

## OM Holdings Ltd

### 1H23 Production Update: Above Expectations

#### Summary

- We attended a virtual briefing with OM Holdings Ltd (OMH) and came away feeling reassured over their current operations and outlook. We gather that operations remained stable, which there was no major macroeconomic changes that impacted productions during the quarter.
- Exploration and mining segment of manganese ore is undertaking engineering rectification works** for the Ultra Fines Plant. OMH will be undertaking an additional CAPEX of AUD1.5m to upgrade the classifier feed chambers and lamellas in bid to boost production capacity by additional 400 tonnes/hr.
- Smelting segment delivered weaker production in 1H23.** Over at the flagship smelting plant at Samalaju Industrial Park, Sarawak, OMH registered production of 59,598 tonnes (-13.5% YoY) of ferrosilicon (FeSi), 122,927 tonnes (+1.3% YoY) of manganese alloys (Mn alloys) and 72,342 tonnes (+29.0% YoY) of manganese sinter ore. The decline in FeSi production was due to 1 furnace is undergoing conversion to produce manganese alloys (FeSi-Manganese Alloys Conversion Project), 1 furnace is undergoing scheduled major maintenance and another 2 furnaces are undergoing conversion to produce silicon metal (FeSi-Silicon Metal Conversion Project"). Nevertheless, current production makes up to 54.2% of our projected 110,000 tonnes of FeSi and 61.5% of our forecasted 200,000 Mn alloys for FY23f.
- Planned production of Metallic Silicon (MetSi) to resume in early 2024.** Following the suspension of MetSi furnace, we anticipate the resumption of operations to take place sometime in January 2024. Towards end of the year, OMH plans to operates 15-16 furnaces (5-7 FeSi furnaces, 5-8 Mn Alloys furnaces and 1 MetSi furnace). This is expected to boost production output to 340,000-400,000 tonnes for FY23f.
- Prices of materials still normalising.** We gather that the price of FeSi price declined -26.3% YoY to USD1,558/MT in 1H23. Meanwhile, prices of 44.0% Mn ore and silicon manganese (SiMn) fell -25.3% YoY and -33.0% YoY to USD5.20/dmtu CIF China and USD1,035/MT respectively during the past 6 months. The decline in price trend was mainly impacted by the slowdown in demand, lower input cost and elevated inventory level. On a brighter note, the de-stocking activities recently may likely to provide some cushion to the declining prices before seeing stability towards end-2023.
- Our view.** We reckon that raw material prices may continue to normalise as market participants remain on course with their de-stocking of inventories. We reckon that demand may likely to pick up towards end-2023, with China rolling out their stimulus measures to support the economy, whilst the interest rate upcycle across the globe could have peaked. Nevertheless, we continue to favour OMH as one of the lowest cost quartile ferroalloy smelters in the region whereby the Samalaju smelting complex is powered by ESG-friendly hydro power from a 20-year power purchase agreement with Sarawak Energy and enjoys a 10-year tax break.

#### Company Update

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#### BUY

Share price	RM1.62
Target price	RM2.86
Previous TP	RM2.86
Capital upside	76.5%
Dividend return	4.3%
Total return	80.9%

#### Company profile

Principally involved in the exploration and mining as well as trading and smelting of manganese ore and ferroalloys

#### Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	1,196.6
52W High/Low	2.71 / 1.49
Est. Free float	90.5
Beta	1.4
3-mth avg vol ('000)	190.7
Shariah compliant	Yes

#### Major shareholders

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

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	3.8	-16.9	-22.2
Relative	-2.0	-19.4	-17.5

#### Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	67.8	70.4	77.0
EPS (sen)	39.5	41.0	44.8
P/E (x)	4.1	4.0	3.6

#### Relative performance chart



## Valuation & Recommendation

- Although production came slightly ahead of our expectations, we made no changes to our earnings forecast, pending the 1H23 results to be reported tentatively end-August 2023. Consequently, we maintained our **BUY** recommendation on OMH, with an unchanged target price of RM2.86.
- We derive our target price by assigning targeted P/E multiple of 7.0x to FY23f EPS of 40.9 sen. The assigned target P/E represents a slight discount to the average of 9.0x of selected mining and smelting companies listed on Bursa Malaysia as well as international scale. The discount is premised to OMH smaller market capitalisation.
- Risks to our recommendation and target price include weaker-than-expected production and ferroalloy prices. OMH is also exposed to currency risk, whereby a weaker USD against the Ringgit would be a drawback and vice versa.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f
<b>Revenue</b>	<b>779.9</b>	<b>856.6</b>	<b>876.7</b>	<b>951.6</b>	<b>1,034.2</b>	Cash	81.5	62.4	88.4	80.7	94.4
EBITDA	141.2	137.9	140.6	149.7	160.1	Receivables	40.9	31.8	36.0	39.1	42.5
EBIT	98.9	110.8	113.9	123.0	133.3	Inventories	256.4	235.4	234.2	254.2	276.3
Net finance income/ (cost)	(18.4)	(13.6)	(11.6)	(11.2)	(10.8)	PPE	444.0	445.6	445.1	447.0	451.2
Associates & JV	4.1	8.4	8.8	9.5	10.3	Others	120.9	110.9	113.1	113.5	114.9
<b>Profit before tax</b>	<b>84.5</b>	<b>105.6</b>	<b>111.0</b>	<b>121.4</b>	<b>132.9</b>	<b>Assets</b>	<b>943.6</b>	<b>886.0</b>	<b>916.8</b>	<b>934.4</b>	<b>979.3</b>
Tax	(2.5)	(23.0)	(26.6)	(29.1)	(31.9)	Debts	302.4	258.3	251.8	245.5	239.4
<b>Net profit</b>	<b>82.1</b>	<b>82.6</b>	<b>84.4</b>	<b>92.2</b>	<b>101.0</b>	Payables	128.2	126.6	130.4	133.0	144.5
Minority interest	20.6	14.7	14.0	15.2	16.5	Others	69.3	101.4	101.1	102.5	104.0
<b>Core earnings</b>	<b>61.5</b>	<b>67.8</b>	<b>70.4</b>	<b>77.0</b>	<b>84.4</b>	<b>Liabilities</b>	<b>499.9</b>	<b>486.3</b>	<b>483.2</b>	<b>481.0</b>	<b>487.9</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	368.0	396.1	414.8	436.4	465.4
Reported earnings	61.5	67.8	70.4	77.0	84.4	Minority interest	75.7	3.6	18.8	17.1	25.9
						<b>Equity</b>	<b>443.7</b>	<b>399.7</b>	<b>433.6</b>	<b>453.4</b>	<b>491.4</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	61.5	67.8	70.4	77.0	84.4	Core EPS (sen)	35.8	39.5	41.0	44.8	49.2
Depreciation & amortisation	42.3	27.1	26.7	26.7	26.8	P/E (x)	5.4	4.9	4.8	4.3	4.0
Changes in working capital	(63.3)	53.9	4.7	23.1	34.0	DPS (sen)	6.0	6.0	7.0	7.5	7.5
Share of JV profits	-	-	-	-	-	Dividend yield	3.1%	3.1%	3.6%	3.8%	3.8%
Taxation	-	-	-	-	-	BVPS (RM)	0.60	0.54	0.59	0.61	0.67
Others	46.6	57.4	-	-	-	P/B (x)	3.2	3.6	3.3	3.2	2.9
<b>Operating cash flow</b>	<b>79.4</b>	<b>196.9</b>	<b>101.8</b>	<b>127.8</b>	<b>147.2</b>	EBITDA margin	18.1%	16.1%	16.0%	15.7%	15.5%
Net capex	-	-	-	-	-	EBIT margin	12.7%	12.9%	13.0%	12.9%	12.9%
Others	4.4	(30.9)	(20.0)	(20.0)	(20.0)	PBT margin	10.8%	12.3%	12.7%	12.8%	12.8%
<b>Investing cash flow</b>	<b>4.4</b>	<b>(30.9)</b>	<b>(20.0)</b>	<b>(20.0)</b>	<b>(20.0)</b>	PAT margin	10.5%	9.6%	9.6%	9.7%	9.8%
Changes in borrowings	(26.7)	(45.6)	-	(50.0)	(50.0)	Core PAT margin	7.9%	7.9%	8.0%	8.1%	8.2%
Issuance of shares	-	-	-	-	-	ROE	13.9%	17.0%	16.2%	17.0%	17.2%
Dividends paid	-	(10.9)	(12.0)	(12.9)	(12.9)	ROA	6.5%	7.7%	7.7%	8.2%	8.6%
Others	(13.4)	(124.2)	(50.0)	(50.0)	(50.0)	Net gearing	49.8%	49.0%	37.7%	36.3%	29.5%
<b>Financing cash flow</b>	<b>(40.2)</b>	<b>(180.7)</b>	<b>(62.0)</b>	<b>(112.9)</b>	<b>(112.9)</b>						
<b>Net cash flow</b>	<b>43.6</b>	<b>(14.8)</b>	<b>19.8</b>	<b>(5.1)</b>	<b>14.3</b>						
Forex	(0.7)	(1.9)	(1.9)	(1.9)	(1.9)						
Others	-	-	-	-	-						
Beginning cash	36.0	79.0	62.4	80.3	73.4						
Ending cash	79.0	62.4	80.3	73.4	85.9						

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As of **Tuesday, 01 Aug, 2023**, the analyst(s), Kenneth Leong, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

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### Stock recommendation guide

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<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
<b>TRADING SELL</b>	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
<b>NOT RATED</b>	No recommendation is assigned

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