

# 20 Jewels 2023 Edition



# **TOP MALAYSIA SMALL CAP COMPANIES**

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**20 JEWELS**

**2023 EDITION**

## MALAYSIA

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## Foreword

Top 20 Malaysia Small Cap Jewels 2023 marks the 19th edition of the signature product from RHB Research that is part of a regional compendium of 80 top small-cap investment ideas from four ASEAN countries. Rain or shine, we continue our relentless efforts to conduct sound fundamental research to assist investors in identifying winning stock ideas and unearth new undiscovered gems.

Just as market sentiment was beginning to turn following the worst of the pandemic, as the interest rate cycle enters a matured stage, sentiment took another knock from the banking crisis in the US and Europe, in the aftermath of the swift monetary policy tightening by the US Federal Reserve. Local investor sentiment has remained tentative in the past year as investors were drawn to other regional opportunities and asset classes. Nonetheless, investors continued to show interest in winning small-cap ideas to generate alpha for their respective portfolios – especially as valuations have also retraced. Stock selection remains paramount and we advocate for investors to focus on fundamentally strong companies that have the potential to deliver above-industry growth, as well as turnaround candidates.

Notably, our Top 20 Malaysia Small Cap Jewels 2022 outperformed the broad market with a holding period return of 15.7%, beating the FBM KLCI's and FBM SC's returns of -8.5% and -5.5%. As for the 2023 Edition, our picks for this year's book are spread across seven different sectors with an average market cap of MYR597m. The consumer and industrial products & services sectors feature prominently, making up 50% of our picks. All but four – which are ACE Market-listed – of the 20 names are in the Main Market. None of the 20 companies featured this year are within RHB Research's existing coverage, as we continue to seek new investment ideas.

RHB Research wishes to express our gratitude to the management teams of the featured firms for their generous time in helping us understand their business models and outlooks. Credit is also due to our fellow dedicated colleagues who have invested considerable time and effort leading up to the publication of this compendium. Our team is grateful and humbled by the continued interest and support from investors.

**Lee Meng Horng**

Head of RHB Malaysia Small Cap Research

**Alexander Chia**

Head of RHB Regional Research

Kuala Lumpur, 16 May 2023

## 20 Jewels – at a glance

Company name	FV	Mkt Cap	P/E (x)		P/BV (x)		Div Yield (%)		ROE (%)	
	(MYR)	(MYRm)	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Aemulus Holdings	0.43-0.52	217.3	20.8	17.4	1.9	1.1	0.0	0.0	9.8	8.3
Apex Healthcare	5.10	1,862.1	31.9	18.8	3.7	3.4	2.9	2.1	12.0	18.2
Bonia Corporation	3.25-3.52	421.0	32.6	11.0	1.1	1.0	1.8	8.7	3.6	10.5
Hiap Teck Venture	0.45-0.52	583.6	3.5	3.3	0.5	0.5	3.0	3.0	16.8	15.2
Kumpulan Kitacon	0.97	287.5	7.6	7.6	1.6	1.3	45.0	3.5	16.9	18.9
Kronologi Asia	0.68-0.82	396.1	14.9	14.8	1.0	0.9	0.0	0.0	7.9	6.5
Lee Swee Kiat Group	1.00-1.35	125.9	16.4	9.6	2.0	1.8	3.1	4.4	12.6	19.7
MCE Holdings	2.98-4.08	111.8	n.m.	13.9	1.0	0.9	0.0	0.0	n.m.	9.3
Malayan Flour Mills	0.95-1.05	745.5	7.9	5.5	0.6	0.5	2.7	4.1	16.2	11.6
OM Holdings	3.50	1,388.6	6.0	5.3	0.8	0.7	3.2	2.9	12.0	18.2
P.I.E. Industrial	4.02-4.42	1282.7	21.6	18.6	2.8	1.8	0.0	1.5	12.1	13.0
Scicom (MSC)	1.40-1.60	398.1	14.6	12.0	3.5	3.4	5.7	6.6	18.0	19.0
SDS Group	0.85-0.98	262.2	36.5	24.5	3.6	3.2	1.2	0.8	10.4	13.8
Supercomnet Technologies	1.63-1.75	987.9	38.7	29.8	3.2	3.0	1.2	1.6	8.2	10.0
Thong Guan Industries	3.00-3.25	884.8	9.4	8.0	1.2	1.1	2.7	2.7	13.6	14.3
Tune Protect Group	0.53-0.56	319.5	n.m.	n.m.	0.5	0.6	0.0	0.0	n.m.	n.m.
Uzma	0.78-0.98	213.0	n.m.	63.8	0.4	0.4	0.0	0.0	n.m.	0.7
Vestland	0.52	387.8	34.6	14.7	7.9	5.1	0.0	0.0	27.3	45.9
VSTECs	1.68-2.27	467.1	8.5	7.9	1.2	1.1	4.4	4.6	15.5	15.2
Wah Seong Corporation	1.09-1.30	600.1	n.m.	9.8	0.9	0.9	0.0	0.0	n.m.	10.5

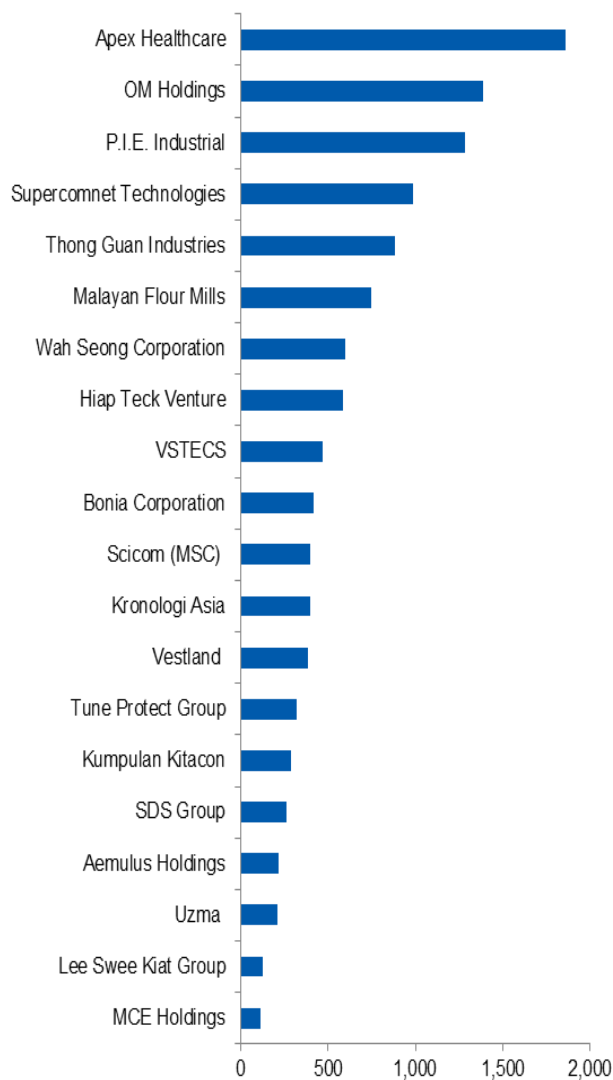
Note: All prices as at 10 May 2023

Note 2: na = not available

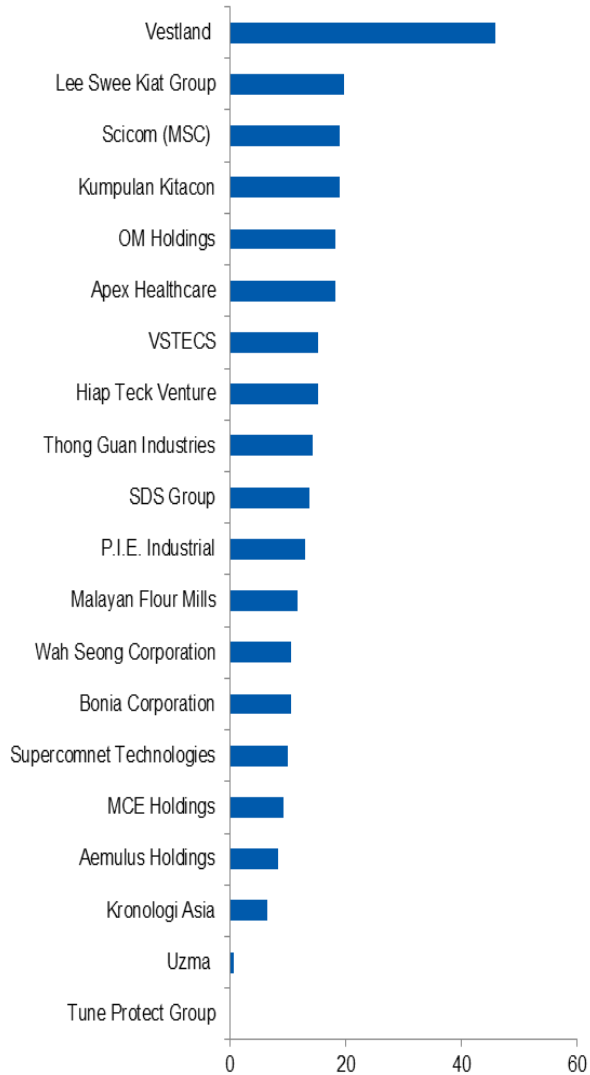
Source: Bloomberg, RHB

## Market capitalisation of the Top 20 (MYRm)

## FY22 ROE of the Top 20



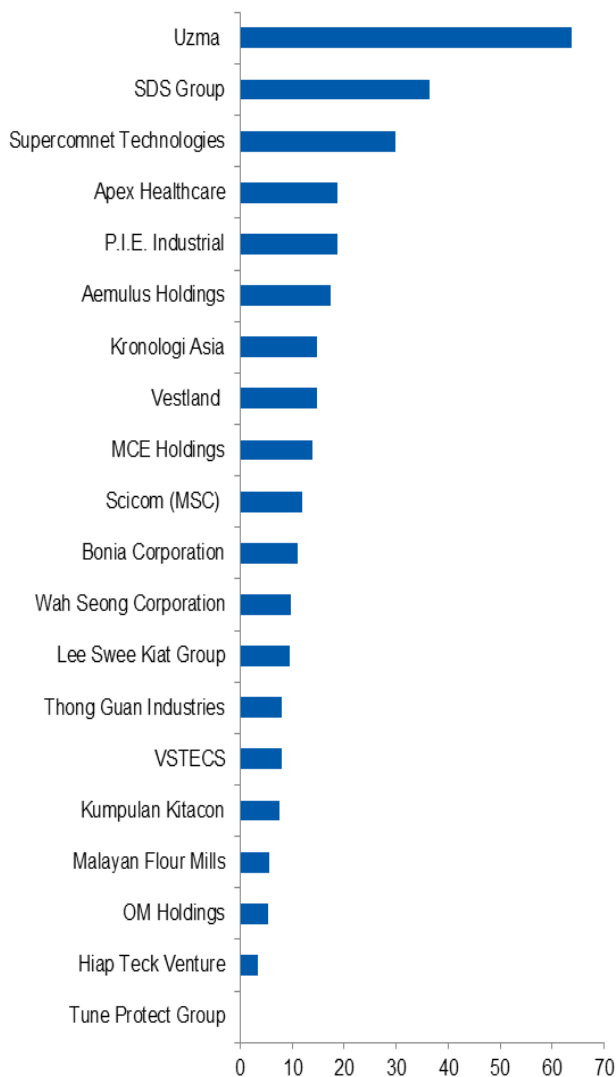
Source: Bloomberg, RHB



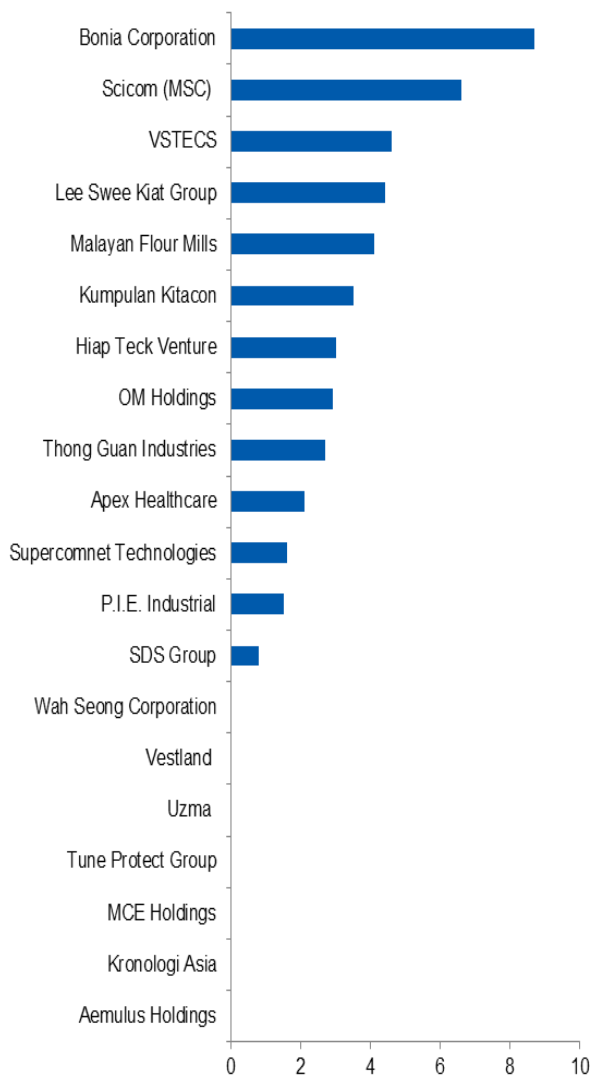
Source: Bloomberg, RHB

## FY22 P/E of the Top 20 (x)

## FY22 dividend yields for the Top 20



Source: Bloomberg, RHB



Source: Bloomberg, RHB



Source: Bloomberg

### Stock Profile

Bloomberg Ticker	OMH MK
Avg Turnover (MYR/USD)	0.13m/0.03m
Net Gearing (%)	0.63
Market Cap (MYRm)	1,388.6
Beta (x)	1.5
BVPS (MYR)	2.69
52-wk Price low/high (MYR)	1.6 - 2.72
Free float (%)	55

### Major Shareholders (%)

Gang Huang	14.0
Amplewood Resources	12.8
Low Ngee Tong	9.3

### Share Performance (%)

	1m	3m	6m	12m
Absolute	(9.0)	(24.9)	(11.9)	(27.2)
Relative	(7.8)	(20.2)	(9.7)	(19.0)

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## Investment Merits

- Largest vertically integrated manganese and silicon smelter in Asia (ex-China)
- Riding on growing regional demand for steel, urbanisation growth in Southeast Asia, and public infrastructure investment
- Lowest cost quartile ferroalloy smelter in the region, backed by low cost, environmental-friendly hydropower, and 10-year tax holiday

## Company Profile

OM Holdings (OMH) is the largest vertically integrated manganese and silicon smelting company in Asia (ex-China). It primarily engages in the business of trading raw ores, and the smelting and marketing of processed ferroalloys. With an established history of over 25 years in the industry, the company is one of the world's leading suppliers of manganese ores and ferroalloys. The products currently in its portfolio are mainly manganese and silicon alloys – both are key alloying elements with no known substitutes. OMH owns four manganese alloy and ferrosilicon furnaces, yielding c.360 kilotonnes annually.

## Highlights

**Lowest-cost quartile ferroalloy smelter in the region.** In view of rising global power prices and power liberalisation policies in China – creating a solid price floor for power-intensive ferroalloy smelters – OMH's sustainable and competitively-priced 350MW power plant is backed by low-cost environmental-friendly hydro power, thanks to its 20-year power purchase agreement with Sarawak Energy. On top of that, the company's smelting plant is conveniently located along the seaborne route for manganese ore exports from South Africa and Australia. This provides OMH with ready access to raw material sources for quartz and reductants. In contrast to its China peers, the company also enjoys zero import duties and export taxes on ferroalloys – allowing it to yield a pricing advantage.

**Beneficiary of Southeast Asia's rapid urbanisation.** The current product offerings in OMH's portfolio are mainly manganese and silicon alloys – both key alloying elements for steel, with no known substitutes. According to United Nations Department of Economic and Social Affairs, ASEAN's urban population is expected to increase 2.5bn by 2050. The regional steel demand remains positive, with the surge of foreign investments in Southeast Asian steel mills – 25m megatonne (Mt) since 2015 (current capacity: 90.8m Mt). OMH is in the sweet spot of growing steel demand – backed by rapid urbanisation growth in the region, recovery in construction sector, and growing public infrastructure investments.

**Expansion into silicon metal.** Silicon metal is made up of 99% pure silicon and is commonly used in aluminium, electronics, chemical, and solar sectors. The fast-growing renewable energy sector, ie solar, has

in turn spurred demand for key materials required in solar panels, ie silicon. The company has shared its major development plan for 2023 and beyond – including acquiring an additional furnace for ferrosilicon, manganese alloys, and metallic silicon. We are of the view that OMH's plan to venture into these new metals comes at the right time – giving it an upper hand in riding the wave of growing renewable energy demand, and increasing awareness in ESG and sustainability investing.

## Company Report Card

**Latest results.** OMH's FY22 revenue was MYR3,837.4m, a 9.8% YoY growth attributable to higher ferroalloy ASP, robust ferroalloy production, and the absence of loss-making mining segments. It declared a final dividend of 4.5 sen per share for FY22 – at 10% payout ratio and c.2% yield. Moving forward, the company aims to distribute 10-20% of profit after tax.

**Balance sheet.** OMH has total borrowings of MYR254.7m as at 2022 – the majority of it associated to its Sarawak project financing. This translates to a gearing ratio of 0.63x, a significant decrease over the last six years (2016: 3.05x).

**Segment Breakdown.** OMH's FY22 earnings were mainly driven by its core business – smelting, which recorded a YoY increase in total output for Ferrosilicon (113,783Mt, +28.9% YoY) and Manganese alloys (203,938Mt, +6.2% YoY). On the flipside, FY22 ferroalloy prices were dampened by softer demand from steel mills, amid the lockdown in China and overall weak sentiment – easing the ferrosilicon and manganese alloys' realised ASP for the year.

## Investment Case

We believe OMH's earnings would continue to sustain its growth moving forward, backed by the reopening of China's economy – the largest consumer and producer of ferroalloys (c.70%) would warm the sentiment of the industry in terms of demand and realised ASP. We value the stock based on a target 7x P/E based on 2023 earnings, slightly above its 2-year historical PE of 6x but below regional peers' average of 12x. Our valuation is justified – given the better outlook for the ferroalloy and steel industries.

Profit & Loss	Dec-20	Dec-21	Dec-22
Total turnover (MYRm)	2,275	3,164	3,769
Reported net profit (MYRm)	16	249	304
Recurring net profit (MYRm)	15	307	346
Recurring net profit growth (%)	(91.9)	1,947	13
Recurring EPS (MYR)	0.0	0.5	0.6
DPS (MYR)	0.00	0.06	0.07
Dividend Yield (%)	0.0	3.2	2.9
Recurring P/E (x)	183.0	6.0	5.3
Return on average equity (%)	1.2	12.0	18.2
P/B (x)	1.9	0.8	0.7
P/CF (x)	6.3	5.1	2.2

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-20	Dec-21	Dec-22
Total current assets	1009	1529	1740
Total assets	3287	3768	4192
Total current liabilities	867	946	1258
Total non-current liabilities	1062	1052	857
Total liabilities	1929	1998	2115
Shareholder's equity	1159	1465	1735
Minority interest	199	305	194
Other equity	0	0	0
Total liabilities & equity	3287	3768	4192
Total debt	1204	1186	1042
Net debt	1021	907	804

Source: Company data, RHB

Cash Flow (MYRm)	Dec-20	Dec-21	Dec-22
Cash flow from operations	222	273	640
Cash flow from investing activities	(31)	20	(138)
Cash flow from financing activities	(192)	(155)	(277)
Cash at beginning of period	142	141	313
Net change in cash	(9)	138	(75)
Ending balance cash	133	279	238

Source: Company data, RHB

RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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