

OM Holdings

Firing on All Furnaces in FY24

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OMH is still cautious on the price outlook for its products given the economic challenges in China as well as the oversupply situation. It guided for a higher FY23F production as its furnaces resume production ahead of schedule after the early completion of maintenance work. All its 16 furnaces will be operational by 1QFY24, including the ones producing high-margin metallic silicon (MetSi). We maintain our forecasts, TP of RM2.07 and **OUTPERFORM** call.

We came away from OMH's investor briefing yesterday feeling upbeat about its outlook. The key takeaways are as follows:

1. OMH is still cautious on the outlook for product prices given the economic challenges in China coupled with the new industry capacity set up during the price upcycle in 2021. Hence, prices are being capped currently. YTD, the average spot ferrosilicon (FeSi) price contracted 25% YoY to USD1,481/MT in 9MFY23 (against our FY23F assumption of USD1,500/MT) while that of silicomanganese (SiMn) declined 29% YoY to USD988/MT (vs. our FY23F assumption of USD900/MT).
2. It raised its guidance for FY23F output from its plant in Sarawak to 340MT-430MT, from 340MT-400MT three months ago. This is on the back of higher capacity utilisation as more furnaces, currently under major maintenance, will be restarted sooner than expected. At this level, its FY23F production will be similar to that of FY22. This is also in-line with our assumption of 377MT.
3. As at 30 Sep 2023, 15 out of its 16 furnaces were in operation with seven furnaces producing FeSi and eight furnaces producing manganese alloys (Mn Alloy). The remaining one FeSi furnace is undergoing conversion back to a MetSi furnace and shall resume production in early-2024. This means all its 16 furnaces will be operational in 1QFY24.
4. Pertaining to the tax exemption awarded to the Samalaju smelting plant under Pioneer Status, (the first 5-year tax exemption period started in 1 Dec 2016 and had expired in 30 Nov 2022), a second 5-year tax exemption (from 1 Dec 2021 to 30 Nov 2026) is now at the consultation stage with an outcome expected by early-2024. Meanwhile, OMH has provided for a 24% tax on 100% of its taxable income since FY22. Once the tax exemption is approved, OMH's annual tax position for the smelting plant will be adjusted accordingly.

Forecasts. Maintained.

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 7.4x (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**.

OUTPERFORM ↔

Price: RM1.54
Target Price: RM2.07 ↔

Share Price Performance



KLCI	1,439.77
YTD KLCI chg	-3.7%
YTD stock price chg	-26.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK Equity
Market Cap (RM m)	1,137.5
Shares Outstanding	738.6
52-week range (H)	2.71
52-week range (L)	1.43
3-mth avg daily vol:	62,794
Free Float	91%
Beta	1.0

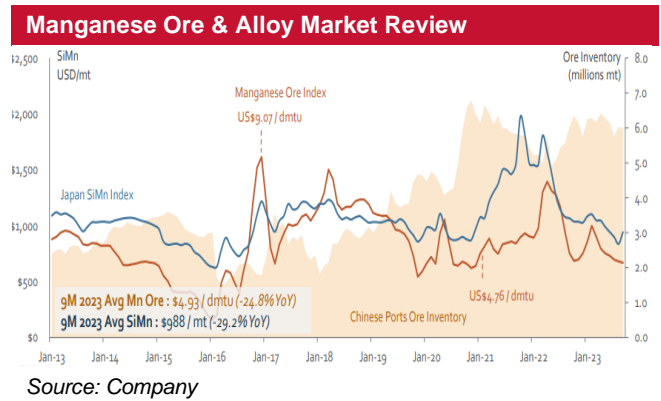
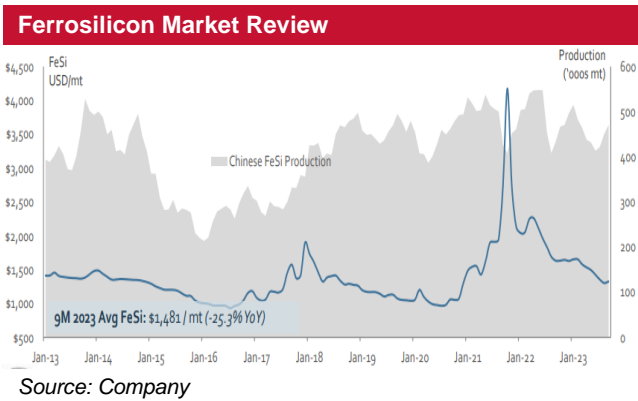
Major Shareholders

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	7.5	4.7
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	4.3	4.3

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.



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	17.86	NOK	1,023.2	12/2023	-94.1%	50.6%	21.1	13.6	0.45	39.5%	2.3%
ERAMET	68.60	EUR	2,101.0	12/2023	-75.7%	66.4%	9.8	5.7	1.21	53.0%	3.1%
FERROGLOBE	4.10	EUR	818.5	12/2023	-80.2%	2.6%	8.1	5.7	N/A	101.9%	0.0%
OMH	1.54	MYR	239.4	12/2023	-49.0%	59.1%	7.5	4.7	0.55	16.3%	4.3%
Average							11.6	7.4	0.74	52.7%	3.2%

Source: Bloomberg/Kenanga Research

03 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	7.5	4.7
						Net Yield (%)	0.0	2.3	4.4	4.3	4.3
						P/BV (x)	1.20	1.31	0.62	0.55	0.49
						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	1.06	0.730	-31.1%	595.1	Y	12/2023	(1.2)	4.5	-104.4%	257.1%	N.A.	23.8	0.5	-0.6%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.640	0.580	-9.4%	282.5	Y	12/2023	5.0	5.5	-33.8%	10.2%	12.9	11.7	0.3	1.4%	0.8	1.2%
OM HOLDINGS LTD	OP	1.54	2.07	34.4%	1,137.5	Y	12/2023	20.6	32.8	-49.2%	59.1%	7.5	4.7	0.6	8.6%	6.6	4.3%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	4.84	5.00	3.3%	39,879.8	Y	12/2023	15.2	18.6	-12.5%	22.6%	31.8	26.0	5.4	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	OP	1.87	2.18	16.6%	407.3	Y	12/2023	23.5	27.3	38.5%	16.2%	8.0	6.9	1.1	13.8%	6.0	3.2%
Sector Aggregate					42,302.1					-10.4%	28.2%	28.8	22.4	3.7	12.7%		2.0%

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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