

# OM Holdings

## Soft Outlook, but Value Has Emerged

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**OMH's FY23 results disappointed as its net profit fell 73% on weak product prices. Its product prices are likely to be capped over the immediate term given the weak steel sector globally, but should have bottomed out. Also helping is its higher production capacity. We cut FY24F net profit forecast by 46%, reduce our TP by 13% to RM1.80 (from RM2.07) but maintain our OUTPERFORM call.**

OMH's FY23 net profit of USD18.1m missed our forecast and the consensus estimate by 48% and 39%, respectively. The variance against our forecasts came largely from weaker-than-expected average selling price (ASP) realised on a weak steel sector globally. No dividend was declared in FY23, vs. our projection of US1.5 cent.

**YoY.** its FY23 revenue declined sharply by 31% to USD589.2m, despite improving sales volume, as the realised ASP was substantially lower. S&P Platts data showed that ferrosilicon (FeSi) spot price plummeted by 27% from USD1,901/MT to USD1,437/MT in 2023 while silicomanganese (SiMn) spot price plunged by 24% to USD962/MT from USD1,309/MT in 2022. Meanwhile, OM Sarawak sold 294.4k MT of manganese alloy (Mn Alloy) which was 36% higher YoY while sales volume for FeSi slid slightly by 1% to 139.5k MT. Given the substantially reduced ASP, net profit plunged 73% to USD18.1m.

**HoH.** Similarly, its 2HFY23 turnover declined, by 16% to USD269.5m from USD319.7m in 1HFY23, on lower realised ASP despite having a higher sales volume by 47% for FeSi and 76% for Mn Alloy. S&P Platts registered 14% fall in SiMn spot price to USD890/MT and 16% decline in FeSi spot price to USD1,314/MT. As a result, 2HFY23 chalked a small net loss of USD1.0m from net profit of USD19.1m in 1HFY23.

**Outlook.** The company guided for a higher FY24 production volume with a total output of 430k to 470k metric tonnes per annum (MTPA) from c.434k MTPA in FY23 as FeSi production is running 6 to 8 furnaces as opposed to 5 to 7 furnaces in FY23 while Mn Alloys run at full 8 furnaces as opposed to 5 to 8 furnaces in FY23. However, its ASP will remain challenging on subdued demand from the steel sector but it should be bottoming out as YTD FY24 ASP is higher than that in 2HFY23.

**Forecasts.** We cut FY24F net profit forecast by 46% to USD29.6m as we lower our ASP assumption for FeSi to USD1,300/MT from USD1,350/MT and SiMn from USD950/MT to USD920/MT. We also introduce our FY25F numbers with net profit projected to grow at 69% to USD49.9m with ASP assumptions for FeSi at USD1,350/MT and SiMn at USD950/MT. We project NDPS of US1.5 cents for FY24F-FY25F.

**Valuations.** We only downgrade our TP by 13% to RM1.80 from RM2.07 as we roll over our valuation base year to FY25F (from FY24), based on unchanged 6x PER (consistent with an average of 6.5x for its international peers, see Page 3) plus a 5% premium by virtue of its 4-star ESG rating as appraised by us (see Page 5).

**Investment case.** 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 MTPA over the medium term, and (iii) its appeal to investor given its clean energy source. Maintain **OUTPERFORM**.

# OUTPERFORM ↔

**Price:** RM1.36  
**Target Price:** RM1.80 ↓

### Share Price Performance



KLCI	1,551.44
YTD KLCI chg	6.7%
YTD stock price chg	-8.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK Equity
Market Cap (RM m)	1,042.1
Shares Outstanding	766.3
52-week range (H)	2.50
52-week range (L)	1.35
3-mth avg. daily vol.	81,423
Free Float	91%
Beta	1.0

### Major Shareholders

Hanwa Co Ltd	4.2%
Low Ngee Tong	1.3%
Heng Siow Kwee	1.2%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	2586	2279	2571
EBIT	237	220	325
PBT	144	176	297
<b>Net Profit (NP)</b>	80	130	220
<b>Core Net Profit</b>	80	130	220
Consensus (NP)	-	218	269
Earnings Rev. (%)	-	-46.2	NEW
Core EPS (sen)	22.6	17.0	28.7
Core EPS Growth (%)	-73.3	63.2	68.6
NDPS (sen)	6.6	6.6	6.6
BV/Share (RM)	2.48	2.71	2.99
NTA/Share (RM)	2.48	2.71	2.99
PER (x)	13.5	8.0	4.7
PBV (x)	0.60	0.55	0.50
P/NTA (x)	0.60	0.55	0.50
Net Gearing (x)	0.48	0.58	0.38
Net Dividend Yield (%)	-	4.9	4.9

**Risks to our recommendation include:** (i) a global recession resulting in a sharp fall in the demand for steel, hurting FeSi and Mn alloys prices, (ii) escalation in the cost of key inputs such as manganese ore, quartz and semicoke, and (iii) major plant disruptions/closure.

<b>Income Statement</b>								
<b>FYE Dec (USD m)</b>	<b>2H FY23</b>	<b>1H FY23</b>	<b>H-o-H Chg</b>	<b>2H FY22</b>	<b>Y-o-Y Chg</b>	<b>12M FY23</b>	<b>12M FY22</b>	<b>Y-o-Y Chg</b>
Turnover	269.5	319.7	-16%	389.9	-31%	589.2	856.6	-31%
EBITDA	38.9	52.4	-26%	40.7	-5%	91.3	139.4	-34%
Depreciation	-24.7	-12.5	96%	-11.6	113%	-37.2	-24.8	50%
EBIT	14.2	39.9	-64%	29.1	-51%	54.1	114.7	-53%
Interest expense	-14.4	-13.1	10%	-10.2	42%	-27.5	-18.7	48%
Associates	2.0	3.2	-38%	3.6	-46%	5.1	8.4	-39%
Pretax profit	2.2	30.5	-93%	23.6	-90%	32.7	105.6	-69%
Taxation	-3.2	-11.1	-71%	-1.0	217%	-14.3	-23.0	-38%
Profit after tax	-1.0	19.3	-105%	22.6	-104%	18.4	82.6	-78%
Minority interest	0.0	-0.2	-92%	-4.0	-100%	-0.2	-14.7	-98%
Net profit	-1.0	19.1	-105%	18.6	-105%	18.1	67.8	-73%
EPS (cent)	-0.1	2.5	-105%	2.4	-105%	2.4	8.9	-73%
NDPS (cent)	0.00	0.00	0%	1.50	-100%	0.00	1.50	-100%
NTA/share (USD)	0.54	0.53	2%	0.52	4%	0.54	0.52	4%
EBITDA margin	14%	16%		10%		15%	16%	
EBIT margin	5%	12%		7%		9%	13%	
Pretax margin	1%	10%		6%		6%	12%	
Net margin	0%	6%		5%		3%	8%	
Effective tax rate	143%	37%		4%		44%	22%	
<b>Sales Volume (MT)</b>								
Ores & Raw Materials	411.9	525.1	-22%	353.3	17%	936.9	888.7	5%
Alloys	210.8	194.3	9%	214.8	-2%	405.1	409.0	-1%
<b>Mining (MT)</b>								
Produced - Mn	0.0	0.0	0%	0.0	0%	0.0	18.1	N/A
Shipped - Mn	0.0	0.0	0%	0.0	0%	0.0	144.4	N/A
<b>Smelting (MT)</b>								
OMS: Produced - FeSi	40.6	29.9	36%	71.4	-43%	139.5	140.4	-1%
Mn alloy	84.6	70.8	19%	95.5	-11%	294.4	216.8	36%
Sinter ore	43.1	42.2	2%	56.6	-24%	154.3	112.7	37%
OMS: Sold - FeSi	43.3	29.6	47%	78.1	-45%	135.5	146.6	-8%
Mn alloy	113.6	64.6	76%	106.8	6%	290.8	216.6	34%
Sinter ore	0.0	0.0	0%	0.0	0%	1.6	0.0	N/A

Source: Company/Bloomberg

01 March 2024

Segment Breakdown								
FYE Dec (USD m)	2H FY23	1H FY23	H-o-H Chg	2H FY22	Y-o-Y Chg	12M FY23	12M FY22	Y-o-Y Chg
<b>Turnover</b>								
Mining	0.0	0.0	0%	-0.6	N/A	0.0	19.8	N/A
Smelting	186.8	202.0	-8%	278.1	-33%	388.8	648.7	-40%
Marketing & Trading	310.0	292.1	6%	275.3	13%	602.1	657.4	-8%
Others	24.8	23.3	7%	31.0	-20%	48.1	53.1	-9%
Elimination	-252.2	-197.6	28%	-193.9	30%	-449.8	-522.5	-14%
<b>Group Turnover</b>	<b>269.5</b>	<b>319.7</b>	<b>-16%</b>	<b>389.9</b>	<b>-31%</b>	<b>589.2</b>	<b>856.6</b>	<b>-31%</b>
<b>Segment Results</b>								
Mining	-1.8	-3.0	-40%	-3.4	-47%	-4.8	-5.7	-17%
Smelting	-7.2	38.8	-119%	23.8	-130%	31.6	103.0	-69%
Marketing & Trading	20.5	3.0	579%	10.0	105%	23.6	21.1	12%
Others	2.8	1.0	177%	-1.3	-316%	3.7	-3.7	-201%
Elimination	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
<b>Group EBIT</b>	<b>14.2</b>	<b>39.9</b>	<b>-64%</b>	<b>29.1</b>	<b>-51%</b>	<b>54.1</b>	<b>114.7</b>	<b>-53%</b>
<b>EBIT Margin</b>								
Mining	N/A	N/A		N/A		N/A	N/A	
Smelting	-3.9%	19.2%		9%		8%	16%	
Marketing & Trading	7%	1%		4%		4%	3%	
Others	11%	4%		-4%		8%	-7%	
Elimination	0%	0%		0%		0%	0%	
<b>Group EBIT</b>	<b>5%</b>	<b>12%</b>		<b>7%</b>		<b>9%</b>	<b>13%</b>	

Source: Company

Peer Comparison Table											
	Price	Currency	Mkt Cap	FYE	EPS Growth		PER (x)		PBV (x)	ROE	Net Yld
			(USD m)		1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd
ELKEM ASA	20.30	NOK	1,226.1	12/2024	834.0%	163.7%	19.5	7.3	0.52	0.3%	1.9%
ERAMET	62.65	EUR	1,952.5	12/2024	105.4%	60.3%	8.8	4.3	1.05	6.4%	3.5%
FERROGLOBE	4.22	EUR	857.3	12/2024	-63.5%	124.1%	17.6	7.9	N/A	11.4%	N/A
OMH	1.36	MYR	224.9	12/2024	63.2%	68.6%	8.0	4.7	0.55	6.8%	4.9%
<b>Average (ex-OMH)</b>							<b>13.5</b>	<b>6.5</b>	<b>0.71</b>	<b>6.2%</b>	<b>3.4%</b>

Source: Bloomberg/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.
<b>Stocks Under Coverage</b>																	
ENGTEX GROUP BHD	OP	1.12	1.41	25.9%	494.3	Y	12/2024	9.2	12.5	300.0%	35.0%	12.1	9.0	0.6	4.7%	0.8	0.7%
OM HOLDINGS LTD	OP	1.36	1.80	32.4%	1,042.1	Y	12/2024	17.7	29.8	63.6%	68.6%	7.7	4.6	0.5	7.0%	6.6	4.9%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	4.68	4.90	4.7%	38,561.4	Y	12/2024	17.3	19.9	13.8%	14.9%	27.0	23.5	5.0	18.8%	6.9	1.5%
UNITED U-LI CORPORATION BHD	OP	1.32	1.91	44.7%	287.5	Y	12/2024	23.9	29.8	29.7%	24.6%	5.5	4.4	0.7	13.2%	6.0	4.5%
<b>Sector Aggregate</b>					<b>40,385.4</b>					<b>19.2%</b>	<b>19.9%</b>	<b>24.5</b>	<b>20.4</b>	<b>3.7</b>	<b>15.0%</b>		<b>2.9%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★	★	
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★	★	★
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★	★	
	Legal & Regulatory Compliance	★	★	★		
<b>OVERALL</b>		★	★	★	★	

☆ 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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