EUROZ SECURITIES LIMITED

Australian Equities Research

OM Holdings Ltd (OMH $1.03) – BUY

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Price Target: $1.75/sh

Reason For Update:
2008 full year financial results

What We Know:

- NPAT of A$115.6m was ahead of our $101m forecast.
- Final dividend of $0.03/sh declared (2008 total $0.065/sh).
- Cash of $119m and debt of $2m.
- The implied Dec H'08 profit of $19m exceeded our expectation of a roughly breakeven outcome. The June H'08 had already recorded NPAT of A$97m.
- Sales guidance for the March Q is 150,000t. Product inventories grew by 160,000t during 2008, mainly in the Dec Q when zero sales were recorded.
- Production guidance for the June H'09 is for 250kt. In the short term the lower yield, waste stripping and wet season will negatively affect the production results. OMH is flagging an improvement to mining capability, yield and metal recovery in the 2nd H of 2009, with guidance at 350kt. A production rate of 850ktpa is expected in 2010 as the reject plant is scheduled for completion at end of 2009.
- OMH has had to re-price Mar Q'09 shipments originally set at ~US$7/dmtu following the benchmark pricing recently agreed at US$5.65/dmtu. OMH believes this price was below the "clearing price" prevailing in the Chinese market at the time.
- The revised resource estimate, the culmination of the 2008 drilling campaign, is expected within a few weeks.

What We Think:
The Dec H'08 implied result of NPAT $19m should be viewed in the context of two very contrasting quarters, the Sep Q featuring a record Mn price and the Dec Q featuring nil sales.

The higher than expected result, driven by the Marketing and Qinzhou divisions (offset by hedging losses) is testimony to the leverage these downstream businesses offer in a strong market and despite a poor Dec Q. These businesses have time and again exceeded expectation, and provide a level of cash generation that other similar mining businesses cannot match. We estimate that the divisional contribution is as follows:

OM Holdings Ltd		
Divisional EBIT (implied)	Dec H08	CY08
Bootu Ck (inc hedging)	4.4	61.3
Trading (excl O/H)	11.7	53.4
Qinzhou	6.6	19.5
Other	5.4	-2.6
Total	28.2	131.[illegible]

Source: Euroz

It was comforting that no writedowns of inventory were required despite the weak Mn market at year end. OM Holdings has a very clean balance sheet, dominated by cash A$119m, other net current assets of $33m, negligible other liabilities, and a fully expensed exploration portfolio.

Our revised forecast for 2009 is for NPAT of $85m, with the make up heavily biased to the Dec H. The June H component is forecast at $26m, being weighed on by out of the money FX hedging, a below average sales volume and the lower than expected benchmark price settlement.

We are of the view that the manganese market will recover by mid year to the levels indicated by the spot market in January at ~US$8.00/dmtu. Our view is supported by the relatively buoyant iron ore spot market in China coupled with the lower short term Mn price which will have the impact of squeezing any high cost and low grade new supply from the market, potentially leading to the market being “short” later in the year. Furthermore we believe that the relatively low benchmark price will stimulate volume demand, potentially leading to a stronger sales volume outcome from Q2 onwards. This remains as potential upside to our forecasts.

That OMH has been able to secure sales commitments of 150kt in Mar Q’09 from nil in Dec Q’08 demonstrates that demand recovery has been good as the destocking process has matured.

We look to the impending resource upgrade as a driver of fundamental value in OM Holdings. Further OMH continues to suggest that Bootu Ck is capable of supporting an expansion should the market demand recover. In any event the reject retreatment plant project remains on track for completion by year end, coinciding with completion of the sinter plant at Qinzhou. Total capital expenditure for these projects is roughly $35m.

Investment Case:

Our NPV based valuation is $1.75/sh, unchanged.

The stock is inexpensive in the context of this valuation and on a PER of 6x 2009 forecast earnings using cycle low commodity price assumption.

The cashed up balance sheet derived from the good earnings history is evidence this company is managed for shareholders with a balanced view of risk and reward.

OMH is well funded to pursue growth during the downturn. Organic growth from the sinter plant and rejects plant in 2009, and perhaps an expansion at Bootu Ck in 2010 add to the upside potential. Additional external growth opportunities are also being reviewed by the company.

The corporate perspective is enticing. Consolidated Minerals’ 12% holding in our view is likely to be a precursor to its desire to acquire a controlling interest. OM Holdings’ excellent penetration of the growing Chinese market, its sought after siliceous ore and organic growth opportunities would all be valued by Consolidated Minerals as it attempts to grow its market share and penetrate the Chinese market. OMH is the only pure play independent manganese company globally available for consolidation.

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or will provide corporate advice to OM Holdings Ltd during the last year or in the future. Euroz Securities has/will receive(d) a fee for these services.

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

OM Holdings (OMH)		
Share Price	1.03	A$/sh
Price Target	1.75	A$/sh
Methodology	valuation	
NPV Valuation	1.75	A$/sh
Shares on issue	472	m, undiluted
Market Capitalisation	509	A$m
Enterprise Value	392	A$m
Debt	-2	A$m
Cash	119	A$m
Largest Shareholder	20.0%	Heng&Low

Forecast Production	2008a	2009f	2010f	2011f
Total Mn Ore Shipped (kt)	504	565	891	891
Total Cash Costs (A$/t)	229	164	172	167

Assumptions	2008a	2009f	2010f	2011f
Year end 31 Dec				
Mn lump cif (US$/dmtu)	13.38	6.83	8.00	8.00
Mn lump fob (US$/dmtu)	9.19	5.55	6.21	5.85
AUD/USD ach'd	0.85	0.74	0.80	0.80

Key Financial Metrics	2008a	2009f	2010f	2011f
Year end 31 Dec				
Revenue (A$m)	574	590	695	673
EBITDA (A$m)	156	121	156	135
NPAT (A$m)	116	85	102	89
Cashflow (A$m)	143	97	117	105
CFPS (Ac)	28.9	19.6	23.8	21.2
P/CFPS (x)	3.5	5.2	4.3	4.9
EPS (Ac)	23.4	17.3	20.6	18.0
EPS growth (%)	1%	-26%	19%	-13%
PER (x)	4.4	6.0	5.0	5.7
EV:EBITDA (x)	2.5	3.1	1.9	1.7
EV:EBIT (x)	3.0	3.5	2.1	1.9
DPS (Ac)	6.5	5.0	6.0	6.0
Dividend Yield (%)	6.4%	4.9%	5.8%	5.8%
Net Debt/Net Debt+Equity (%)	-88%	-69%	-119%	-174%
Interest Cover (x)	n/a	n/a	n/a	-12.6

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