

Stock Digest

Friday, 05 May, 2023

OM Holdings Ltd

1Q23 Production Update

Summary

- We attended a virtual briefing with OM Holdings Ltd (OMH) and came away feeling reassured over their current operations and future outlook. After declaring a final dividend of AUD1.5 sen for FY22, OMH has now adopted a dividend policy of distributing between 10-30% of net profit, subject to a cap of 50.0% free cash flow and other considerations.
- Exploration and mining segment of manganese ore is undertaking engineering rectification works** for the Ultra Fines Plant. OMH will be undertaking a planned CAPEX of AUD6.5m to replace the screens and upgrade both water supply and tailings pump capacities. The said rectification plan is expected to take 9 months for completion.
- Smelting segment delivered weaker production in 1Q23.** Over at the flagship smelting plant at Samalaju Industrial Park, Sarawak, OMH registered production of 29,707 tonnes (-13.5% QoQ) of ferrosilicon (FeSi), 52,151 tonnes (+25.7% QoQ) of manganese alloys (Mn alloys) and 30,112 tonnes (-4.3% QoQ) of manganese sinter ore. The decline in FeSi production was impacted by 1 furnace shutdown for major maintenance since November 2022 and another furnace underwent annual maintenance in March 2023. Meanwhile, the improvement of Mn alloys production was boosted by 2 Mn alloys furnaces that returned online following the completion of major maintenance works. Nevertheless, production is largely in line with our initial projection of 110,000 tonnes of FeSi and 185,000 Mn alloys for FY23f.
- Planned production of Metallic Silicon (MetSi) encountered a minor hiccup.** Maiden production of was temporary suspended for the first MetSi furnace due to low recoveries in silicon and off gas ducting and heat removing system were not working as well as anticipated under the framework of EPC contract. For now, rectification works are currently taking place. Given that favourable fundamentals of MetSi remains largely unchanged, OMH remains committed to commence the production of MetSi in the long run.
- Sales were also impacted.** During the quarter, a total of 28,281 tonnes FeSi (-31.8% QoQ) and 45,026 tonnes of Mn alloys (-14.6% QoQ) were sold. The sharp decline in FeSi sales was mainly due to delayed in shipments that will be carry forward to 2Q23. Hence, we opine that sales may turn stable, moving in 2Q23.
- Prices of materials remain in consolidation.** We gather that the price of 44.0% Mn ore fell -10.9% YoY to USD5.60/dmtu CIF China, while FeSi and silicon manganese (SiMn) price declined -23.0% YoY and -34.0% YoY to USD1,629/MT and USD1,077/MT, respectively. The normalisation in price was largely due to high stockpiling activities in anticipation of the shortage of supply in prior year. Despite the expectations of China's border reopening may spur prices, channel checks showed that material prices failed to spark another wave of rally and remain fairly stable with 44.0% Mn ore, FeSi and SiMn averaging at USD5.06/MT, USD 1,541/MT and USD1,045/MT respectively in April 2023.

Company Update

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

BUY

Share price	RM1.95
Target price	RM2.86
Previous TP	RM2.86
Capital upside	46.7%
Dividend return	3.6%
Total return	50.3%

Company profile

Principally involved in the exploration and mining as well as trading and smelting of manganese ore and ferroalloys

Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	1,440.3
52W High/Low	2.96 / 1.60
Est. Free float	55.5
Beta	1.5
3-mth avg vol ('000)	71.6
Shariah compliant	Yes

Major shareholders

	%
Gang Huang	14.0
Amplewood Resources Ltd	12.8
Low Ngee Tong	9.2

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-9.7	-22.0	-27.5
Relative	-9.5	-18.5	-20.4

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	67.8	70.4	77.0
EPS (sen)	39.5	41.0	44.8
P/E (x)	4.9	4.8	4.3

Relative performance chart



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- **Our take.** We reckon that raw material prices may consolidate as sentiment remains cautious due to various macro-economic factors such as the on-going Ukraine-Russia political crisis, banking crisis in the US and the absence of potential recovery in demand following the re-opening of China borders. Nevertheless, we continue to like OMH as one of the lowest cost quartile ferroalloy smelters in the region whereby the Samalaju smelting complex is powered by ESG-friendly hydro power from a 20-year power purchase agreement with Sarawak Energy and enjoys a 10-year tax break.

Valuation & Recommendation

- With production came largely in line and raw material prices were relatively flattish, we made no changes to our earnings forecast for the time being. Consequently, we maintained our **BUY** recommendation on OMH, with an unchanged target price of RM2.86. Recent share price correction offers a proposition towards a longer-term investment horizon.
- We derive our target price by assigning targeted P/E multiple of 7.0x to FY23f EPS of 40.9 sen. The assigned target P/E represents a slight discount to the average of 9.0x of selected mining and smelting companies listed on Bursa Malaysia as well as international scale. The discount is premised to OMH smaller market capitalisation.
- Risks to our recommendation and target price include weaker-than-expected production and ferroalloy prices. OMH is also exposed to currency risk, whereby a weaker USD against the Ringgit would be a drawback and vice versa.

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Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	779.9	856.6	876.7	951.6	1,034.2	Cash	81.5	62.4	88.4	80.7	94.4
EBITDA	141.2	137.9	140.6	149.7	160.1	Receivables	40.9	31.8	36.0	39.1	42.5
EBIT	98.9	110.8	113.9	123.0	133.3	Inventories	256.4	235.4	234.2	254.2	276.3
Net finance income/ (cost)	(18.4)	(13.6)	(11.6)	(11.2)	(10.8)	PPE	444.0	445.6	445.1	447.0	451.2
Associates & JV	4.1	8.4	8.8	9.5	10.3	Others	120.9	110.9	113.1	113.5	114.9
Profit before tax	84.5	105.6	111.0	121.4	132.9	Assets	943.6	886.0	916.8	934.4	979.3
Tax	(2.5)	(23.0)	(26.6)	(29.1)	(31.9)	Debts	302.4	258.3	251.8	245.5	239.4
Net profit	82.1	82.6	84.4	92.2	101.0	Payables	128.2	126.6	130.4	133.0	144.5
Minority interest	20.6	14.7	14.0	15.2	16.5	Others	69.3	101.4	101.1	102.5	104.0
Core earnings	61.5	67.8	70.4	77.0	84.4	Liabilities	499.9	486.3	483.2	481.0	487.9
Exceptional items	-	-	-	-	-	Shareholder's equity	368.0	396.1	414.8	436.4	465.4
Reported earnings	61.5	67.8	70.4	77.0	84.4	Minority interest	75.7	3.6	18.8	17.1	25.9
						Equity	443.7	399.7	433.6	453.4	491.4
Cash Flow Statement						Valuation & Ratios					
FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	61.5	67.8	70.4	77.0	84.4	Core EPS (sen)	35.8	39.5	41.0	44.8	49.2
Depreciation & amortisation	42.3	27.1	26.7	26.7	26.8	P/E (x)	5.4	4.9	4.8	4.3	4.0
Changes in working capital	(63.3)	53.9	4.7	23.1	34.0	DPS (sen)	6.0	6.0	7.0	7.5	7.5
Share of JV profits	-	-	-	-	-	Dividend yield	3.1%	3.1%	3.6%	3.8%	3.8%
Taxation	-	-	-	-	-	BVPS (RM)	0.60	0.54	0.59	0.61	0.67
Others	46.6	57.4	-	-	-	P/B (x)	3.2	3.6	3.3	3.2	2.9
Operating cash flow	79.4	196.9	101.8	127.8	147.2	EBITDA margin	18.1%	16.1%	16.0%	15.7%	15.5%
Net capex	-	-	-	-	-	EBIT margin	12.7%	12.9%	13.0%	12.9%	12.9%
Others	4.4	(30.9)	(20.0)	(20.0)	(20.0)	PBT margin	10.8%	12.3%	12.7%	12.8%	12.8%
Investing cash flow	4.4	(30.9)	(20.0)	(20.0)	(20.0)	PAT margin	10.5%	9.6%	9.6%	9.7%	9.8%
Changes in borrowings	(26.7)	(45.6)	-	(50.0)	(50.0)	Core PAT margin	7.9%	7.9%	8.0%	8.1%	8.2%
Issuance of shares	-	-	-	-	-	ROE	13.9%	17.0%	16.2%	17.0%	17.2%
Dividends paid	-	(10.9)	(12.0)	(12.9)	(12.9)	ROA	6.5%	7.7%	7.7%	8.2%	8.6%
Others	(13.4)	(124.2)	(50.0)	(50.0)	(50.0)	Net gearing	49.8%	49.0%	37.7%	36.3%	29.5%
Financing cash flow	(40.2)	(180.7)	(62.0)	(112.9)	(112.9)						
Net cash flow	43.6	(14.8)	19.8	(5.1)	14.3						
Forex	(0.7)	(1.9)	(1.9)	(1.9)	(1.9)						
Others	-	-	-	-	-						
Beginning cash	36.0	79.0	62.4	80.3	73.4						
Ending cash	79.0	62.4	80.3	73.4	85.9						