

OM HOLDINGS LTD (OMH MK)

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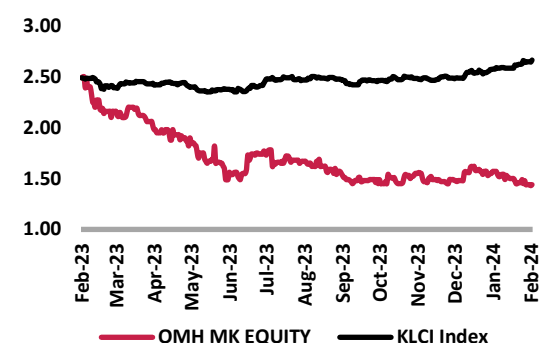
BUY

Share Price RM1.36
Target Price RM1.96 +44.1%

FY23: Dragged by lower ASPs

- **Maintain BUY (TP: RM1.96).** OM Holdings Ltd (OMH) registered a core LATAMI of US\$5.1mn which substantially below our in-house and market projection. The uninspiring result was dented by lower ASPs despite increase in sales volume. We hold the view that OMH faces a challenging short-term business outlook due to high inflationary pressure, which is expected to dampen demand. Given the subdued demand, the anticipated hike in ferroalloy prices is expected to be challenging and we foresee ferroalloy prices to maintain at current level, particularly in 1HFY24. Nonetheless, we commend OMH's strategic move towards expanding into silicon metal, which is expected to drive growth in the long run, through diversification to offer value added products. We cut FY24-FY25F earnings forecast by 49-26% to US\$21.7mn-38.8mn to account for lower ASPs assumption; and introduced FY26F earnings forecast with 33% YoY growth. Maintain a **BUY** call with a lower **TP of RM1.96** (from RM2.11). Our valuation implies an average forward peers' P/E ratio of 9x and a FY25F EPS of 21.8sen.
- **Key Highlight.** Ferrosilicon (FeSi) and silicon manganese (SiMn) prices decline 21% YoY and 13% YoY, reaching USD1,285/tonne and USD900/tonne, respectively. Additionally, higher finance costs were recorded during FY23 due to increased interest rate.
- **Earning Revision.** We cut FY24-FY25F earnings forecast by 49-26%, respectively to US\$21.7mn-38.8mn, to account for lower ASPs assumption, and introduced FY26F earnings forecast with 33% YoY growth.
- **Outlook.** These challenging circumstances create uncertainties and obstacles for the ferroalloy industry, leading to an uncertain short-term outlook, in our view. Nonetheless, we remain optimistic about OMH's strategic move towards expanding into silicon metal, which we believe will drive growth in the long run, through diversification to offer value added products. All in all, we favour OMH due to its: 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.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(10.5)	(9.3)	(44.4)
vs FBM KLCI	(12.7)	(14.9)	(49.1)

Stock Data

ESG rating	Good
Mkt Cap (RM mn)	1,042.1
Adjusted Beta	1.0
Free float (%)	93.3
Issued shares (mn)	766.3
52w H/L (RM)	2.5 / 1.35
3m avg daily volume	81,423

Major Shareholders (%)

Hanwa Co Ltd	4.3
Low Ngee Tong	1.3
Heng Siow Kwee	1.2

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Table 1: Quarterly Figures

OM Holdings Ltd	Half Yearly			Change (%)		Cumulative		YTD	BIMB	
FYE 31 Dec (US\$ mn)	2HFY22	1HFY23	2HFY23	QoQ	YoY	FY22	FY23	YTD Chg	BIMB	12M/F
Revenue	389.9	319.7	269.5	-16%	-30.9%	856.6	589.2	-31.2%	517.9	113.8%
EBITDA	62.9	46.3	10.5	-77%	-83.4%	149.9	65.8	-56.1%	91.5	71.9%
Pretax profit	23.6	30.5	2.2	-93%	-90.5%	105.6	32.7	-69.0%	35.1	93.2%
Taxation	-1.0	-11.1	-3.2	-71%	217.0%	-23.0	-14.3	-37.7%	-1.0	1434.7%
Normalised PATAMI	60.9	12.2	-17.3	-	-	110.2	-5.1	-	31.9	-
Normalised EPS (cent)	8.3	1.7	-2.3	-	-	15.0	-0.7	-	1.4	-
				chg (ppts)				chg (ppts)		
EBITDA margin (%)	16.1%	14.5%	3.9%	-10.6	-12.3	17.5%	11.2%	-6.3		
PBT margin (%)	6.1%	9.5%	0.8%	-8.7	-5.2	12.3%	5.6%	-6.8		
Normalised PATAMI margin (%)	15.6%	3.8%	-6.4%	-10.3	-22.0	12.9%	-0.9%	-13.7		
Effective tax rate (%)	4.3%	36.6%	142.7%	106.1	138.4	21.8%	43.9%	22.1		

Source: Company, BIMB Securities

Table 2: Production and Sales Volume Figures

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 3: Earnings Forecast

FYE Dec (US\$ mn)	FY22	FY23	FY24F	FY25F	FY26F
Turnover	856.6	589.2	603.1	660.6	716.2
EBITDA	154.6	65.8	85.0	110.5	130.5
Pretax profit	105.6	32.7	28.5	51.1	67.9
Net Profit	95.5	(5.1)	21.7	38.8	51.6
Consensus			46.1	56.9	-
EPS (sen)	13.0	-0.7	2.8	5.1	6.7
PER (x)	10.5	-36.5	48.1	26.8	20.2
BVPS (sen)	0.5	1.0	0.6	0.6	0.6
P/B (x)	2.5	1.3	2.4	2.3	2.1
DPS (sen)	0.0	0.0	0.8	1.5	2.0
Div. Yield (%)	-	-	0.6	1.1	1.5
Key Ratios (%)					
ROE	24.1	-3.6	5.0	8.5	10.4
EBITDA margin	18.1	11.2	14.1	16.7	18.2
Pretax margin	12.3	5.6	4.7	7.7	9.5
Net margin	11.1	-4.8	3.6	5.9	7.2

Source: Company, 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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