

COMPANY RESULTS

OM Holdings (OMH MK)

2023: Within Expectations; Expect Slow Recovery In 2024

2023 net profit fell 73% yoy mainly due to lower ferroalloy prices. This brings 2023 core net profit to RM82m which is within our expectation. While we expect stronger production in 2024 as OMH has successfully fired 15 of its 16 furnaces, lower ferroalloy prices could drag down earnings. Downgrade 2024/25 earnings by 35%/25% respectively to account for lower ferroalloy prices. Downgrade to HOLD with a lower target price of RM1.55.

2023 Results

Year to 31 Dec (RMm)	2022	2023	yoy % chg
Revenue	3,854.7	2,651.4	(31.2)
Mining	89.1	0.0	(100.0)
Smelting	2,919.2	1,749.6	(40.1)
Marketing & Trading	2,958.3	2,709.5	(8.4)
Others	239.0	216.5	(9.4)
EBIT	521.6	248.0	(52.5)
Mining	(25.7)	(21.6)	(15.8)
Smelting	463.5	142.2	(69.3)
Marketing & Trading	94.5	106.2	12.4
Others	(16.7)	16.7	(200.0)
Associates	37.8	23.0	(39.3)
PBT	475.2	147.2	(69.0)
Net Profit	305.1	81.9	(73.2)
Core Net Profit	305.1	81.9	(73.2)
Margins (%)			
EBIT	13.5	9.4	(4.2)
Core Net Profit*	7.9	3.1	(4.8)

Note: Assume: USD/MYR=4.5

* Core net profit exclude forex gain/loss and one-off items

Source: OMH, UOB Kay Hian

RESULTS

- **Within expectations.** OM Holdings (OMH) reported a core net profit of RM81.9m (-73% yoy). The weak results were mainly due to lower prices for ores and ferroalloys which resulted in lower margins despite a slightly higher total volume of products sold. The 2023 core net profit accounted for about 95% of our full-year estimate and we deem the results within expectation.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net Turnover	3,854	2,651	3,619	4,147	4,754
EBITDA	643	409	239	316	324
Operating Profit	521	248	118	192	207
Net Profit (Reported/Actual)	305	82	127	194	216
Net Profit (Adjusted)	348	82	127	194	216
EPS (sen)	47.1	11.1	17.3	26.3	29.3
PE (x)	3.2	13.4	8.6	5.7	5.1
P/B (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	3.9	6.2	9.1	6.5	5.8
Dividend Yield (%)	3.0	0.0	0.0	0.0	0.0
Net Margin (%)	7.9	3.1	3.5	4.7	4.5
Net Debt/(Cash) to Equity (%)	50.9	49.8	28.4	19.4	10.2
Interest Cover (x)	7.7	3.3	3.2	4.7	5.4
ROE (%)	-	-	30	46	57

Source: OMH, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	RM1.36
Target Price	RM1.56
Upside	+14.7%
(Previous TP)	RM2.26

COMPANY DESCRIPTION

ASX-listed OM Holdings is an integrated manganese player engaged in the mining, smelting, trading and marketing of manganese ores, manganese alloys and ferrosilicon. Its smelting plants in Sarawak operate using hydropower.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	OMH MK
Shares issued (m):	766.3
Market cap (RMm):	1,072.8
Market cap (US\$m):	224.9
3-mth avg daily t'over (US\$m):	0.1.

Price Performance (%)

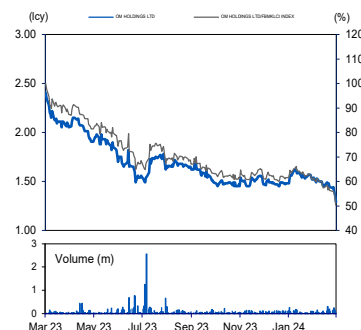
52-week high/low	RM2.46/RM1.40			
1mth	3mth	6mth	1yr	YTD
(10.8)	(9.7)	(15.2)	(44.0)	(5.4)

Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2

FY21 NAV/Share (RM)	2.67
FY21 Net Debt/Share (RM)	0.76

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ku Wei Xiang
+603 2147 1916
weixiang@uobkayhian.com

STOCK IMPACT

- Ferroalloy: Still not out of the woods.** In 4Q23, prices of ferrosilicon (FeSi) and manganese (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-Nov 23 was 303.1m tonnes, which represented an increase of 2.4% compared with Oct-Nov 22.
- 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 gaps 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 metal silicon (MetSi) to deliver more value-added products. It aims to produce the highest grade (98-99% purity level) it possibly can as MetSi commands higher margins. MetSi 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 US\$2,245/mt. The price trajectory and cost structure are similar to those of FeSi. The only major difference is that it requires 40-50% more power intensity.
- Flexibility of furnace conversion.** OMH's decision to convert its furnaces will be based on the profitability and long-term outlook for each alloy. Management believes that Mn alloys and MetSi would generate higher returns per furnace compared with 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

- Downgrade 2024/25 earnings by 33%/25% respectively mainly to account for lower ferroalloy prices.
- 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.

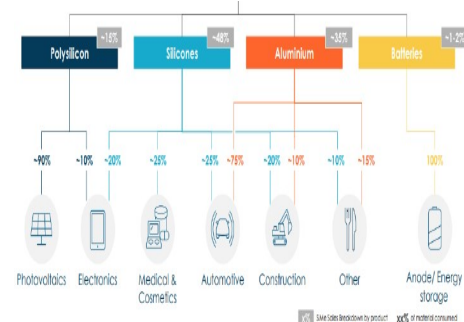
VALUATION/RECOMMENDATION

- Downgrade to HOLD with a lower target price of RM1.56**, implying 9x 2024F PE, mainly due to a vague outlook for ferroalloy in 2024. The assigned target PE of 9x represents a slight discount compared with the average of 10x PE 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) UPDATES

<ul style="list-style-type: none"> Environmental
- Eco-friendly smelters help to reduce carbon dioxide emissions by 2.2m mt p.a.
<ul style="list-style-type: none"> Social
- OMH offers career opportunities and provides training to the indigenous community.
<ul style="list-style-type: none"> Governance
- Majority of the board are independent directors (5 out of 7 non-exec directors).

METAL SILICON CONSUMPTION



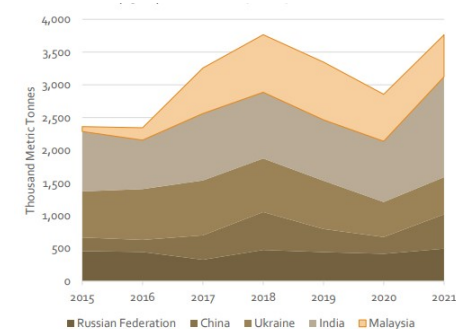
Source: Ferroglabe

KEY ASSUMPTIONS

	2022	2023	2024F	2025F
Production ('000 mt)				
Alloy				
Malaysia - FeSi	140	130	145	153
Malaysia - Mn	217	220	320	400
ASP (US\$/mt)				
FeSi alloy	1,900	1,300	1,350	1,400
Mn alloy	1,400	900	925	950

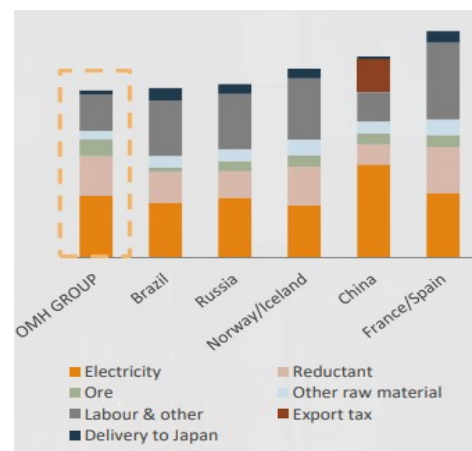
Source: OMH, UOB Kay Hian

TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

FESI PRODUCTION COST COMPARISON



Source: OMH

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	2,651	3,619	4,147	4,754
EBITDA	409	239	316	324
Deprec. & amort.	161	121	124	117
EBIT	248	118	192	207
Associate contributions	23	118	119	120
Net interest income/(expense)	(124)	(74)	(67)	(60)
Pre-tax profit	147	162	244	267
Tax	(64)	(39)	(58)	(64)
Minorities	(1)	5	9	14
Net profit	82	127	194	216
Net profit (adj.)	82	127	194	216

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	44	37	37	42
Other LT assets	2,378	2,369	2,403	2,255
Cash/ST investment	272	522	553	625
Other current assets	1,540	1,334	1,523	1,744
Total assets	4,234	4,262	4,516	4,666
ST debt	434	536	639	746
Other current liabilities	825	916	1,021	1,141
LT debt	761	547	333	119
Other LT liabilities	349	270	336	256
Shareholders' equity	1,851	1,974	2,159	2,362
Minority interest	15	19	28	42
Total liabilities & equity	4,234	4,262	4,516	4,666

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	136	464	225	227
Pre-tax profit	147	162	244	267
Tax	(64)	(39)	(58)	(64)
Deprec. & amort.	158	121	124	117
Working capital changes	(165)	221	(84)	(97)
Other operating cashflows	61	0	0	5
Investing	(20)	(38)	(34)	(16)
Capex (growth)	(2)	(2)	(7)	(2)
Capex (maintenance)	(96)	(45)	(45)	(41)
Investments	4	5	9	14
Proceeds from sale of assets	2	5	9	14
Others	71	0	0	0
Financing	(82)	(181)	(169)	(153)
Dividend payments	(35)	0	0	0
Issue of shares	40	5	9	14
Proceeds from borrowings	261	103	103	107
Loan repayment	(214)	(214)	(214)	(214)
Others/interest paid	(133)	(74)	(67)	(60)
Net cash inflow (outflow)	34	245	22	58
Beginning cash & cash equivalent	240	272	522	553
Changes due to forex impact	(2)	5	9	14
Ending cash & cash equivalent	272	522	553	625

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	15.4	6.6	7.6	6.8
Pre-tax margin	5.5	4.5	5.9	5.6
Net margin	3.1	3.5	4.7	4.5
Leverage				
Debt to total capital	39.0	35.2	30.8	26.5
Debt to equity	64.5	54.9	45.0	36.6
Net debt/(cash) to equity	49.8	28.4	19.4	10.2
Interest cover (x)	3.3	3.2	4.7	5.4

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