

COMPANY UPDATE

OM Holdings (OMH MK)

1Q24 Production Within Expectations; Demand Weakness Expected In 2024

OMH's 1Q24 production output was in line with our expectation, as operations have gradually recovered amid ongoing major maintenance work. While we expect stronger production in 2024 as OMH has successfully fired all its 16 furnaces, lower ferroalloy prices could drag down earnings. OMH is a fixed-rate hydro-powered smelter which has significant cost advantage vs global competitors. Maintain HOLD with an unchanged target price of RM1.56.

WHAT'S NEW

- 1Q24 ferroalloy production within expectations.** 1Q24 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloy were 49,561mt (+22% qoq) and 75,056mt (-11% qoq) respectively. The significant improvement in FeSi production resulted from the operation of all eight furnaces, including two dual-use MetSi furnaces. Conversely, the decline in Mn alloy production can mainly be attributed to higher HCFeMn production in 4Q23 compared with 1Q24, as HCFeMn has a higher daily production output than SiMn. Additionally, the extension of hot commissioning for one manganese alloy furnace also impacted the overall manganese alloy production capacity during the quarter. 1Q24 production forms 27% of our full-year forecasts, which we deem in line with our expectation. As at end-Mar 24, one manganese alloy furnace had finished rectification works and resumed hot commissioning and performance testing in late-Mar 24. The furnace is projected to complete hot commissioning by Jun 24.
- Ferroalloy: Still not out of the woods.** In 1Q24, prices of FeSi decreased from US\$1,285/mt to US\$1,210/mt while Mn alloy prices increased from US\$900/mt to US\$920/mt. However, there was a sudden surge in Mn ore prices to US\$5.94/dmtu (from US\$4.17/dmtu) on 26 Apr 24 mainly due to the suspension of export operations by a key global Mn ore supplier due to a tropical cyclone. This development is poised to exacerbate the strain on ore supply, which will in turn have a cascading effect on Mn alloy prices. According to the International Manganese Institute, world crude steel production during Jan 24 and Feb 24 was 314.2m tonnes, which represented a 4.2% increase as compared with the same period in 2023.
- Update on MetSi furnace.** Recall that in Jan 23, OM Holdings (OMH) announced that it had successfully converted one of its FeSi furnaces to produce silicon metal (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. The replacement works for the silicon metal conversion project were completed in 1Q24. The hot commissioning of one silicon metal furnace has been scheduled for 3Q24.

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	345	424	434
Operating profit	521	248	225	300	318
Net profit (rep./act.)	305	82	126	196	221
Net profit (adj.)	348	82	126	196	221
EPS (sen)	47.1	11.1	17.1	26.5	29.9
PE (x)	0.7	2.9	1.9	1.2	1.1
P/B (x)	0.1	0.1	0.1	0.1	0.1
EV/EBITDA (x)	1.3	2.1	2.5	2.0	2.0
Dividend yield (%)	13.9	0.0	0.0	0.0	0.0
Net margin (%)	7.9	3.1	3.5	4.7	4.6
Net debt/(cash) to equity (%)	50.9	49.8	29.7	21.4	12.5
Interest cover (x)	7.7	3.3	3.6	4.9	5.6
ROE (%)	19.5	4.4	6.5	9.0	9.2

Source: OMH, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.54
Target Price	RM1.56
Upside	+1.3%

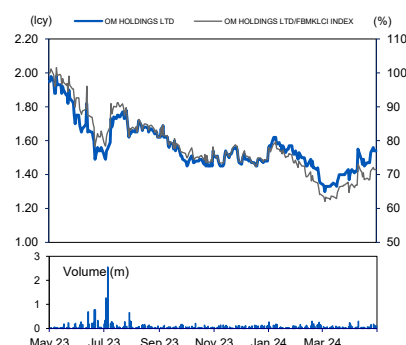
COMPANY DESCRIPTION

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):	1,180.0			
Market cap (US\$m):	247.3			
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
9.2	1.3	4.8	(21.0)	4.1
Major Shareholders				
				%
Huang Gang				14.0
Amplewood Resourced Ltd				13.6
Low Ngee Tong				9.2
FY23 NAV/Share (RM)				2.67
FY23 Net Debt/Share (RM)				0.76

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Sufficient fixed-rate electricity supply to fuel its expansion plan.** OMH has a fixed rate 20-year take-or-pay Power Purchase Agreement for 350MW that expires in 2033. This is sufficient to support its expansion plan which includes the expansion of MetSi. It is worth noting that electricity comprises 40% of OMH's smelting cost. We estimate its electricity costs to be in the range of US\$0.04-0.06/kWh, with a projected annual escalation of 1.5-2.5%. These estimates position OMH in the lowest quartile for production costs, while comparable global smelters often incur costs that are 2-3 times higher. OMH is currently considering the option of utilising the exhaust heat produced by its furnace to generate electricity. If successful, this conversion process could potentially generate an additional power supply of up to 30MW, which is enough to meet the requirements of OMH's final furnace setup. Additionally, we gathered that the efficiency of this heat exhaust will be comparable to its existing hydroelectric power.
- 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 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

- 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.

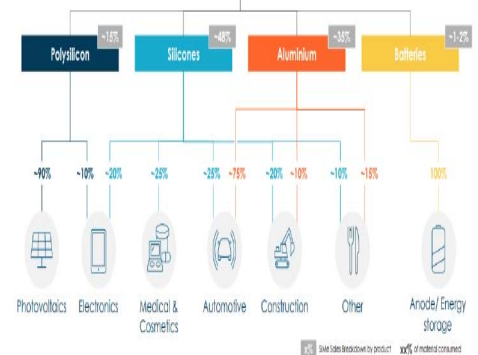
VALUATION/RECOMMENDATION

- Maintain HOLD with an unchanged target price of RM1.56**, implying 9x 2024F PE. 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)

<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. Social <ul style="list-style-type: none"> OMH offers career opportunities and provides training to the indigenous community. Governance <ul style="list-style-type: none"> Majority of the board are independent directors (5 out of 7 non-exec directors).
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SILICON METAL CONSUMPTION



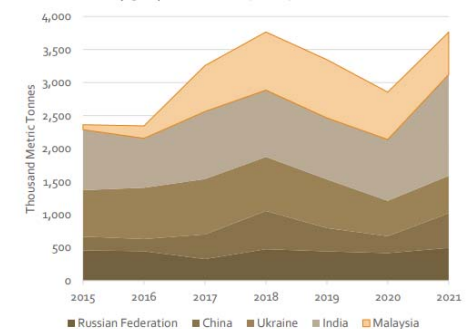
Source: Ferroglobe

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	1,285	1,350	1,400
Mn alloy	1,400	900	925	950

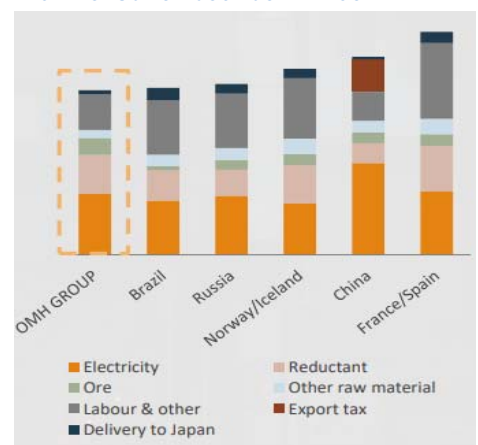
Source: OMH, UOB Kay Hian

TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

FESE 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	345	424	434
Deprec. & amort.	161	121	124	117
EBIT	248	225	300	318
Associate contributions	23	33	33	33
Net interest income/(expense)	(124)	(97)	(87)	(78)
Pre-tax profit	147	160	246	273
Tax	(64)	(38)	(59)	(65)
Minorities	(1)	5	9	14
Net profit	82	126	196	221
Net profit (adj.)	82	126	196	221

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	498	510	568
Other current assets	1,540	1,334	1,523	1,744
Total assets	4,234	4,238	4,473	4,609
ST debt	434	536	639	746
Other current liabilities	825	893	978	1,079
LT debt	761	547	333	119
Other LT liabilities	349	270	336	256
Shareholders' equity	1,851	1,973	2,160	2,367
Minority interest	15	19	28	42
Total liabilities & equity	4,234	4,238	4,473	4,609

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	9.5	10.2	9.1
Pre-tax margin	5.5	6.2	7.2	6.7
Net margin	3.1	4.4	5.9	5.7
ROA	1.9	3.5	4.7	4.6
ROE	4.4	3.0	4.4	4.8
Growth				
Turnover	(31.2)	36.5	14.6	14.6
EBITDA	(36.5)	(15.5)	22.8	2.4
Pre-tax profit	(52.4)	(9.4)	33.7	5.8
Net profit	(69.0)	9.0	53.3	10.9
Net profit (adj.)	(76.5)	54.3	55.0	12.7
EPS	(76.5)	54.3	55.0	12.7
Leverage				
Debt to total capital	-0.28	-0.26	-0.22	-0.19
Debt to equity	-0.65	-0.55	-0.45	-0.37
Net debt/(cash) to equity	0.50	0.30	0.21	0.13
Interest cover (x)	2.0	2.3	3.4	4.1

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