

## OM Holdings

### Optimising Product Mix

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We sense that OMH is cautious on the outlook for product prices given the economic challenges in China. It is resorting to optimising its product mix and inputs to maximise returns, such as switching to the production of ferrosilicon (FeSi) which fetches better prices, from metallic silicon (MetSi). We maintain our forecasts, TP of RM2.07 and OUTPERFORM call.

The key takeaways from OMH's investor briefing yesterday are as follows:

1. We sense that OMH is cautious on the outlook for product prices given the economic challenges in China. Recall, a significantly lower average selling price (ASP) YoY in 1HFY23 led to a 31% decline in its revenue. Adding salt to the wound, the cost of its inputs did not drop as much, resulting in its gross profit margin shrinking to 21.4% from 27.7% while net profit plunged by 61%.
2. Amidst the challenging price outlook, OMH is resorting to optimising its product mix and inputs to maximise returns. A case in point is it has temporarily suspended the production of MetSi and using the furnace to produce FeSi which fetches better prices and margins over manganese alloy (Mn alloy).
3. It guided for a total output of 340MT–400MT in FY23 from its plant in Sarawak, vs. 320MT–370MT three months ago thanks to higher capacity utilization as more furnaces, currently under major maintenance, will be restarted sooner than expected. This is in-line with our assumption of 377MT. Overall, FY23 production base case is at similar levels to FY22.
4. Its gearing inched up to 0.72x as at end-1HFY23 from 0.63x as at end-FY22 (see chart on next page) as it drew down on revolving credit facilities and utilized more trade financing facilities. However, we are unperturbed as the nature of its business is inherently capital-intensive and historically the ratio had exceeded 1x before (see chart on next page).

**Forecasts.** Maintained as we keep our FeSi and Mn alloy ASP assumptions unchanged at USD1,500-1,350/MT and USD900-950/MT for FY23-24.

We also maintain our TP of RM2.07 based on 6x FY24F 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 6.7x (see next page).

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 investors given its clean energy source. Maintain **OUTPERFORM**.

**Risks to our recommendation include:** (i) a global recession resulting in a sharp fall in the demand for steel, hurting FeSi and Mn alloy prices, (ii) an escalation of raw material prices, and (iii) major plant disruptions/closures.

## OUTPERFORM ↔

Price: **RM1.63**  
Target Price: **RM2.07** ↔

### Share Price Performance



KLCI	1,460.62
YTD KLCI chg	-2.3%
YTD stock price chg	-22.4%

### Stock Information

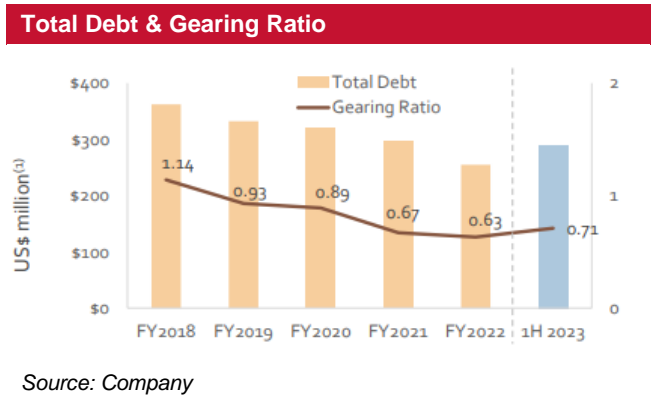
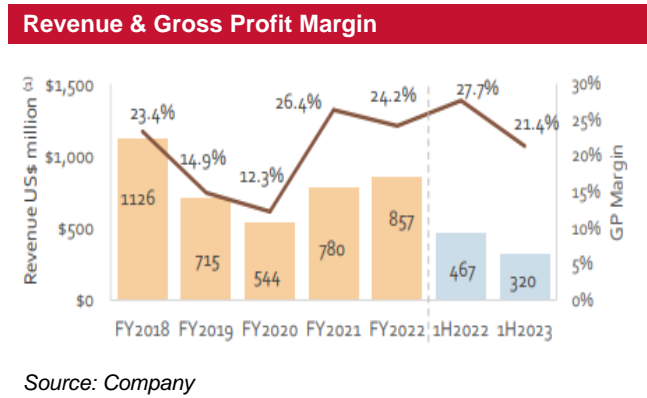
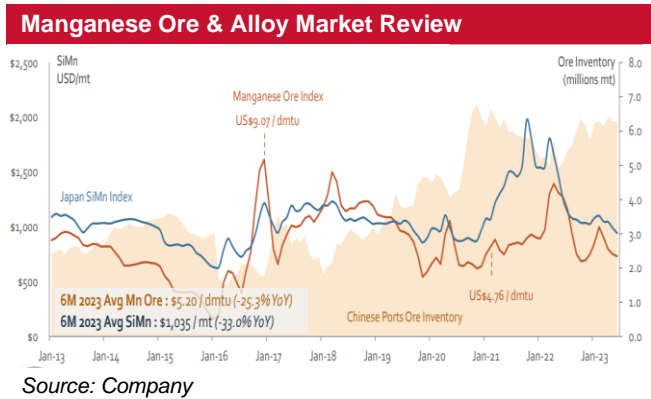
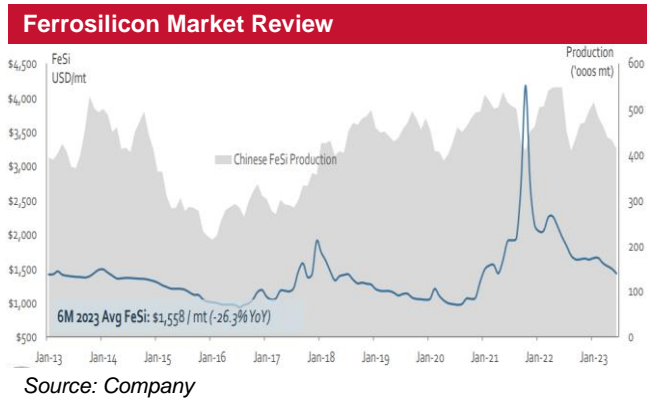
Shariah Compliant	Yes
Bloomberg Ticker	OMH MK Equity
Market Cap (RM m)	1,204.0
Shares Outstanding	738.6
52-week range (H)	2.71
52-week range (L)	1.49
3-mth avg daily vol:	208,308
Free Float	91%
Beta	1.3

### 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
<b>Net Profit (NP)</b>	299	152	242
<b>Core Net Profit</b>	299	152	242
Census (NP)	-	249	296
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)	3.9	7.9	4.9
PBV (x)	0.66	0.59	0.52
P/NTA (x)	0.66	0.59	0.52
Net Gearing (x)	0.49	0.44	0.53
Net Dividend Yield (%)	4.2	4.1	4.1



### 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			
ELKEM ASA	21.78	NOK	1,298.8	12/2023	-85.8%	20.5%	10.6	8.5	0.51	39.5%	4.0%
ERAMET	70.70	EUR	2,181.0	12/2023	-73.4%	87.8%	8.5	4.5	1.17	53.0%	3.4%
FERROGLOBE	5.05	EUR	1,015.4	12/2023	-82.1%	42.0%	10.0	7.1	N/A	101.9%	0.0%
OMH	1.63	MYR	265.5	12/2023	-49.0%	59.1%	7.9	4.9	0.59	16.3%	4.1%
<b>Average (ex-OMH)</b>							<b>9.7</b>	<b>6.7</b>	<b>0.84</b>	<b>64.8%</b>	<b>2.5%</b>

Source: Bloomberg/Kenanga Research

07 September 2023

Income Statement						Financial Data & Ratios					
FY Dec (USD m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Turnover	542	780	857	504	536	<b>Growth (%)</b>					
EBITDA	33	124	139	92	122	Turnover	-24.0	43.4	9.8	-41.1	6.3
Depreciation	-30	-29	-25	-35	-36	EBITDA	-52.9	259.3	12.6	-34.3	32.7
Operating Profit	3	95	115	57	85	Operating Profit	-91.7	>100.0	20.6	-50.5	50.2
Interest Expense	-20	-15	-19	-16	-17	PBT	-110.6	>100.0	25.0	-55.7	59.1
Associate	11	4	8	6	6	Net Profit	-92.4	>100.0	10.3	-49.0	59.1
Exceptional Items	0	0	0	0	0	Core Net Profit			10.3	-49.0	59.1
PBT	-4	85	106	47	74						
Taxation	1	-2	-23	-12	-19	<b>Profitability (%)</b>					
Minority Interest	6	-21	-15	0	0	EBITDA Margin	6.2	15.9	16.3	18.2	22.7
Net Profit	3	62	68	35	55	Operating Margin	0.6	12.2	13.4	11.3	15.9
Core Net Profit	3	62	68	35	55	PBT Margin	-0.8	10.8	12.3	9.3	13.9
						Net Margin	0.6	7.9	7.9	6.9	10.3
						Core Net Margin	0.6	7.9	7.9	6.9	10.3
						Effective Tax Rate	29.6	2.9	21.8	26.0	26.0
						ROA	-1.0	6.7	6.5	5.7	8.2
						ROE	1.0	19.1	17.8	16.3	27.2
						<b>DuPont Analysis</b>					
						Net Margin (%)	0.6	7.9	7.9	6.9	10.3
						Assets Turnover (x)	0.7	0.8	1.0	0.6	0.6
						Leverage Factor (x)	2.8	2.6	2.2	2.1	1.9
						ROE (%)	1.1	16.7	17.1	8.5	12.2
						<b>Leverage</b>					
						Debt/Asset (x)	0.37	0.31	0.29	0.34	0.30
						Debt/Equity (x)	1.04	0.81	0.64	0.72	0.58
						Net Cash/(Debt)	-243	-215	-192	-178	-238
						Net Debt/Equity (x)	0.88	0.58	0.49	0.44	0.53
						<b>Valuations</b>					
						EPS (cent)	0.4	8.3	12.5	4.7	7.5
						NDPS (cent)	0.0	1.5	3.0	1.5	1.5
						BV/share (USD)	0.37	0.50	0.55	0.61	0.69
						NTA/share (USD)	0.37	0.50	0.55	0.61	0.69
						PER (x)	111.3	7.9	3.9	7.9	4.9
						Net Yield (%)	0.0	2.3	4.2	4.1	4.1
						P/BV (x)	1.20	1.31	0.66	0.59	0.52
						P/NTA (x)	1.20	1.31	0.66	0.59	0.52
						EV/EBITDA (x)	17.2	5.6	2.5	4.8	4.1

Source: 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.
<b>Stocks Under Coverage</b>																	
ANN JOO RESOURCES BHD	UP	1.20	0.730	-39.2%	673.7	Y	12/2023	(1.2)	4.5	-104.4%	257.1%	N.A.	26.7	0.6	-0.6%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.610	0.580	-4.9%	269.2	Y	12/2023	5.0	5.5	-33.8%	10.2%	12.2	7.4	0.3	1.4%	0.8	1.2%
OM HOLDINGS LTD	OP	1.63	2.07	27.0%	1,204.0	Y	12/2023	20.6	32.8	-49.2%	59.1%	2.8	3.2	0.7	8.6%	6.6	4.0%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.92	6.00	22.0%	40,538.9	Y	12/2023	15.2	18.6	-12.5%	22.6%	26.7	24.7	5.5	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	OP	1.47	1.22	-17.0%	320.2	Y	12/2023	13.7	15.2	-19.2%	11.4%	10.7	9.7	0.9	8.3%	5.0	3.4%
<b>Sector Aggregate</b>					<b>43,005.9</b>					<b>-11.7%</b>	<b>28.3%</b>	<b>29.7</b>	<b>23.1</b>	<b>3.7</b>	<b>12.5%</b>		<b>2.0%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★	★	
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★	★	★
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★	★	
	Legal & Regulatory Compliance	★	★	★		
<b>OVERALL</b>		★	★	★	★	

☆ 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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