

COMPANY UPDATE

OM Holdings (OMH MK)

9M23 Production Within Expectations; Awaiting More Clarity On MetSi Production

OMH's 9M23 production output is in line with our expectations, as operations have gradually recovered amid ongoing major maintenance work. We anticipate even stronger production in 2H23, as the group has successfully converted another MetSi furnace to FeSi. OMH could see a meaningful rebound in 2024 on the reversal of US interest rate cycle alongside expansion of capacity. Maintain BUY with a lower target price of RM2.26.

WHAT'S NEW

- Ferroalloy production is expected to improve...** 3Q23 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloy improved to 39,296mt (+32% qoq) and 86,934mt (+23% qoq) respectively. The strong production improvement in both FeSi and Mn alloys was due to an increase in furnace operation from 14 to 15 units following the conversion of its dual-use silicon metals (MetSi) furnace, higher utilisation rate and higher production capacity being allocated to produce high carbon ferromanganese, HCFeMn (a product with higher daily output). As at end-September, 15 out of its 16 furnaces were in operation (seven FeSi and eight Mn alloy). The remaining FeSi furnace was shut down for scheduled major maintenance. For the operating FeSi furnaces, one is scheduled to commence major maintenance in 4Q23, while the other two are scheduled for 2025 after further assessment on the furnace condition.
- ...with the new expanded capacity.** In 3Q23, OM Holdings (OMH) successfully adapted another dual-use silicon metals (MetSi) furnace to produce FeSi (total: two MetSi furnaces to produce FeSi). The furnace has entered production phase and is expected to provide an additional capacity of 23,000mt/year to bring OMH's total production to 176,000mt/year. The rationale behind the conversion is to minimise 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 as short as six months.
- Ferroalloy: Still not out of the woods.** In 3Q23, prices of FeSi and Mn alloy were range-bound at US\$1,360-1,400/mt and US\$935-945/mt respectively, given the slow recovery of the steel market. Prices were mainly pressured by: a) the fear of recession, b) soft demand from steel mills, and c) elevated global power costs and weak sentiment in the current rising rates environment. According to the International Manganese Institute, world crude steel production during July and August 2023 was 319.4m tonnes, which represented an increase of 2.4% as compared with the same corresponding period in 2022. We expect prices to improve gradually in 2024 as demand recovers following the reversal of the US interest rate cycle.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,510	3,854	3,296	3,990	4,620
EBITDA	601	643	277	387	524
Operating profit	429	521	156	218	356
Net profit (rep./act.)	277	305	92	209	322
Net profit (adj.)	341	348	92	209	322
EPS (sen)	46.2	47.1	12.4	28.3	43.7
PE (x)	3.6	3.5	13.3	5.8	3.8
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 (%)	5.5	2.7	0.7	1.6	2.5
Net margin (%)	7.9	7.9	2.8	5.2	7.0
Net debt/(cash) to equity (%)	62.5	50.9	48.7	32.1	15.9
Interest cover (x)	9.0	7.7	2.8	5.8	8.5
ROE (%)	16.0	17.8	5.0	10.7	14.7

Source: OMH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.45
Target Price	RM2.26
Upside	+55.9%
(Previous TP	RM2.95)

COMPANY DESCRIPTION

ASX-listed OM Holdings is a manganese and silicon smelting company, with vertical exposure in mining and trading. It is engaged in the business of trading raw ores, smelting and marketing of processed ferroalloys (manganese alloys and ferrosilicon). Its smelting plants in Sarawak operate using low-cost sustainable energy – hydropower.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	OMH MK
Shares issued (m):	738.6
Market cap (RMm):	1,071.0
Market cap (US\$m):	224.2
3-mth avg daily t'over (US\$m):	0.0

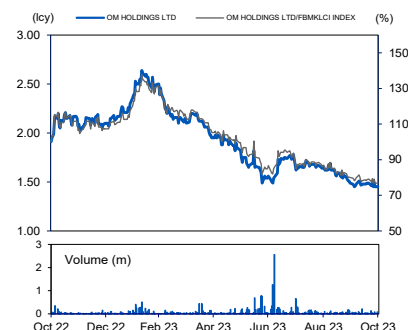
Price Performance (%)

52-week high/low	RM2.64/RM1.45			
1mth	3mth	6mth	1yr	YTD
(4.0)	(17.6)	(26.8)	(23.7)	(31.0)

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2
FY23 NAV/Share (RM)	2.53
FY23 Net Debt/Share (RM)	1.23

PRICE CHART



Source: Bloomberg

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• **Update on MetSi furnace.** Recall that in Jan 23, OMH announced that it had successfully converted one of its FeSi furnaces to produce MetSi. 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 are striving to produce an even higher grade of 4-4-1 MetSi (around 99% purity), which has superior purity and higher ASP. Currently, both of the dual-use MetSi furnaces have already been converted into production of FeSi and management targets to recommence the hot commission of the two furnaces for the production of silicon metal in 1Q24.

STOCK IMPACT

- **Favourable structural supply-demand dynamics** may have yet to be fully reflected in OMH's share price as rising global energy prices have widened the cost differential gap between OMH and other fossil-fuel dependent smelters. This gives OMH significant low-cost advantage due to its long-term access to 350MW of inexpensive hydropower in Sarawak. Generally, electricity accounts for 40% of smelting cost. For OMH, we estimate electricity costs at US\$0.04-0.06/kwhr, with a 1.5-2.5% p.a. escalation; this places OMH in the lowest quartile for production costs (fifth-largest FeSi producer, ex-China). Comparable global smelters run at a cost that can be 2-3x higher.
- **Diversification of product offerings to capture further growth potential.** OMH is diversifying into MetSi in order to deliver higher value-added products. It aims to produce the highest grade (98-99% purity level) it possibly can as silicon metal commands higher margins. It is used in different industries based on the level of contaminants and is typically used for manufacturing microchips, steel and solar cells. This marks OMH's first step in diversifying into the aluminium, chemicals and solar downstream industries. Depending on the grade and region sold, MetSi prices are currently hovering at US\$1,900-2,235/mt vs historical average of around US\$2,245/mt. The price trajectory and cost structure are similar to FeSi. The only major difference is that it requires 40-50% more in terms of power intensity.
- **Flexibility of conversion of furnace.** OMH's decision to convert its furnaces will be based on profitability and long-term outlooks for each alloy. Management believes that Mn alloys and MetSi would generate higher returns per furnace compared to FeSi. The furnaces' flexibility allows for potential future conversions if market demand for metals or alloys changes. The conversion process involves dismantling, civil works, equipment installation, modifications, furnace lining, and performance testing before hot commissioning. The conversion can be completed in as soon as six months

EARNINGS REVISION/RISK

- Upgrade 2023 earnings by 12% but downgrade 2024 earnings by 5% mainly to account for: a) higher FeSi production resulting from the conversion of both MetSi furnaces in 2023, and b) a temporary halt in production to undergo the hot commission phase of MetSi in 1Q24.
- 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.

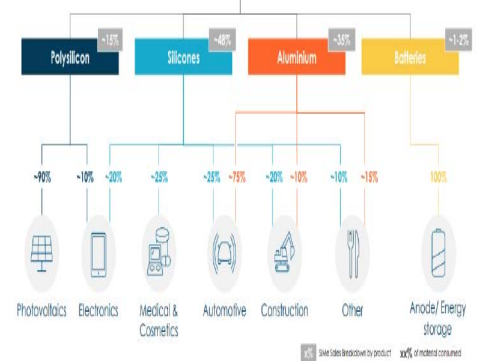
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM2.26**, implying 8x 2024F PE. The assigned target PE of 8x represents a slight discount compared to the 10x PE, which is the average for selected mining and smelting companies listed on Bursa Malaysia. This discount is attributed to OMH's secondary listing on Bursa and its relatively tight liquidity.

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



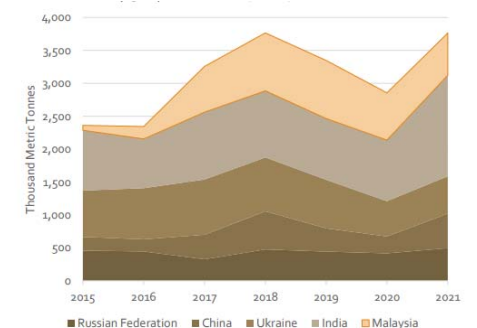
Source: Ferroglobe

KEY ASSUMPTIONS

	2022	2023F	2024F	2025F
Production ('000 mt)				
Alloy				
Malaysia - FeSi	140	140	147	153
Malaysia - Mn	217	260	320	400
ASP (US\$/mt)				
FeSi alloy	1,900	1,300	1,400	1,500
Mn alloy	1,400	900	950	1,100
MetSi	2,950	-	-	-

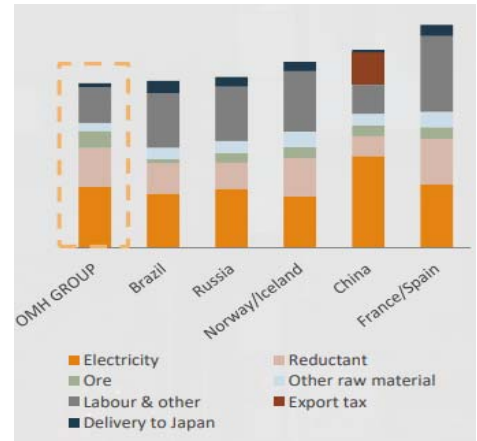
Source: OMH, UOB Kay Hian

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	3,296	3,990	4,620
EBITDA	643	277	387	524
Deprec. & amort.	122	121	169	169
EBIT	521	156	218	356
Associate contributions	38	65	118	119
Net interest income/(expense)	(84)	(100)	(67)	(62)
Pre-tax profit	475	121	269	412
Tax	(104)	(29)	(64)	(99)
Minorities	(66)	0	5	9
Net profit	305	92	209	322
Net profit (adj.)	348	92	209	322

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	161	334	543
Other current assets	1,253	1,211	1,356	1,563
Total assets	3,987	4,088	4,405	4,811
ST debt	225	327	430	533
Other current liabilities	653	682	819	944
LT debt	922	742	562	382
Other LT liabilities	389	456	523	590
Shareholders' equity	1,782	1,865	2,050	2,332
Minority interest	16	16	21	30
Total liabilities & equity	3,987	4,088	4,405	4,811

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	886	146	366	399
Pre-tax profit	475	121	269	412
Tax	(104)	(29)	(64)	(99)
Deprec. & amort.	122	121	169	169
Working capital changes	128	114	(7)	(83)
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)	(186)	(160)	(161)
Dividend payments	(49)	(9)	(20)	(31)
Issue of shares	0	0	5	9
Proceeds from borrowings	103	103	103	103
Loan repayment	(297)	(180)	(180)	(180)
Others/interest paid	(570)	(100)	(67)	(62)
Net cash inflow (outflow)	(66)	(87)	168	204
Beginning cash & cash equivalent	314	248	161	329
Changes due to forex impact	(8)	0	5	9
Ending cash & cash equivalent	240	161	334	543

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.7	8.4	9.7	11.4
Pre-tax margin	12.3	3.7	6.7	8.9
Net margin	7.9	2.8	5.2	7.0
ROA	7.3	2.3	4.9	7.0
ROE	17.8	5.0	10.7	14.7
Growth				
Turnover	9.8	(14.5)	21.1	15.8
EBITDA	7.1	(57.0)	39.9	35.6
Pre-tax profit	25.0	(74.6)	122.6	53.5
Net profit	10.3	(70.0)	127.5	54.5
Net profit (adj.)	1.9	(73.6)	127.5	54.5
EPS	1.9	(73.6)	127.5	54.5
Leverage				
Debt to total capital	38.9	36.2	32.4	27.9
Debt to equity	64.3	57.3	48.4	39.2
Net debt/(cash) to equity	50.9	48.7	32.1	15.9
Interest cover (x)	7.7	2.8	5.8	8.5

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