

OM Holdings Ltd (OMH MK)

FY23 Production and Market Update: Stellar Manganese Alloys Production

- OMH's production volume for 4Q23 showed improvement, as 14 out of a total of 16 furnaces were operational.
- We deemed FeSi production aligned with our in-house forecast, while Mn alloys production exceeded our initial projection, accounting for 99.7% and 113.2%, respectively.
- 1 FeSi furnace has undergone hot commissioning, while another Mn alloys furnace's hot commissioning has been extended due to it not performing as per contract requirements.
- Despite facing challenges, OMH's promising future is underpinned by its strategic diversification into the silicon metal market. This move positions the company to capitalize on emerging opportunities in the growing renewable energy sector, ensuring a sustained competitive advantage.
- No change to our FY23-FY25F earnings forecast pending 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.

4Q23 production and sales volume update

Ferrosilicon (FeSi) production showed a 3.4% QoQ improvement and an 18.4% YoY increase. Conversely, manganese alloys (Mn alloys) experienced a 2.7% QoQ decline but surged by 103.8% YoY. In terms of sales volume, both FeSi and Mn alloys demonstrated remarkable growth, with FeSi increasing by 26.2% QoQ and 104.3% YoY, while Mn alloys showing a substantial increase of 68.1% QoQ and 215.3% YoY. Looking at the full-year FY23 results, FeSi production experienced a marginal decline of 0.6% YoY, while Mn alloys production showed a significant jump of 35.8% YoY. In sales volume, FeSi declined by 7.6% YoY, whereas Mn alloys recorded a substantial increase of 34.2% YoY. We considered FeSi production to be within our in-house projection, while Mn alloys surpassed our expectations, reaching 99.7% and 113.2%, respectively. Notably, the robust demand for OMH products was primarily driven by the South East Asia market, along with strong markets in Japan and South Korea.

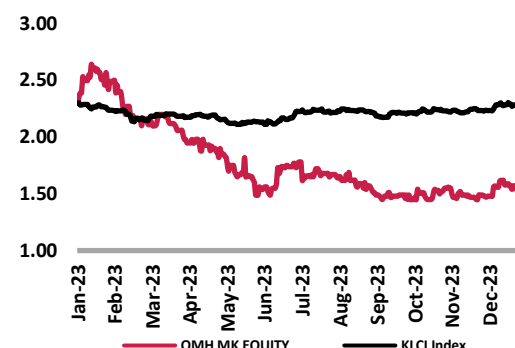
Furnace Utilisation Strategies and Project Progress

As of the end of FY23, comprehensive maintenance was successfully completed for 14 out of 16 furnaces. Among these, 12 furnaces have not only undergone hot commissioning but also successfully passed performance testing. Currently, 1 FeSi furnace is undergoing hot commissioning, while the hot commissioning for 1 Mn alloys furnace has been delayed due to non-compliance with contractual requirements. The remaining 2 FeSi furnaces are scheduled to commence major maintenance activities in FY25. Management has communicated their goal to operate at least 14-15 furnaces at maximum capacity for FY24.

BUY

Share Price RM1.52
Target Price RM2.11 +38.8%

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	2.7	4.8	(34.9)
vs FBM KLCI	(1.3)	(0.6)	(37.6)

Stock Data

Mkt Cap (RM mn)	1,164.7
Adjusted Beta	1.0
Free float (%)	93.3
Issued shares (mn)	766.3
52w H/L (RM)	2.71 / 1.42
3m avg daily volume	66,116

Major Shareholders (%)

Hanwa Co Ltd	4.2
Low Ngee Tong	1.3
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	218
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 (x)	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
Net margin	10.8	12.3	7.0	8.0	9.1

Source: Bloomberg, BIMB Securities

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Metallic silicon progression update

The on-site delivery of fabricated equipment for the metallic silicon (MetSi) conversion project has taken place, and replacement works commenced in mid-January 2024, with a targeted completion date set for the end of February 2024. Meanwhile, both MetSi furnaces are temporarily producing FeSi to optimize furnace utilization.

Earnings Estimate

No change to our FY23-FY25F earnings forecast pending upcoming 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	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YTD Chg
Production ('000)								
Ferrosilicon (Fesi)	34,332	39,296	40,635	3.4%	118.4%	140,355	139,529	-0.6%
Manganese alloys (Mn alloys)	41,495	86,934	84,571	-2.7%	203.8%	216,813	294,432	35.8%
Total	75,827	126,230	125,206	-0.8%	165.1%	357,168	433,961	21.5%
Sales ('000)								
Ferrosilicon (Fesi)	41,542	34,353	43,346	26.2%	104.3%	146,646	135,546	-7.6%
Manganese alloys (Mn alloys)	52,752	67,586	113,585	68.1%	215.3%	216,604	290,770	34.2%
Total	94,294	101,939	156,931	53.9%	166.4%	363,250	426,316	17.4%

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			29.9	46.4	56.9
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

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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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