

OM Holdings

Challenging Outlook, but Still Offers Value

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OMH's 1HFY23 results met expectations. Its 1HFY23 net profit plunged 61% YoY on weaker sales volume and ASP. We expect higher production in FY23 on shorter maintenance days but its ASP will remain soft on a weak global steel sector. We maintain our forecasts, TP of RM2.07 and our **OUTPERFORM** call as the stock offers value at the current level.

OMH's 1HFY23 net profit of USD19.1m met expectations at 55% and 48% of our full-year forecast and the full-year consensus estimate, respectively. No dividend was declared during 1HFY23 as expected.

YoY. Its 1HFY23 revenue contracted 31% to USD319.7m owing to a sharp decline in realised average selling price (ASP) while sales volumes were slightly lower. S&P Platts data showed that ferrosilicon (FeSi) spot price plunged 26% to USD1,559/MT on average in 1HFY23 from USD2,112/MT in 1HFY22 while silicomanganese (SiMn) spot price plummeted by 33% to USD1,033/MT from USD1,545/MT. Meanwhile, sales volume for ores dipped by 2% to 525.1 MT while alloys volume traded flattish at 194.3 MT. Given the substantially reduced ASP, net profit tumbled 61% to USD19.1m.

QoQ, its 1HFY23 turnover similarly declined, by 18% to USD319.7m from USD389.9m in 2HFY22, on lower realised ASP as well as lower sales volume for alloys by 10% while ores sales volume declined 49%. S&P Platts reported lower average FeSi spot price, by 7% to USD1,559/MT from USD1,682/MT while SiMn spot price dipped 3% to USD1,033/MT from USD1,063/MT. However, it managed to post higher net profit by 3% which we believe could be due to a better product margin dynamic (between selling price and input cost). Hence operating margin improved to 12% from 7% previously.

Outlook. Its FY23 production volume is expected to be higher YoY on shorter maintenance days but its ASP will remain weak on subdued demand from the steel sector.

Forecasts. Maintained.

We also maintain our TP of RM2.07 based on 6x FY24 PER 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 6.6x (see Page 3).

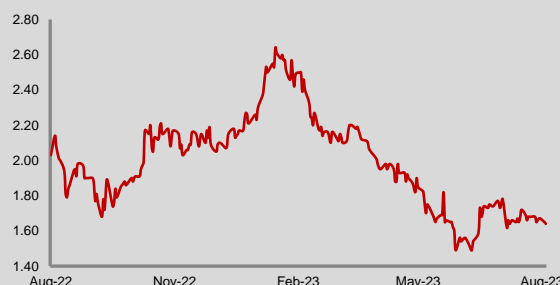
We continue to like OMH for: (i) its structural cost advantage over its international peers given its access to low-cost hydro-power under a 20-year contract ending 2033, (ii) its strong growth prospects underpinned by plans to expand its capacity by 30-36% to 610,000-640,000 metric tonnes per annum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

Risks to our recommendation include: (i) a global recession resulting in a sharp fall in the demand for steel, hurting FeSi and Mn alloys prices, (ii) escalation in the cost of key inputs such as manganese ore, quartz and semicoke, and (iii) major plant disruptions/closure.

OUTPERFORM ↔

Price: RM1.65
Target Price: RM2.07 ↔

Share Price Performance



KLCI	1,443.59
YTD KLCI chg	-3.5%
YTD stock price chg	-21.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK Equity
Market Cap (RM m)	1,211.3
Shares Outstanding	738.6
52-week range (H)	2.71
52-week range (L)	1.49
3-mth avg daily vol:	213,046
Free Float	91%
Beta	1.3

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)	-	178	212
Earnings Rev. (%)	-	-	-
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)	3.8	8.0	5.0
PBV (x)	0.64	0.57	0.51
P/NTA (x)	0.64	0.57	0.51
Net Gearing (x)	0.49	0.44	0.53
Net Dividend Yield (%)	4.3	4.0	4.0

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Income Statement								
FYE Dec (USD m)	1H FY23	2H FY22	H-o-H Chg	1H FY22	Y-o-Y Chg	1H FY23	1H FY22	Y-o-Y Chg
Turnover	319.7	389.9	-18%	466.7	-31%	319.7	466.7	-31%
EBITDA	52.4	40.7	29%	98.7	-47%	52.4	98.7	-47%
Depreciation	-12.5	-11.6	8%	-13.2	-5%	-12.5	-13.2	-5%
EBIT	39.9	29.1	37%	85.5	-53%	39.9	85.5	-53%
Interest expense	-13.1	-10.2	28%	-8.5	55%	-13.1	-8.5	55%
Associates	3.2	3.6	-13%	4.8	-33%	3.2	4.8	-33%
Pretax profit	30.5	23.6	29%	82.0	-63%	30.5	82.0	-63%
Taxation	-11.1	-1.0	1003%	-22.0	-49%	-11.1	-22.0	-49%
Profit after tax	19.3	22.6	-15%	60.0	-68%	19.3	60.0	-68%
Minority interest	-0.2	-4.0	-95%	-10.7	-98%	-0.2	-10.7	-98%
Net profit	19.1	18.6	3%	49.3	-61%	19.1	49.3	-61%
EPS (cent)	2.6	2.5	3%	6.7	-61%	2.6	6.7	-61%
NDPS (cent)	0.00	1.50	N/A	0.00	0%	0.00	0.00	0%
NTA/share (USD)	0.55	0.54	2%	0.55	0%	0.55	0.55	0%
EBITDA margin	16%	10%		21%		16%	21%	
EBIT margin	12%	7%		18%		12%	18%	
Pretax margin	10%	6%		18%		10%	18%	
Net margin	6%	5%		11%		6%	11%	
Effective tax rate	37%	4%		27%		37%	27%	
Sales Volume (MT)								
Ores & Raw Materials	525.1	353.3	49%	535.4	-2%	525.1	535.4	-2%
Alloys	194.3	214.8	-10%	194.3	0%	194.3	194.3	0%
Mining (MT)								
Produced - Mn	0.0	0.0	0%	18.1	N/A	0.0	18.1	N/A
Shipped - Mn	0.0	0.0	0%	144.4	N/A	0.0	144.4	N/A
Smelting (MT)								
OMS: Produced - FeSi	29.9	71.4	-58%	68.9	-57%	59.6	68.9	-14%
Mn alloy	70.8	95.5	-26%	121.3	-42%	122.9	121.3	1%
Sinter ore	42.2	56.6	-25%	56.1	-25%	72.3	56.1	29%
OMS: Sold - FeSi	29.6	78.1	-62%	68.5	-57%	57.8	68.5	-16%
Mn alloy	64.6	106.8	-40%	109.8	-41%	109.6	109.8	0%
Sinter ore	0.0	0.0	0%	0.0	0%	0.0	0.0	0%

Source: Company/Bloomberg

Segment Breakdown								
FYE Dec (USD m)	1H FY23	2H FY22	H-o-H Chg	1H FY22	Y-o-Y Chg	1H FY23	1H FY22	Y-o-Y Chg
Turnover								
Mining	0.0	-0.6	N/A	20.4	N/A	0.0	20.4	N/A
Smelting	202.0	278.1	-27%	370.6	-45%	202.0	370.6	-45%
Marketing & Trading	292.1	275.3	6%	382.1	-24%	292.1	382.1	-24%
Others	23.3	31.0	-25%	22.1	5%	23.3	22.1	5%
Elimination	-197.6	-193.9	2%	-328.6	-40%	-197.6	-328.6	-40%
Group Turnover	319.7	389.9	-18%	466.7	-31%	319.7	466.7	-31%
Segment Results								
Mining	-3.0	-3.4	-12%	-2.3	29%	-3.0	-2.3	29%
Smelting	38.8	23.8	63%	79.2	-51%	38.8	79.2	-51%
Marketing & Trading	3.0	10.0	-70%	11.0	-73%	3.0	11.0	-73%
Others	1.0	-1.3	-178%	-2.4	-141%	1.0	-2.4	-141%
Elimination	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Group EBIT	39.9	29.1	37%	85.5	-53%	39.9	85.5	-53%
EBIT Margin								
Mining	N/A	551.6%		-11%		N/A	-11%	
Smelting	19.2%	8.6%		21%		19%	21%	
Marketing & Trading	1%	4%		3%		1%	3%	
Others	4%	-4%		-11%		4%	-11%	
Elimination	N/A	N/A		N/A		N/A	N/A	
Group EBIT	12%	7%		18%		12%	18%	

Source: Company

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Peer Comparison Table											
	Price	Currency	Mkt Cap (USD m)	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	21.40	NOK	1,273.7	12/2023	-84.3%	18.6%	9.5	7.7	0.50	39.8%	4.5%
ERAMET	75.10	EUR	2,328.6	12/2023	-78.1%	87.8%	8.7	4.8	1.24	13.0%	3.2%
FERROGLOBE	5.00	EUR	1,010.5	12/2023	-81.2%	42.0%	10.2	7.2	N/A	12.2%	N/A
OMH	1.65	MYR	781.6	12/2023	-49.0%	59.1%	8.0	5.0	0.57	16.5%	4.0%
Average (ex-OMH)							9.5	6.6	0.58	21.7%	2.5%

Source: Bloomberg/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	1.19	0.750	-37.0%	688.5	Y	12/2023	2.1	7.2	-92.8%	248.3%	56.7	16.5	0.6	1.0%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.595	0.580	-2.5%	263.8	Y	12/2023	5.0	5.5	-33.8%	10.2%	11.9	7.3	0.3	1.4%	0.8	1.3%
OM HOLDINGS LTD	OP	1.65	2.07	25.5%	1,219.0	Y	12/2023	20.6	32.8	-49.2%	59.1%	2.9	3.2	0.7	8.6%	6.6	4.0%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.89	5.74	17.4%	40,292.0	Y	12/2023	15.2	18.6	-12.5%	22.6%	26.6	24.6	5.4	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	OP	1.17	1.22	4.3%	254.8	Y	12/2023	13.7	15.2	-19.2%	11.4%	8.5	7.7	0.7	8.3%	5.0	4.3%
Sector Aggregate					42,718.1					-10.5%	27.7%	29.1	22.8	3.7	12.7%		2.2%

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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