

COMPANY RESULTS

OM Holdings (OMH MK)

1H23: Within Expectations; Expect Gradual Recovery in 2024

OMH 1H23 net profit fell 76% yoy mainly due to lower ferroalloy prices. This brings 1H23 core net profit to RM54m which is within our expectations. We anticipate stronger production in 2H23 to partially offset the lower ferroalloy prices, 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 the US interest rate cycle alongside expansion of capacity. Maintain BUY with an unchanged target price of RM2.95.

1H23 RESULTS

Year to 31 Dec (RMm)	1H22	1H23	yoy % chg
Revenue	2,100.2	1,438.7	(31.5)
Mining	92.3	0.0	(100.0)
Smelting	1,667.7	909.0	(45.5)
Marketing & Trading	1,719.5	1,314.5	(23.6)
Others	99.5	104.9	5.4
EBIT	379.8	153.9	(59.5)
Mining	(10.4)	(13.5)	30.4
Smelting	356.4	175.1	(50.9)
Marketing & Trading	49.5	13.5	(72.7)
Others	(10.8)	4.5	(141.7)
Associates	21.6	14.4	(33.3)
PBT	369.0	137.3	(62.8)
Net Profit	221.9	86.0	(61.3)
Core Net Profit	222.3	54.0	(75.7)
Margins	%	%	+/- ppt
EBIT	18.1	10.7	(7.4)
Core Net Profit*	10.6	3.8	(6.8)

* Core net profit exclude forex gain/loss and one-off items

* Assume USD/MYR=4.5

Source: OMH, UOB Kay Hian

RESULTS

• **Within expectations.** OM Holdings (OMH) reported a core net profit of RM54.0m (-75.7% yoy). The weak set of results was mainly due to lower prices for ores and ferroalloys which resulted in lower margin despite relatively similar total volume of products sold. The 1H23 core net profit accounted for about 63% of our full-year estimates. The results were within expectations as we foresee OMH recording lower earnings qoq in the subsequent quarter due to lower average ferroalloy prices amid the current market volatility due to recession fears.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net Turnover	3,510	3,854	2,857	4,166	5,239
EBITDA	601	643	189	412	596
Operating Profit	429	521	68	243	427
Net Profit (Reported/Actual)	277	305	86	228	377
Net Profit (Adjusted)	341	348	86	228	377
EPS (sen)	46.2	47.1	11.6	30.9	51.0
PE (x)	3.6	3.5	14.2	5.3	3.2
P/B (x)	0.7	0.7	0.7	0.6	0.5
EV/EBITDA (x)	0.7	0.7	0.7	0.6	0.5
Dividend Yield (%)	25.4	12.7	3.1	8.3	13.7
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	RM1.65
Target Price	RM2.95
Upside	+78.8%

COMPANY DESCRIPTION

ASX-listed OM Holdings is an integrated manganese player engaged in the mining, smelting, trading and marketing of manganese ores, manganese alloys and ferrosilicon. Its smelting plants in Sarawak operate using hydropower.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	OMH MK
Shares issued (m):	738.6
Market cap (RMm):	1,218.7
Market cap (US\$m):	261.8
3-mth avg daily t'over (US\$m):	0.1.

Price Performance (%)

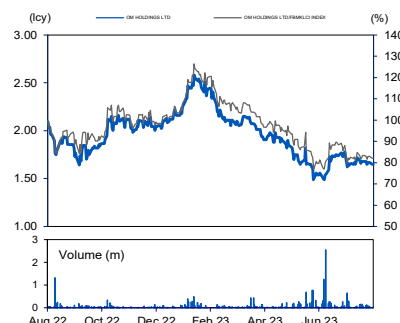
52-week high/low	RM4.03/RM2.30			
1mth	3mth	6mth	1yr	YTD
(7.3)	(10.8)	(34.0)	(18.7)	(21.4)

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2

FY21 NAV/Share (RM)	2.52
FY21 Net Debt/Share (RM)	1.11

PRICE CHART



Source: Bloomberg

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- **Sales volume.** OMH recorded a sales volume of 525,061 mt for ores and raw materials (-2% yoy) and 195,553 mt for ferroalloys (+1% yoy). However, the revenue in 1H23 still dropped to RM1438.7m (-31.5% yoy), mainly due to the lower average selling prices of ores and ferroalloys, despite the relatively similar total volumes of ores and alloys traded.

STOCK IMPACT

- **Ferroalloy production is expected to improve...** 2Q23 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloys 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 production of FeSi and Mn alloys to 59,598mt and 122,927mt, forming 46% and 56% of our forecasts respectively which were within our expectations. As at end-June, 14 out of its 16 furnaces were in operation (six FeSi and eight Mn). 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 issues. The remaining five FeSi furnaces will undergo maintenance in phases throughout 2023, to minimise disruptions to production.

- **...with the new expanded capacity.** In June, 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 for 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 of as short as six months.

- **Ferroalloy: Still not out of the woods.** In 2Q23, prices of FeSi and Mn alloys 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) recession fears, b) soft demand from steel mills, and c) elevated global power costs and weak sentiment in the current rising rate environment. According to the International Manganese Institute, world crude steel production in Apr 23 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.

- **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.

EARNINGS REVISION/RISK

- **None.** 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.

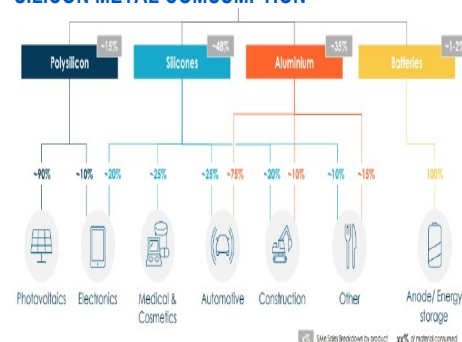
VALUATION/RECOMMENDATION

- **Maintain BUY with a 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 price recovery, backed by structurally favourable supply-demand dynamics and the company's use of low-cost eco-friendly hydropower.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

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

SILICON METAL CONSUMPTION



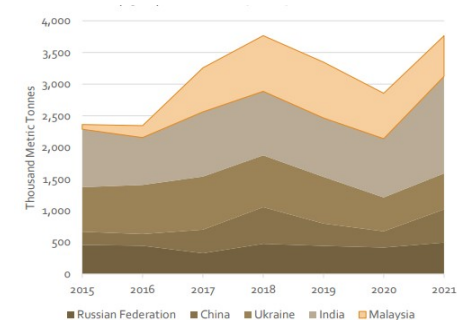
Source: Ferroglobe

KEY ASSUMPTIONS

	2022	2023F	2024F	2025F
Production ('000 mt)				
Alloy				
Malaysia - FeSi	140	130	145	153
Malaysia - Mn	217	220	320	400
ASP (US\$/mt)				
FeSi Alloy	1,900	1,400	1,500	1,600
Mn Alloy	1,400	1,000	1,100	1,200
MetSi	2,950	-	-	-

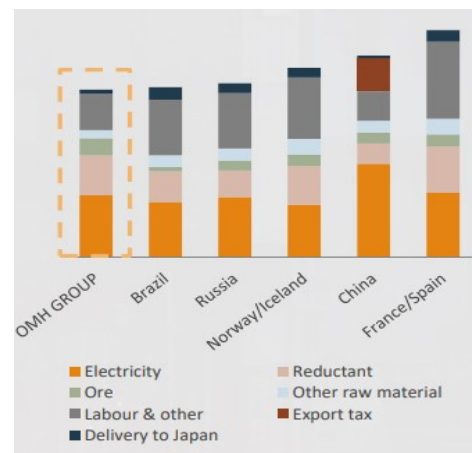
Source: OMH, UOB Kay Hian

TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

FESI PRODUCTION COST COMPARISON



Source: OMH

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	3,854	2,857	4,166	5,239
EBITDA	643	189	412	596
Deprec. & amort.	122	121	169	169
EBIT	521	68	243	427
Associate contributions	38	116	118	119
Net interest income/(expense)	(84)	(72)	(67)	(62)
Pre-tax profit	475	113	294	484
Tax	(104)	(27)	(71)	(116)
Minorities	(66)	0	5	9
Net profit	305	86	228	377
Net profit (adj.)	348	86	228	377

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	886	209	293	395
Pre-tax profit	475	113	294	484
Tax	(104)	(27)	(71)	(116)
Deprec. & amort.	122	121	169	169
Working capital changes	128	183	(99)	(141)
Other operating cashflows	265	(180)	0	0
Investing	(139)	(47)	(38)	(34)
Capex (growth)	(2)	(2)	(2)	(7)
Capex (maintenance)	(177)	(45)	(45)	(45)
Investments	5	0	5	9
Proceeds from sale of assets	0	0	5	9
Others	35	0	0	0
Financing	(813)	(157)	(161)	(166)
Dividend payments	(49)	(8)	(22)	(36)
Issue of shares	0	0	5	9
Proceeds from borrowings	103	103	103	103
Loan repayment	(297)	(180)	(180)	(180)
Others/interest paid	(570)	(72)	(67)	(62)
Net cash inflow (outflow)	(66)	5	93	195
Beginning cash & cash equivalent	314	248	253	346
Changes due to forex impact	(8)	0	5	9
Ending cash & cash equivalent	240	253	351	550

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	48	40	40	40
Other LT assets	2,446	2,676	2,676	2,666
Cash/ST investment	240	253	351	550
Other current assets	1,253	1,027	1,386	1,740
Total assets	3,987	3,995	4,451	4,996
ST debt	225	327	430	533
Other current liabilities	653	595	854	1,067
LT debt	922	742	562	382
Other LT liabilities	389	456	523	590
Shareholders' equity	1,782	1,860	2,062	2,393
Minority interest	16	16	21	30
Total liabilities & equity	3,987	3,996	4,452	4,995

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
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
Growth				
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
Leverage				
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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