

## OM HOLDINGS LTD (OMH MK)

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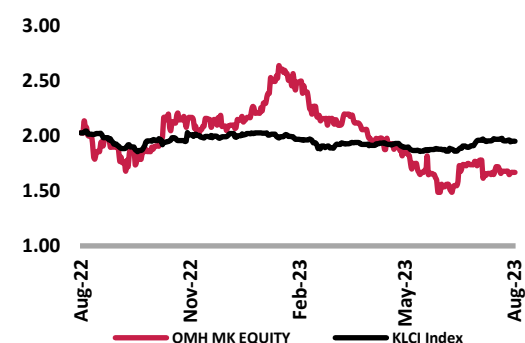
BUY

Share Price RM1.62  
Target Price RM2.11 +30.2%

**Ferroalloys Prices on Path to Normalise**

- **OM Holdings Ltd (OMH) 1HFY23's core net profit of USD12.2mn (YoY: -75.3%)** was below our in-house and consensus estimates which accounting only 17.1% and 37.7% of the full year forecast. This was primary due to lower average selling prices for ore and alloys amidst decline in sales volume. Looking into 2H2023, we anticipate the decline in prices to persist due to ongoing global headwinds and weakened demand for metals. Nonetheless, OMH's strategic move towards expansion into silicon metal is expected to propel growth in the long run, through diversification to offer value added products. Maintain a **BUY** call at a lower TP of **RM2.11** (from RM2.71). Our valuation implies an average peers PE of 8.7x and FY24F EPS of 24.3 sen.
- **Below expectations.** OMH's 1HFY23 core profit of USD12.2mn (YoY: -66.3%) below our and consensus' expectations, accounting for only 17.1% and 37.7% of the full year forecast. The deviation against ours was mainly due to weaker-than-expected average selling prices of ferroalloys.
- **Dividend.** No dividend was declared during the period under review.
- **YoY.** Revenue and PBT declined by 31.5%YoY and 62.9% YoY to USD319.7mn USD30.5mn and respectively, no thanks to lower average selling price for ferroalloys. During this period, production of ferrosilicon (FeSi) decline by 13.5% YoY. Nonetheless, manganese alloys (Mn alloys) production was inched up by 1.3% YoY driven by increase in furnace operations, rising from 6 to 8 units, following the completion of major maintenance works. On average, both FeSi and Mn alloys were traded c. USD1,561 and USD1,035 during 1HFY23.
- **Outlook.** Looking into 2H2023, 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. Average selling prices for ferroalloys is expected to normalise further amidst elevated inventory. Nonetheless, OMH's strategic move towards expansion into silicon metal is expected to propel growth in the long run, through diversification to offer value added products. All in all, we favour OMH due 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.
- **Forecast.** In view of the weak ASP, we cut FY23-25F earnings forecast by 47.2-50.9% to USD35.1-52.5mn as we lowered down our ASP and margin assumption.
- **Our call.** Maintain a **BUY** call for OMH with lower **TP of RM2.11** (RM2.71 previously). Our valuation now is based on average peers PE of 8.7x and FY24F EPS of 24.3 sen.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(7.3)	(9.8)	(21.1)
vs FBM KLCI	(6.9)	(12.3)	(19.8)

**Stock Data**

ESG rating	Good
Mkt Cap (RM mn)	1,218.7
Adjusted Beta	1.3
Free float (%)	93.0
Issued shares (mn)	738.6
52w H/L (RM)	2.71 / 1.49
3m avg daily volume	213,046

**Major Shareholders (%)**

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

**Nursuhaiza Hashim**

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Table 1: Quarterly Figures

OMH FYE 31 Dec (US\$ mn)	Half Yearly		YTD Change	BIMB	
	1HFY22	1HFY223		FY23F	6M/F
<b>Revenue</b>	<b>466.7</b>	<b>319.7</b>	<b>-31.5%</b>	<b>703.4</b>	<b>45.5%</b>
EBITDA	100.1	46.3	-53.7%	127.8	36.2%
EBIT	85.6	32.8	-61.7%	88.4	37.1%
<b>Pretax profit</b>	<b>82.0</b>	<b>30.5</b>	<b>-62.9%</b>	<b>73.6</b>	<b>41.4%</b>
Taxation	-22.0	-11.1	-49.4%	-2.1	530.7%
<b>Core PATAMI</b>	<b>49.4</b>	<b>12.2</b>	<b>-75.3%</b>	<b>71.5</b>	<b>17.1%</b>
Core EPS (sen)	6.7	1.7	-75.3%	9.7	17.1%
Net gearing (x)	0.8	0.6	-25.2%	net cash	
			<b>Chg (ppts)</b>		
EBITDA margin (%)	21.4%	14.5%	-7.0	18.2%	
EBIT margin (%)	18.3%	10.2%	-7.0	12.6%	
PBT margin (%)	17.6%	9.5%	-8.0	10.5%	
Net profit margin (%)	10.6%	3.8%	-6.8	10.2%	
Effective tax rate (%)	26.9%	36.6%	9.7	2.9%	

Source: Company, BIMB Securities

Table 2: Earnings Forecast

FYE Dec (US\$ mn)	2021	2022	2023F	2024F	2025F
<b>Turnover</b>	<b>779.9</b>	<b>856.6</b>	<b>517.9</b>	<b>551.0</b>	<b>590.5</b>
EBITDA	119.6	131.6	91.5	100.1	113.2
EBIT	77.3	104.5	52.1	59.4	70.3
Pretax profit	84.5	105.6	36.1	43.8	54.0
<b>Net Profit</b>	<b>64.3</b>	<b>72.4</b>	<b>35.1</b>	<b>42.6</b>	<b>52.4</b>
Consensus			32.4	47.1	90.1
EPS (sen)	8.7	9.8	4.8	5.8	7.1
PER (x)	18.9	16.8	34.6	28.6	23.2
BVPS (sen)	0.5	0.5	0.6	0.6	0.7
P/B (x)	3.3	3.1	2.9	2.7	2.5
DPS (sen)	0.0	0.0	1.4	1.7	2.1
Div. Yield (%)	-	-	0.9	1.1	1.3
<b>Key Ratios (%)</b>					
ROE	17.5	18.3	8.3	9.4	10.8
EBITDA margin	15.3	15.4	17.7	18.2	19.2
EBIT margin	9.9	12.2	10.1	10.8	11.9
Pretax margin	10.8	12.3	7.0	8.0	9.1
Net margin	8.2	8.5	6.8	7.7	8.9

Source: Company, BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

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

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	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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