



OM Holdings Ltd (OMH.ASX)

Uncertain outlook buffered by low-cost position

Event:

- FY22 review; Earnings and Price Target changes.

Investment Highlights:

- FY22 OMH adj. attributable NPAT was US\$78M, 9% below our forecast.** The major difference being higher elimination (inter-segment) costs. Reported attributable NPAT was US\$68M, which included net non-recurring items of US-\$9M (US\$10M in write-downs and US\$1M forex gain).
- Weaker 2H on lower prices.** As we had expected, adj. attributable NPAT in 2HFY22 of US\$25M was down on the interim of US\$53M, due to the decline in revenue stemming from lower ferrosilicon and manganese alloy prices, which fell 20% and 30% respectively from the 1H to 2H. These more than offset the 10% rise in alloy shipments in the 2H vs the interim. In contrast earnings from Marketing, Tshipi, and Mining were fairly flat between the halves.
- Dividend policy signals Sarawak now well-established.** The company declared a dividend of A\$0.015/share, a 44% payout on 2H attributable reported NPAT. Concomitantly it announced a policy of paying 10-30% of attributable NPAT going forward, subject to typical conditions, including being capped to 50% of free cash flow. We believe the policy signals that Sarawak is now operationally well-established after the initial investment of the past few years.
- Still awaiting tax exemption approval.** The company incurred tax expense in the result and is still awaiting approval for another five-years tax exemption of on 70% of Sarawak income. Timing of approval however remains uncertain.
- FY23 outlook – focus on commissioning silicon metal furnaces.** This will be key for OMH this year, as it seeks to broaden Sarawak's product offering beyond ferrosilicon and manganese alloys. The first silicon metal furnace is undergoing hot commissioning. Once it has been passes into commercial production in the 1H, the second will undergo commissioning later this year.
- Uncertain look dampens prices.** After manganese ore, manganese alloy, and ferrosilicon prices rallied in the New Year to mid-February, prices have since weakened due to economic uncertainty and subdued steel demand outlook. We believe Sarawak is still well poised vs peers that are struggling with high energy prices, given its attractively priced contracted power which is mostly hydro.

Earnings and Valuation:

- We have cut our FY23 and FY24 attributable NPAT by 17% and 18% to US\$72M and US\$85M, mostly on removal of the Sarawak tax exemption.** While we believe the exemption will ultimately be granted, uncertainty in timing prompts us to remove it from our forecasts at this stage.
- Our OMH share valuation (1.0 x NPV₁₀ nominal) reduces to \$1.73 from \$1.81,** based on slightly higher costs at Sarawak.

Recommendation:

- We maintain our Buy on OMH and reduce our 12-month PT to \$1.73 from \$1.81,** based on 1.0x NPV. Catalysts include 1) Silicon metal commissioning; 2) Furnace expansions; 3) Downstream Si and Mn opportunities for applications such as EVs and renewable energy; and 4) Grant of tax exemption.

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.

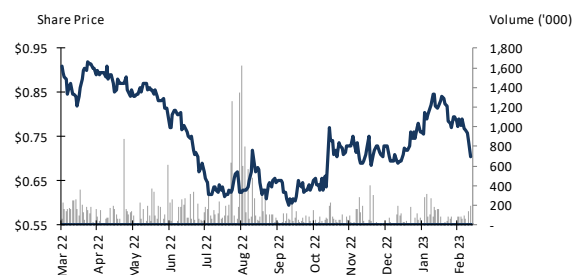
Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.73			
Previous	\$1.81			
Share price (A\$)	\$ 0.71			
ASX code	OMH			
52 week low-high	\$0.58-0.94			
Valuation (A\$/share)	\$ 1.73			
Methodology	NPV10 nominal			
Capital structure				
Shares on Issue (M)	739			
Market cap (A\$M)	521			
Net cash (debt) attributable (A\$M)	-268			
EV (A\$M)	789			
Ave daily volume ('000)	143			
Earnings Y/e Dec US\$M	FY22a	FY23e	FY24e	FY25e
Sales adj*	779	600	662	789
EBITDA adj. *	134	138	155	172
NPAT adj*	79	72	85	102
EPS adj. \$*	0.11	0.10	0.12	0.14
PE x	4.6	5.0	4.3	3.7
EV/EBITDA x	3.3	4.0	3.6	3.3
DPS \$	0.01	0.02	0.02	0.03
Yield %	2.1%	4.0%	4.7%	5.5%

* 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	2022a	2023e	2024e	2025e
Attributable:				
Revenue	779	600	662	789
Operating costs adj.	645	462	507	617
EBITDA adj.	134	138	155	172
D&A	23	28	28	29
EBIT adj.	111	111	127	143
Net Interest exp / (income)	13	16	13	8
PBT adj.	97	94	114	136
Tax exp / (benefit) adj.	18	22	29	34
NPAT adj.	79	72	85	102
EPS diluted adj. (\$)	0.11	0.10	0.12	0.14
DPS (\$)	0.01	0.02	0.02	0.03

Cashflow US\$M	2022a	2023e	2024e	2025e
EBITDA reported	151	115	133	149
Change in WC	49	0	0	0
Tax	-7	-16	-23	-28
Other	3	0	0	0
Operating cashflow	197	99	110	122
PPE	-39	-25	-27	-30
Acquisitions	0	0	0	0
Capitalised expenses	-1	-2	-2	-2
Investment	0	0	0	0
Dividend from associate	8	15	14	14
Interest income	1	1	0	0
Other	0	0	0	0
Investing cashflows	-31	-10	-14	-18
Equity issue	0	0	0	0
Debt proceeds	23	0	0	0
Det repayment	-66	-50	-50	-70
Dividend paid	-11	-14	-16	-19
Minority acquisition	-109	0	0	0
Interest expense	-18	-18	-3	-2
Other	0	0	0	0
Financing cashflow	-181	-82	-69	-91
Net cashflow	-15	6	27	12

Balance Sheet US\$M	2022a	2023e	2024e	2025e
Cash	62	69	95	108
Receivables	32	20	23	27
Inventories	235	149	167	202
PPE	446	445	447	451
Associate investment	81	81	82	82
Capitalised exploration	4	6	7	9
Intangibles	11	11	11	11
Other	15	15	15	15
Assets	886	796	846	905
Payables	181	102	114	140
Provisions	5	3	3	4
Debt	255	163	113	43
Other	46	67	86	104
Liabilities	486	334	315	291
Capital	396	458	527	611
Equity attributable	396	458	527	611
Minorities	4	4	4	4
Equity	400	461	531	615

Half year splits	1H	2H	1H	2H
	FY22a	FY22a	FY23e	FY23e
Alloy shipments, kt	183	185	171	177
Sales adj., US\$M	413	365	282	318
EBITDA adj., u\$M	86	48	67	71
NPAT adj., US\$M	52	27	34	39

Financial Metrics	2022a	2023e	2024e	2025e
Wtd ave shares (M)	739	739	739	739
Wtd ave share diluted (M)	739	739	739	739
EPS growth %	30%	-8%	18%	20%
Gearing (ND/ND+E)	32%	17%	3%	-12%
Interest Cover (EBIT/net int)	8.2x	6.9x	9.8x	19.1x
Average ROE %	21%	17%	17%	18%
Average ROA %	15%	13%	15%	16%

Valuation multiples	2022a	2023e	2024e	2025e
P/E x	4.7	5.1	4.4	3.8
EV/EBITDA x	3.4	4.1	3.7	3.4
Yield %	2.0%	3.9%	4.6%	5.3%

Company Valuation		
Segment	A\$M	A\$/share
NPV 10% nominal		
Sarawak smelter	1,287	\$1.74
Tax exemption	74	\$0.10
Qinzhou smelter	7	\$0.01
Bootu Creek & exploration	9	\$0.01
Bootu Creek rehabilitation	-14	-\$0.02
Tshipi	225	\$0.30
Marketing	272	\$0.37
Corporate	-226	-\$0.31
Working capital	-91	-\$0.12
Net Cash attributable	-268	-\$0.36
Total	1,275	\$1.73

Capital structure	M
Ordinary shares	739
Fully diluted	739

Assumptions	2022a	2023e	2024e	2025e
FeSi Japan CIF, US\$/t	1,907	1,669	1,428	1,413
SiMn Japan, US\$/t	1,315	1,084	1,067	1,079
Si metal 553 US\$/t	3,000	2,500	2,500	2,250
Mn ore 44% China CIF US\$/dmtu	6.13	5.26	5.03	5.08
A\$:US\$	0.69	0.69	0.70	0.72

Shipments kt (100%):				
FeSi	147	120	120	120
Mn alloys	221	210	270	330
Si metal	0	17	19	21
Total	368	347	409	471

Ave realised price US\$/t alloy	1,764	1,430	1,314	1,292
Cash costs US\$/t alloy	1,389	1,137	1,021	1,004

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.



FY22 RESULT REVIEW

- OMH FY22NPAT adjusted attributable NPAT was US\$78M, 9% below our forecast of US\$85M. The major difference was greater elimination (inter-segment) costs, partially offset by higher elimination revenue. Reported attributable NPAT was US\$68M, which included net non-recurring items of -US\$9M (comprising US\$10M in write-downs and forex gain of US\$1M).

Figure 1: OMH FY22 Result Overview, US\$M

	1H FY22 actual	2H FY22 actual	FY22 actual	FY22 FSBe	Diff v s FSBe
Smelters	371	278	649	616	5%
Mines	20	0	20	20	0%
Marketing	382	275	657	653	1%
Corporate	22	31	53	0	nm
Elimination	-329	-194	-522	-584	-10%
Total revenue	467	391	857	705	22%
Smelters	277	234	511	466	10%
Mines	23	0	23	23	0%
Marketing	371	265	636	633	0%
Corporate	25	32	57	5	nm
Elimination	-329	-194	-522	-584	-10%
Total operating costs	367	338	704	543	30%
Smelters	93	44	138	150	-8%
Mines	-2	-1	-4	-2	69%
Marketing	11	10	21	19	10%
Corporate	-2	-1	-4	-5	-24%
EBITDA	100	51	151	162	-7%
Smelters	14	10	25	29	-15%
Mines	0	2	2	0	nm
Marketing	0	0	0	0	0%
Corporate	0	0	0	0	0%
D&A	14	12	27	29	-8%
Smelters	79	34	113	121	-7%
Mines	-2	-3	-6	-2	147%
Marketing	11	10	21	19	10%
Corporate	-2	-1	-4	-5	-24%
EBIT	86	39	125	133	-6%
Net interest exp (income)	8	9	18	17	2%
Share of associates (Tshipi)	5	4	8	12	-27%
PBT	82	33	116	127	-9%
Tax	18	5	23	24	-4%
NPAT before minorities adj	64	29	93	103	-10%
Minorities	11	4	15	18	-20%
NPAT attributable adj	53	25	78	85	-9%
Non-recurring items	1	-11	-9	1	nm
NPAT before minorities reported	61	22	83	104	-20%
Minorities	11	4	15	18	-20%
NPAT reported adj.	51	18	68	86	-21%

Source: Foster Stockbroking estimates.



Lower prices impact Smelting in 2H

- As we had expected, adj. attributable NPAT in the 2H FY22 of US\$25M was down on the interim of US\$53M due to the decline in revenue from lower ferrosilicon and manganese alloy prices. The average FeSi price fell 20% from interim period's US\$2,116/t to US\$1,699/t in 2H, while the average SiMn price fell 30% from US\$1,546/t to US\$1,084/t. These more than offset the 10% rise in 2H alloys shipments to 215kt.

Figure 2: Price and volumes across the FY22 halves

Commodity	Unit	1HFY22a	2HFY22a	FY22a
FeSi Japan CIF	US\$/t	2,116	1,699	1,907
SiMn Japan CIF	US\$/t	1,546	1,084	1,315
Alloy shipments (100%)	kt	194	215	409

Source: Company; Foster Stockbroking estimates.

Earnings from Marketing and Tshipi stable

- In contrast to Smelting, earnings from Marketing, associate investment Tshipi, and Mining (Bootu Creek) were fairly stable between the halves.

Dividend and policy announced

- The company declared a final dividend of A\$0.015/share, representing an 44% payout ratio on 2H attributable reported NPAT. Concomitantly it announced a dividend policy paying 10-30% of attributable NPAT going forward, subject to being capped to 50% of free cash flow and other conditions that would be typically expected.
- We believe the dividend policy signals that Sarawak is now well established operationally, following the past years of investment including start-up, and ramping up to scale. It also signals that OMH has completed its transition from miner to chiefly smelter.
- OMH closed FY22 with cash of US\$62M and debt of US\$255M for net debt of US\$193M (consolidated basis). Operating cash flow was US\$197M, supported by a \$52M positive net working capital movement.

Still awaiting tax exemption recognition

- FY22 tax expense was US\$23M, incurring the corporate Malaysian tax rate of 24% on all its Sarawak income. The company still expects to meet the conditions set by the Government for eligibility of the second 5-year tax exemption period on 70% of its income, albeit timing of when this will be granted remains uncertain.

Outlook subdued but Sarawak buffered by low-cost position

- Despite prices stabilising and even rising earlier in January and February this year, there has been a retreat in ferromanganese, manganese ore, and silicomanganese prices, reflective of continuing global uncertainty surrounding the economy, interest rates, and weaker steel demand. Energy cost inflation has also hurt steelmakers. However Sarawak is in the enviable position of contracting mostly low-cost power which is mostly hydro, whereas many other smelters struggle with high energy costs that include coal and gas.



- The Sarawak furnace maintenance program and the commissioning of the silicon metal furnaces will be the operational focus in 2023. Eight furnaces will undergo maintenance in a staggered phased approach over the course of FY23e to maintain a smooth production profile and minimise abrupt disruption. Ten furnaces were operating at end December 2022 and OMH reconfirmed FY23e Sarawak production guidance of 320-270kt in alloys and metals, comprising 110-130 FeSi, 200-220kt Mn alloys, and 11-12kt Si. Sustaining capex for the maintenance programs was guided to US\$14-15M.
- The first metallic silicon furnace is undergoing hot commissioning to ensure performance and product on specification, and we expect the second to be commissioned in the 3Q 2023.



EARNINGS FORECASTS

Timing uncertainty over tax exemption – removal from our forecasts

- We have cut our OMH FY23e and FY24e attributable NPAT by 17% and 18% to US\$72M and US\$85M mostly on removal of removing the tax exemption on 70% of the Malaysian smelter earnings from our forecasts due to uncertainty over when this will be granted, and to a lesser extent higher costs from inflation. The company - and we – are still confident that OMH will meet the conditions to receive the exemption at some time prior to FY26.
- We also include dividends being paid going forward at 20% payout ratio, the mid-point of the company’s dividend policy.

Figure 3: OMH Earnings Forecasts

Y/end Dec US\$M	FY23e			FY24e		
	New	Old	Chng	New	Old	Chng
Mines (incl Tshipi share)	67	99	-32%	65	95	-32%
Smelting	497	471	5%	537	531	1%
Marketing	514	520	-1%	549	576	-5%
Corporate	54	0	nm	54	0	nm
Elimination	-533	-595	-10%	-544	-607	-10%
Sales	600	494	21%	662	595	11%
Mines (incl Tshipi share)	44	82	-46%	43	80	-47%
Smelting	395	352	12%	418	404	3%
Marketing	498	504	-1%	532	559	-5%
Corporate	58	5	nm	59	5	nm
Elimination	-533	-595	-10%	-544	-607	-10%
Costs	462	348	33%	507	441	15%
Mines (incl Tshipi share)	23	17	38%	22	23	-3%
Smelting	102	119	-15%	120	128	-6%
Marketing	17	15	8%	18	17	4%
Corporate	-4	-5	-24%	-5	-5	-2%
EBITDA	138	147	-6%	155	163	-5%
Mines (incl Tshipi share)	3	3	0%	3	3	0%
Smelting	25	29	-15%	26	30	-15%
Marketing	0	0	0%	0	0	0%
Other	0	0	0%	0	0	0%
D&A	28	32	-13%	28	32	-13%
Mines (incl Tshipi share)	21	14	44%	20	21	-3%
Smelter	77	90	-15%	94	98	-3%
Marketing	17	15	8%	18	17	4%
Other	-4	-5	-24%	-5	-5	-2%
EBIT	111	115	-4%	127	130	-2%
Net interest expense	16	15	8%	13	11	14%
PBT	94	100	-5%	114	119	-4%
Tax	22	13	73%	29	15	95%
NPAT attributable	72	87	-17%	85	104	-18%

Source: Foster Stockbroking estimates

**VALUATION****\$1.73/share**

- Our OMH share valuation has reduced to \$1.73 from \$1.85, based on delay in the tax exemption and slightly higher costs. Although removed from our earnings forecast, we have included the value of the tax exemption, which we estimate to be \$0.12 share, in our valuation.

Figure 4: OMH Valuation (NPV₁₀ nominal)

Segment	A\$M	A\$/share
Sarawak smelter	1,287	\$1.74
Tax exemption	74	\$0.10
Qinzhou smelter	7	\$0.01
Bootu Creek & exploration	9	\$0.01
Bootu Creek rehabilitation	-14	-\$0.02
Tshipi	225	\$0.30
Marketing	272	\$0.37
Corporate	-226	-\$0.31
Working capital	-91	-\$0.12
Net Cash attributable	-268	-\$0.36
Total	1,276	\$1.73
Shares now M	739	

Source: Foster Stockbroking estimates

RECOMMENDATION

- We maintain our Buy on OMH, reducing our 12-month price target to \$1.73 from \$1.85/share, based on our revised valuation (1.0x NPV₁₀ nominal).

**FOSTER STOCKBROKING DISCLOSURES**

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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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Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.
