

OM Holdings Ltd (OMH MK)

1Q24 Production and Market Update: FeSi Production and Sales Exceeded Estimates

- OMH's FeSi production volume in 1Q24 was above our estimate at 35.4%, underpinned by temporary utilisation of two MetSi furnaces for FeSi production ahead of MetSi commercial production in 2H24.
- However, production of Mn alloys were inline with our initial projection despite the extension of hot commissioning for one furnace in 4Q23.
- OMH's sales volume rose 56.6% YoY to 114.8k MT in 1Q24. This, coupled with the rebound in Mn alloys price, will drive the turnaround in OMH's earnings in FY24 as we expected. Hence, no changes is made to our FY24-26F earnings forecast
- We are optimistic on OMH's outlook underpinned by its strategic diversification into the MetSi market, which is poised to capitalize on emerging opportunities in the diversified industries particularly from growing renewable energy sector.
- Maintain a BUY call for OMH with unchanged TP of RM1.96. Our valuation is based on an average forward peers' P/E ratio of 9x pegged to FY25F EPS of 21.8sen.

1Q24 Production and Sales Volume Update

During the quarter, all 16 furnaces were in operation including six Ferrosilicon (FeSi), two silicon metal (MetSi) and eight manganese alloys (Mn alloys) furnaces. FeSi production soared 22% QoQ to 49.6k MT due to the utilisation of two MetSi furnaces for FeSi production while awaiting for the commercial production of MetSi in 2H24. Meanwhile production of manganese alloys (Mn alloys) declined 11.2% QoQ to 70.5k MT due to higher production of high carbon ferromanganese (HCFeMn) as well as the extension of hot commissioning for one Mn alloy furnace during 4Q23. As for sales volume, FeSi improved 6.6% QoQ and +63.4 YoY while Mn alloys fell 39.6% QoQ but jumped 52.4% YoY. We deemed FeSi production and sales volume as above our in-house projection (35.4% and 33% respectively). Meanwhile Mn alloy production and sales volume were within our in-house estimate, making up 28.9% and 23.3% respectively.

Planned Major Maintenance is Progressing Well

The company has completed major maintenance works at 14 out of 16 furnaces so far, with 13 furnaces have passed hot commissioning and performance testing. The remaining one Mn alloy furnace had finished rectification works and resumed hot commissioning and performance testing in late Mar'24. This furnace was offline since a temporary shutdown in late Nov'23 and it is expected to finish hot commissioning by June'24. The remaining 2 FeSi furnaces are set for major maintenance in 2025 as previously reported.

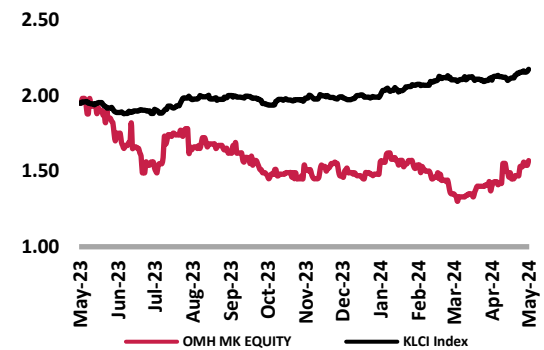
Metallic Silicon Progress Update

The MetSi conversion project replacement works were concluded in 1Q24. Hot commissioning of 1 MetSi furnace is scheduled for 3Q24. Management has taken this strategic decision to fully ramp up the furnaces to commercial production in order to achieve optimal returns. During this interim period, both MetSi furnaces are producing FeSi to maximize furnace utilization.

BUY

Share Price RM1.57
Target Price RM1.96 +24.8%

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	9.8	2.6	(20.7)
vs FBM KLCI	8.2	(3.0)	(27.5)

Stock Data

ESG rating	Good
Mkt Cap (RM mn)	1,203.0
Adjusted Beta	1.1
Free float (%)	93.3
Issued shares (mn)	766.3
52w H/L (RM)	2 / 1.27
3m avg daily volume	82,175

Major Shareholders (%)

Hanwa Co Ltd	4.2
JJFE Shoji Corporation	3.6
Low Ngee Tong	1.3

FYE Dec (RM'mn)	FY22	FY23	FY24F	FY25F	FY26F
Turnover	3,768.8	2,706.9	2,683.8	2,840.4	3,008.1
EBITDA	680.4	302.1	378.3	475.4	548.2
PBT	464.8	150.3	127.0	219.8	285.0
Core Profit	420.2	(23.5)	96.5	167.0	216.6
EPS (sen)	57.0	(3.1)	12.6	21.8	28.3
PER (x)	2.8	(51.3)	12.5	7.2	5.6
BVPS	2.4	4.8	2.5	2.6	2.7
P/B (x)	0.7	0.3	0.6	0.6	0.6

DPS (sen)	-	-	3.8	6.5	8.5
D. Yield (%)	-	-	2.4	4.2	5.4
Net gearing(x)	0.5	0.2	0.3	0.3	0.2

	Key Ratios (%)				
ROE	24.1	-0.6	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: Bloomberg, BIMB Securities

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Earnings Estimate

No change to our FY24-FY26F earnings forecast. We remain optimistic with the turnaround in OMH's earnings driven by higher product prices and better sales volume. To recap, OMH registered a core LATAMI of US\$5.1mn during FY23 due to lower ASPs despite increase in sales volume. In 1H24, we anticipate OMH to register a core PATAMI of US\$10.9mn banking on recent rebound in Mn alloy price. Noted that Mn alloy has reached its bottom since last two quarters and now has started to normalise given reduced capacity from the Ukraine and India. We are of the view that this momentum shall sustain and therefore could improve OMH's overall operational performance.

Reiterate BUY at TP of RM1.96

Maintain a **BUY** call for OMH with unchanged **TP of RM1.96**. Our valuation is based on average forward peers' P/E ratio of 9x pegged on FY25F EPS of 21.8sen. We favour the company due to the following: 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 it is expected to outshine due to their competitive and low-cost structure.

Table 1: Production and sales volume figure

FYE 31 Dec	1Q23	4Q23	1Q24	QoQ	YoY	1Q23	1Q24	YTD Chg
Production (MT)								
Ferrosilicon (Fesi)	29,707	40,635	49,561	22.0%	66.8%	29,707	49,561	66.8%
Manganese alloys (Mn alloys)	52,151	84,571	75,057	-11.2%	43.9%	52,151	75,057	43.9%
Total	81,858	125,206	124,618	-0.5%	52.2%	81,858	124,618	52.2%
Sales (MT)								
Ferrosilicon (Fesi)	28,282	43,346	46,216	6.6%	63.4%	28,282	46,216	63.4%
Manganese alloys (Mn alloys)	45,026	113,585	68,619	-39.6%	52.4%	45,026	68,619	52.4%
Total	73,308	156,931	114,835	-26.8%	56.6%	73,308	114,835	56.6%

Source: Company, BIMB Securities

Table 2: Earnings forecast

FYE Dec (USD'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
Core Net Profit	95.5	(5.1)	21.7	38.8	51.6
Consensus NP			25.9	43.1	49
Core EPS (sen)	13.0	-0.7	2.8	5.1	6.7
PER (x)	2.8	(51.3)	12.5	7.2	5.6
BVPS	0.5	1.0	0.6	0.6	0.6
P/B (x)	0.7	0.3	0.6	0.6	0.6
DPS (sen)	0.0	0.0	0.8	1.5	2.0
D. Yield (%)	-	-	2.4	4.2	5.4
Net Gearing	0.5	0.2	0.3	0.3	0.2
Key Ratios (%)					
ROE	24.1	-0.6	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
Core PATAMI margin	11.1	-4.8	3.6	5.9	7.2

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

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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