



## OM Holdings Ltd (OMH.ASX)

*Minority acquisition both earnings and value accretive*

### Event:

- Acquisition of Sarawak minority; Earnings and PT changes.

### Investment Highlights:

- OMH completed the acquisition of the 25% OM Sarawak minority on 6 December 2022, bringing its effective ownership of Malaysian smelters to 100%.** The price was as previously guided by the company: US\$120M less shareholder loans (appx. US\$11M), and the acquisition completed within the timeframe flagged (on or before December 13th).
- Non-dilutive funding utilised.** OMH used a combination of existing cash and new debt to fund the purchase, the latter comprising a private bond of up to A\$30.9M (US\$21M) issued to private investors including OMH Chair Low Ngee Tong and related parties, and management. This was positive in avoiding equity dilution. Bond terms include interest of 10% p.a. and a three year maturity.
- Debt still adequately serviceable: interest coverage of 8.3x.** Post-acquisition we estimate OMH's FY23e interest coverage (EBIT/net interest expense) is 8.3x, while net operating cash flow/net interest expense is 6.6x. We estimate cash on balance sheet of approximately US\$108M post-acquisition.
- Value-accretive acquisition.** We previously estimated the US\$120M was a value-accretive price, given it implied an EV for Sarawak (100%) of US\$689M or A\$1,077M, which was about 30% below our own Sarawak EV estimate of A\$1,543M.
- Earnings accretive as well.** The minority acquisition is also earnings accretive: see Earnings and Valuation below.
- Ferro-manganese (FeMn) and Mn ore prices climbing.** Since our previous OMH research report of 2 November 2022, FeMn prices (Europe) have risen 8% to US\$1,320/t from US\$1,221/t. Meanwhile Mn 37% RSA fob prices have climbed 16%, positive for OMH's investment in Tshipi.

### Earnings and Valuation:

- We increase OMH attributable NPAT in FY23e and FY24e by 25% and 22% to US\$128M and US\$96M from US\$102M and US\$79M,** based on the increased interest in Sarawak earnings (100% from 75%) more than offsetting higher interest expense. Adjusted EPS increases in FY23e and FY24e by 21% and 18% to \$0.17 and \$0.13 from \$0.14 and \$0.11.
- Similarly, our share valuation (1.0 x NPV<sub>10</sub> nominal) of OMH increases to \$1.78 from \$1.60,** from the acquired Sarawak minority.

### Recommendation:

- We maintain our Buy on OMH and raise our 12-month PT to \$1.78 from \$1.60,** based on our increase in risked valuation.
- Catalysts for share price** include 1) Commissioning of Si metal furnaces; 2) Higher production; 3) examination of downstream Si and Mn opportunities for applications such as EVs and renewable energy; and 4) Dividend policy.

### Disclosures

The analyst does not own OMH securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own OMH securities.

Cranport Pty Ltd does not own OMH securities.

Refer details end of report.

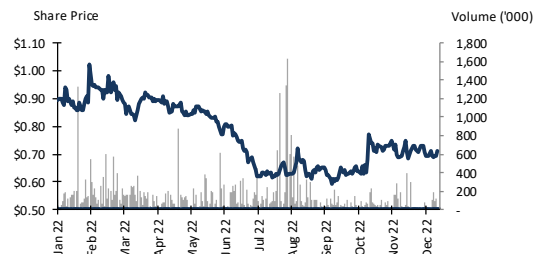
Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.78
Previous	\$1.60
Share price (A\$)	\$ 0.71
ASX code	OMH
52 week low-high	\$0.58-1.03
Valuation (A\$/share)	\$ 1.78
Methodology	NPV10 nominal
<b>Capital structure</b>	
Shares on Issue (M)	739
Market cap (A\$M)	524
Net cash (debt) attributable (A\$M)	-408
EV (A\$M)	932
Ave daily volume ('000)	151
<b>Earnings Y/e Dec US\$M</b>	<b>FY21a</b> <b>FY22e</b> <b>FY23e</b> <b>FY24e</b>
Sales adj*	738 688 1,131 1,071
EBITDA adj.*	115 152 195 159
NPAT adj*	61 92 128 96
EPS adj. \$*	0.08 0.12 0.17 0.13
PE x	5.8x 3.7x 2.9x 4.0x
EV/EBITDA x	2.8x 2.1x 2.2x 2.8x
DPS \$	0.01 0.0 0.0 0.0
Yield %	3.1% 0.0% 0.0% 0.0%

\* Adj = underlying attributable

### Board

Low Ngee Tong	Executive Chair & CEO
Zainul Abidin Rasheed	Non-Executive Director
Julie Anne Wolseley	Non-Executive Director
Tang Peng Chin	Non-Executive Director
Dato Abdul Hamid Bin Sh Mohamed	Non-Executive Director
Tan Ming-li	Non-Executive Director

### Share price graph



Analyst: Mark Fichera  
mark.fichera@fostock.com.au

+612 9993 8162