

COMPANY UPDATE

OM Holdings (OMH MK)

Expect A Better 2024; 350MW Power Supply to Fuel Expansion Plan

While we expect 2023 to be weaker yoy on lower ASPs of FeSi and Mn alloys, OMH could see a meaningful rebound in 2024 on the rebound of FeSi Mn alloy ASP alongside expansion of capacity. Meanwhile, OMH has secured electricity supply of 350MW to fuel its expansion plan to 725ktpa (+100%) by 2026. We cut 2023-25 earnings by 34-81% to account for lower ASPs of FeSi and Mn alloys. Maintain BUY with a lower target price of RM2.65.

WHAT'S NEW

- Ferroalloy: Still not out of the woods.** In 2Q23, prices of ferrosilicon (FeSi) and manganese (Mn) alloys remained range-bound at US\$1,400-1,500/mt and US\$900-1,000/mt respectively given the slow recovery of the steel market. The prices were pressured mainly by: a) the fear of a recession, and b) soft demand from steel mills. Note that the price of Mn alloy has experienced a more substantial drop compared to FeSi, resulting in a less favourable financial return dynamic for Mn alloys at this point in time. According to the International Manganese Institute, world crude steel production in Apr and May 23 decreased by 2.4% and 5.1% yoy respectively to 161.6m tonnes, largely due to the power crisis and weak demand for steel. However, we expect prices to improve as demand recovers following the reversal of the US interest rate cycle.
- Sufficient electricity supply to fuel its expansion plan.** OM Holdings (OMH) has a 20-year take-or-pay Power Purchase Agreement for 350MW that expires in 2033. This is sufficient to support its expansion plan of reaching 725ktpa (compared with the current capacity of approximately 360ktpa), which includes the expansion of Silicon Metal (MetSi). It is worth noting that electricity comprises 40% of OMH's smelting cost. We estimate their electricity costs to be in the range of US\$0.04-0.06/kWh, with a projected annual escalation of 1.5-2.5%. These estimates position OMH in the lowest quartile for production costs, while comparable global smelters often incur costs that are 2-3 times higher.
- More potential energy supply for conversion of its furnace.** OMH is currently considering the option of utilising the exhaust heat produced by its furnace to generate electricity. If successful, this conversion process could potentially generate an additional power supply of up to 30MW, which is enough to meet the requirements of OMH's final furnace setup. Additionally, we gathered that the efficiency of this heat exhaust will be comparable to its existing hydroelectric power. This potential development would provide OMH with the flexibility to transition its existing furnace to MetSi, a market that offers greater diversification and higher growth potential.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net Turnover	3,510	3,854	2,658	3,713	4,798
EBITDA	601	643	336	470	660
Operating Profit	429	521	115	251	426
Net Profit (Reported/Actual)	277	305	82	196	331
Net Profit (Adjusted)	341	348	82	196	331
EPS (sen)	46.2	47.1	11.1	26.5	44.8
PE (x)	0.7	0.7	3.1	1.3	0.8
P/B (x)	0.1	0.1	0.1	0.1	0.1
EV/EBITDA (x)	1.8	1.7	3.2	2.3	1.6
Dividend Yield (%)	26.4	13.2	3.1	7.4	12.6
Net Margin (%)	7.9	7.9	3.1	5.3	6.9
Net Debt/(Cash) to Equity (%)	61.9	26.4	15.3	12.0	3.4
Interest Cover (x)	9.0	7.7	5.0	8.2	13.8
ROE (%)	13.6	12.5	3.1	7.1	11.0

Source: OMH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.74
Target Price	RM2.65
Upside	+52.3%
(Previous TP)	RM3.53

COMPANY DESCRIPTION

ASX-listed OM Holdings is a manganese and silicon smelting company, with vertical exposure in mining and trading. It is engaged in the business of trading raw ores, smelting and marketing of processed ferroalloys (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):	1,174.4
Market cap (US\$m):	251.5
3-mth avg daily t'over (US\$m):	0.1

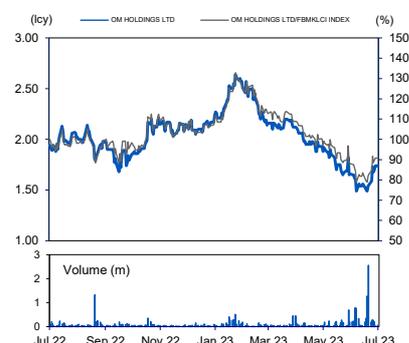
Price Performance (%)

52-week high/low	RM2.64/RM1.49			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(4.8)	(27.1)	(25.4)	(24.3)	(24.3)

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2
FY23 NAV/Share (RM)	3.64
FY23 Net Debt/Share (RM)	0.55

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- 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. It 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. Depending on the grade and region sold, MetSi prices are currently hovering at US\$1,900-2,235/mt vs historical average of around US\$2,245/mt. The price trajectory and cost structure are similar to FeSi. The only major difference is that it requires 40-50% more in terms of power intensity.
- MetSi offers greater growth market.** MetSi has a higher CAGR of 4.6% which is double that of FeSi and Mn alloys over 2023-30 (Straits Research, Grand View Research). This is due to its exposure to higher-growth renewable energy sectors (please refer to RHS) such as: a) acting as an alloying agent for aluminium to replace steel in vehicles (making them lighter and more energy efficient), and b) consumption for polysilicon use to make solar PV panels and serving as a raw material for the manufacture of single-crystal silicon wafers.
- Update on MetSi furnace.** 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. However, there are technical issues being addressed during the commissioning process, including challenges related to yield and recovery, as OMH has no prior experience with MetSi (recall that OMH took about a year for commissioning of FeSi). On a positive note, OMH did manage to achieve the target grade of 5-5-3 MetSi (around 98.5% purity) during its short initial commissioning phase, and they are striving to produce an even higher grade of 4-4-1 MetSi (around 99% purity), which has superior purity and higher ASP.
- Flexibility of conversion of furnace.** OMH's decision to convert its furnaces will be based on profitability and long-term outlooks for each alloy. Management believes that Mn alloys and MetSi would generate higher returns per furnace compared to FeSi. The furnaces' flexibility allows for potential future conversions if market demand for metals or alloys changes. The conversion process involves dismantling, civil works, equipment installation, modifications, furnace lining, and performance testing before hot commissioning. The conversion can be completed in as soon as six months.

### EARNINGS REVISION/RISK

- Cut 2023-25 earnings by 81%, 59% and 35% respectively mainly to account for lower selling price for FeSi and Mn alloys.
- 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 25% annually.

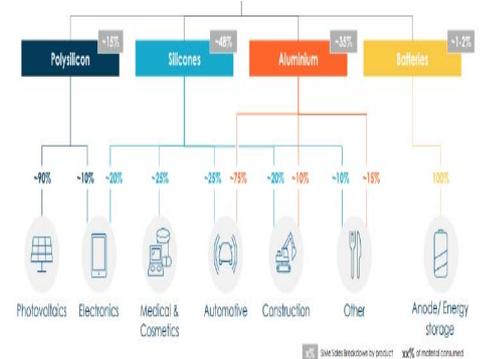
### VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of RM2.65**, implying 10x 2024F PE (five-year PE mean: 15x). 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. Note that we have not accounted for any potential earnings from the MetSi business yet. Its closest competitor in MetSi, PMBTECH, is currently trading at 19x 2024F PE.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

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

### SILICON METAL CONSUMPTION



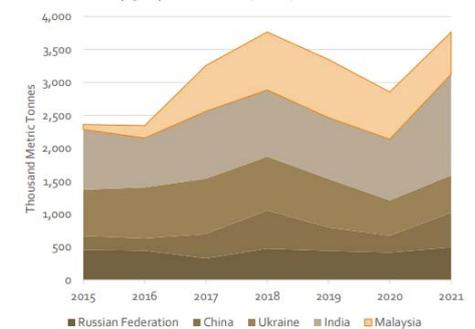
Source: Ferroglobe

### KEY ASSUMPTIONS

Production ('000 mt)	2022	2023F	2024F	2025F
<b>Alloy</b>				
Malaysia - FeSi	140	130	133	140
Malaysia - Mn	217	220	320	400
<b>ASP (US\$/mt)</b>				
FeSi alloy	1,900	1,400 (from 1,700)	1,500	1,600
Mn alloy	1,400	1,000 (from 1,300)	1,100 (from 1,200)	1,200 (from 1,300)

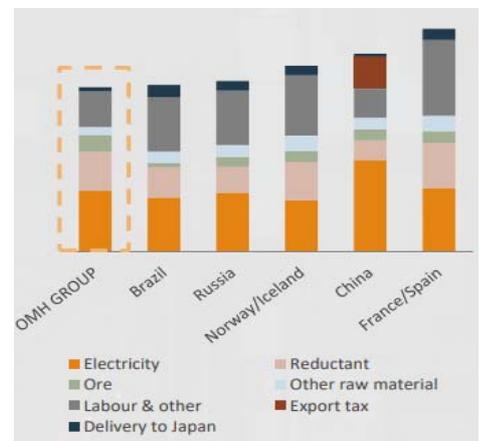
Source: OMH, UOB Kay Hian

### TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

### FE/SI PRODUCTION COST COMPARISON



Source: OMH

### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	3,854	2,658	3,713	4,798
EBITDA	643	336	470	660
Deprec. & amort.	122	221	220	234
EBIT	521	115	251	426
Associate contributions	38	58	52	46
Net interest income/(expense)	(84)	(68)	(58)	(48)
Pre-tax profit	475	106	245	424
Tax	(104)	(23)	(54)	(102)
Minorities	(66)	0	5	9
Net profit	305	82	196	331
Net profit (adj.)	348	82	196	331

### CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	1,018	492	249	395
Pre-tax profit	475	106	245	424
Tax	(104)	(23)	(54)	(102)
Deprec. & amort.	204	221	220	234
Working capital changes	443	188	(166)	(171)
Other operating cashflows	0	0	5	9
Investing	(182)	(137)	(115)	(92)
Capex (growth)	(2)	(2)	2	7
Capex (maintenance)	(180)	(135)	(131)	(126)
Investments	0	0	5	9
Proceeds from sale of assets	0	0	5	9
Others	0	0	5	9
Financing	(342)	(301)	(292)	(286)
Dividend payments	(33)	(8)	(19)	(32)
Issue of shares	0	0	5	9
Proceeds from borrowings	0	0	5	9
Loan repayment	(225)	(225)	(225)	(225)
Others/interest paid	(84)	(68)	(58)	(48)
Net cash inflow (outflow)	494	54	(158)	16
Beginning cash & cash equivalent	433	926	981	823
Changes due to forex impact	0	0	5	9
Ending cash & cash equivalent	926	981	827	848

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	67	67	67	67
Other LT assets	3,308	3,275	3,203	3,078
Cash/ST investment	926	981	827	848
Other current assets	1,491	1,080	1,470	1,870
<b>Total assets</b>	<b>5,793</b>	<b>5,403</b>	<b>5,567</b>	<b>5,864</b>
ST debt	561	561	565	574
Other current liabilities	809	571	781	996
LT debt	1,055	830	605	380
Other LT liabilities	351	348	346	344
Shareholders' equity	2,612	2,687	2,859	3,150
Minority interest	406	406	411	420
<b>Total liabilities &amp; equity</b>	<b>5,793</b>	<b>5,403</b>	<b>5,567</b>	<b>5,864</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	16.7	12.7	12.7	13.8
Pre-tax margin	12.3	4.0	6.6	8.8
Net margin	7.9	3.1	5.3	6.9
ROA	5.2	1.5	3.6	5.8
ROE	12.5	3.1	7.1	11.0
<b>Growth</b>				
Turnover	9.8	(31.0)	39.7	29.2
EBITDA	7.1	(47.7)	39.8	40.3
Pre-tax profit	25.0	(77.8)	132.4	72.8
Net profit	10.3	(73.0)	137.9	69.1
Net profit (adj.)	1.9	(76.3)	137.9	69.1
EPS	1.9	(76.3)	137.9	69.1
<b>Leverage</b>				
Debt to total capital	34.9	31.0	26.4	21.1
Debt to equity	61.9	51.8	40.9	30.3
Net debt/(cash) to equity	26.4	15.3	12.0	3.4
Interest cover (x)	7.7	5.0	8.2	13.8

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