

COMPANY UPDATE

OM Holdings (OMH MK)

2023 Production Within Expectations; Demand Resurgence Expected In 2024

OMH's 2023 production output was in line with our expectations, as operations have gradually recovered amid ongoing major maintenance work. OMH could see a meaningful earnings rebound in 2024 with the reversal of the US interest rate cycle boosting demand. OMH is set to achieve a multi-year profit bonanza with expanded capacity, as hydro-powered smelters' cost advantage has significantly widened vs global competitors. Maintain BUY with an unchanged target price of RM2.26.

WHAT'S NEW

- 2023 ferroalloy production within expectations.** 4Q23 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloy were 39,296mt (+3% qoq) and 86,934mt (-3% qoq) respectively. This brings 2023 production volume of FeSi and Mn alloy to 139,529mt (flat yoy) and 294,432mt (+36% yoy). The strong yoy production improvement was due to an increase in furnace operation from 10 to 15 units following the conversion of both its dual-use silicon metals (MetSi) furnaces to produce FeSi. As at end-December, 15 out of its 16 furnaces were in operation (eight FeSi and seven Mn alloy) while the remaining manganese alloy furnace's hot commissioning has been extended due to the furnace not performing as per contract requirements.
- Ferroalloy: Still not out of the woods.** In 4Q23, prices of FeSi and Mn alloy decreased from US\$1,360/mt to US\$1,285/mt and US\$945/mt to US\$900/mt respectively, given the slow recovery of the steel market. Prices were mainly pressured by reduced global demand towards the year-end period and higher production rates from FeSi smelters in China during 4Q23. According to the International Manganese Institute, world crude steel production during Oct 23 and Nov 23 was 303.1m tonnes, which represented an increase of 2.4% compared to 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.
- 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 to commission 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 is striving to produce an even higher grade of 4-4-1 MetSi (around 99% purity), which has superior purity and higher ASP. Replacement works for one silicon metal furnace began in mid-Jan 24 and are set to conclude by end-Feb 24. Meanwhile, both furnaces are producing FeSi to maximise utilisation.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,510	3,854	3,580	3,990	4,620
EBITDA	601	643	289	387	524
Operating profit	429	521	168	218	356
Net profit (rep./act.)	277	305	101	209	322
Net profit (adj.)	341	348	101	209	322
EPS (sen)	46.2	47.1	13.7	28.3	43.7
PE (x)	3.4	3.3	11.5	5.6	3.6
P/B (x)	0.7	0.7	0.6	0.6	0.5
EV/EBITDA (x)	5.2	3.9	8.9	5.9	3.8
Dividend yield (%)	5.7	2.9	0.8	1.7	2.7
Net margin (%)	7.9	7.9	2.8	5.2	7.0
Net debt/(cash) to equity (%)	62.5	50.9	50.4	31.6	15.5
Interest cover (x)	9.0	7.7	2.9	5.8	8.5
ROE (%)	16.0	17.8	5.5	10.6	14.7

Source: OMH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.57
Target Price	RM2.26
Upside	+43.9%

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):	766.3
Market cap (RMm):	1,203.0
Market cap (US\$m):	254.1
3-mth avg daily t'over (US\$m):	0.0

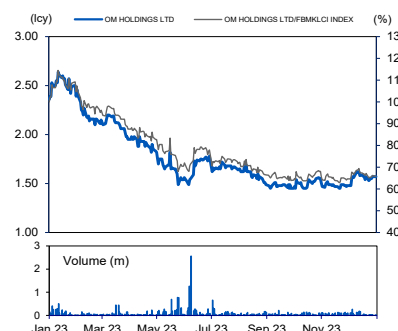
Price Performance (%)

52-week high/low	RM2.64/RM1.45			
1mth	3mth	6mth	1yr	YTD
6.1	8.3	(11.8)	(31.7)	6.1

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2
FY23 NAV/Share (RM)	2.79
FY23 Net Debt/Share (RM)	0.88

PRICE CHART



Source: Bloomberg

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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 a 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 to deliver more 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\$1,950-2,175/mt vs the 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 power intensity.
- Flexibility of conversion of furnace.** OMH's decision to convert its furnaces will be based on the 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

- None.
- 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.

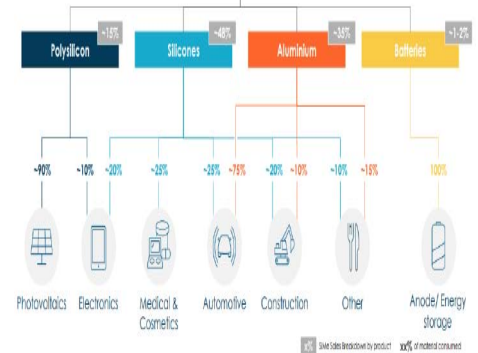
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged 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)

<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



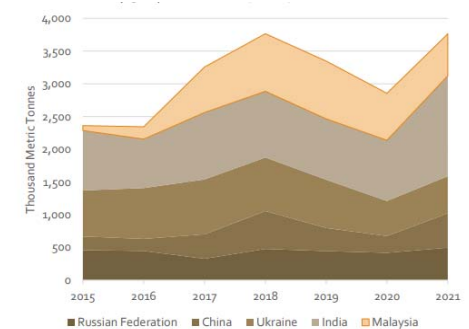
Source: Ferroglobe

KEY ASSUMPTIONS

Production ('000 mt)	2022	2023F	2024F	2025F
Alloy				
Malaysia - FeSi	140	140	130	130
Malaysia - Mn	217	300	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	-	-	-

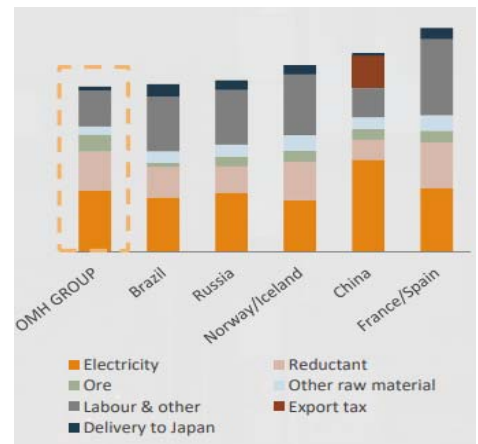
Source: OMH, UOB Kay Hian

TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

FEI PRODUCTION COST COMPARISON



Source: OMH

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	3,854	3,580	3,990	4,620
EBITDA	643	289	387	524
Deprec. & amort.	122	121	169	169
EBIT	521	168	218	356
Associate contributions	38	65	118	119
Net interest income/(expense)	(84)	(100)	(67)	(62)
Pre-tax profit	475	133	269	412
Tax	(104)	(32)	(64)	(99)
Minorities	(66)	0	5	9
Net profit	305	101	209	322
Net profit (adj.)	348	101	209	322

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	886	111	411	399
Pre-tax profit	475	133	269	412
Tax	(104)	(32)	(64)	(99)
Deprec. & amort.	122	121	169	169
Working capital changes	128	69	38	(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)	(187)	(160)	(161)
Dividend payments	(49)	(10)	(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)	(123)	213	204
Beginning cash & cash equivalent	314	248	125	338
Changes due to forex impact	(8)	0	5	9
Ending cash & cash equivalent	240	125	342	551

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	125	342	551
Other current assets	1,253	1,312	1,356	1,563
Total assets	3,987	4,153	4,413	4,819
ST debt	225	327	430	533
Other current liabilities	653	738	819	944
LT debt	922	742	562	382
Other LT liabilities	389	456	523	590
Shareholders' equity	1,782	1,874	2,058	2,341
Minority interest	16	16	21	30
Total liabilities & equity	3,987	4,153	4,413	4,819

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.7	8.1	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	2.5	4.9	7.0
ROE	17.8	5.5	10.6	14.7
Growth				
Turnover	9.8	(7.1)	11.5	15.8
EBITDA	7.1	(55.1)	34.0	35.6
Pre-tax profit	25.0	(72.1)	102.3	53.5
Net profit	10.3	(66.9)	106.8	54.5
Net profit (adj.)	1.9	(71.0)	106.8	54.5
EPS	1.9	(71.0)	106.8	54.5
Leverage				
Debt to total capital	38.9	36.1	32.3	27.8
Debt to equity	64.3	57.1	48.2	39.1
Net debt/(cash) to equity	50.9	50.4	31.6	15.5
Interest cover (x)	7.7	2.9	5.8	8.5

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