

OM Holdings

Paring Down Stake in Chinese Smelter

By Teh Kian Yeong | tehky@kenanga.com.my

We are positive on OMH's latest move to pare down its stake in its smelter in China by 90% (to 10%) for RM119m, as the smelter has been idle for almost two years. The new shareholder will inject capital to restart the unit's operation while OMH will handle raw material procurement and marketing. We maintain our forecasts, TP of RM2.07 and OUTPERFORM call.

OMH is selling a 90% stake in OM Material (Qinzhou) Co Ltd (OMQ) to Beijing Kunpeng Hongsheng Metal Co Ltd (BKHM) for RMB182.6m (c.USD25m or RM119m). OMH will still retain a 10% interest in the Chinese unit. BKHM is an established company involved in the trading of ores and manganese alloys in China. The exercise is expected to be completed by 30 Nov 2023.

We are positive on this latest development. Firstly, we estimate that OMH will book in USD18m (RM86m or 12.0 sen/share) gains from the disposal while the proceeds could be redeployed to OMH's core business operations in Sarawak as the Samalaju plant is in the midst of the silicon metal conversion project. The proceeds will reduce OMH's net debt and net gearing of USD229.5m and 0.57x as at end-Jun 2023 to USD204.5m and 0.51x, respectively.

Secondly, the new controlling shareholder of OMQ will restart its operation (which has been curtailed since Dec 2021 due to skyrocketing energy cost). We understand that BKHM will inject additional capital to refurbish the smelting plant while OMH will assist in the procurement of raw materials and product marketing. In addition, OMH could leverage on BKHM to broaden its market reach in China.

Forecasts. Maintained as OMQ does not contribute to OMH's earnings.

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 7.2x (see next page).

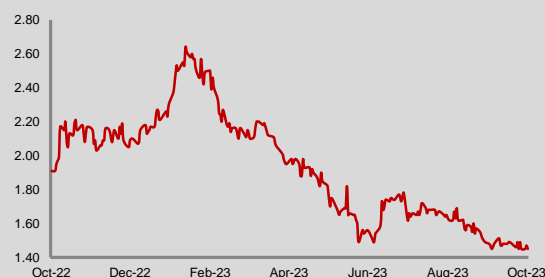
We continue to like OMH for: (i) its structural cost advantage over its international peers given its access to low-cost hydro-power under a 20-year contract ending 2033, (ii) its strong growth prospects underpinned by plans to expand its capacity by 30%–36% to 610,000–640,000 metric tonnes per annum 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: RM1.45
Target Price: RM2.07 ↔

Share Price Performance



KLCI	1,435.33
YTD KLCI chg	-4.0%
YTD stock price chg	-31.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK Equity
Market Cap (RM m)	1,071.0
Shares Outstanding	738.6
52-week range (H)	2.71
52-week range (L)	1.43
3-mth avg daily vol:	72,103
Free Float	91%
Beta	1.0

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)	-	98	155
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)	3.7	7.0	4.4
PBV (x)	0.62	0.55	0.49
P/NTA (x)	0.62	0.55	0.49
Net Gearing (x)	0.49	0.44	0.53
Net Dividend Yield (%)	4.4	4.5	4.5

02 November 2023

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	17.28	NOK	988.8	12/2023	-94.1%	50.6%	20.4	13.1	0.43	39.5%	2.4%
ERAMET	65.25	EUR	1,984.2	12/2023	-75.7%	66.4%	9.1	5.5	0.99	53.0%	3.2%
FERROGLOBE	4.24	EUR	840.4	12/2023	-80.2%	2.6%	8.2	5.8	N/A	101.9%	0.0%
OMH	1.47	MYR	227.9	12/2023	-49.0%	59.1%	7.0	4.4	0.55	16.3%	4.5%
Average							11.2	7.2	0.66	52.7%	3.4%

Source: Bloomberg/Kenanga Research

02 November 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	Growth (%)					
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	Profitability (%)					
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
						DuPont Analysis					
						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
						Leverage					
						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
						Valuations					
						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	3.7	7.0	4.4
						Net Yield (%)	0.0	0.0	2.3	4.4	4.5
						P/BV (x)	1.20	1.20	1.31	0.62	0.55
						P/NTA (x)	1.20	1.31	0.62	0.55	0.49
						EV/EBITDA (x)	17.2	5.6	2.4	4.7	4.0

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.
Stocks Under Coverage																	
ANN JOO RESOURCES BHD	UP	1.07	0.730	-31.8%	600.7	Y	12/2023	(1.2)	4.5	-104.4%	257.1%	N.A.	24.0	0.5	-0.6%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.635	0.580	-8.7%	280.3	Y	12/2023	5.0	5.5	-33.8%	10.2%	12.8	11.6	0.3	1.4%	0.8	1.2%
OM HOLDINGS LTD	OP	1.45	2.07	42.8%	1,071.0	Y	12/2023	20.6	32.8	-49.2%	59.1%	7.0	4.4	0.6	8.6%	6.6	4.6%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	4.82	5.00	3.7%	39,715.0	Y	12/2023	15.2	18.6	-12.5%	22.6%	31.7	25.9	5.4	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	OP	1.81	2.18	20.4%	394.2	Y	12/2023	23.5	27.3	38.5%	16.2%	7.7	6.6	1.0	13.8%	6.0	3.3%
Sector Aggregate					42,061.1					-10.4%	28.2%	28.6	22.3	3.6	12.7%		2.1%

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

