



OM Holdings Ltd (OMH.ASX)

Uncertain outlook buffered by low-cost position

Event:

- FY22 review; Earnings and Price Target changes.

Investment Highlights:

- FY22 OMH adj. attributable NPAT was US\$78M, 9% below our forecast.** The major difference being higher elimination (inter-segment) costs. Reported attributable NPAT was US\$68M, which included net non-recurring items of US-\$9M (US\$10M in write-downs and US\$1M forex gain).
- Weaker 2H on lower prices.** As we had expected, adj. attributable NPAT in 2HFY22 of US\$25M was down on the interim of US\$53M, due to the decline in revenue stemming from lower ferrosilicon and manganese alloy prices, which fell 20% and 30% respectively from the 1H to 2H. These more than offset the 10% rise in alloy shipments in the 2H vs the interim. In contrast earnings from Marketing, Tshipi, and Mining were fairly flat between the halves.
- Dividend policy signals Sarawak now well-established.** The company declared a dividend of A\$0.015/share, a 44% payout on 2H attributable reported NPAT. Concomitantly it announced a policy of paying 10-30% of attributable NPAT going forward, subject to typical conditions, including being capped to 50% of free cash flow. We believe the policy signals that Sarawak is now operationally well-established after the initial investment of the past few years.
- Still awaiting tax exemption approval.** The company incurred tax expense in the result and is still awaiting approval for another five-years tax exemption of on 70% of Sarawak income. Timing of approval however remains uncertain.
- FY23 outlook – focus on commissioning silicon metal furnaces.** This will be key for OMH this year, as it seeks to broaden Sarawak's product offering beyond ferrosilicon and manganese alloys. The first silicon metal furnace is undergoing hot commissioning. Once it has been passes into commercial production in the 1H, the second will undergo commissioning later this year.
- Uncertain look dampens prices.** After manganese ore, manganese alloy, and ferrosilicon prices rallied in the New Year to mid-February, prices have since weakened due to economic uncertainty and subdued steel demand outlook. We believe Sarawak is still well poised vs peers that are struggling with high energy prices, given its attractively priced contracted power which is mostly hydro.

Earnings and Valuation:

- We have cut our FY23 and FY24 attributable NPAT by 17% and 18% to US\$72M and US\$85M, mostly on removal of the Sarawak tax exemption.** While we believe the exemption will ultimately be granted, uncertainty in timing prompts us to remove it from our forecasts at this stage.
- Our OMH share valuation (1.0 x NPV₁₀ nominal) reduces to \$1.73 from \$1.81,** based on slightly higher costs at Sarawak.

Recommendation:

- We maintain our Buy on OMH and reduce our 12-month PT to \$1.73 from \$1.81,** based on 1.0x NPV. Catalysts include 1) Silicon metal commissioning; 2) Furnace expansions; 3) Downstream Si and Mn opportunities for applications such as EVs and renewable energy; and 4) Grant of tax exemption.

Disclosures

The analyst owns 32,600 OMH shares. 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.

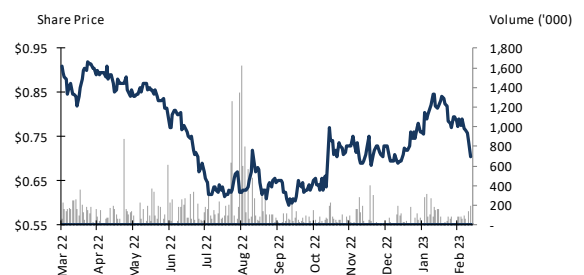
Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.73			
Previous	\$1.81			
Share price (A\$)	\$ 0.71			
ASX code	OMH			
52 week low-high	\$0.58-0.94			
Valuation (A\$/share)	\$ 1.73			
Methodology	NPV10 nominal			
Capital structure				
Shares on Issue (M)	739			
Market cap (A\$M)	521			
Net cash (debt) attributable (A\$M)	-268			
EV (A\$M)	789			
Ave daily volume ('000)	143			
Earnings Y/e Dec US\$M	FY22a	FY23e	FY24e	FY25e
Sales adj*	779	600	662	789
EBITDA adj. *	134	138	155	172
NPAT adj*	79	72	85	102
EPS adj. \$*	0.11	0.10	0.12	0.14
PE x	4.6	5.0	4.3	3.7
EV/EBITDA x	3.3	4.0	3.6	3.3
DPS \$	0.01	0.02	0.02	0.03
Yield %	2.1%	4.0%	4.7%	5.5%

* 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



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