

### UOBKH HIGHLIGHTS

## OM Holdings (OMH MK/HOLD/RM1.22/Target: RM1.26)

1H24: Results Within Expectations; Demand Weakness To Resume In 2H24

Year to 31 Dec	1H23 (RMm)	1H24 (RMm)	yoy % chg	Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
<b>Revenue</b>	<b>1,438.7</b>	<b>1,387.8</b>	<b>(3.5)</b>	Net turnover	3,854	2,651	3,913	4,078	4,685
Smelting	909.0	1,147.1	26.2	EBITDA	643	409	337	346	356
Marketing & Trading	1,314.5	1,444.5	9.9	Operating profit	521	248	216	222	239
Others	104.9	102.6	(2.1)	Net profit (rep./act.)	305	82	115	133	157
<b>EBIT</b>	<b>181.8</b>	<b>136.4</b>	<b>(25.0)</b>	Net profit (adj.)	348	82	115	133	157
Mining	(13.5)	(13.5)	-	EPS (sen)	47.1	11.1	15.6	18.0	21.3
Smelting	175.1	105.3	(39.8)	PE (x)	2.6	11.0	7.8	6.8	5.7
Marketing & Trading	13.5	38.3	183.3	P/B (x)	0.5	0.5	0.5	0.4	0.4
Others	4.5	5.0	10.0	EV/EBITDA (x)	3.9	6.2	6.7	6.2	5.8
Associates	181.8	136.4	(25.0)	Dividend yield (%)	3.7	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>137.3</b>	<b>80.6</b>	<b>(41.3)</b>	Net margin (%)	7.9	3.1	3.0	3.3	3.4
<b>Net Profit</b>	<b>86.0</b>	<b>57.6</b>	<b>(33.0)</b>	Net debt/(cash) to equity (%)	50.9	49.8	32.8	25.1	19.0
<b>Core Net Profit</b>	<b>86.0</b>	<b>57.6</b>	<b>(33.0)</b>	Interest cover (x)	7.7	3.3	3.5	4.0	4.6
<b>Margins</b>	<b>%</b>	<b>%</b>	<b>+/- ppt</b>						
EBIT	12.6	9.8	(2.8)						
Core Net Profit	6.0	4.2	(1.8)						

Source: OMH, UOB Kay Hian

### RESULTS

- **Within expectations.** OM Holdings (OMH) reported a core net profit of RM57.6m (-33% yoy). The weak set of results were mainly due to lower ASPs of ferroalloys which resulted in lower margins despite a higher total volume of products sold, driven by a 41% yoy growth in production volume. The 1H24 core net profit accounted for about 46% and 45% of our and consensus full-year estimates respectively, and we deem the results within expectation.

### STOCK IMPACT

- **Ferroalloy: Still not out of the woods.** In 2Q24, prices of FeSi increased from US\$1,210/mt to US\$1,290/mt while manganese (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 were technical issues being addressed during the commissioning process in 2023, 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. 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

- Cut 2024/25/26 earnings by 9%/32%/29% respectively mainly to account for lower average ferroalloys 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

- **Maintain HOLD with a lower target price of RM1.26 (from RM1.56), based on a rolled over 7x 2025F PE (from 9x previously).** The assigned target PE of 7x represents a discount compared with the average of 10x PE for selected mining and smelting companies listed on Bursa Malaysia. This discount is attributed to the uncertain global steel outlook and OMH's secondary listing on Bursa with its relatively tight liquidity.

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