Company Update

OM Holdings Ltd (OMH MK)

2Q23 Production Update: Strong Production Growth

- **The 2Q23 OMH's production volume witnessed improvement due to the expansion of FeSi and Mn alloys furnaces, which took place after the completion of major maintenance works.**
- **Two Mn alloys furnaces and one FeSi furnace successfully underwent hot commissioning and performance testing, post completing the major maintenance works. Additionally, the remaining five FeSi furnaces will undergo maintenance in a phase to ensure minimal disruptions. Despite these planned shutdowns, the impact on production guidance for FY23 is expected to be insignificant.**
- **Despite face challenges, OMH's promising future is underpinned by their strategic diversification into the silicon metal market, which poised to capitalize on emerging opportunities and the growing renewable energy sector. This approach, in our view, ensures a sustained competitive advantage for the company.**
- **No change to our FY23F-FY25F earnings forecast pending management guidance during the result announcement.**
- **Maintain a BUY call with unchanged Target Price of RM2.71. Our valuation is based on 6x PER (30% discount to 1-year average peers PE of 8.7x) and FY24F EPS of 45.2sen.**

2Q23 production update

2Q23 production volumes of ferrosilicon (FeSi) improved 0.6% QoQ and 85.4% YoY to 29,891mt. This advancement was achieved with the addition of one extra FeSi furnace, increasing the total number of operating units to 6 compared to 5 in the previous quarter. Similarly, manganese alloys (Mn alloys) experienced significant growth, surging by 35.7% QoQ and 116.5% YoY, reaching 70,776 metric tons. This remarkable expansion is mainly attributed to the increase in furnace operations, rising from 6 to 8 units, which occurred following the completion of major maintenance works. We deem the 2Q23 production is above our in-house forecast given better-than-expected performance of the running furnaces during the period under review.

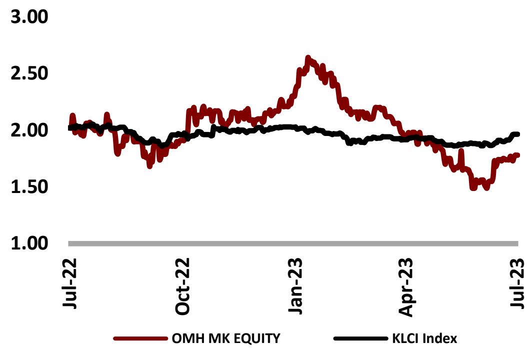
Leveraging on Metsi furnace to produce Fesi

Recall that in Mar'23, the first silicon metallic (MetSi) furnace faced operational issues during the commissioning phase, leading to its suspension. We understand that the contractor is actively working to address and resolve these challenges. As a result, the group anticipates that the production of MetSi will resume by early FY24. Noted that MetSi furnaces has the flexibility to produce either MetSi or FeSi through adjustments in raw materials and operational setting. As of June'23, the furnace has commenced FeSi production for the second silicon metal furnace, a strategic move aimed at enhancing productivity while awaiting the resolution of issues with the first MetSi furnace. Considering the current circumstances, OMH has revised its FY23 production guidance. The guidance for FeSi has been upwardly revised to a range of 120-140ktpa (previously 110-130ktpa), and for Mn alloys, it has been raised to 200-260ktpa (previously 200-220ktpa). However, there has been a slight downward revision for MetSi, which is currently projected at 11ktpa (vs. 11-24ktpa previously).

BUY

Share Price	**RM1.62**	
Target Price	**RM2.71**	**+67.3%**

Price Chart (RM)



Share Performance (%)	**1m**	**3m**	**12m**
Absolute	3.8	(15.0)	(18.0)
vs FBM KLCI	(2.0)	(19.4)	(17.5)

Stock Data	
Mkt Cap (RM mn)	1,196.6
Adjusted Beta	1.4
Free float (%)	93.0
Issued shares (mn)	738.6
52w H/L (RM)	2.71 / 1.49
3m avg daily volume	190,690

Major Shareholders (%)	
Hanwa Co Ltd	4.4
Low Ngee Tong	1.4
Heng Siow Kwee	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
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)	3.2	3.0	2.7	2.4	2.1
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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Industrial

Equity

Short term demand for ferroalloys still wary

The prices of FeSi and silicon manganese (SiMn) have been on a consistent downward trajectory for more than a year and are approaching pre-pandemic price levels. As for 2Q23, FeSi and SiMn prices decline by 8.4% QoQ and 8% QoQ respectively. We believe 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. 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.

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.

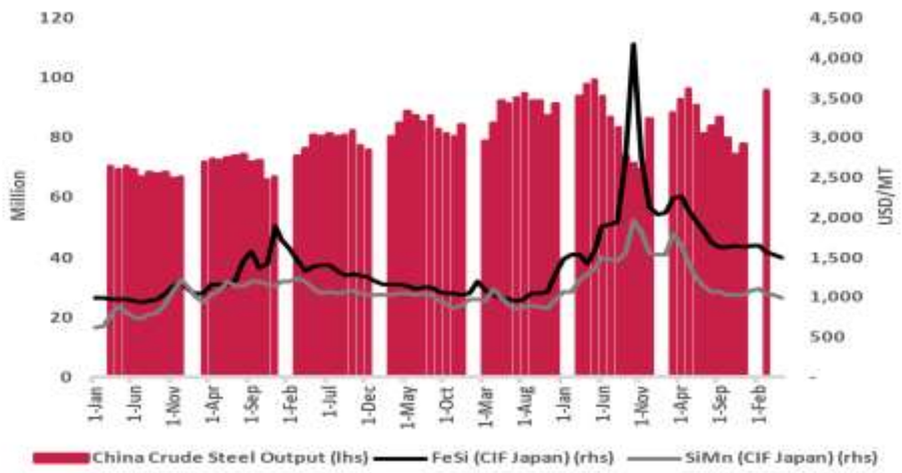
Earnings Estimate

No change to our FY23F-FY25F earnings forecast pending management guidance during the result announcement.

Reiterate BUY at TP of RM2.71

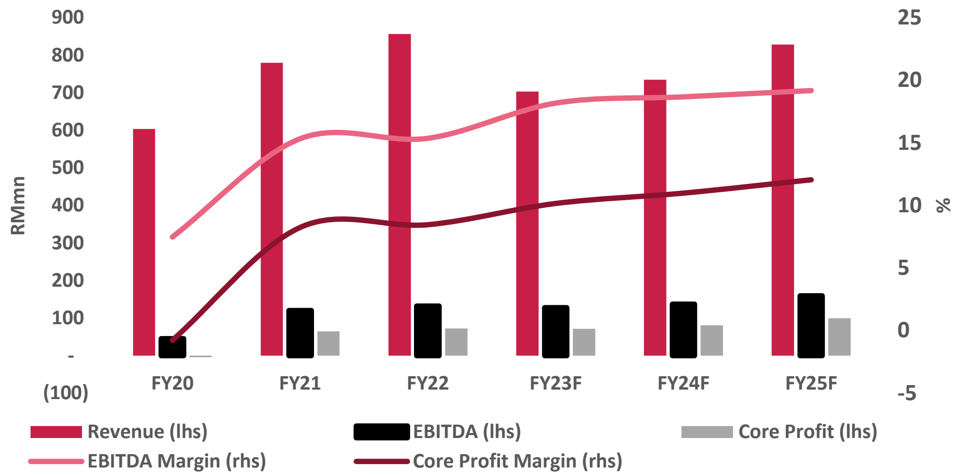
Maintain a **BUY** call for OMH with unchanged **TP of RM2.71.** Our valuation is based on 6x PER (30% discount to 1-year average peers PE of 8.7x) and FY24F EPS of 45.2 sen (48.5 sen previously). We believe the total return is remained attractive and this will be powered by OMH i) competitive advantage 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			56.0	64.9	86.6
PER (x)	18.6	16.5	16.7	14.8	11.9
DPS (sen)	-	-	2.9	3.3	4.1
D. Yield (%)	-	-	1.8	2.0	2.5
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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