higher PE multiple. Maintain **OUTPERFORM**.

We hosted a conference call between OMH and our clients yesterday. The key takeaways are as follows:

- Furnaces conversion completed.** By the end of 2022, OMH had completed two idle ferrosilicon (FeSi) furnaces to manganese alloys (Mn Alloys) and two others idle FeSi furnaces to metallic silicon (MetSi) furnaces. First MetSi furnace is currently undergoing hot commissioning and performance testing. The commercial commissioning of MetSi is likely to be in 2QFY23. Although installed capacity for MetSi furnace (30-35MT/day) is half that of FeSi furnace (65-70MT/day), the net production economics is expected to be same as MetSi fetches far better margin than FeSi, according to OMH based on their observation of its Chinese peers.
- Plant utilisation to maintain at 75%.** In 2022, overall plant utilisation at OM Sarawak is 75% as four Mn Alloys furnaces were undergoing major maintenance coupled with the abovementioned MetSi conversion. Going into 2023, the company expects the utilisation rate to maintain around the same as eight furnaces will undergo major maintenance in phases throughout the year. However, production should improve as skilled workers from China are expected to arrive soon after China's border reopened. Meanwhile, the company also said should ASP spike up, it would delay the maintenance work so that it is able to capture the benefit of high ASP.
- Product prices to improve.** After enjoying a solid price rally in 1HFY22 due to Russia-Ukraine war-led power crisis, product prices have fallen since then in 2HFY22 and stagnated for the past four months. This could signal that prices are bottoming. In 2HFY22, prices of FeSi and silicomanganese (SiMn) fell 20% and 31%, respectively, to average of USD1,682/MT and USD1,063/MT from USD2,112/MT and USD1,545/MT in 1HFY22. With China's reopening, demand should pick up further helping to bring ASP higher while higher Chinese costs on strengthening CNY should support FeSi price while destocking exercise likely to keep SiMn price elevated.

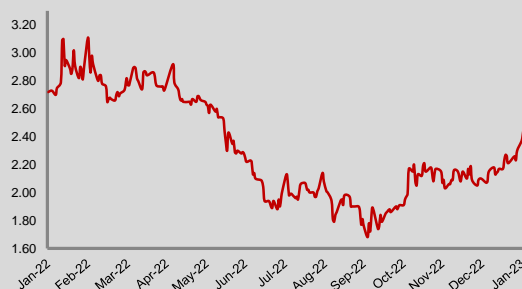
We maintain our FY22F earnings (results due out by the end of the month) which we believe have adequately reflected a weak 2HFY22 given the weak sales on a double-whammy of a weak volume and ASP. Our FY22F earnings imply for its 2HFY22 bottomline to decline by 12% to c.USD43m from USD49.3m in 1HFY22. Similarly, we maintain our FY23F net profit.

We continue to like OMH for: (i) its structural cost advantage over its international peers given its access to low-cost hydro-power under a 20-year contract ending 2033, (ii) its strong growth prospects underpinned by plans to expand its capacity by 30%-36% to 610,000-640,000 metric tonnes per annum over the medium term, and (iii) its appeal to investor given its clean energy source.

OUTPERFORM ↔

Price: RM2.53
Target Price: RM3.05 ↑

Share Price Performance



KLCI	1,489.80
YTD KLCI chg	-0.4%
YTD stock price chg	20.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK Equity
Market Cap (RM m)	1,868.7
Shares Outstanding	738.6
52-week range (H)	3.21
52-week range (L)	1.60
3-mth avg daily vol:	42,892
Free Float	55%
Beta	N.A.

Major Shareholders

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

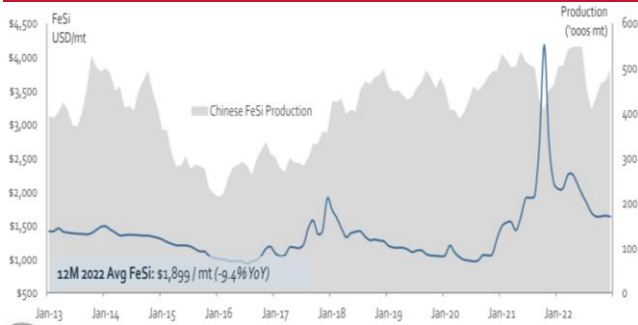
Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	3224	3209	2691
EBIT	387	737	536
PBT	345	701	506
Net Profit (NP)	251	423	375
Core Net Profit	251	423	375
Consensus (NP)		332	343
Earnings Rev. (%)		-	-
Core EPS (sen)	34.1	57.4	50.9
Core EPS growth (%)	>100.0	52.8	-7.8
NDPS (sen)	6.2	13.7	13.2
BV/Share (RM)	2.07	2.92	2.66
NTA/Share (RM)	2.07	2.92	2.66
PER (x)	8.0	4.4	5.0
PBV (x)	1.31	0.63	0.66
P/NTA (x)	1.31	0.63	0.66
Net Gearing (x)	0.58	0.46	0.30
Net Dividend Yield (%)	2.3	5.4	5.2

We raise our TP by 20% to RM3.05 (from RM2.54) as we now value OMH at 6x FY23F PER (vs. 5x previously) to bring our valuation for OMH more in-line with the increased valuation average of its international peers of 6.4x (see below) following the run-up in their share prices on China’s reopening. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

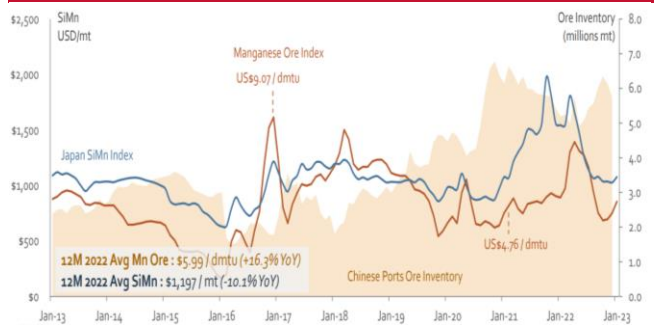
Risks to our recommendation include: (i) a global recession resulting in a sharp fall in the demand for steel, hurting FeSi and Mn alloys prices, (ii) an escalation of raw material prices, and (iii) major plant disruptions/closure.

Ferrosilicon Market Review



Source: Company

Manganese Ore & Alloy Market Review



Source: Company

Peer Comparison Table											
	Price	Currency	Mkt Cap (USD m)	FYE	EPS Growth		PER (x)		PBV (x)	ROE	Net Yld
					1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd
ELKEM ASA	36.280	NOK	2,326.3	12/2022	86.8%	-60.3%	2.6	7.1	0.79	28.6%	17.3%
ERAMET	104.990	EUR	3,317.4	12/2022	34.2%	-42.9%	3.3	6.6	1.90	34.3%	3.3%
FERROGLOBE	4.267	EUR	879.1	12/2022	>100.0%	-60.1%	1.7	5.5	N/A	-47.6%	0.0%
OMH	2.530	MYR	440.0	12/2022	52.8%	-7.8%	4.4	5.0	0.63	25.2%	5.4%
Average (ex-OMH)							2.5	6.4	1.35	5.1%	6.9%

Source: Bloomberg/Kenanga Research

03 February 2023

Income Statement						Financial Data & Ratios					
FY Dec (USD m)	2019A	2020A	2021A	2022E	2023E	FY Dec	2019A	2020A	2021A	2022E	2023E
Turnover	714	542	778	703	613	Growth (%)					
EBITDA	71	33	120	186	147	Turnover	-37.6	-24.0	43.4	-9.6	-12.7
Depreciation	-29	-30	-27	-24	-25	EBITDA	-65.4	-52.9	259.3	54.6	-21.0
Operating Profit	42	3	93	161	122	Operating Profit	-76.6	-91.7	>100.0	73.0	-24.4
Interest Expense	-22	-20	-14	-16	-13	PBT	-77.2	-110.6	>100.0	84.6	-24.8
Associate	21	11	4	8	6	Net Profit	-67.9	-92.4	>100.0	52.8	-7.8
Exceptional Items	0	0	0	0	0	Core Net Profit	-67.9	-92.4	>100.0	52.8	-7.8
PBT	41	-4	83	154	115						
Taxation	-2	1	-2	-40	-30	Profitability (%)					
Minority Interest	0	6	-20	-21	0	EBITDA Margin	10.0	6.2	15.5	26.4	23.9
Net Profit	39	3	61	93	85	Operating Margin	5.8	0.6	12.0	23.0	19.9
Core Net Profit	39	3	61	93	85	PBT Margin	5.7	-0.8	10.7	21.9	18.8
						Net Margin	5.5	0.6	7.8	13.2	13.9
						Core Net Margin	38.2	5.5	0.6	7.8	13.2
						Effective Tax Rate	4.8	29.6	2.7	26.0	26.0
						ROA	2.0	-1.0	6.5	11.7	10.8
						ROE	13.4	1.0	18.8	25.2	40.3
						DuPont Analysis					
						Net Margin (%)	5.5	0.6	7.8	13.2	13.9
						Assets Turnover (x)	0.9	0.7	0.8	0.8	0.7
						Leverage Factor (x)	2.8	2.8	2.6	2.2	1.9
						ROE (%)	13.3	1.1	16.5	21.9	18.1
						Leverage					
						Debt/Asset (x)	0.39	0.37	0.31	0.27	0.21
						Debt/Equity (x)	1.12	1.04	0.81	0.58	0.41
						Net Cash/(Debt)	-285	-243	-215	-194	-143
						Net Debt/Equity (x)	0.97	0.88	0.58	0.46	0.30
						Valuations					
						EPS (cent)	5.3	0.4	8.2	12.6	11.6
						NDPS (cent)	0.6	0.0	1.5	3.0	3.0
						BV/share (USD)	0.40	0.37	0.50	0.64	0.61
						NTA/share (USD)	0.40	0.37	0.50	0.64	0.61
						PER (x)	6.5	111.0	8.0	4.4	5.0
						Net Yield (%)	1.9	0.0	2.3	5.4	5.2
						P/BV (x)	0.87	1.20	1.31	0.63	0.66
						P/NTA (x)	0.87	1.20	1.31	0.63	0.66
						EV/EBITDA (x)	7.6	17.2	5.8	2.6	3.0

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANN JOO RESOURCES BHD	UP	1.51	0.800	-47.02%	847.6	Y	12/2022	(19.9)	4.6	-143.3%	-76.6%	N.A.	32.1	0.7	-9.3%	0.0	0.0%
ENGTEX GROUP BHD	OP	0.675	0.750	11.11%	292.1	Y	12/2022	9.9	10.6	-44.0%	7.6%	6.8	6.4	0.4	5.4%	0.8	1.1%
OM HOLDINGS LTD	OP	2.53	3.05	20.55%	1,868.7	Y	12/2022	57.4	50.9	68.3%	-11.4%	4.4	5.0	1.0	24.5%	13.7	5.4%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	5.30	5.50	3.77%	43,670.0	Y	12/2022	18.4	19.9	46.1%	8.4%	28.8	26.6	7.6	31.5%	7.4	0.7%
UNITED U-LI CORPORATION BHD	MP	1.28	1.36	6.25%	278.8	Y	12/2022	17.0	15.0	-16.1%	-11.6%	7.5	8.5	1.0	12.8%	5.0	3.9%
Sector Aggregate					46,957.2					15.4%	11.0%	24.5	22.1	4.7	19.3%		2.2%

Source: Kenanga Research

This section is intentionally left blank

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Renewable Energy Source	★	★	★	★	★
	Mine Rehabilitation	★	★	★		
	Resource Efficiency	★	★	★		
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★		
	Workers Welfare	★	★	★	☆	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

