

OM Holdings Ltd (OMH MK)

2Q24 Production and Market Update: MetSi to Start Production in 4Q24

- OMH's FeSi production volume in 1H24 exceeded our expectations, reaching 70% of our estimate partly arising from the operation of one MetSi furnace dedicated to FeSi production. On the other hand, the production of Mn alloys aligned with our initial projections.
- For the sales volume, FeSi and Mn alloys rose 67.3% YoY and 40.7% YoY to 96.8k MT and 154.2k MT respectively during 1H24.
- We make no changes to our FY24-26F earnings forecast.
- We are optimistic about OMH's long term outlook underpinned by its strategic diversification into the MetSi market, which is poised to capitalize on emerging opportunities in the diversified industries particularly from the 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.

2Q24 Production and Sales Volume Update

During 1H24, 15 out of 16 furnaces were operational. A scheduled 21-day shutdown occurred for one MetSi furnace in June'24. The remaining operational capacity included seven furnaces (six FeSi furnaces and one MetSi furnace - dedicated to FeSi production) while the other eight furnaces focused on producing Mn alloys. FeSi production down 2.6% QoQ to 48.3k MT. This decline was due to a temporary shutdown of one MetSi furnace that had been producing FeSi. The shutdown began on 10 June 2024, for preparatory work ahead of hot commissioning and performance testing for MetSi production starting on 1 July 2024. Nonetheless, production of Mn alloys inched up 12% QoQ, thanks to higher production of high carbon ferromanganese (HCFemn).

Higher ASPs During 2Q24

FeSi price rose slightly by 6.6% QoQ to US\$1,290 influenced by limited global supply following a crackdown on tax evasion by Chinese customs. SiMn price saw a significant increase of 26.6% QoQ, reaching US\$1,165 driven by constrained availability of high-grade ore. Price for SiMn have since stabilized as of July 2024.

Major Maintenance Activities are on Track

To date, 14 out of 16 furnaces have completed major maintenance with 13 furnaces successfully passing hot commissioning and performance testing. The hot commissioning of one Mn alloy furnace has been extended to ensure production performance meets the acceptance criteria. The remaining two FeSi furnaces are scheduled for major maintenance in 2025.

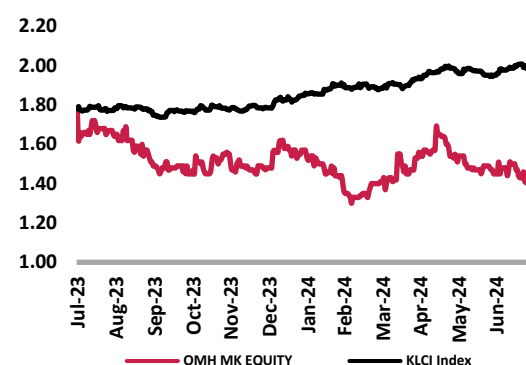
Metallic Silicon Progress Update

Provided there are no unexpected delays, the hot commissioning and performance testing of one MetSi furnace are projected to require at least three months. The transition to full-scale commercial production will be carefully timed to optimize market entry and returns. Meanwhile,

BUY

Share Price RM1.36
Target Price RM1.96 +44.1%

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(6.2)	(11.7)	(18.1)
vs FBM KLCI	(7.7)	(14.1)	(27.1)

Stock Data

ESG rating	Good
Mkt Cap (RM mn)	1,042.1
Adjusted Beta	1.0
Free float (%)	90.8
Issued shares (mn)	766.3
52w H/L (RM)	1.72 / 1.27
3m avg daily volume	58,616

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)	2.4	(45.4)	11.0	6.4	4.9
BVPS	2.4	4.8	2.5	2.6	2.7
P/B (x)	0.6	0.3	0.6	0.5	0.5
DPS (sen)	-	-	3.8	6.5	8.5
D. Yield (%)	-	-	2.7	4.7	6.1
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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the other MetSi furnace remains in FeSi production to ensure maximum utilization of operational capacity.

Earnings Estimate and Result Preview

No change to our FY24-FY26F earnings forecast. We remain optimistic about the turnaround in OMH's earnings driven by elevated ASPs and better sales volume. For 1H24, we anticipate OMH will report revenue of US\$301.6mn and core earnings of US\$10.9mn. This forecast is supported by higher ASPs for both FeSi and SiMn, along with robust sales volumes for these products. We expect upward pressure on prices moving forward, driven by production disruptions or capacity reductions among key suppliers and increasing global demand.

Reiterate BUY at TP of RM1.96

Maintain a **BUY** call on OMH with unchanged **TP of RM1.96**. Our valuation is based on average forward peers' P/E ratio of 9x pegged to 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 is anticipated to outshine due to its competitive and low-cost structure.

Table 1: Production and sales volume figure

FYE Dec	2Q23	1Q24	2Q24	QoQ	YoY	FY23	FY24	YTD Chg
Production (MT)								
Ferrosilicon (Fesi)	29,891	49,561	48,268	-2.6%	61.5%	59,598	97,829	64.1%
Manganese alloys (Mn alloys)	70,776	75,057	84,037	12.0%	18.7%	122,927	159,094	29.4%
Total	100,667	124,618	132,305	6.2%	31.4%	182,525	256,923	40.8%
Sales (MT)								
Ferrosilicon (Fesi)	29,565	46,216	50,567	9.4%	71.0%	57,847	96,783	67.3%
Manganese alloys (Mn alloys)	64,573	68,619	85,593	24.7%	32.6%	109,599	154,212	40.7%
Total	94,138	114,835	136,160	18.6%	44.6%	167,446	250,995	49.9%

Source: Bloomberg, 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			26.2	43.5	49.5
Core EPS (sen)	13.0	-0.7	2.8	5.1	6.7
PER (x)	2.4	(45.4)	11.0	6.4	4.9
BVPS	0.5	1.0	0.6	0.6	0.6
P/B (x)	0.6	0.3	0.6	0.5	0.5
DPS (sen)	0.0	0.0	0.8	1.5	2.0
D. Yield (%)	-	-	2.7	4.7	6.1
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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