



OM Holdings Ltd (OMH.ASX)

Production in-line but prices fragile, Si delayed

Event:

- March 2023 quarter review; Earnings and PT changes.

Investment Highlights:

- Alloy production as per our forecast and company guidance.** OM Sarawak 1Q23 production was 29.7kt FeSi and 52.2kt Mn alloys, in-line with our forecasts of 30.0kt and 52.5kt respectively which were at the mid-point of annualised company guidance of 30ktpa FeSi and 210ktpa Mn alloys. Shipments for the quarter were slightly lower at 28.3kt and 45.0kt.
- Guidance maintained with slight upside.** OMH maintained FY23 guidance of 110-130kt FeSi and slightly upped Mn alloy to 202-222kt (prior 200-220). The company mentioned potential upside to production from China.
- Metallic Si furnace still suspended.** The furnace was suspended in March. Despite producing on-specification product, recovery from the furnace was lower than expected, resulting in excess heat issues. OMH is pursuing a rectification with the EPCM provider, expecting a restart within 12 months. We now expect restart in 1Q 2024 and also push back our expected commissioning of the second Si furnace to 3Q2024 from 3Q2023.
- Maintenance on track.** Eight furnaces – two Mn alloys and six FeSi – are scheduled to undergo staged maintenance for the balance of 2023, with three already shutdown for their scheduled works. Impact on FY23 production guidance is expected to be immaterial.
- Marketing volumes up.** 425.4kt of ore was traded in the quarter, above our forecast of 362kt and the 326kt of the 4Q22, mostly from higher Mn ore sales.
- Bootu Creek ultra-fine plant study complete.** OMH stated it showed that plant rectification was economically viable, with capex A\$6.5M. However we believe higher Mn prices would be required for contemplation of any plant restart.
- Alloy prices mixed – we downgrade short-term prices.** During the quarter Si Mn and FeMn prices were relatively stable but there was a fall in that of FeSi, while SiMn has fallen in the 2Q2023 to-date. We downgrade FeSi -2% in FY23e and SiMn -3% and -7% in FY23e and FY24e.

Earnings and Valuation:

- We reduce FY23e and FY24e NPAT to US\$63M and US\$80M (prior US\$72M and US\$85M)** on lower FeSi and SiMn prices, and reduced Si production due delay commissioning of furnaces.
- Our OMH share valuation (1.0 x NPV₁₀ nominal) falls to \$1.58 from \$1.73**, from our earnings downgrade.

Recommendation:

- We maintain our Buy on OMH and raise our 12-month PT to \$1.58 from \$1.73**, based on our increase in risked valuation.
- Catalysts for share price** include 1) Restart of Si meta furnace; 2) Growth from furnace expansions; 3) Examination of 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) own 32,600 OMH shares.
Cranport does not own OMH securities.
Refer details end of report.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.58			
Previous	\$1.73			
Share price (A\$)	\$ 0.66			
ASX code	OMH			
52 week low-high	\$0.58-0.885			
Valuation (A\$/share)	\$ 1.73			
Methodology	NPV10 nominal			
Capital structure				
Shares on Issue (M)	739			
Market cap (A\$M)	487			
Net cash (debt) attributable (A\$M)	-268			
EV (A\$M)	755			
Ave daily volume ('000)	121			
Earnings Y/e Dec US\$M	FY22a	FY23e	FY24e	FY25e
Sales adj*	779	652	744	834
EBITDA adj.*	134	121	147	165
NPAT adj*	79	59	79	96
EPS adj. \$*	0.11	0.08	0.11	0.13
PE x	4.3x	5.7x	4.3x	3.7x
EV/EBITDA x	3.2x	4.4x	3.6x	3.3x
DPS \$	0.01	0.02	0.02	0.03
Yield %	2.2%	3.5%	4.6%	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	652	744	834
Operating costs adj.	645	531	602	674
EBITDA adj.	134	121	147	165
D&A	23	28	28	29
EBIT adj.	111	93	119	136
Net Interest exp / (income)	13	16	14	9
PBT adj.	97	77	105	128
Tax exp / (benefit) adj.	18	18	27	32
NPAT adj.	79	59	79	96
EPS diluted adj. (\$)	0.11	0.08	0.11	0.13
DPS (\$)	0.01	0.02	0.02	0.03

Cashflow US\$M	2022a	2023e	2024e	2025e
EBITDA reported	151	97	125	143
Change in WC	49	0	0	0
Tax	-7	-12	-21	-26
Other	3	0	0	0
Operating cashflow	197	85	103	116

PPE	-39	-21	-25	-29
Acquisitions	0	0	0	0
Capitalised expenses	-1	-2	-2	-2
Investment	0	0	0	0
Dividend from associate	8	5	14	14
Interest income	1	1	0	0
Other	0	0	0	0
Investing cashflows	-31	-16	-12	-17

Equity issue	0	0	0	0
Debt proceeds	23	0	0	0
Det repayment	-66	-45	-45	-70
Dividend paid	-11	-13	-14	-17
Minority acquisition	-109	0	0	0
Interest expense	-18	-18	-3	-2
Other	0	0	0	0
Financing cashflow	-181	-76	-62	-90

Net cashflow -15 -7 29 10

Balance Sheet US\$M	2022a	2023e	2024e	2025e
Cash	62	55	85	94
Receivables	32	21	25	28
Inventories	235	158	183	207
PPE	446	442	441	445
Associate investment	81	91	91	92
Capitalised exploration	4	6	7	9
Intangibles	11	11	11	11
Other	15	15	15	15
Assets	886	799	859	901
Payables	181	114	131	148
Provisions	5	3	4	4
Debt	255	168	123	53
Other	46	65	87	104
Liabilities	486	350	345	309
Capital	396	445	510	589
Equity attributable	396	445	510	589
Minorities	4	4	4	4
Equity	400	449	514	593

Half year splits	1H	2H	1H	2H
	FY22a	FY22a	FY23e	FY23e
Alloy shipments, kt	183	185	156	165
Sales adj., US\$M	413	365	317	335
EBITDA adj., US\$M	86	48	59	62
NPAT adj., US\$M	52	27	27	31

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%	-26%	34%	22%
Gearing (ND/ND+E)	32%	20%	7%	-8%
Interest Cover (EBIT/net int)	8.2x	5.7x	8.7x	15.9x
Average ROE %	21%	14%	16%	17%
Average ROA %	15%	11%	14%	16%

Valuation multiples	2022a	2023e	2024e	2025e
P/E x	4.3	5.7	4.3	3.7
EV/EBITDA x	3.2	4.4	3.6	3.3
Yield %	2.2%	3.5%	4.6%	5.5%

Company Valuation			
NPV 10% nominal			
Segment		0	0
Sarawak smelter		1,198	\$1.62
Tax exemption		74	\$0.10
Qinzhou smelter		7	\$0.01
Bootu Creek & exploration		7	\$0.01
Bootu Creek rehabilitation		-13	-\$0.02
Tshipi		225	\$0.30
Marketing		254	\$0.34
Corporate		-229	-\$0.31
Working capital		-90	-\$0.12
Net Cash attributable		-268	-\$0.36
Total		1,164	\$1.58

Capital structure	M
Ordinary shares	739
Fully diluted	739

Assumptions	2022a	2023e	2024e	2025e
FeSi Japan CIF, US\$/t	1,907	1,632	1,495	1,512
SiMn Japan, US\$/t	1,315	1,049	988	999
Si metal 553 US\$/t	3,000	2,500	2,500	2,250
Mn ore 44% China CIF US\$/dmt	6.13	5.26	5.03	5.08
A\$:US\$	0.69	0.69	0.70	0.72

Shipments kt (100%):				
FeSi	147	118	120	120
Mn alloys	221	203	270	330
Si metal	0	0	16	21
Total	368	321	406	471

Ave realised price US\$/t alloy	1,764	1,318	1,246	1,234
Cash costs US\$/t alloy	1,389	1,047	968	959

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	1,632	1,495	1,512	1,541	1,369
		<i>Old</i>	1,907	1,669	1,428	1,413	1,393	1,422
		<i>Chng</i>	0%	-2%	5%	7%	11%	-4%
SiMn Japan CIF	US\$/t	New	1,315	1,049	988	999	1,018	1,040
		<i>Old</i>	1,315	1,084	1,067	1,079	1,101	1,124
		<i>Chng</i>	0%	-3%	-7%	-7%	-7%	-7%
Si 553 metal	US\$/t	New	3,000	2,500	2,500	2,250	1,800	1,800
		<i>Old</i>	3,000	2,500	2,500	2,250	1,800	1,800
		<i>Chng</i>	0%	0%	0%	0%	0%	0%
Mn 44% China CIF	US\$/dmu	New	6.13	5.26	5.03	5.08	5.18	5.29
		<i>Old</i>	6.13	5.26	5.03	5.08	5.18	5.29
		<i>Chng</i>	0%	0%	0%	0%	0%	0%
A\$	US\$	New	0.69	0.69	0.70	0.72	0.73	0.73
		<i>Old</i>	0.69	0.69	0.70	0.72	0.73	0.73
		<i>Chng</i>	0%	0%	0%	0%	0%	0%

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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