

OM Holdings Ltd (OMH MK)

Striking a Balance

- We believe that the persistent global challenges, couple with the slow recovery of the Chinese economy, pose a significant risk to the demand for metals. These challenging environments present obstacles and hurdles for the metal industry and hence, leading to an uncertain outlook for ferroalloys.
- Despite the setback, we remain optimistic about the long-term prospects of OMH. We have confidence in their diversification strategy, as they aim to capitalize on the emerging market for metallic silicon, which positions them for a sustained competitive edge and allows them to leverage the expanding renewable energy sector.
- We tweak our FY23-FY25F earnings forecast lower by 4.2%-6.2% to account for a lower ASPs prices assumption.
- Maintain a BUY call with new Target Price of RM2.71 (RM2.91 previously), based on 6x PER (30% discount to 1-year average peers PE of 8.7x) and FY24F EPS of 45.2sen (48.5sen previously).

ASPs in declining trend

The prices of ferrosilicon (FeSi) and silicon manganese (SiMn) have been on a consistent downward trajectory for more than a year and are approaching pre-pandemic price levels. In the 1H 2023, FeSi declined by 13% YoY, trading at an average of USD 1,561/MT, while SiMn declined by 12.9% YoY, trading at an average of USD 1,034/MT. These declines can be attributed to weakened demand and high inflationary pressures, despite China's rapid increase in industrial production. China's crude steel production has surged, resulting in an inventory level of over 90bn units in the 1H 2023, compared to approximately 80bn units in the 2H 2022. However, FeSi and SiMn prices experienced a decline during the same period. Looking ahead to the 2H 2023, we anticipate the decline in prices to persist due to ongoing global headwinds and weakened demand for metals. These challenging circumstances create uncertainties and obstacles for the ferroalloy industry, making the outlook uncertain, in our view.

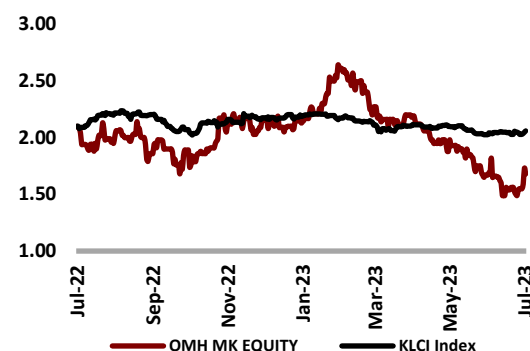
China is more likely to be a headwind than a tailwind in 2023?

We observe that most of metals price were falling even after Beijing abandoned its Covid-19 Zero policy at the end of last year which are contrary to our initial expectations. This was attribute to prevailing inflationary risk environment that has put the overall demand for metals in slower pace. Noted that China is the largest consumer and producer of ferroalloys, contributing about 70% of market share. Initially, we belief that the gradual lifting of restrictions in China could potentially stimulate the outlook for metals, considering the reopening of the Chinese economy that will revolve the industry and

BUY

Share Price **RM1.74**
Target Price **RM2.71** +55.8%

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(4.4)	(16.0)	(12.8)
vs FBM KLCI	(6.2)	(16.6)	(14.2)

Stock Data

Mkt Cap (RM mn)	1,285.2
Adjusted Beta	1.424
Free float (%)	93.0
Issued shares (mn)	738.6
52w H/L (RM)	2.71 / 1.49
3m avg daily volume	195,343

Major Shareholders (%)

Gang Huang	4.4
AMPLEWOOD RESOURCES	1.4
Low Ngee Tong	1.2

FYE Dec (RM'mn)	FY21	FY22	FY23F	FY24F	FY25F
Turnover	3,249	3,773	2,954	3,035	3,398
EBITDA	498	580	537	567	652
Pretax Profit	352	465	309	343	422
Core Profit	268	319	300	333	409
Consensus NP			376	394	490
EPS (sen)	36.3	43.3	40.7	45.2	55.6
PER (x)	4.8	4.0	4.3	3.8	3.1
DPS (sen)	0.1	-	12.2	13.6	16.7
D. Yield (%)	0.0	-	7.0	7.8	9.6
P/B (x)	3.5	3.2	2.9	2.6	2.2
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Key Ratios (%)					
ROE	17.5	18.3	16.0	16.1	17.4
EBITDA margin	15.3	15.4	18.2	18.7	19.2
Pretax margin	10.8	12.3	10.5	11.3	12.4
Net margin	8.2	8.5	10.2	11.0	12.0

Source: Bloomberg, BIMB Securities

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hence, pushing demand and ASPs. Nevertheless, we believe that the reopening of China has not yet generating a significant increase in metal demand, and consumer spending is expected to remain subdued under the current circumstances. Additionally, the efficacy of the new policy measures implemented by the Chinese government is surrounded by uncertainty, as they face several challenges including property market issues, a decrease in private investment, and investor caution towards investing in Chinese companies.

1QFY23 production recap

As at March 2023, eleven out of 16 furnaces were in operation (five FeSi and six Mn alloys). For the remaining five furnaces, three are undergoing scheduled maintenance work and the remaining two are undergoing reviews to solve the issues regarding the production of MetSi. All in all, four furnaces have completed their maintenance work with eight to undergo major maintenance in FY2023 in order to minimise disruption. As such, 1QFY2023 FeSi production volumes of FeSi have eased to 29,707mt (-13.5% qoq) while Mn alloys improved to 52,151mt (+25.7% qoq).

Expansion into silicon metal to propel growth in the long run

OMH's strategic move to convert furnaces and expand its product offerings is expected to drive long-term growth for the Group. OMH's conversion of furnaces to produce high-grade MetSi has effectively diversified its portfolio, enabling the company to enter multiple industries including microchip manufacturing, steel production, and solar cell manufacturing. This move allows OMH to tap into downstream businesses and capitalize on the opportunities presented in these diverse sectors. The rapid growth of the renewable energy sector has resulted in a surge in demand for essential materials, notably silicon, which plays a vital role in the production of solar panels. We firmly believe that OMH's decision to enter this market for new metals, positions them on the right track, providing a competitive advantage to leverage the increasing demand in the renewable energy domain.

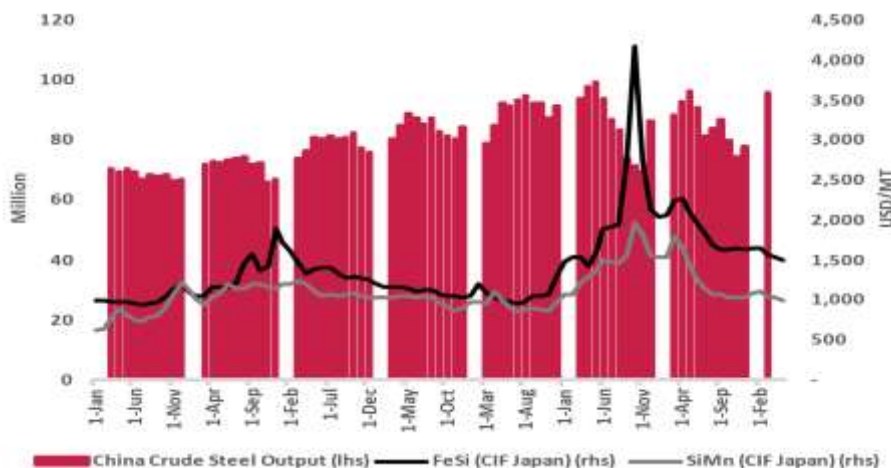
Earnings Estimate

We tweak our FY23-FY25F earnings forecast lower by 4.2%-6.2% to USD71.5-99.9mn respectively, to account for lower ASPs prices assumption.

Reiterate BUY at TP of RM2.71

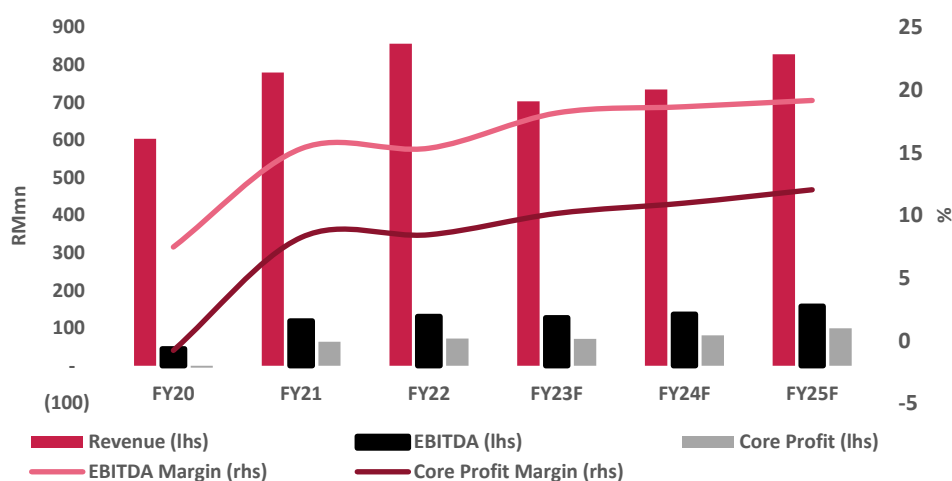
Maintain a **BUY** call for OMH with a lower **TP of RM2.71** (RM2.91 previously) based on 6x PER (30% discount to 1-year average peers PE of 8.7x) and FY24F EPS of 45.2 sen (48.5 sen previously). We believe the total return is remained attractive and this will be powered by OMH i) competitive advantage as a low-cost ferroalloy smelter players compared to its peer, ii) extended capacity growth and diversified products mix, and iii) enviable ESG standing given their exposure to clean energy resource. Above all, OMH is expected to benefit from rapid industry consolidation and is expected to outshine due to their competitive and low-cost structure.

Chart 1: Crude steel production vs ferroalloys prices



Source: Bloomberg, BIMB Securities

Chart 2: OMH's annual performance, FY20A - FY25F



Source: Company, BIMB Securities

Table 1: Earnings forecast

FYE Dec (USD'mn)	FY21	FY22	FY23F	FY24F	FY25F
Turnover	779.9	856.6	703.4	734.8	828.8
EBITDA	119.6	131.6	127.8	137.2	158.9
Pretax Profit	84.5	105.6	73.6	83.1	102.8
Core Net Profit	64.3	72.4	71.5	80.7	99.9
Core EPS (sen)	8.7	9.8	9.7	11.0	13.6
Consensus NP			84.3	88.4	109.9
PER (x)	19.9	17.7	17.9	15.9	12.8
DPS (sen)	-	-	2.9	3.3	4.1
D. Yield (%)	-	-	1.7	1.9	2.3
Key Ratios (%)					
ROE	17.5	18.3	16.0	16.1	17.4
EBITDA margin	15.3	15.4	18.2	18.7	19.2
Pretax margin	10.8	12.3	10.5	11.3	12.4
Core PATAMI margin	8.2	8.5	10.2	11.0	12.0

Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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