

Stock Digest

Tuesday, 29 Aug, 2023

OM Holdings Ltd

1HFY23 came in below expectations

Summary

- **Below expectations.** OMH has released its results and its core net profit stood at USD19.1m for the 1H23 and it is below our estimation, accounting to only 27% of our forecast of USD70.7m. However, it is within consensus estimate of 48%. Key deviations were due to (i) lower than expected ASP of ore and alloys in 1H23.
- **HoH.** As compared to 2H22, core net profit rose marginally by 3% to USD19.1, as operating costs were significantly lower amid a drop in admin expenses and distribution costs, but was offset by higher tax expense for the period.
- **YoY.** Meanwhile, the core net profit dropped 61% YoY mainly driven by the decline in transacted prices of manganese ores and ferroalloys, despite similar total volumes of ores and alloys traded. The ASP was significantly lower as compared to 1H22 due to the high prices in 1H22, due to strong global recovery from the post-Covid-19 pandemic environment as well as the uncertainty caused by the conflict between Ukraine and Russia. However, the impact has subsided throughout 2H22 and the situation has carried forward into 1H23.

Price trends	Dec-22	Mar-23	Jun-23
Raw Material 44% Mn Ore (USD /dmtu CIF China)	5.13	5.30	4.54
Change (%)	-	3.3%	-14.3%
FeSi (USD /per metric tonne CIF Japan)	1,630	1,550	1,440
Change (%)	-	-4.9%	-7.1%
SiMn (USD /per metric tonne CIF Japan)	1,030	1,010	935
Change (%)	-	-1.9%	-7.4%

- **Outlook.** As both the FeSi and SiMn prices have not normalized at this juncture, the ASP trend may continue to weaken into 2H23. However, given the distribution costs and administrative expenses for 1H23 have declined and stabilised, the core earnings may stay flattish at least for 2H23. On a brighter note, the de-stocking activities recently may likely to provide some cushion to the declining prices before seeing stability towards end-2023.
- **Planned production of Metallic Silicon (MetSi) to resume in early 2024.** Following the suspension of MetSi furnace, we anticipate the resumption of operations to take place sometime in January 2024. Towards end of the year, OMH plans to operate 15-16 furnaces (5-7 FeSi furnaces, 5-8 Mn Alloys furnaces and 1 MetSi furnace). This is expected to boost production output to 340,000-400,000 tonnes for FY23f.

Quarterly performance					
FYE Dec (USD m)	1HFY22	2HFY22	1HFY23	HoH (%)	YoY (%)
Revenue	466.7	389.9	319.7	(18.0)	(31.5)
PBT	82.0	23.6	30.5	29.0	(62.9)
Core PATMI	49.3	18.6	19.1	3.0	(61.2)
Reported PATMI	49.3	18.6	19.1	3.0	(61.2)
Core EPS (US cents)	0.067	0.025	0.026	3.0	(61.2)
Core EPS (RM sen)	0.311	0.117	0.120	3.0	(61.2)
PBT margin (%)	17.6	6.1	9.5		
Core PATMI margin (%)	10.6	4.8	6.0		

Company Update

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BUY

Share price	RM1.65
Target price	RM1.92
Previous TP	RM2.86
Capital upside	16.4%
Dividend return	2.5%
Total return	18.8%

Company profile

Principally involved in the exploration and mining as well as trading and smelting of manganese ore and ferroalloys

Stock information

Bursa Code	5298
Bloomberg ticker	OMH MK
Listing market	MAIN
Share issued (m)	738.6
Market Cap (m)	1,218.7
52W High/Low	2.71 / 1.49
Est. Free float	90.5
Beta	0.7
3-mth avg vol ('000)	209.5
Shariah compliant	Yes

Major shareholders

	%
Hanwa Co Ltd	4.4
Low Ngee Tong	1.4
Heng Siow Kwee	1.2

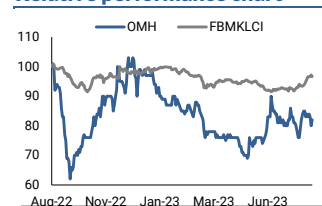
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-6.7	-10.3	-18.2
Relative	-6.9	-13.2	-15.5

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (\$m)	67.8	40.5	46.3
EPS (RM sen)	42.8	25.5	29.2
P/E (x)	9.2	5.5	6.3

Relative performance chart



Valuation & Recommendation

- Given the core net profit came in below expectations, we slashed our earnings by -35-42% to USD40.5m, USD46.3m and USD54.9m, respectively for FY23-25f taking into account softer ASP of FeSi and SiMn.
- Meanwhile, we maintain our **BUY** recommendation on OMH, with a reduced target price at RM1.92 (-33% from RM2.86) and the target price is derived by assigning targeted P/E multiple of 7.0x to mid-FY24f 27.4 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

Balance Sheet						Income Statement					
FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (USD m)	FY21	FY22	FY23f	FY24f	FY25f
Cash	81.5	62.4	41.9	88.5	107.4	Revenue	779.9	856.6	614.0	660.9	755.5
Receivables	40.9	31.8	25.2	27.2	31.0	EBITDA	141.2	137.9	96.6	110.5	122.3
Inventories	256.4	235.4	166.2	177.7	203.2	EBIT	98.9	110.8	60.5	69.3	81.0
PPE	444.0	445.6	464.4	443.1	451.7	Net finance income/ (co	(18.4)	(13.6)	(9.0)	(10.0)	(9.0)
Others	120.9	110.9	110.9	110.9	110.9	Associates & JV	4.1	8.4	8.4	8.4	8.4
Assets	943.6	886.0	808.5	847.4	904.2	Profit before tax	84.5	105.6	59.8	67.6	80.4
Debts	302.4	258.3	175.0	174.6	171.1	Tax	(2.5)	(23.0)	(12.3)	(14.2)	(17.3)
Payables	128.2	126.6	95.9	95.7	109.4	Net profit	82.1	82.6	47.5	53.4	63.1
Others	69.3	101.4	101.4	101.4	101.4	Minority interest	(20.6)	(14.7)	(7.0)	(7.1)	(8.2)
Liabilities	499.9	486.3	372.3	371.8	381.9	Core earnings	61.5	67.8	40.5	46.3	54.9
Shareholder's equity	368.0	396.1	432.6	472.0	518.7	Exceptional items	-	-	-	-	-
Minority interest	75.7	3.6	3.6	3.6	3.6	Reported earnings	61.5	67.8	40.5	46.3	54.9
Equity	443.7	399.7	436.2	475.6	522.3						
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	84.5	105.6	59.8	67.6	80.4	Core EPS (sen)	8.3	9.2	5.5	6.3	7.4
Depreciation & amortisation	42.3	27.1	36.2	41.2	41.4	P/E (x)	19.4	17.6	29.5	25.8	21.8
Changes in working capital	28.4	28.4	45.1	(13.6)	(15.6)	EV/EBITDA (x)	6.8	7.0	10.0	8.7	7.9
Share of JV profits	(4.1)	(8.4)	(8.4)	(8.4)	(8.4)	DPS (sen)	6.0	6.0	3.8	4.4	5.2
Taxation	(2.5)	(23.0)	(12.3)	(14.2)	(17.3)	Dividend yield	3.7%	3.7%	2.4%	2.7%	3.2%
Others	(69.3)	67.2	71.7	74.3	43.2	BVPS (RM)	0.50	0.54	0.59	0.64	0.70
Operating cash flow	79.4	196.9	192.0	146.9	123.7	P/B (x)	3.3	3.0	2.8	2.5	2.3
Net capex	(28.4)	(49.7)	(20.0)	(20.0)	(20.0)	EBITDA margin	18.1%	16.1%	15.7%	16.7%	16.2%
Others	32.7	18.8	18.8	18.8	18.8	EBIT margin	12.7%	12.9%	9.8%	10.5%	10.7%
Investing cash flow	4.4	(30.9)	(1.2)	(1.2)	(1.2)	PBT margin	10.8%	12.3%	9.7%	10.2%	10.6%
Changes in borrowings	(26.7)	(44.1)	(83.3)	(0.3)	(3.5)	Net margin	7.9%	7.9%	6.6%	7.0%	7.3%
Issuance of shares	-	-	-	-	-	ROE	16.7%	17.8%	9.8%	10.2%	11.1%
Dividends paid	(44.3)	(44.3)	(6.1)	(6.9)	(8.2)	ROA	6.5%	7.4%	4.8%	5.6%	6.3%
Others	30.9	(92.3)	(92.3)	(92.3)	(92.3)	Net gearing	60.0%	49.4%	30.8%	18.2%	12.3%
Financing cash flow	(40.2)	(180.7)	(231.3)	(99.6)	(104.1)						
Net cash flow	43.6	(14.8)	(20.5)	46.6	18.9						
Forex	(0.7)	(1.9)	(1.9)	(1.9)	(1.9)						
Others	-	-	-	-	-						
Beginning cash	36.0	81.5	62.4	41.9	88.5						
Ending cash	81.5	62.4	41.9	88.5	107.4						

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As of **Tuesday, 29 Aug, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned
