



OM Holdings Ltd (OMH.ASX)

Soft markets sustain headwinds

Event:

- 4Q production, interim result reviews; Earnings, price-target changes.

Investment Highlights:

- NPAT down on lower prices.** OMH 1HFY23 adj. NPAT was US\$20M, 25% below our estimate of US\$27M, mostly due to lower Tshipi earnings and higher interest costs. It was also 20% down on 2HFY22 adj. NPAT of US\$25M, mostly on lower FeSi, Mn alloy, and Mn ore prices.
- Production stronger.** Despite weak prices, OM Sarawak sales volumes were better than expected. Mn alloy shipments were 110kt vs our estimate of 98kt, while FeSi alloys were in-line at 58kt. In July the company raised FY23e production guidance to 120-140kt FeSi from 110-130kt, and to 223-263kt Mn alloy from 202-222kt. The improved performance highlights maintenance program tracking well to date, OMH expecting all 16 furnaces to be operating by end 2023/beginning 2024.
- Weak China backdrop and strong US\$ pressure prices.** The lack of aggressive stimulus for China's economy has meant lingering weakness in steel and property markets, impacting demand for alloys and Mn ore, and slowing the destocking cycle. Together with strong US dollar, this has meant weakening Mn and FeSi alloy and Mn ore prices for the remainder of FY23e.
- OM Sarawak bucks China production trend.** While China FeSi production fell in 1H2023 due to smelters caught between lower prices and high energy costs, OM Sarawak increased output, leveraging its low-cost power hydropower to maintain profitability against the soft price backdrop.
- Working capital impacts.** Cash flow was impacted from negative working capital movement of -US\$51M due to falling prices. Net debt attributable (including Tshipi cash) was A\$344M, up from A\$268M end December.
- Cut to long-term alloy prices.** We have reduced our long-term FeSi and FeMn Japan CIF prices by 1% and 14% to US\$1,380/t and US\$1,252/t, while our Mn 44% China CIF is unchanged at US\$5.40/dmtu.
- Metallic Si furnace still suspended.** One of the Si furnaces has been modified to produce FeSi, while the other is going through hot commissioning. We expect a restart of Si production in 2024. Meanwhile OMH has begun a divestment process for 90% of OM Qinzhou (China smelting).

Earnings and Valuation:

- We reduce FY23e and FY24e NPAT by 32% and 23% to US\$40M and US\$61M (prior US\$59M and US\$79M) on lower FeSi and SiMn prices and higher costs.
- Our OMH share valuation (1.0 x NPV₁₀ nominal) falls to \$1.09 from \$1.58, from our earnings downgrade.

Recommendation:

- We maintain our Buy on OMH and cut our 12-month PT to \$1.09 from \$1.58, based on our increase in risked valuation. Catalysts for share price include 1) Restart of Si furnace; 2) Furnace expansions; 3) Improving prices; and 4) Grant of tax exemption.

Disclosures

The analyst owns 32,600 OMH shares.
Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.09
Previous	\$1.58
Share price (A\$)	\$ 0.515
ASX code	OMH
52 week low-high	\$0.49-0.85
Valuation (A\$/share)	\$ 1.09
Methodology	NPV10 nominal

Capital structure

Shares on Issue (M)	739
Market cap (A\$M)	380
Net cash (debt) attributable (A\$M)	-344
EV (A\$M)	724
Ave daily volume ('000)	100

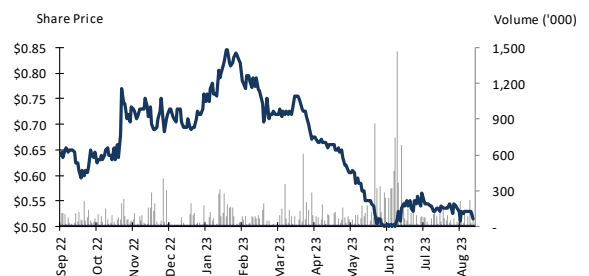
Earnings Y/e Dec US\$M	FY22a	FY23e	FY24e	FY25e
Sales adj*	779	688	771	863
EBITDA adj.*	134	110	133	151
NPAT adj*	79	40	61	78
EPS adj. \$*	0.11	0.05	0.08	0.11
PE x	3.3x	6.5x	4.4x	3.5x
EV/EBITDA x	2.7x	4.1x	3.4x	3.1x
DPS \$	0.01	0.01	0.02	0.02
Yield %	2.8%	3.1%	4.6%	5.8%

* Adj = underlying attributable

Board

Low Ngee Tong	Executive Chair & CEO
Zainul Abidin Rasheed	Non-Executive Director
Julie Anne Wolseley	Non-Executive Director
Tang Peng Chin	Non-Executive Director
Dato Abdul Hamid Bin Sh Mohamed	Non-Executive Director
Tan Ming-li	Non-Executive Director

Share price graph



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162



OM Holdings (OMH)

Full Year Ended 31 December

Profit and Loss US\$M	2022a	2023e	2024e	2025e
Attributable:				
Revenue adj.	779	688	771	863
Operating costs adj.	645	578	639	714
EBITDA adj.	134	110	133	151
D&A adj.	23	28	28	29
EBIT adj.	111	82	105	122
Net Interest exp / (income)	13	22	20	15
PBT adj.	97	60	85	107
Tax exp / (benefit) adj.	18	20	24	29
NPAT adj.	79	40	61	78
EPS diluted adj. (\$)	0.11	0.05	0.08	0.11
DPS (\$)	0.01	0.01	0.02	0.02

Cashflow US\$M	2022a	2023e	2024e	2025e
EBITDA reported	151	96	114	131
Change in WC	49	-62	0	0
Tax	-7	-10	-19	-24
Other	3	16	16	16
Operating cashflow	197	17	88	101
PPE	-39	-24	-24	-28
Acquisitions	0	0	0	0
Capitalised expenses	-1	-2	-2	-2
Investment	0	0	0	0
Dividend from associate	8	5	14	14
Interest income	1	1	0	0
Other	0	0	0	0
Investing cashflows	-31	-19	-12	-16
Equity issue	0	0	0	0
Debt proceeds	23	55	0	0
Det repayment	-66	-44	-44	-70
Dividend paid	-11	-11	-10	-14
Minority acquisition	-109	0	0	0
Interest expense	-18	-21	-5	-4
Other	0	-3	-3	-3
Financing cashflow	-181	-24	-61	-91
Net cashflow	-15	-26	16	-5

Balance Sheet US\$M	2022a	2023e	2024e	2025e
Cash	62	45	61	56
Receivables	32	28	32	36
Inventories	235	243	273	308
PPE	446	430	428	430
Associate investment	81	83	81	80
Capitalised exploration	4	5	6	8
Intangibles	11	9	9	9
Other	15	25	25	25
Assets	886	867	914	950
Payables	181	147	164	184
Provisions	5	4	4	5
Debt	255	244	201	131
Other	46	48	70	91
Liabilities	486	443	439	411
Capital	396	420	472	535
Equity attributable	396	420	472	535
Minorities	4	4	4	4
Equity	400	424	475	539

Half year splits	1H	2H	1H	2H
	FY22a	FY22a	FY23a	FY23e
Alloy shipments, kt	183	185	167	165
Sales adj., US\$M	413	365	346	343
EBITDA adj., US\$M	86	48	57	53
NPAT adj., US\$M	52	27	20	20

Financial Metrics	2022a	2023e	2024e	2025e
Wtd ave shares (M)	739	739	739	739
Wtd ave share diluted (M)	739	739	739	739
EPS growth %	30%	-49%	52%	27%
Gearing (ND/ND+E)	32%	32%	23%	12%
Interest Cover (EBIT/net int)	8.2x	3.7x	5.4x	8.0x
Average ROE %	21%	10%	14%	15%
Average ROA %	15%	9%	12%	13%

Valuation multiples	2022a	2023e	2024e	2025e
P/E x	3.3	6.5	4.4	3.5
EV/EBITDA x	2.7	4.1	3.4	3.1
Yield %	2.8%	3.1%	4.6%	5.8%

Company Valuation		
NPV 10% nominal		
Segment	A\$M	A\$/share
Sarawak smelter	1,216	\$1.65
Tax exemption	74	\$0.10
Qinzhou smelter	7	\$0.01
Bootu Creek & exploration	5	\$0.01
Bootu Creek rehabilitation	-13	-\$0.02
Tshipi	123	\$0.17
Marketing	292	\$0.39
Corporate	-376	-\$0.51
Working capital	-175	-\$0.24
Net Cash attributable	-344	-\$0.47
Total	808	\$1.09

Capital structure	M
Ordinary shares	739
Fully diluted	739

Assumptions	2022a	2023e	2024e	2025e
FeSi Japan CIF, US\$/t	1,907	1,614	1,477	1,494
SiMn Japan, US\$/t	1,315	1,016	1,006	1,018
Si metal 553 US\$/t	3,000	2,500	2,500	2,250
Mn ore 44% China CIF US\$/dmtu	6.13	5.08	5.03	5.08
A\$:US\$	0.69	0.69	0.70	0.71

Shipments kt (100%):				
FeSi	147	118	120	120
Mn alloys	221	215	270	330
Si metal	0	0	16	21
Total	368	332	406	471
Ave realised price US\$/t alloy	1,764	1,232	1,202	1,190
Cash costs US\$/t alloy	1,389	920	934	925

JORC Resources	Ore Mt	Mn grade %
100%:		
Bootu Creek	6.9	13.2%
Bryah Basin	1.8	21.0%
Tshipi	431.7	33.2%
Total	440.4	32.8%

Attributable		
Bootu Creek (100%)	6.9	13.2%
Bryah Basin (51%)	0.9	21.0%
Tshipi (13%)	56.1	33.2%
Total	64.0	30.9%

Substantial shareholders	%
Huang Gang	14.0%
Amplewood Resources Ltd	13.6%
Low Ngee Tong	9.3%
Heng Siow Kee	9.0%

Source: Company; Foster Stockbroking estimates.



OMH INTERIM RESULT OVERVIEW

Figure 1: OMH Interim 2023 Result US\$M

	1HFY22 actual	2HFY22 actual	1HFY23 actual	1HFY23 FSBe	Diff vs FSBe
Smelters	371	278	202	204	-1%
Mines	20	0	0	0	0%
Marketing	382	275	292	217	35%
Corporate	22	31	23	27	-14%
Elimination	-329	-194	-198	-164	21%
Total revenue	467	391	319	283	13%
Operating costs	367	338	268	236	13%
EBITDA	100	51	51	47	9%
D&A	14	12	13	13	-2%
Smelters	79	34	45	29	54%
Mines	-2	-3	-3	0	n/a
Marketing	11	10	3	7	-57%
Corporate	-2	-1	-6	-2	205%
EBIT	86	39	39	34	14%
Net interest exp (income)	8	9	13	9	40%
Share of associates	5	4	3	8	-60%
PBT	82	33	29	33	-11%
Tax adj	18	5	9	6	52%
NPAT pre-minorities adj.	64	29	20	27	-25%
Minorities	11	4	0	0	0%
NPAT attrib. adj.	53	25	20	27	-25%
Non-recurring items	1	-11	-1	0	n/a
NPAT attrib. reported	51	18	19	27	-29%

Source: Company; Foster Stockbroking estimates.

Figure 2: OMH Sales

	1HFY22 actual	2HFY22 actual	1HFY23 actual	1HFY23 FSBe	Diff vs FSBe
Shipments (kt, 100%):					
Ferrosilicon alloys	68.5	78.1	57.8	58.3	-1%
Manganese alloys	114.4	106.8	109.6	97.5	12%
Mn ore (Tshipi)	1.6	1.6	1.7	1.7	0%
Ore volumes traded	828	620	919	793	16%
Benchmark prices US\$/t:					
FeSi Japan CIF	2,116	1,699	1,558	1594	-2%
SiMn Japan CIF	1,546	1,084	1,035	1070	-3%
FeMn	2,232	1,696	1,216	1379	-12%
Mn 44% China CIF (US\$/dmtu)	6.96	5.31	5.21	5.36	-3%

Source: Company; Foster Stockbroking estimates.



COMMODITY PRICES

Figure 3: Commodity Price Revisions

Y/e Dec	Unit		FY22a	FY23e	FY24e	FY25e	FY26e	LT
FeSi Japan CIF	US\$/t	New	1,907	1,614	1,477	1,494	1,493	1,353
		<i>Old</i>	1,907	1,632	1,495	1,512	1,541	1,369
		<i>Chng</i>	0%	-1%	-1%	-1%	-3%	-1%
SiMn Japan CIF	US\$/t	New	1,315	1,069	1,006	1,018	1,018	1,060
		<i>Old</i>	1,315	1,049	988	999	1,101	1040
		<i>Chng</i>	0%	-3%	2%	2%	0%	2%
FeMn	US\$/t	New	1,964	1,178	1,166	1,179	1,178	1,227
		<i>Old</i>	1,964	1,416	1,350	1,365	1,392	1,421
		<i>Chng</i>	0%	-17%	-14%	-14%	-15%	-14%
Mn 44% China CIF	US\$/dmu	New	6.13	5.26	5.03	5.08	5.18	5.29
		<i>Old</i>	6.13	5.26	5.03	5.08	5.18	5.29
		<i>Chng</i>	0%	0%	0%	0%	0%	0%
A\$	US\$	New	0.69	0.69	0.70	0.71	0.72	0.71
		<i>Old</i>	0.69	0.69	0.70	0.72	0.73	0.73
		<i>Chng</i>	0%	0%	0%	-1%	-1%	-3%

Source: Foster Stockbroking estimates.



FOSTER STOCKBROKING DISCLOSURES

Name	Department	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
James Gore	Institutional Sales	+61 2 9993 8121	james.gore@fostock.com.au
David Salmon	Institutional Sales	+61 2 9993 8168	david.salmon@fostock.com.au
Doc Cromme	Institutional Sales	+61 2 9993 8132	doc.cromme@fostock.com.au
Jason Lal	Institutional Sales	+61 2 9993 8144	jason.lal@fostock.com.au
Rob Telford	Corporate	+61 2 9993 8132	rob.telford@fostock.com.au
Ellie Bedoyan	Corporate	+61 2 993 8132	ellie.bedoyan@fostock.com.au
Mark Fichera	Head of Research	+61 2 9993 8162	mark.fichera@fostock.com.au
Hazmy Hazin	Research Analyst	+61 2993 8130	hazmy.hazin@fostock.com.au

Foster Stockbroking Pty Ltd
A.B.N. 15 088 747 148 AFSL No. 223687
Sydney: Level 9, 275 George St, Sydney, NSW 2000 Australia
Perth: Level 9, 66 St Georges Terrace, Perth WA 6000 Australia
General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181
<http://www.fostock.com.au>
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

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Research review: The report was reviewed by Hazmy Hazin, Research Analyst.

Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.