



OM Holdings Ltd (OMH.ASX)

Soft markets sustain headwinds

Event:

- 4Q production, interim result reviews; Earnings, price-target changes.

Investment Highlights:

- NPAT down on lower prices.** OMH 1HFY23 adj. NPAT was US\$20M, 25% below our estimate of US\$27M, mostly due to lower Tshipi earnings and higher interest costs. It was also 20% down on 2HFY22 adj. NPAT of US\$25M, mostly on lower FeSi, Mn alloy, and Mn ore prices.
- Production stronger.** Despite weak prices, OM Sarawak sales volumes were better than expected. Mn alloy shipments were 110kt vs our estimate of 98kt, while FeSi alloys were in-line at 58kt. In July the company raised FY23e production guidance to 120-140kt FeSi from 110-130kt, and to 223-263kt Mn alloy from 202-222kt. The improved performance highlights maintenance program tracking well to date, OMH expecting all 16 furnaces to be operating by end 2023/beginning 2024.
- Weak China backdrop and strong US\$ pressure prices.** The lack of aggressive stimulus for China's economy has meant lingering weakness in steel and property markets, impacting demand for alloys and Mn ore, and slowing the destocking cycle. Together with strong US dollar, this has meant weakening Mn and FeSi alloy and Mn ore prices for the remainder of FY23e.
- OM Sarawak bucks China production trend.** While China FeSi production fell in 1H2023 due to smelters caught between lower prices and high energy costs, OM Sarawak increased output, leveraging its low-cost power hydropower to maintain profitability against the soft price backdrop.
- Working capital impacts.** Cash flow was impacted from negative working capital movement of -US\$51M due to falling prices. Net debt attributable (including Tshipi cash) was A\$344M, up from A\$268M end December.
- Cut to long-term alloy prices.** We have reduced our long-term FeSi and FeMn Japan CIF prices by 1% and 14% to US\$1,380/t and US\$1,252/t, while our Mn 44% China CIF is unchanged at US\$5.40/dmtu.
- Metallic Si furnace still suspended.** One of the Si furnaces has been modified to produce FeSi, while the other is going through hot commissioning. We expect a restart of Si production in 2024. Meanwhile OMH has begun a divestment process for 90% of OM Qinzhou (China smelting).

Earnings and Valuation:

- We reduce FY23e and FY24e NPAT by 32% and 23% to US\$40M and US\$61M (prior US\$59M and US\$79M) on lower FeSi and SiMn prices and higher costs.
- Our OMH share valuation (1.0 x NPV₁₀ nominal) falls to \$1.09 from \$1.58, from our earnings downgrade.

Recommendation:

- We maintain our Buy on OMH and cut our 12-month PT to \$1.09 from \$1.58, based on our increase in risked valuation. Catalysts for share price include 1) Restart of Si furnace; 2) Furnace expansions; 3) Improving prices; and 4) Grant of tax exemption.

Disclosures

The analyst owns 32,600 OMH shares.
Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.09
Previous	\$1.58
Share price (A\$)	\$ 0.515
ASX code	OMH
52 week low-high	\$0.49-0.85
Valuation (A\$/share)	\$ 1.09
Methodology	NPV10 nominal

Capital structure

Shares on Issue (M)	739
Market cap (A\$M)	380
Net cash (debt) attributable (A\$M)	-344
EV (A\$M)	724
Ave daily volume ('000)	100

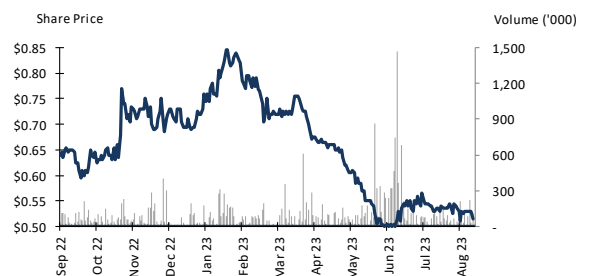
Earnings Y/e Dec US\$M	FY22a	FY23e	FY24e	FY25e
Sales adj*	779	688	771	863
EBITDA adj.*	134	110	133	151
NPAT adj*	79	40	61	78
EPS adj. \$*	0.11	0.05	0.08	0.11
PE x	3.3x	6.5x	4.4x	3.5x
EV/EBITDA x	2.7x	4.1x	3.4x	3.1x
DPS \$	0.01	0.01	0.02	0.02
Yield %	2.8%	3.1%	4.6%	5.8%

* 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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