

COMPANY UPDATE

OM Holdings (OMH MK)

Expect Stronger Ferroalloys Production In 2H23

OMH's 1H23 production output is in line with our expectations, as operations have gradually recovered amid ongoing major maintenance work. We anticipate even stronger production in 2H23, as the group has successfully converted one of the MetSi furnaces to FeSi. OMH could see a meaningful rebound in 2024 on the reversal of US interest rate cycle alongside expansion of capacity. Maintain BUY with a higher target price of RM2.95.

WHAT'S NEW

- Ferroalloy production is expected to improve...** 2Q23 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloy have improved to 29,891mt (+1% qoq) and 70,776mt (+36% qoq) respectively. The strong production improvement in Mn alloys was due to an increase in furnace operation from six to eight units following the completion of major maintenance work. This brought 1H23 productions of FeSi and Mn alloy to 59,598mt and 122,927mt, forming 46% and 56% of our forecasts respectively which is within our expectation. As at end-June, 14 out of its 16 furnaces were in operation (six FeSi and eight Mn alloy). Of the remaining two furnaces, one FeSi furnace underwent scheduled major maintenance while the other silicon metal furnace was temporarily shut down due to technical issue. The remaining five FeSi furnaces will undergo maintenance in phases throughout 2023, to minimise disruptions to production.
- ...with the new expanded capacity.** In June, OM Holdings (OMH) successfully adapted its new dual-use silicon metals (MetSi) furnaces (another one is in hot commissioning phase for MetSi) to produce FeSi. The furnace has entered the production phase and it is expected to provide an additional capacity of 23,000mt/year to a total of 153,000mt/year. The rationale behind the conversion is to minimise the overhead costs while generating earnings at the same time. OMH has the flexibility to convert its furnace to different metals and alloys, with a conversion period as short as six months.
- Ferroalloy: Still not out of the woods.** In 2Q23, prices of FeSi and Mn alloy were rangebound at US\$1,400-1,550/mt and US\$900-1,050/mt respectively, given the slow recovery of the steel market. Prices were mainly pressured by: a) the fear of recession, b) soft demand from steel mills, and c) elevated global power costs and weak sentiment in the current rising rates environment. 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. We expect prices to improve gradually in 2024 as demand recovers following the reversal of the US interest rate cycle.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net Turnover	3,354	3,683	2,730	3,981	5,006
EBITDA	574	615	181	394	569
Operating Profit	410	498	65	233	408
Net Profit (Reported/Actual)	265	292	82	218	360
Net Profit (Adjusted)	326	332	82	218	360
EPS (sen)	44.1	45.0	11.1	29.5	48.7
PE (x)	0.9	0.9	3.5	1.3	0.8
P/B (x)	0.2	0.2	0.2	0.1	0.1
EV/EBITDA (x)	1.9	1.8	6.0	2.8	1.9
Dividend Yield (%)	22.0	11.0	2.7	7.2	11.9
Net Margin (%)	7.9	7.9	3.0	5.5	7.2
Net Debt/(Cash) to Equity (%)	62.5	50.9	43.9	31.1	15.2
Interest Cover (x)	9.0	7.7	2.6	6.2	9.6
ROE (%)	16.0	17.8	4.7	11.6	16.9

Source: OMH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.78
Target Price	RM2.95
Upside	+65.7%
(Previous TP)	RM2.65)

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):	1,314.7
Market cap (US\$m):	288.6
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low	RM2.64/RM1.49			
1mth	3mth	6mth	1yr	YTD
15.6	(8.7)	(22.6)	(9.6)	(15.2)

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2
FY23 NAV/Share (RM)	2.41
FY23 Net Debt/Share (RM)	1.06

PRICE CHART



Source: Bloomberg

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- 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.

### STOCK IMPACT

- Favourable structural supply-demand dynamics** may have yet to be fully reflected in the share price as rising global energy prices have widened the cost differential gap between OMH and other fossil-fuel dependent smelters. This gives OMH significant low-cost advantage due to its long-term access to 350MW of inexpensive hydropower in Sarawak. Generally, electricity accounts for 40% of smelting cost. For OMH, we estimate electricity costs at US\$0.04-0.06/kwhr, with a 1.5-2.5% p.a. escalation; this places OMH in the lowest quartile for production costs (fifth-largest FeSi producer, ex-China). Comparable global smelters run at a cost that can be 2-3x higher.

- 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.

- 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

- Upgrade 2024-2025 earnings by 11% and 9%, respectively, to account for the higher production volume resulting from the conversion of MetSi to FeSi furnace.
- 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.

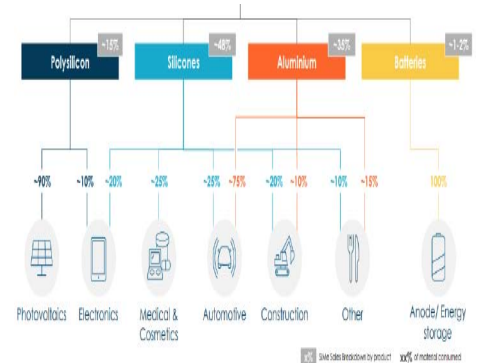
### VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM2.95**, 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.

### 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



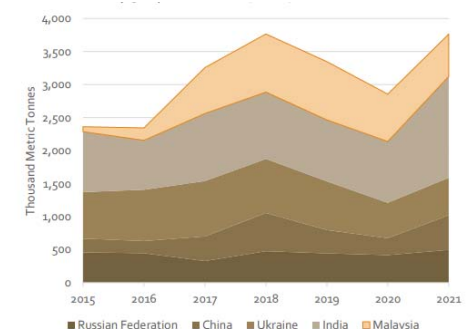
Source: Ferroglobe

### KEY ASSUMPTIONS

	2022	2023F	2024F	2025F
<b>Production ('000 mt)</b>				
<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	1,500	1,600
Mn alloy	1,400	1,000	1,100	1,200

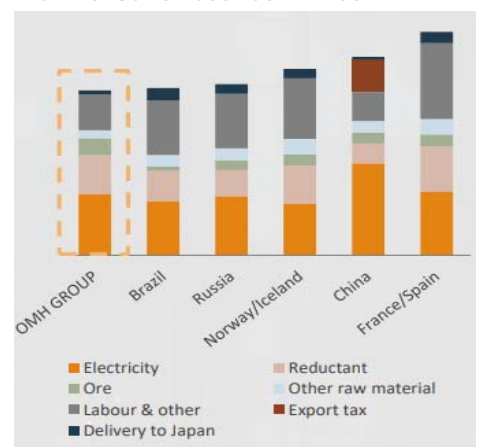
Source: OMH, UOB Kay Hian

### TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

### FEESI PRODUCTION COST COMPARISON



Source: OMH

### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	3,683	2,730	3,981	5,006
EBITDA	615	181	394	569
Deprec. & amort.	116	115	161	161
EBIT	498	65	233	408
Associate contributions	36	111	112	113
Net interest income/(expense)	(80)	(69)	(64)	(59)
Pre-tax profit	454	108	281	462
Tax	(99)	(26)	(67)	(111)
Minorities	(63)	0	4	9
Net profit	292	82	218	360
Net profit (adj.)	332	82	218	360

### CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	847	200	280	377
Pre-tax profit	454	108	281	462
Tax	(99)	(26)	(67)	(111)
Deprec. & amort.	117	115	161	161
Working capital changes	122	175	(95)	(135)
Other operating cashflows	253	(172)	0	0
Investing	(133)	(45)	(37)	(32)
Capex (growth)	(2)	(2)	(2)	(6)
Capex (maintenance)	(169)	(43)	(43)	(43)
Investments	5	0	4	9
Proceeds from sale of assets	0	0	4	9
Others	33	0	0	0
Financing	(777)	(150)	(154)	(159)
Dividend payments	(47)	(8)	(21)	(34)
Issue of shares	0	0	4	9
Proceeds from borrowings	98	98	98	98
Loan repayment	(284)	(172)	(172)	(172)
Others/interest paid	(545)	(69)	(64)	(59)
Net cash inflow (outflow)	(63)	5	89	186
Beginning cash & cash equivalent	300	237	242	331
Changes due to forex impact	(8)	0	4	9
Ending cash & cash equivalent	229	242	335	526

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	46	38	38	38
Other LT assets	2,337	2,557	2,557	2,547
Cash/ST investment	229	242	335	526
Other current assets	1,197	981	1,324	1,663
<b>Total assets</b>	<b>3,810</b>	<b>3,818</b>	<b>4,254</b>	<b>4,774</b>
ST debt	215	313	411	509
Other current liabilities	624	568	816	1,020
LT debt	881	709	537	365
Other LT liabilities	371	436	500	564
Shareholders' equity	1,703	1,777	1,970	2,287
Minority interest	16	16	20	28
<b>Total liabilities &amp; equity</b>	<b>3,810</b>	<b>3,818</b>	<b>4,254</b>	<b>4,773</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	16.7	6.6	9.9	11.4
Pre-tax margin	12.3	4.0	7.1	9.2
Net margin	7.9	3.0	5.5	7.2
ROA	7.3	2.2	5.4	8.0
ROE	17.8	4.7	11.6	16.9
<b>Growth</b>				
Turnover	9.8	(25.9)	45.8	25.7
EBITDA	7.1	(70.6)	117.8	44.5
Pre-tax profit	25.0	(76.2)	160.4	64.5
Net profit	10.3	(71.9)	165.6	65.2
Net profit (adj.)	1.9	(75.3)	165.6	65.2
EPS	1.9	(75.3)	165.6	65.2
<b>Leverage</b>				
Debt to total capital	38.9	36.3	32.3	27.4
Debt to equity	64.3	57.5	48.1	38.2
Net debt/(cash) to equity	50.9	43.9	31.1	15.2
Interest cover (x)	7.7	2.6	6.2	9.6

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