

Analyst: Greg Chessell

OM Holdings Ltd (OMH \$2.96) BUY

- ▶ Valuation: \$3.55/sh
- ▶ Reason For Update: Update to our financial model and Mn price assumptions
- ▶ Quick Comment:

Our assumed Mn price scenario has been upgraded following continued strength in the Mn market. The following table shows the changes to our assumed manganese price.

Mn prices assumed (Euroz)

Bootu Ck FOB Lump (US\$/dmu)

period	old	new
Jun H'08	750	820
Dec H'08	700	1000
Jun H'09	650	750
Dec H'09	600	750
Jun H'10	550	585
Dec H'10	500	585
LT	450	585

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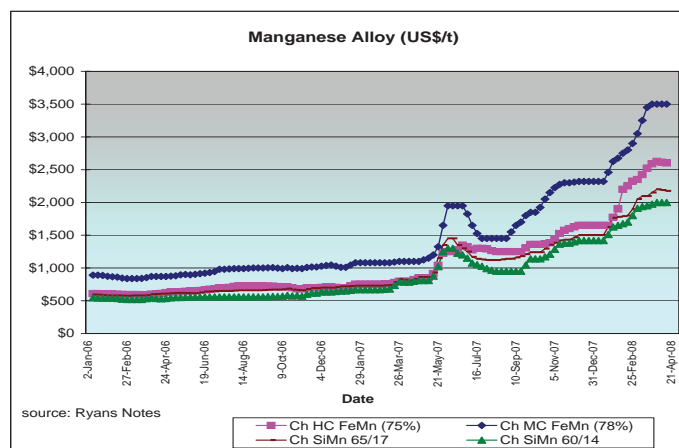
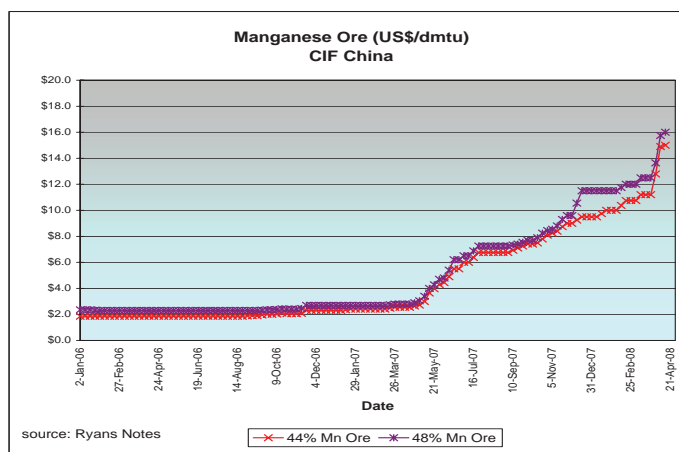
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We note the recent strength in spot market indicating a price of US\$14.90/dmtu CIF China basis 44% Mn Lump ore. The following charts show the Mn ore and alloy prices trend over the last 2 yrs.



Our production forecast in 2008 has been upgraded by 5% to 735kt of Mn ore product. This is the result of the better than expected performance during the wet season as shown in the company's recent presentation.

We have also upgraded our longer term production assumption by 11% to 780ktpa from 2009 onwards to include the higher yield to be achieved from reprocessing of the coarse reject. While this project has not yet been confirmed we rate it as a high likelihood to proceed. Capex is estimated at \$10m and opex increment of ~+6% to total processing costs.

Our operating costs estimates now more accurately reflect the impact of royalty costs and their relationship to Mn price. Royalty costs are the largest driver of operating cost variance and our lower forecast future costs are a function of assumed moderating Mn prices. All other aspects of operating costs are assumed to remain static and we use a life of mine average waste:ore ratio of 10:1. Operating costs in 2008 will be roughly split in equal thirds between mining, royalty & admin, and processing & logistics.

We assume a ten year mine life, slightly above the 8.5 year life stated in the recent ore reserve and mineral resource announcement.

It is our belief that resources and reserves will grow significantly through the exploration program this year. We understand that OMH will spend >\$7m on drilling some 50,000m in 2008. To date some 20mt of resource has been discovered at Bootu Ck over about 10km of strike length. Another 10km of strike length immediately around the mine is targetted in 2008 where sparse drilling in 2007 has already shown economic grades and widths. It is reasonable to assume that a success rate of 1.5mt/km might be achieved and this may have an ore reserve conversion rate of 75%, equivalent to 11mt or 5.5yrs of additional minelife.

Other exploration potential also exists down dip of existing deposits (probably incrementa) and at Renner Springs where outcrop and historical RAB drilling has identified Mn mineralisation.

Ultimately we expect the resource inventory can double from the current level of 20mt (incl mined ore). Much of this could be realised (in inferred category) in 2008 with a drilling program larger than the total for the last 2 yrs. Potential for a 30% expansion of production to 1.0mtpa is good but is dependent on the outcomes of the 2008 drilling program.

Our forecasts for the Qinzhou and Trading businesses are unchanged.

▶ **Investment Case:**

Our forecast NPAT for CY'08 has been revised up to A\$137m, from A\$102m previously. The stock is currently priced at just 5.4x these earnings. The earnings are derived from Bootu Ck ~80%, Trading ~15% and Qinzhou ~5%.

Our derived NPV based valuation is now \$3.42/sh.

The strong earnings in 2008 should lead to a net cash balance of roughly \$135m at year end, after providing for a \$0.05/sh interim dividend.

The 2008 earnings forecasts are biased toward the Dec H as June H'08 Mn price received for Bootu Ck will not reflect the recent substantial price gains. Bootu Ck prices are set quarterly, ie Mar Q prices were set in Dec'07 and June Q'08 prices were set in March.

In our view the potential for resource growth leading to production expansion is high. Theoretically this should support a valuation well above our current estimate although this would largely be dependent on the Mn price and outlook prevailing at the time, say toward the end of 2008.

The impending Hong Kong listing will potentially be a share price driver. However the need for OMH to raise new equity funds to facilitate the HK listing is difficult to envisage currently given the strong cashflow and balance sheet. While we can see growth projects on the horizon requiring modest investment at Bootu Ck, Qinzhou in China and other exploration, we feel these are within the capacity of the existing balance sheet and cashflow.

The manganese price is now in uncharted territory and is absolutely the largest driver of value. In the short term the Mn market may still trend higher. We believe that our long term forecast of US\$8.00/dmtu is reflective of:

- Potential supply side response to the recent price gains from new high grade projects and low grade expansions;
- Escalating operating and capital costs for incremental production, most likely to be high cost & low grade ore;
- Highly concentrated supply side in the seaborne market. Samancor (BHP/Anglo), Vale, Eramet, Privat and Assmang control 80-90% of the seaborne market.
- Power supply constraints to any growth from Sth Africa. Sth Africa currently accounts for 30% of the high grade Mn ore market.

Investors should be mindful that OMH is now the largest independent supplier of high grade manganese ore to the seaborne market in the world following the acquisition by Privat of ConsMins and Ghana Manganese last year. This is a very valuable strategic position that is not reflected in our NPV valuation.

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to OMHoldings Ltd during the last year. Euroz Securities has received a fee for these services.

This analyst also declares that he has a beneficial interest in OM Holdings Ltd shares.

OM HOLDINGS (OMH)		YEAR END 31 DEC				
MARKET STATISTICS						
Share Price	\$2.96 A\$/sh	Directors				
Issued Capital		J Raubenheimer	Chair'n			
FP Ord	231.8 m	Low Ngee Tong	Mgr Dir			
Opt	15.0 m	Ong Beng Chong	Dir			
Opt (@\$1.05/sh)	nil	Tan Peng Chin	Dir			
Opt (@\$0.72)	nil	Julie Wolseley	Dir			
Total Dil. FPOrd	246.8 m	Paul Thomas	CEO, OMM			
Market Capitalisation	\$730 m	Shareholders				
Enterprise Value	\$712 m	SK Heng	10.6%			
Debt	\$(6)m	NT Low	9.3%			
Cash	\$24 m	Huang Gang	5.0%			
Currency Hedging	nil	Westoz	6.9%			
ASSET VALUATION						
		A\$m	A\$/sh			
Bootu Ck		645	2.61			
OMH Trading		111	0.45			
OMH Quinzhou		58	0.24			
Hedging		4	0.02			
Corporate		(30)	-0.12			
Other		-	-			
Territory Iron		26	0.11			
Working Capital		32	0.13			
Unpaid Capital		10	0.04			
Debt		(6)	-0.02			
Cash		24	0.10			
Total @ 10% nom		875	3.55			
Total @ 5% nom		1,039	4.21			
Total @ 15% nom		759	3.08			
FORECAST PRODUCTION						
		2007a	Jun H'08f	2008f	2009f	2010f
Bootu Ck						
Lump Mn Ore Shipped	kt	376	247	546	580	580
Fines Mn Ore Shipped	kt	127	86	189	200	200
Total Mn Ore Shipped	kt	503	333	735	780	780
Total Cash Costs	A\$/t	125	189	193	175	166
Mn Price Rec'd Blended	A\$/t	186	375	426	372	308
Mn price ass. (lump cif)	US\$/dmtu	5.35	11.25	12.25	10.00	8.00
Mn price rec'd (lump fob)	US\$/dmtu	3.76	8.18	9.16	7.49	5.85
OM Trading						
Mn Ore	kt	654	350	700	800	800
Cr Ore	kt	287	50	100	100	100
Mn Alloy	kt	63	25	50	60	60
Cr Alloy	kt	27	10	20	30	30
Revenue	A\$m	293	137	258	295	314
Gross Margin	%	25.1%	25.0%	22.7%	16.0%	16.0%
OM Quinzhou						
Revenue	A\$m	43	20	44	54	58
Gross Margin	%	31%	33%	29%	15%	15%
Foreign Exchange						
Ass'd Spot Rate	US\$:A\$	0.84	0.92	0.91	0.85	0.80
Avg Rate Ach'd	US\$:A\$	0.84	0.88	0.89	0.85	0.80
RATIO ANALYSIS						
		2007a	Jun H'08f	2008f	2009f	2010f
CF (A\$m)		42	-	158	141	110
CF / Sh (Ac/sh)		17	-	64	57	45
CF Ratio (x)		11.9	-	4.6	5.2	6.6
Earnings (A\$m)		57	-	137	128	100
EPS (Ac/sh)		23	-	56	52	40
EPS Growth (%)		-210%	0%	142%	-7%	-22%
Earnings Ratio (x)		8.8	-	5.3	5.7	7.3
E'prise Val. (A\$m)		445	-	563	467	423
EV : EBITDA (x)		5.9	-	2.6	2.6	2.9
EV : EBIT (x)		7.1	-	2.9	2.8	3.2
Net Debt / ND+Eq (%)		-12%	0%	-88%	-154%	-204%
Interest Cover (x)		53		n/a	n/a	n/a
EBIT Margin (%)		22%		31%	26%	22%
ROE (%)		34%		49%	34%	22%
ROA (%)		29%		59%	40%	27%
Div. (Ac/sh)		7.0	5.0	15.0	15.0	12.0
Div. payout ratio		30%		27%	29%	30%
Div. Yield		3.5%		5.1%	5.1%	4.1%
Div. Franking		0%		0%	0%	0%

PROFIT & LOSS		2007a	Jun H'08f	2008f	2009f	2010f
Mining Revenue		85	125	313	290	240
Trading Revenue		169	137	258	295	314
FerroAlloy Revenue		35	20	44	54	58
Forex Hedging Revenue		-	5	7	0	0
Interest Income		1	0	2	6	10
Other Revenue		1	-	-	-	-
TOTAL REVENUE		291	287	623	646	622
Operating Costs		205	194	397	449	461
Dep/Amort		9	6	15	12	10
W/O & Provisions		4	3	6	1	1
Corp O/H		10	4	8	8	8
EBITDA		75	89	216	182	144
EBIT		63	80	195	169	133
Interest Expense		2	0	0	0	0
NPBT		62	80	197	175	142
Tax		5	24	59	47	43
Minority Interest		0	0	0	0	0
NET PROFIT		57	56	137	128	100
Net Abnormal Gain/(Loss)		-	-	-	-	-
NET PROFIT After Abn'l		57	56	137	128	100
CASHFLOW						
		2007a	Jun H'08f	2008f	2009f	2010f
Net Profit		57	56	137	128	100
+ Working Capital Adj.		(32)	-	-	-	-
+ Dep/Amort		9	6	15	12	10
+ Provisions/WO		4	3	6	1	1
+ Tax Expense		5	24	59	47	43
- Tax Paid		-	24	59	47	43
Operating Cashflow		42	65	158	141	110
-Capex + Development		9	1	11	2	2
-Exploration		4	5	10	8	6
-Assets Purchased		-	-	-	-	-
+Asset Sales		-	-	-	-	-
Investing Cashflow		(11)	(6)	(21)	(10)	(8)
+Equity Issues		17	2	2	-	-
+Loan D'down/Receivable		-	-	-	-	-
+Other		3	-	-	-	-
-Loan Repayment		23	-	-	-	-
-Dividends		5	12	23	35	32
Financing Cashflow		(8)	(9)	(21)	(35)	(32)
Period Sur (Def)		23	50	116	96	70
Cash Balance		21	70	137	233	303
BALANCE SHEET						
		2007a	Jun H'08f	2008f	2009f	2010f
Assets						
Cash		24	70	137	233	303
Current Receivables		27	27	27	27	27
Other Current Assets		51	51	51	51	51
Non-Current Assets		116	114	119	116	114
Total Assets		218	262	333	427	494
Liabilities						
Borrowings		6	5	5	5	5
Current Accounts Payable		41	41	41	41	41
Other Liabilities		5	5	5	5	5
Total Liabilities		52	51	51	51	51
Net Assets		166	211	282	376	443
SEGMENT EBITDA						
		2007a	Jun H'08f	2008f	2009f	2010f
Mining		31	62	171	153	111
FX Hedging		0	5	7	0	0
Trading		48	19	33	29	32
Qinzhou		13	6	13	8	8
Other		(18)	(4)	(8)	(8)	(8)
Total EBITDA		75	89	216	182	144
SEGMENT EBIT						
		2007a	Jun H'08f	2008f	2009f	2010f
Mining		22	56	157	142	102
FX Hedging		0	5	7	0	0
Trading		48	19	33	29	32
Qinzhou		13	6	12	7	8
Other		(21)	(7)	(14)	(9)	(9)
Total EBIT		63	80	195	169	133
RESERVES AND RESOURCES						
		Reserves		Resources		
		mt	Mn%	mt	Mn%	
Measured / Proved		2.5	24.6	3.55	25.4	
Indicated / Probable		7.8	24.5	10.6	25.9	
Inferred				3.6	25.6	
Total		10.3	24.5	17.75	25.7	

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