

Stock Digest

Tuesday, 28 Feb, 2023

OM Holdings Ltd

Stability in material prices ensure prospects intact

Summary

- OM Holdings Ltd's (OMH) FY22 net profit rose 10.3% YoY to USD67.8m, driven by the higher transacted prices of manganese ores and ferroalloys. Revenue for the year gained 9.8% YoY to USD856.6m.
- The reported earnings came below expectations, making up to 80.7% of our forecasted net profit of RM84.0m and 85.8% of consensus net profit of RM79.0m. The variance is mainly due to the normalization of FeSi and Mn alloy prices during 2HFY22, amid the uncertainty of ferroalloy supply that was rattled by the geopolitical tension between Ukraine and Russia.
- As at 31st December 2022, OMH operates 10 out of 16 furnaces, with 5 furnaces producing FeSi, 4 furnaces producing Mn alloys and 1 furnace producing silicon metal. Meanwhile, the remaining 6 furnaces were shut for major maintenance.
- We gather that production volumes for FeSi rose 3.6% to 71,426 tonnes in 2H22 vs. 68,929 tonnes in 1H22. Cumulatively 140,355 tonnes make up to 93.6% of our assumption of 150,000 tonnes. On the other hand, production volumes of Mn alloys fell 21.3% to 95,506 tonnes in 2H22 vs. 121,307 tonnes in 1H22. The decline was due to 4 manganese alloy furnaces were shut down in stages for major maintenance works in 4Q22. We expect production to tick slightly lower in 2023 with FeSi at 125,000 tonnes and Mn alloys at 210,000 tonnes due to the conversion progress of 2 furnaces to produce MetSi.
- Raw material prices wise, 44.0% Mn ore price rose 16.3% QoQ to USD5.13/dmtu CIF China, boosted by the higher demand from smelters. FeSi price increased marginally by 0.6% QoQ to USD1,630/mt CIF Japan. Meanwhile, SiMn price fell marginally by 1.0% QoQ to USD1,030/mt CIF Japan. With energy prices turning softer in recent quarters and the recovery in economic activities, we reckon that raw material prices may remain flat over the foreseeable future.
- With the easing of port congestion and increasing freight supply, freight rates continue to normalised in 4Q22 to USD0.79/dmtu from South Africa to China for 37.0% manganese ore vs. USD0.97/dmtu in 3Q22. Still, we reckon that freight prices may hover above pre-Covid19 pandemic levels, due to the on-going geopolitical tension between Russia and Ukraine as well as higher labour cost.

Financial performance								
FYE Dec (USD m)	2HFY21	1HFY22	2HFY22 1H vs 2H (%)	YoY (%)	FY21	FY22	YoY (%)	
Revenue	431.9	466.7	389.9	(16.4)	(9.7)	779.9	856.6	9.8
EBITDA	183.4	203.2	42.0	(79.3)	(77.1)	245.4	245.2	(0.1)
PBT	67.7	82.0	23.6	(71.2)	(65.1)	84.5	105.6	25.0
PAT	62.8	60.0	22.6	(62.3)	(64.0)	82.1	82.6	0.6
Core PATMI	47.2	49.3	18.6	(62.3)	(60.7)	61.5	67.8	10.3
Reported PATMI	47.2	49.3	18.6	(62.3)	(60.7)	61.5	67.8	10.3
Core EPS (sen)	1.4	1.4	0.5	(62.3)	(60.7)	1.8	2.0	10.3
EBITDA margin (%)	42.5	43.5	10.8			31.5	28.6	
PBT margin (%)	15.7	17.6	6.1			10.8	12.3	
Core PATMI margin (%)	10.9	10.6	4.8			7.9	7.9	

Results Note – 2HFY22

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BUY

Share price	RM2.50
Target price	RM2.86
Previous TP	RM2.86
Capital upside	14.4%
Dividend return	2.8%
Total return	17.2%

Company profile

Principally involved in the mining, smelting and trading of raw ores

Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	1,846.6
52W High/Low	3.16 / 1.60
Est. Free float	55.5
Beta	0.7
3-mth avg vol ('000)	67.9
Shariah compliant	Yes

Major shareholders

Gang Huang	14.0
Amplewood Resources Ltd	12.8
Low Ngee Tong	9.3

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-5.3	23.2	-8.4
Relative	11.7	17.5	-5.8

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	70.3	77.0	84.4
EPS (sen)	40.9	44.8	49.2
P/E (x)	6.1	5.6	5.1

Relative performance chart



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Valuation & Recommendation

- Despite the weaker-than-expected results, we made no changes to our earnings forecast for subsequent years as we reckon that ASP has now demonstrating signs of stability, while net margins may stay at high single digits. Therefore, we maintain our **BUY** recommendation on OMH, with an unchanged target price of RM2.86.
- We derive our target price by assigning targeted P/E multiple of 7.0x to FY23f EPS of 40.9 sen. The assigned target P/E represents a slight discount to the average of 9.0x of selected mining and smelting companies listed on Bursa Malaysia as well as international scale. The discount is premised to OMH smaller market capitalisation.
- Risks to our recommendation and target price include weaker-than-expected production and ferroalloy prices. OMH is also exposed to currency risk, whereby a weaker USD against the Ringgit would be a drawback and vice versa.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	779.9	856.6	878.7	951.6	1,034.2	Cash	81.5	62.4	79.1	70.7	84.3
EBITDA	172.0	137.2	153.8	164.1	175.8	Receivables	40.9	31.8	36.1	39.1	42.5
EBIT	129.7	110.1	127.0	137.4	149.0	Inventories	256.4	235.4	234.7	254.2	276.3
Net finance income/ (cost)	(58.4)	(12.8)	(11.7)	(11.3)	(11.0)	PPE	444.0	445.6	445.2	447.0	451.2
Associates & JV	4.1	8.4	(4.4)	(4.8)	(5.2)	Others	120.9	110.9	134.8	148.3	164.0
Profit before tax	75.3	105.7	111.0	121.4	132.9	Assets	943.6	886.0	929.9	959.3	1,018.3
Tax	(2.5)	(23.0)	(26.6)	(29.1)	(31.9)	Debts	302.4	258.3	251.8	245.5	239.4
Net profit	72.9	82.6	84.3	92.2	101.0	Payables	128.2	126.6	130.5	133.1	144.5
Minority interest	20.6	14.7	14.1	15.2	16.5	Others	69.3	101.4	101.1	102.5	104.0
Core earnings	52.3	67.9	70.3	77.0	84.4	Liabilities	499.9	486.3	483.4	481.1	487.9
Exceptional items	-	-	-	-	-	Shareholder's equity	368.0	396.1	414.7	436.3	465.3
Reported earnings	52.3	67.9	70.3	77.0	84.4	Minority interest	75.7	3.6	31.8	41.9	65.1
						Equity	443.7	399.7	446.5	478.2	530.4
Cash Flow Statement						Valuation & Ratios					
FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	52.3	67.9	70.3	77.0	84.4	Core EPS (sen)	30.5	39.5	40.9	44.8	49.2
Depreciation & amortisation	42.3	27.2	26.7	26.7	26.8	P/E (x)	8.2	6.3	6.1	5.6	5.1
Changes in working capital	(63.3)	53.9	5.5	22.4	33.9	DPS (sen)	6.0	6.0	7.0	7.5	7.5
Share of JV profits	-	-	-	-	-	Dividend yield	2.4%	2.4%	2.8%	3.0%	3.0%
Taxation	-	-	-	-	-	BVPS (RM)	0.60	0.54	0.60	0.65	0.72
Others	46.6	57.4	-	-	-	P/B (x)	4.2	4.6	4.1	3.9	3.5
Operating cash flow	70.2	197.0	102.5	127.1	147.1	EBITDA margin	22.1%	16.0%	17.5%	17.3%	17.0%
Net capex	-	-	-	-	-	EBIT margin	16.6%	12.8%	14.5%	14.4%	14.4%
Others	4.4	(30.9)	(20.0)	(20.0)	(20.0)	PBT margin	9.7%	12.3%	12.6%	12.8%	12.8%
Investing cash flow	4.4	(30.9)	(20.0)	(20.0)	(20.0)	PAT margin	9.3%	9.6%	9.6%	9.7%	9.8%
Changes in borrowings	(26.7)	(45.6)	-	(50.0)	(50.0)	Core PAT margin	6.7%	7.9%	8.0%	8.1%	8.2%
Issuance of shares	-	-	-	-	-	ROE	11.8%	17.0%	15.7%	16.1%	15.9%
Dividends paid	-	(10.9)	(12.0)	(12.9)	(12.9)	ROA	5.5%	7.7%	7.6%	8.0%	8.3%
Others	(13.4)	(124.2)	(50.0)	(50.0)	(50.0)	Net gearing	49.8%	49.0%	38.7%	36.6%	29.2%
Financing cash flow	(40.2)	(180.7)	(62.0)	(112.9)	(112.9)						
Net cash flow	34.4	(14.7)	20.5	(5.7)	14.2						
Forex	(0.7)	(1.9)	(1.9)	(1.9)	(1.9)						
Others	-	-	-	-	-						
Beginning cash	36.0	69.8	53.3	71.9	64.3						
Ending cash	69.8	53.3	71.9	64.3	76.7						