



OM Holdings Ltd (OMH.ASX)

Maintenance to impact 2023 but pricing robust

Event:

- 4QCY22 review; Commodity price upgrades.

Investment Highlights:

- FeSi output in-line, Mn alloys lower due to maintenance.** OMH produced 34.3kt FeSi and 41.5kt Mn alloys for 4QCY22 vs our forecasts of 36.1kt and 62.4kt respectively. While FeSi was in-line, Mn alloys were significantly lower due to four smelters shut down for maintenance, resulting 24% of operating days lost.
- Shipments in-line.** OMH shipped 41.5kt FeSi and 52.8kt Mn alloys, which was overall in-line with our forecasts (35kt FeSi and 58kt Mn Alloys).
- Silicon metal furnace begins commissioning.** The first of OMH's two silicon metal furnaces commenced hot commissioning in the December quarter and is undergoing performance testing. Si metal represents not only a new product, but also new markets for the company. Once commercial production is established, the second Si furnace is will undergo hot commissioning in 3QCY23.
- Maintenance schedule to impact CY23.** OMH guided to CY23 production of 110-130kt FeSi and 200-220kt Mn alloys. While FeSi guidance mid-point of 120kt is only slightly lower than our prior forecast of 135kt, Mn alloys was markedly lower than our prior 329kt forecast, due to furnace maintenance. Eight Mn alloy furnaces are to undergo maintenance in CY23, each staggered in shutdowns so as to smooth the production profile during the course of the year.
- Company expects to satisfy criteria for additional tax incentive.** OMH commented that it expects to meet pre-agreed criteria as part of its application for an additional five years exemption on 70% of taxable income. We currently factor this in our forecasts and estimate it is worth \$0.10/share to valuation.
- Upgrades to commodity prices.** We upgrade long-term FeSi by 4% to US\$1,422/t, SiMn by 4% to US\$1,124/t, Si metal 553 by 3% to US\$1,746/t, and Mn 44% ore by 6% to US\$5.29/dmtu, as well as upgrading shorter-term prices. FeSi, Mn alloy, and Mn ore prices have rallied into 1CQCY23-to-date, while Si prices have been softer. However long-term decarbonisation will be positive for Si: for example EVs contain 4x the metal than ICE vehicles (source: Elkem).

Earnings and Valuation:

- FY22 and FY23 earnings cut on maintenance, FY24 increase on prices.** We cut FY22 and FY23 NPAT by -8% and -32% to US\$85M and US\$87M from lower Mn alloy production due to furnace maintenance schedule. FY24 NPAT increases 8% to US\$104M on our price upgrades.
- Our OMH share valuation (1.0 x NPV₁₀ nominal) increases to \$1.81 from \$1.78,** our price upgrades offsetting FY23 lower production maintenance impact.

Recommendation:

- We maintain our Buy on OMH and raise our 12-month PT to \$1.81 from \$1.78,** based on our increase in risked valuation.
- Catalysts for share price** include 1) Production of Si metal; 2) Growth from furnace expansions; 3) Examination of downstream Si and Mn opportunities for applications such as EVs and renewable energy; and 4) Dividend policy.

Disclosures

The analyst owns 32,600 OMH shares.

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	\$1.81
Previous	\$1.78
Share price (A\$)	\$ 0.82
ASX code	OMH
52 week low-high	\$0.58-0.98
Valuation (A\$/share)	\$ 1.81
Methodology	NPV10 nominal

Capital structure

Shares on Issue (M)	739
Market cap (A\$M)	606
Net cash (debt) attributable (A\$M)	-404
EV (A\$M)	1,010
Ave daily volume ('000)	143

Earnings Y/e Dec US\$M	FY21a	FY22e	FY23e	FY24e
Sales adj*	738	626	494	595
EBITDA adj.*	115	144	147	163
NPAT adj*	61	85	87	104
EPS adj. \$*	0.08	0.11	0.12	0.15
PE x	7.2x	5.0x	4.8x	4.1x
EV/EBITDA x	4.0x	3.1x	3.8x	3.5x
DPS \$	0.01	0.0	0.0	0.0
Yield %	2.5%	0.0%	0.0%	0.0%

* Adj =underlying attributable

Board

Low Ngee Tong	Executive Chair & CEO
Zainul Abidin Rasheed	Non-Executive Director
Julie Anne Wolsley	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	626	494	595
Operating costs adj.	623	482	348	441
EBITDA adj.	115	144	147	163
D&A	38	24	32	32
EBIT adj.	77	121	115	130
Net Interest exp / (income)	11	13	15	11
PBT adj.	66	108	100	119
Tax exp / (benefit) adj.	5	23	13	15
NPAT adj.	61	85	87	104
EPS diluted adj. (\$)	0.08	0.11	0.12	0.14
DPS (\$)	0.01	0.00	0.00	0.00

Cashflow US\$M	2021a	2022e	2023e	2024e
Operating cashflow	71	216	122	108
Investing cashflows	5	-121	-6	-12
Financing cashflow	-35	-54	-68	-53
Net cashflow	41	40	48	42

Balance Sheet US\$M	2021a	2022e	2023e	2024e
Assets	944	917	955	1,036
Liabilities	500	385	330	315
Equity	444	532	625	721

Half year splits	1H FY21a	2H FY21a	1H FY22a	2H FY23e
Alloy shipments, kt	175	184	183	185
Sales adj., US\$M	332	405	413	212
EBITDA adj., u\$M	36	79	86	58
NPAT adj., US\$M	13	47	49	35

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	39%	3%	19%
Gearing (ND/ND+E)	33%	21%	0%	-15%
Interest Cover (EBIT/net int)	6.9x	9.2x	7.7x	11.4x
Average ROE %	18%	21%	16%	15%
Average ROA %	11%	16%	12%	13%

Valuation multiples	2021a	2022e	2023e	2024e
P/E x	7.2	5.0	4.8	4.1
EV/EBITDA x	4.0	3.1	3.8	3.5
Yield %	2.5%	0%	0%	0%

Company Valuation		
DCF 10% dr nominal	A\$M	A\$/share
Segment		
Sarawak smelter	1,441	\$1.95
Qinzhou smelter	6	\$0.01
Bootu Creek & exploration	10	\$0.01
Bootu Creek rehabilitation	-13	-\$0.02
Tshipi	225	\$0.30
Marketing	264	\$0.36
Corporate	-87	-\$0.12
Working capital	-103	-\$0.14
Net Cash attributable	-404	-\$0.55
Total	1,338	\$1.81

Capital structure	M
Ordinary shares	739
Fully diluted	739

Assumptions	2021a	2022e	2023e	2024e
FeSi Japan CIF, US\$/t	2,314	1,907	1,669	1,428
SiMn Japan, US\$/t	1,606	1,315	1,084	1,067
Si metal 553 US\$/t	-	3,000	2,500	2,500
Mn ore 44% China CIF US\$/dmtu	5.21	6.13	5.26	5.03
A\$:US\$	0.72	0.69	0.69	0.70

Shipments kt (100%):	2021a	2022e	2023e	2024e
FeSi	114	147	120	120
Mn alloys	245	221	210	270
Si metal	0	0	17	19
Total	359	368	347	409

Ave realised price US\$/t alloy	1,337	1,674	1,356	1,299
Cash costs US\$/t alloy	974	1,266	1,013	987

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		
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.



COMMODITY PRICES

Figure 1: Commodity Price Revisions

Y/e Dec	Unit		FY22a	FY23e	FY24e	FY25e	FY26e	LT
FeSi Japan CIF	US\$/t	New	1,907	1,669	1,428	1,413	1,393	1,422
		<i>Old</i>	1,906	1,514	1,367	1,356	1,334	1,361
		<i>Chng</i>	0%	10%	4%	4%	4%	4%
SiMn Japan CIF	US\$/t	New	1,315	1,084	1,067	1,079	1,101	1,124
		<i>Old</i>	1,316	1,133	1,073	1,069	1,060	1,081
		<i>Chng</i>	0%	-4%	-1%	1%	4%	4%
Si 553 metal	US\$/t	New	3,000	2,500	2,500	2,250	1,800	1,800
		<i>Old</i>	3,000	2,700	2,400	2,100	1,700	1,700
		<i>Chng</i>	0%	-7%	4%	7%	6%	6%
Mn 44% China CIF	US\$/dmu	New	6.13	5.26	5.03	5.08	5.18	5.29
		<i>Old</i>	6.18	5.57	5.03	4.99	4.91	5.01
		<i>Chng</i>	-1%	-6%	0%	2%	6%	6%
A\$	US\$	New	0.69	0.69	0.70	0.72	0.73	0.73
		<i>Old</i>	0.69	0.71	0.73	0.74	0.75	0.75
		<i>Chng</i>	0%	-3%	-4%	-3%	-3%	-3%

Source: 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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