

OM Holdings

Higher Production Offset by Weaker ASP

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OMH guided for higher FY23 production volume due to shorter maintenance periods for a few furnaces. However, its ASP will remain weak on subdued demand from the steel sector. We cut FY23–24F earnings forecasts by 56%/22%, lower our TP by 30% to RM2.07 (from RM2.95) but maintain **OUTPERFORM**.

The key takeaways from OMH’s investor briefing yesterday are as follows:

1. It guided for a total output of 340MT–400MT in FY23 from its plant in Sarawak, vs. 320MT–370MT three months ago thanks to higher capacity utilization as more furnaces, which are under major maintenance, are expected to restart sooner than expected.
2. Its two Mn alloy furnaces and one FeSi furnace completed their major maintenance in 2HFY23 as compared to only two Mn alloy furnaces in 1QFY23. The remaining five FeSi furnaces will undergo major maintenance works in phases throughout 2HFY23. FY23 production base case is at similar levels to FY22.
3. It guided for ferrosilicon (FeSi) production volume of 120MT–140MT in FY23F (60MT in 1HFY23A) and 223MT–263MT for manganese (Mn) alloy production volume in FY23F (123MT in 1HFY23A).
4. Its metallic silicon (MetSi) production was temporarily suspended in 2QFY23 due to the furnace not performing as anticipated within the framework of the EPC contract. Instead, FeSi was temporarily produced from a MetSi furnace given better prices and margins over Mn alloy. The MetSi production is expected to restart in early 2024.
5. FeSi spot price fell 7% to USD1,559/MT on average in 1HFY23 vs. USD1,682/MT in 2HFY22 due to elevated inventory and lower input costs. Meanwhile, Mn alloy ASP also continued to decline due to a similar reason as FeSi prices have already retraced to 4QFY22 levels despite higher power price. The silicomanganese (SiMn) spot price dipped 3% to USD1,033/MT in 1HFY23 from USD1,063/MT in 2HFY22.

In view of the weak ASP and lower-than-expected Mn alloy production volume, we cut our FY23–FY24F earnings estimates by 56%–22% to USD34.6m–USD55.0m. We also reduce: (i) Mn alloy production assumption by 18%–13% to 220.8MT–254.8MT from 270MT–294MT previously; and (ii) FeSi ASP assumption to USD1,500/MT for FY23F from USD1,600/MT and Mn alloy ASP assumption to USD900/MT for FY23F from USD1,000/MT. However, we maintain our FY24 ASP assumptions for FeSi and Mn alloy unchanged at USD1,350/MT and USD950/MT respectively. We also keep our USD0.015 NDPS unchanged.

We continue to like OMH for: (i) its structural cost advantage over its international peers given its access to low-cost hydro-power under a 20-year contract ending 2033, (ii) its strong growth prospects underpinned by plans to expand its capacity by 30%–36% to 610,000–640,000 metric tonnes per annum over the medium term, and (iii) its appeal to investors given its clean energy source.

OUTPERFORM ↔

Price: RM1.62
Target Price: RM2.07 ↓

Share Price Performance



KLCI	1,459.43
YTD KLCI chg	-2.4%
YTD stock price chg	-22.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK Equity
Market Cap (RM m)	1,196.6
Shares Outstanding	738.6
52-week range (H)	2.71
52-week range (L)	1.49
3-mth avg daily vol:	190,690
Free Float	91%
Beta	1.4

Major Shareholders

Hanwa Co Ltd	4.4%
Low Ngee Tong	1.4%
Heng Siow Kwee	1.2%

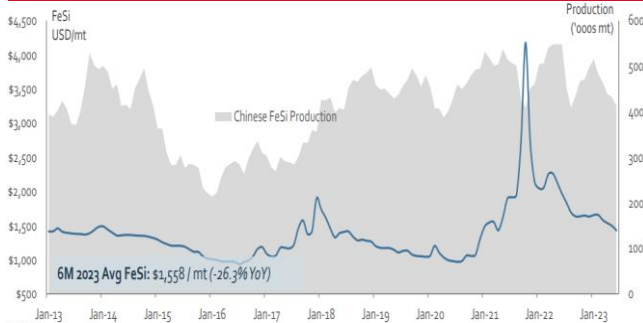
Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	3773	2213	2352
EBIT	505	249	374
PBT	465	205	326
Net Profit (NP)	299	152	242
Core Net Profit	299	152	242
Consensus (NP)		249	296
Earnings Rev. (%)		-56.0	-21.9
Core EPS (sen)	55.2	20.5	32.7
Core EPS growth (%)	10.3	-49.0	59.1
NDPS (sen)	13.2	6.6	6.6
BV/Share (RM)	2.41	2.68	3.01
NTA/Share (RM)	2.41	2.68	3.01
PER (x)	3.9	7.9	4.9
PBV (x)	0.66	0.59	0.52
P/NTA (x)	0.66	0.59	0.52
Net Gearing (x)	0.49	0.44	0.53
Net Dividend Yield (%)	4.2	4.1	4.1

Post-earnings revision, we reduce our TP by 30% to RM2.07 (from RM2.95) with unchanged 6x FY24F PER (rolled over from FY23F) plus a 5% premium by virtue of its 4-star ESG rating as appraised by us (see Page 5). The valuation is within the range of its international peers of 5.5x on average (see below) following the recent weakness in their share prices.

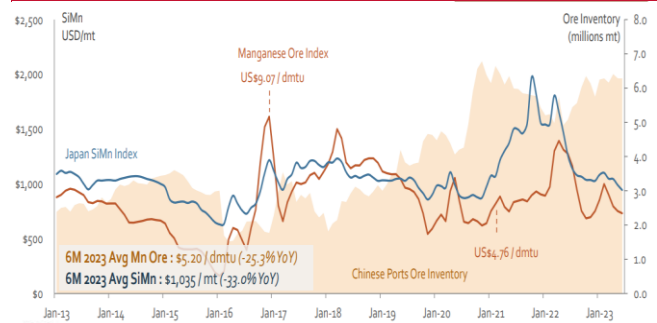
Risks to our recommendation include: (i) a global recession resulting in a sharp fall in the demand for steel, hurting FeSi and Mn alloy prices, (ii) an escalation of raw material prices, and (iii) major plant disruptions/closures.

Ferrosilicon Market Review



Source: Company

Manganese Ore & Alloy Market Review



Source: Company

Peer Comparison Table												
	Price	Currency	Mkt Cap	FYE	EPS Growth		PER (x)		PBV (x)		ROE	Net Yld
					1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd	
ELKEM ASA	23.720	NOK	1,487.6	12/2023	-82.0%	25.8%	7.9	7.0	0.55	39.5%	5.2%	
ERAMET	79.750	EUR	2,526.0	12/2023	-65.1%	52.0%	7.1	4.8	1.15	53.0%	3.5%	
FERROGLOBE	4.580	EUR	945.6	12/2023	-80.0%	25.2%	8.5	4.8	N/A	101.9%	0.0%	
OMH	1.62	MYR	265.5	12/2023	-49.0%	59.1%	7.9	4.9	0.59	16.3%	4.1%	
Average (ex-OMH)							7.8	5.5	0.85	64.8%	2.9%	

Source: Bloomberg/Kenanga Research

01 August 2023

Income Statement						Financial Data & Ratios					
FY Dec (USD m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Turnover	542	780	857	504	536	Growth (%)					
EBITDA	33	124	139	92	122	Turnover	-24.0	43.4	9.8	-41.1	6.3
Depreciation	-30	-29	-25	-35	-36	EBITDA	-52.9	259.3	12.6	-34.3	32.7
Operating Profit	3	95	115	57	85	Operating Profit	-91.7	>100.0	20.6	-50.5	50.2
Interest Expense	-20	-15	-19	-16	-17	PBT	-110.6	>100.0	25.0	-55.7	59.1
Associate	11	4	8	6	6	Net Profit	-92.4	>100.0	10.3	-49.0	59.1
Exceptional Items	0	0	0	0	0	Core Net Profit			10.3	-49.0	59.1
PBT	-4	85	106	47	74						
Taxation	1	-2	-23	-12	-19	Profitability (%)					
Minority Interest	6	-21	-15	0	0	EBITDA Margin	6.2	15.9	16.3	18.2	22.7
Net Profit	3	62	68	35	55	Operating Margin	0.6	12.2	13.4	11.3	15.9
Core Net Profit	3	62	68	35	55	PBT Margin	-0.8	10.8	12.3	9.3	13.9
						Net Margin	0.6	7.9	7.9	6.9	10.3
						Core Net Margin	0.6	7.9	7.9	6.9	10.3
						Effective Tax Rate	29.6	2.9	21.8	26.0	26.0
						ROA	-1.0	6.7	6.5	5.7	8.2
						ROE	1.0	19.1	17.8	16.3	27.2
						DuPont Analysis					
						Net Margin (%)	0.6	7.9	7.9	6.9	10.3
						Assets Turnover (x)	0.7	0.8	1.0	0.6	0.6
						Leverage Factor (x)	2.8	2.6	2.2	2.1	1.9
						ROE (%)	1.1	16.7	17.1	8.5	12.2
						Leverage					
						Debt/Asset (x)	0.37	0.31	0.29	0.34	0.30
						Debt/Equity (x)	1.04	0.81	0.64	0.72	0.58
						Net Cash/(Debt)	-243	-215	-192	-178	-238
						Net Debt/Equity (x)	0.88	0.58	0.49	0.44	0.53
						Valuations					
						EPS (cent)	0.4	8.3	12.5	4.7	7.5
						NDPS (cent)	0.0	1.5	3.0	1.5	1.5
						BV/share (USD)	0.37	0.50	0.55	0.61	0.69
						NTA/share (USD)	0.37	0.50	0.55	0.61	0.69
						PER (x)	111.3	7.9	3.9	7.9	4.9
						Net Yield (%)	0.0	2.3	4.2	4.1	4.1
						P/BV (x)	1.20	1.31	0.66	0.59	0.52
						P/NTA (x)	1.20	1.31	0.66	0.59	0.52
						EV/EBITDA (x)	17.2	5.6	2.5	4.8	4.1

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANN JOO RESOURCES BHD	UP	1.16	0.750	-35.3%	651.2	Y	12/2023	2.1	7.2	-92.8%	248.3%	55.2	16.1	0.5	1.0%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.605	0.580	-4.1%	267.0	Y	12/2023	5.0	8.2	-33.8%	64.2%	12.1	7.4	0.3	2.6%	0.8	1.2%
OM HOLDINGS LTD	OP	1.62	2.07	27.8%	1,196.6	Y	12/2023	20.6	32.8	-49.2%	59.1%	2.8	3.2	0.7	8.6%	6.6	4.1%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	5.04	5.74	13.9%	41,527.7	Y	12/2023	15.2	18.6	-12.5%	22.6%	27.4	25.3	5.6	17.8%	6.1	1.3%
UNITED U-LI CORPORATION BHD	MP	1.03	1.15	11.7%	224.3	Y	12/2023	11.7	14.4	-30.9%	23.1%	8.8	7.2	0.6	7.1%	5.0	4.9%
Sector Aggregate					43,866.8					-10.8%	28.8%	30.0	23.3	3.8	12.6%		2.3%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★	★	★
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★	★	
	Legal & Regulatory Compliance	★	★	★		
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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