

COMPANY UPDATE

OM Holdings (OMH MK)

Positive Outlook Backed By Stronger Production

OMH is set to achieve a strong profit this year with expanded capacity, as hydro-powered smelters' cost advantage has significantly widened vs global competitors'. OMH's 1Q23 production output is within our expectation as operation has recovered gradually amid the ongoing major maintenance work. OMH is currently trading at an undemanding valuation of 3-4x 2023F PE, with the full consolidation of its Sarawak operation to enhance earnings further. Maintain BUY. Target price: RM3.53.

WHAT'S NEW

- Production is expected to improve...** 1Q23 production volumes of ferrosilicon (FeSi) have eased to 29,707mt (-13.5% qoq) while that of manganese (Mn) alloy improved to 52,151mt (+25.7% qoq). The decline in FeSi production was mainly due to the temporary suspension of FeSi furnace during the quarter as it underwent scheduled maintenance works. On the other hand, Mn alloy production improved due to two furnaces resuming operations earlier this year after the completion of maintenance works last quarter. 1Q23 production forms 22-25% of our full-year forecasts, which we deem in line with our expectations as production is expected to improve going forward now that the maintenance works have been completed. In 1Q23, sales volumes of FeSi and Mn alloy also eased to 28,281mt (-31.9% yoy) and 45,026mt (-14.6% yoy) due to shipments that were delayed into 2Q23. As such, we expect sales to improve in the upcoming quarter.
- ...with the new expanded capacity.** As at end-March, 11 out of its 16 furnaces were in operation (five FeSi and six Mn alloy). Of the remaining five furnaces, three are undergoing scheduled major maintenance while the other two are still undergoing reviews to rectify issues regarding the production of silicon metal (MetSi). Four furnaces have completed maintenance so far while the other eight furnaces (two Mn alloy and six FeSi) will undergo maintenance in phases throughout 2023, to minimise disruptions to production. Recall that in Jan 23, OMH announced that it had successfully converted one of its FeSi furnaces to produce MetSi. The furnace has entered the hot commissioning and performance testing phase. OMH aims to commission the furnaces within the next 12 months. Once completed, it will be ramped up to its capacity of 10,500-12,250 mt/year.
- Ferroalloy: Still not out of the woods.** In 1Q23, prices of FeSi and Mn alloy were range-bound at US\$1,500-1,600/mt and US\$1,000-1,100/mt respectively given the slow recovery of the steel market. Prices were mainly pressured by: a) the fear of recession, b) soft demand from steel mills, and c) elevated global power costs and weak sentiment in the current rising rates environment. According to the International Manganese Institute, world crude steel production in 2M23 increased slightly by 1.2% yoy to 306.3m tonnes, largely due to the gradual recovery of China. We expect prices to improve on the back of a recovery in China's steel industry, as China is the largest player, consuming and producing 60-70% of global ferroalloy.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net Turnover	3,164.1	3,837.4	3,901.1	4,060.9	4,263.9
EBITDA	559.0	640.4	723.1	763.2	801.4
Operating Profit	386.0	519.1	573.5	602.6	632.7
Net Profit (Reported/Actual)	249.0	303.9	445.6	482.4	506.5
Net Profit (Adjusted)	306.8	346.3	445.6	482.4	506.5
EPS (sen)	41.5	46.9	60.3	65.3	68.6
PE (x)	6.0	5.3	4.1	3.8	3.6
P/B (x)	0.8	0.7	0.6	0.5	0.5
EV/EBITDA (x)	4.8	3.6	2.7	2.1	2.0
Dividend Yield (%)	3.2	2.9	3.6	4.0	4.5
Net Margin (%)	9.7	9.1	11.7	11.9	12.0
Net Debt/(Cash) to Equity (%)	43.2	38.9	28.2	29.3	29.6
Interest Cover (x)	6.4	6.6	8.7	10.7	11.2
ROE (%)	20.0	18.6	20.2	18.4	19.3

Source: OMH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.96
Target Price	RM3.53
Upside	+68.2%

COMPANY DESCRIPTION

ASX-listed OM Holdings is an integrated manganese player engaged in the mining, smelting, trading and marketing of manganese ores, manganese alloys and ferrosilicon. Its smelting plants in Sarawak operate using low-cost sustainable energy – hydropower.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	OMH MK
Shares issued (m):	738.6
Market cap (RMm):	1,515.3
Market cap (US\$m):	338.7
3-mth avg daily t'over (US\$m):	

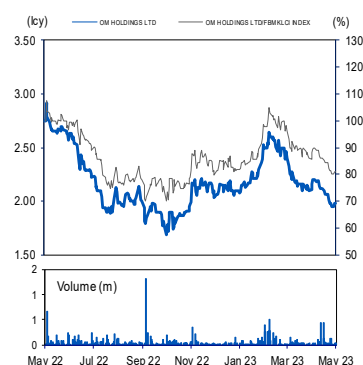
Price Performance (%)

52-week high/low	RM4.07/RM1.83			
1mth	3mth	6mth	1yr	YTD
(7.1)	(21.6)	(0.5)	(32.8)	(5.3)

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2
FY23 NAV/Share (RM)	2.9
FY23 Net Debt/Share (RM)	0.8

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Bumpy recovery expected...** Market sentiment is still expected to remain volatile in the near term given that a commodity rally will add to the ongoing inflationary pressures, which central bankers are trying to get under control. A robust and consistent fiscal policy is required to see a substantial and sustained increase in commodity prices. Nevertheless, we believe ferroalloy prices will remain at the higher end of the historical range, backed by favourable long-term structural supply-demand dynamics and the global decarbonisation agenda.
- ...supported by stronger production and price recovery.** In 2022, OMH reported a higher core net profit of RM346.3m (+1.9% yoy) on the back of: a) absence of the loss-making mining segment, b) higher ferroalloy prices, and c) stronger ferroalloy production, partially offsetting the inflationary headwinds and lower tonnage of ores sold in 2022 amid the unfavourable macro environment. Despite the volatile market, we believe OMH will be able to sustain strong earnings ahead, backed by elevated ferroalloy prices, higher production output and expanded capacity. The full acquisition of OM Sarawak will also be reflected in 2023's earnings. Balance sheet is stronger with net gearing falling 4.5% to 0.64x and net assets/share standing robust at RM2.43/share.
- Favourable structural supply-demand dynamics** may have yet to be fully reflected in the share price as rising global energy prices have widened the cost differential gap between OMH and other fossil-fuel dependent smelters. This gives OMH significant low-cost advantage due to its long-term access to 300MW of inexpensive hydropower in Sarawak. Generally, electricity accounts for 40% of smelting cost. For OMH, we estimate electricity costs at US\$0.04-0.06/kwhr, with a 1.5-2.5% p.a. escalation; this places OMH in the lowest quartile for production costs (fifth-largest FeSi producer, ex-China). Comparable global smelters run at a cost that can be 2-3x higher. Freight rates are also gradually easing to the levels seen in Sep 21 (-18% qoq). With the reopening of borders globally, we expect freight rates to further normalise.
- Operations in South Africa remain intact.** In 1Q23, production volume in South Africa (Mn ore) improved 9% qoq to 915,154mt. Recall that in 4Q22, production was impacted by the employee strike of the rail and port services provider in South Africa, which has now been resolved. Total production in 2022 increased 4% to over 3.3m tonnes in 2022 amid the economic reopening.
- Diversification of product offerings to capture further growth potential.** OMH is diversifying into MetSi in order to deliver higher value-added products. It aims to produce the highest grade (98-99% purity level) it possibly can as silicon metal commands higher margins. This is used in different industries based on the level of contaminants and is typically used for manufacturing microchips, steel and solar cells. This marks OMH's first step in diversifying into the aluminium, chemicals and solar downstream industries. The MetSi furnaces are expected to also be able to produce FeSi for more flexibility in terms of product mix. Depending on the grade, MetSi prices are currently hovering at US\$3,000-4,000/mt vs historical average of around US\$2,000/mt. The price trajectory and cost structure are similar to FeSi. The only major difference is it uses 50% more electricity to produce.

EARNINGS REVISION/RISK

- None.** Based on our sensitivity analysis, every US\$100/mt increase in our FeSi and Mn alloy price assumptions would boost OMH's earnings by about 20% annually.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM3.53**, implying 8x 2023F PE (five-year PE mean: 15x). OMH is currently trading at an undemanding valuation of 3-4x 2023F PE. As the world's lowest cost quartile manganese smelter, OMH is in a sweet spot to benefit from ferroalloy prices recovery, backed by structurally favourable supply-demand dynamics and the company's use of low-cost eco-friendly hydropower.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Eco-friendly smelters help to reduce carbon dioxide emissions by 2.2m mt p.a. Social <ul style="list-style-type: none"> OMH offers career opportunities and provides training to the indigenous community. Governance <ul style="list-style-type: none"> Majority of the board are independent directors (5 out of 7 non-exec directors).
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1Q23 PRODUCTION

Production ('000 mt)	1Q23	4Q22	qoq % chg
Alloy			
Ferrosilicon	29,707	34,332	(13.5)
Manganese alloy	52,151	41,495	25.7

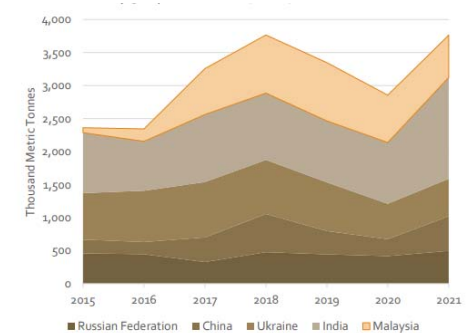
Source: OMH, UOB Kay Hian

KEY ASSUMPTIONS

	2022	2023F	2024F	2025F
Production ('000 mt)				
Alloy				
Malaysia - FeSi	140	135	140	145
Malaysia - Mn	217	320	400	450
ASP (US\$/mt)				
FeSi alloy	1,900	1,700	1,500	1,600
Mn alloy	1,400	1,300	1,200	1,300

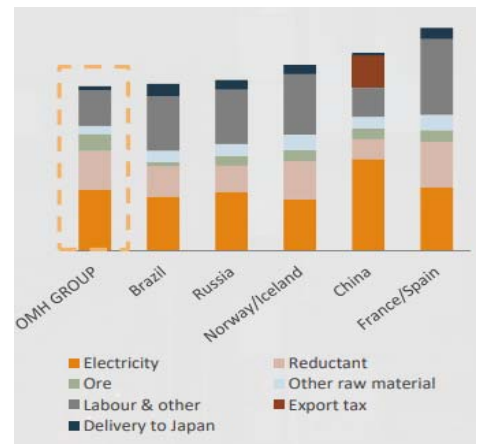
Source: OMH, UOB Kay Hian

TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

FEI PRODUCTION COST COMPARISON



Source: OMH

OMH'S MANGANESE ORE SUPPLY IN THE PIPELINE

Hole No	Mn Intersection
Element 25	Offtake agreement: 365,000 mt/year with grade of 30-35%
Great Sandy	Mining exploration: Rights of 80% over the Mn ore and iron minerals in the area
Bryah	Mining exploration: Entitled to 100% of the Mn ore in the area

Source: OMH

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	3,837	3,901	4,060	4,263
EBITDA	640	723	763	801
Deprec. & amort.	(121)	(153)	(161)	(169)
EBIT	519	573	602	632
Associate contributions	96	99	104	109
Net interest income/(expense)	(83)	(63)	(66)	(69)
Pre-tax profit	473	586	634	666
Tax	(64)	(68)	(71)	(75)
Minorities	(12)	(12)	(13)	(14)
Net profit	303	445	482	506
Net profit (adj.)	346	445	482	506

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,270	2,445	2,567	2,695
Other LT assets	35	(228)	(239)	(251)
Cash/ST investment	214	421	442	464
Other current assets	1,526	1,599	1,679	1,763
Total assets	4,192	4,485	4,801	5,041
ST debt	394	394	414	435
Other current liabilities	864	905	950	998
LT debt	648	492	517	543
Other LT liabilities	209	192	202	212
Shareholders' equity	1,735	2,072	2,176	2,285
Minority interest	194	182	191	201
Total liabilities & equity	4,192	4,485	4,801	5,041

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	640	542	605	635
Pre-tax profit	473	586	634	666
Tax	(64)	(68)	(71)	(75)
Deprec. & amort.	121	153	161	169
Working capital changes	(176)	(32)	(34)	(36)
Other operating cashflows	0	0	0	0
Investing	(138)	(93)	(85)	(89)
Capex (growth)	(2)	(2)	(2)	(2)
Investments	(124)	(93)	(98)	(103)
Proceeds from Sale of Assets	0	0	0	0
Others	0	0	0	0
Financing	(277)	(283)	(272)	(286)
Dividend payments	(45)	(49)	(51)	(54)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(156)	(156)	(164)	(172)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(67)	167	239	251
Beginning cash & cash equivalent	313	238	405	425
Changes due to forex impact	(8)	0	0	0
Ending cash & cash equivalent	238	405	644	676

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	12.8	12.8	13.2	13.9
Pre-tax margin	10.0	10.2	10.5	11.0
Net margin	8.2	8.4	8.7	9.1
ROA	8.6	8.8	9.1	9.6
ROE	20.1	18.0	18.5	19.4
Growth				
Turnover	35.7	4.8	4.9	5.1
EBITDA	56.9	5.5	5.7	6.0
Pre-tax profit	78.2	7.2	7.4	7.8
Net profit	79.0	7.2	7.4	7.8
EPS	79.0	7.2	7.4	7.8
Leverage				
Debt to total capital	(0.3)	(0.2)	(0.2)	(0.2)
Debt to equity	(0.6)	(0.4)	(0.4)	(0.4)
Net debt/(cash) to equity	0.5	0.2	0.2	0.2
Interest cover (x)	5.5	6.7	6.9	7.2

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