



## OM Holdings Ltd (OMH.ASX)

*Strong production offsetting weak prices*

### Event:

- 3QCY23 production reviews; Earnings, price-target, commodity price changes.

### Investment Highlights:

- Production above our forecast, company upgraded guidance.** Despite weak prices, OM Sarawak recorded strong production in 3Q23 following the completion of major maintenance works for 10 furnaces. FeSi and Mn alloys' production was up 31% and 23% QoQ to 39.3kt and 86.9kt, above our forecasts of 30.0kt and 52.5kt. Consequently, OMH upgraded its FY23 production guidance by around 3-20% to 129-139ktpa FeSi and 279-289ktpa Mn alloys.
- Sales volumes were also better than expected.** FeSi shipments were 34kt vs our estimate of 30kt, while Mn alloys were 68kt vs 54kt. The improved performance highlights maintenance program tracking well to date, OMH is expecting all 16 furnaces to be operating in 1Q24. OMH allocates more capacity in 2H23 to produce high-carbon ferromanganese due to growing demand.
- Metallic Si (MetSi) furnace to operate in 2024.** Both MetSi furnaces are currently producing FeSi while the fabrication works are ongoing. The hot commissioning for the production of MetSi is expected to restart in 1Q24.
- Maintenance on track.** 15 furnaces are currently in operation (7 FeSi, 8 Mn alloys) while the remaining one FeSi furnace is undergoing maintenance. Another one FeSi furnace is scheduled for maintenance in 4Q23 while two more are scheduled for 2025. No impact is expected on FY23 production guidance.
- Marketing volumes up.** 604.2kt of ore was traded in the quarter, above our forecast of 385kt and the 493kt of the 2Q23, mostly from higher Mn ore sales. Tshipi also had stronger performance of 863kt, up 6.4% qoq.
- Cash bolstered by the sale of China operation.** OMH recently announced that it sold 90% of its stake in OM Qinzhou to Beijing Kunpeng Hongsheng Metal for ~US\$25M while retaining 10% strategic interest. We view this sale positively as OMH can now move forward and use the funds to focus on OM Sarawak.
- Alloy prices weak – we downgrade short-term prices.** As at October, FeSi and SiMn prices continue to ease to US\$1,320/t and US\$860/t from US\$1,360/t and US\$945/t last month given the continued weak market sentiment. We downgrade FeSi -11% and SiMn -8% in FY23e to US\$1,431/t and US\$939/t.

### Earnings and Valuation:

- We increase FY23e and FY24e NPAT by 20% to US\$48M and US\$73M** (prior US\$40M and US\$61M) as we increase FY23e production by 16% and 26% to 138kt FeSi and 287kt Mn alloys and FY24e by 22% for Mn alloy to 330kt, partially offsetting lower ferroalloy prices.
- Our OMH share valuation (1.0 x NPV<sub>10</sub> nominal) increases to \$1.14 from \$1.09.**

### Recommendation:

- We maintain our Buy on OMH and increase our 12-month PT to \$1.14 from \$1.09**, 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

Foster Stockbroking and staff own 32,600 OMH shares.

Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	Medium
Price Target	\$1.14
Previous	\$1.09
Share price (A\$)	\$ 0.460
ASX code	OMH
52 week low-high	\$0.44-0.85
Valuation (A\$/share)	\$ 1.14
Methodology	NPV10 nominal

### Capital structure

Shares on Issue (M)	739
Market cap (A\$M)	340
Net cash (debt) attributable (A\$M)	-319
EV (A\$M)	658
Ave daily volume ('000)	100

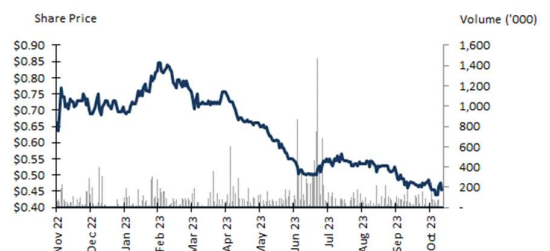
Earnings Y/e Dec US\$M	FY22a	FY23e	FY24e	FY25e
Sales adj*	779	733	840	853
EBITDA adj.*	134	120	149	151
NPAT adj*	79	48	73	78
EPS adj. \$*	0.11	0.07	0.10	0.11
PE x	2.8	4.6	3.0	2.8
EV/EBITDA x	3.2	3.6	2.9	2.8
DPS \$	0.01	0.01	0.02	0.02
Yield %	3.4%	3.3%	7.7%	6.7%

\* 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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