

OM Holdings Ltd (OMH MK)

3Q23 Production and Market Update: Encouraging Production

- OMH's production volume for 3Q23 showed improvement, with 15 out of a total of 16 furnaces were operational.
- We deemed FeSi production was within our in-house forecast, while Mn alloys production exceeded our initial projection, accounting for 70.6% and 80.7%, respectively.
- All 8 Mn alloys furnaces have successfully completed major maintenance. Nonetheless, regarding FeSi, 2 furnaces have already undergone major maintenance, and 1 furnace underwent major maintenance during the current quarter.
- Despite facing challenges, OMH's promising future is underpinned by its strategic diversification into the silicon metal market, which is poised to capitalize on emerging opportunities in the growing renewable energy sector. In our view, this approach ensures a sustained competitive advantage for the company
- No change to our FY23-FY25F earnings forecast pending management guidance during the result announcement.
- Maintain a BUY call for OMH with unchanged TP of RM2.11. Our valuation is based on average peers PE of 8.7x and FY24F EPS of 24.3 sen.

3Q23 production and sales volume update

Ferrosilicon (FeSi) production escalated 31.5% QoQ and 105.9% YoY to 39,296mt during 3Q23. On the same note, manganese alloys (Mn alloys) experienced significant growth, surging by 22.8% QoQ and 161% YoY to 86,934mt. In terms of sales volume, FeSi and Mn alloys showed encouraging figure, with sales production jumping 16.2% QoQ and 93.8% YoY for FeSi, and 4.7% QoQ and 125% YoY for Mn alloys, respectively. All in all, FeSi production was within our in-house forecast, while Mn alloys production exceeded our initial projection, accounting for 70.6% and 80.7%, respectively.

Supportive furnaces operation

During this period, 15 out of a total of 16 furnaces were operational, comprising 7 furnaces dedicated to FeSi production (consisting of 5 FeSi furnaces and 2 silicon metal furnaces) and 8 furnaces producing Mn alloys. The remaining 1 FeSi furnace was temporarily shut down for scheduled major maintenance. The increased FeSi production resulted from the temporary operation of 2 silicon metal (MetSi) furnaces producing FeSi. Meanwhile, Mn alloys show improvement arising from completion major maintenance work. Furthermore, there is a growing demand for High-carbon ferromanganese (HCFeMn), leading to an increase in the production of this product during this quarter, and therefore improved production for Mn alloys.

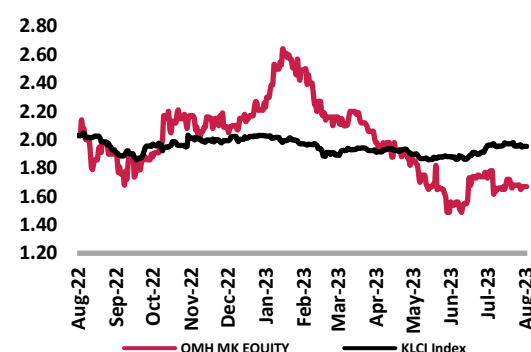
Major maintenance and furnaces conversion update

All 8 Mn alloys furnaces have successfully completed major maintenance. Among the 6 FeSi furnaces, 2 have already undergone major maintenance, and 1 furnace underwent major maintenance during the current quarter.

BUY

Share Price RM1.54
Target Price RM2.11 +37%

Price Chart (RM)



| Share Performance (%) | 1m | 3m | 12m |
|-----------------------|-------|--------|--------|
| Absolute | (7.3) | (9.8) | (21.1) |
| vs FBM KLCI | (6.9) | (12.3) | (19.8) |

Stock Data

| | |
|---------------------|-------------|
| Mkt Cap (RM mn) | 1,218.7 |
| Adjusted Beta | 1.3 |
| Free float (%) | 93.0 |
| Issued shares (mn) | 738.6 |
| 52w H/L (RM) | 2.71 / 1.49 |
| 3m avg daily volume | 213,046 |

Major Shareholders (%)

| | |
|----------------|-----|
| Hanwa Co Ltd | 4.4 |
| Low Ngee Tong | 1.4 |
| Heng Siow Kwee | 1.2 |

| FYE Dec (RM'mn) | FY21 | FY22 | FY23F | FY24F | FY25F |
|-----------------------|-------|-------|-------|-------|-------|
| Turnover | 3,252 | 3,769 | 2,217 | 2,314 | 2,450 |
| EBITDA | 499 | 579 | 392 | 421 | 470 |
| Pretax Profit | 353 | 465 | 155 | 184 | 224 |
| Core Profit | 268 | 319 | 150 | 179 | 212 |
| EPS (sen) | 36.4 | 43.3 | 20.4 | 24.3 | 29.5 |
| PER (x) | 4.2 | 3.6 | 7.6 | 6.3 | 5.2 |
| BVPS (sen) | 2.1 | 2.4 | 2.4 | 2.6 | 2.7 |
| P/B (x) | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| DPS (sen) | 0.1 | - | 6.1 | 7.3 | 8.9 |
| D. Yield (%) | 0.0 | - | 4.0 | 4.7 | 5.8 |
| Net gearing | Net | Net | Net | Net | Net |
| (x) | cash | cash | cash | cash | cash |
| Key Ratios (%) | | | | | |
| ROE | 17.5 | 18.3 | 8.3 | 9.4 | 10.8 |
| EBITDA margin | 15.3 | 15.4 | 17.7 | 18.2 | 19.2 |
| Pretax margin | 9.9 | 12.2 | 10.1 | 10.8 | 11.9 |
| Net margin | 10.8 | 12.3 | 7.0 | 8.0 | 9.1 |

Source: Bloomberg, BIMB Securities

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As for the remaining 3 FeSi furnaces, one is slated for major maintenance in 4Q23, while the other 2 are scheduled for 2025 after a more comprehensive assessment of their current condition. For the silicon metal conversion project, ongoing fabrication work is in place to address the issues that arose during the hot commissioning phase. In the meantime, both MetSi furnaces have been switched to produce FeSi to boost productivity. The hot commissioning of the 2 furnaces to produce MetSi is expected to resume in 1Q24.

Earnings Estimate

No change to our FY23-FY25F earnings forecast pending management guidance during the result announcement.

Reiterate BUY at TP of RM2.11

Maintain a **BUY** call for OMH with unchanged **TP of RM2.11**. Our valuation is based on average peers PER of 8.7x and OMH's FY24F EPS of 24.3 sen. We believe the total return is remained attractive and this will be powered by OMH i) competitive advantage as a low-cost ferroalloy smelter players compared to its peer, ii) extended capacity growth and diversified products mix, and iii) enviable ESG standing given their exposure to clean energy resource. Above all, OMH is expected to benefit from rapid industry consolidation and is expected to outshine due to their competitive and low-cost structure.

Table 1: Production and sales volume figure

| FYE 31 Dec | 3Q22 | 2Q23 | 3Q23 | QoQ | YoY | 9MFY22 | 9MFY23 | YTD Chg |
|------------------------------|---------------|----------------|----------------|--------------|---------------|----------------|----------------|-------------|
| Production ('000) | | | | | | | | |
| Ferrosilicon (Fesi) | 37,094 | 29,891 | 39,296 | 31.5% | 105.9% | 106,023 | 98,894 | -6.7% |
| Manganese alloys (Mn alloys) | 54,011 | 70,776 | 86,934 | 22.8% | 161.0% | 175,318 | 209,861 | 19.7% |
| Total | 91,105 | 100,667 | 126,230 | 25.4% | 138.6% | 281,341 | 308,755 | 9.7% |
| Sales ('000) | | | | | | | | |
| Ferrosilicon (Fesi) | 36,607 | 29,565 | 34,353 | 16.2% | 93.8% | 105,104 | 92,200 | -12.3% |
| Manganese alloys (Mn alloys) | 54,048 | 64,573 | 67,586 | 4.7% | 125.0% | 163,852 | 177,185 | 8.1% |
| Total | 90,655 | 94,138 | 101,939 | 8.3% | 112.4% | 268,956 | 269,385 | 0.2% |

Source: Company, BIMB Securities

Table 2: Earnings forecast

| FYE Dec (USD'mn) | FY21 | FY22 | FY23F | FY24F | FY25F |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Turnover | 779.9 | 856.6 | 517.9 | 551.0 | 590.5 |
| EBITDA | 119.6 | 131.6 | 91.5 | 100.1 | 113.2 |
| Pretax Profit | 84.5 | 105.6 | 36.1 | 43.8 | 54.0 |
| Core Net Profit | 64.3 | 72.4 | 35.1 | 42.6 | 52.4 |
| Consensus NP | | | 29.7 | 47.0 | 59.5 |
| Core EPS (sen) | 8.7 | 9.8 | 4.8 | 5.8 | 7.1 |
| PER (x) | 17.7 | 15.7 | 32.3 | 26.7 | 21.6 |
| BVPS (sen) | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 |
| P/B (x) | 3.1 | 2.9 | 2.7 | 2.5 | 2.3 |
| DPS (sen) | - | - | 1.4 | 1.7 | 2.1 |
| D. Yield (%) | - | - | 0.9 | 1.1 | 1.4 |
| Net Gearing | Net cash | Net cash | Net cash | Net cash | Net cash |
| Key Ratios (%) | | | | | |
| ROE | 17.5 | 18.3 | 8.3 | 9.4 | 10.8 |
| EBITDA margin | 15.3 | 15.4 | 17.7 | 18.2 | 19.2 |
| Pretax margin | 9.9 | 12.2 | 10.1 | 10.8 | 11.9 |
| Core PATAMI margin | 10.8 | 12.3 | 7.0 | 8.0 | 9.1 |

Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

| | |
|---------------------|--|
| BUY | Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months. |
| TRADING BUY | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain. |
| HOLD | Share price may fall within the range of +/- 10% over the next 12 months |
| TAKE PROFIT | Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels. |
| TRADING SELL | Share price may fall by more than 15% in the next 3 months. |
| SELL | Share price may fall by more than 10% over the next 12 months. |
| NOT RATED | Stock is not within regular research coverage. |

SECTOR RECOMMENDATION

| | |
|--------------------|---|
| OVERWEIGHT | The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months |
| NEUTRAL | The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months |
| UNDERWEIGHT | The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months |

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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