

## UOBKH HIGHLIGHTS

### OM Holdings (OMH MK/HOLD/RM1.42/Target: RM1.56)

2Q24: Production Within Expectations; Demand Weakness To Resume In 2H24

Year to 31 Dec	2Q24 (RMm)	qoq % chg	yoy % chg	1H24 (RMm)	yoy % chg	Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
<b>Production ('000 mt):</b>						Net Turnover	3,854	2,651	3,619	4,147	4,754
FeSi Alloy	48.3	(2.6)	61.6	97.8	64.1	Operating Profit	521	248	225	300	318
Mn Alloy	84.0	12.0	18.7	159.1	29.4	Net Profit (Rep./Act.)	305	82	126	196	221
<b>Sales ('000 mt):</b>						Net Profit (Adj.)	348	82	126	196	221
FeSi Alloy	50.6	9.4	71.1	96.8	67.3	EPS (sen)	47.1	11.1	17.1	26.5	29.9
Mn Alloy	85.6	24.7	32.6	154.2	40.7	PE (x)	0.6	2.6	1.7	1.1	1.0
<b>KEY ASSUMPTIONS</b>						P/B (x)	0.1	0.1	0.1	0.1	0.1
<b>Production ('000 mt):</b>						EV/EBITDA (x)	1.3	2.0	2.4	2.0	1.9
FeSi Alloy	140	130	155	140		Dividend Yield (%)	15.3	0.0	0.0	0.0	0.0
Mn Alloy	217	220	320	360		Net Margin (%)	7.9	3.1	3.5	4.7	4.6
<b>ASP (US\$/mt):</b>						Net Debt/(Cash) to Equity (%)	50.9	49.8	29.7	21.4	12.5
FeSi alloy	1,900	1,285	1,300	1,400		Interest Cover (x)	7.7	3.3	3.6	4.9	5.6
Mn alloy	1,400	900	900	950		ROE (%)	19.5	4.4	6.5	9.0	9.2
						Consensus Net Profit	-	-	125	206	236
						UOBKH/Consensus (x)	-	-	1.00	0.95	0.93

Source: OMH, UOB Kay Hian

## WHAT'S NEW

- 2Q24 ferroalloy production broadly within expectations.** OM Holdings' (OMH) 2Q24 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloy were 48,268mt (-3% qoq; +62% yoy) and 84,037mt (+12% qoq; +19%) respectively. The strong yoy improvement in FeSi production resulted from the operation of all six furnaces and one dual-use MetSi furnaces. Meanwhile, both the qoq and yoy improvement in Mn alloy production can mainly be attributed to higher HCFeMn production in 2Q24, as HCFeMn has a higher daily production output than SiMn. 1H24 production forms 54% of our full-year forecast, which we deem in line with our expectation. As at end-Jun 24, out of 16 furnaces, 14 have completed major maintenance, with 13 passing testing. One manganese alloy furnace's commissioning has been extended, and 2 FeSi furnaces are scheduled for maintenance in 2025.

## STOCK IMPACT

- Ferroalloy: Still not out of the woods.** In 2Q24, prices of FeSi decreased from US\$1,210/mt to US\$1,290/mt while Mn alloy prices increased from US\$920/mt to US\$1,165/mt. However, there was a sudden surge in Mn ore prices to US\$8.30/dmtu (from US\$4.32/dmtu) 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 Apr 24 and May 24 was 328.8m tonnes, which represented a 1.6% decrease as compared with the same period in 2023.
- Update on MetSi furnace.** Recall that in Jan 23, 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). Since then, both of the silicon metal furnaces have been converted to FeSi production while addressing the technical issues. 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. As at end-Jun 24, one silicon metal furnace underwent a 21-day shutdown for preparatory works prior to hot commissioning and performance testing for silicon metal production. The hot commissioning and performance testing phase is expected to take at least three months. Management will undertake a strategic decision to fully ramp up to commercial production and enter the market to ensure optimal returns, given that current MetSi prices are hovering at US\$1,600-1,800/mt compared with the historical average of approximately US\$2,245/mt.

## 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, based on 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.

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