OM Holdings Limited

(OMH $1.90) Buy

EUROZ SECURITIES LIMITED

AUSTRALIAN RESEARCH

Comments

Price Target: $2.50/sh

OMH recorded significant profit growth in the Sep Q'07, achieving NPAT of $21.1m, compared with the $15.2m achieved for the half year to June 30th.

The result was made up of contributions from Trading ($13.3m NPAT), Bootu Ck ($6.1m) and Qinzhou ($3.9m). The trading result was spectacular, Bootu Ck below forecast and Qinzhou ahead of expectation.

Bootu Ck production for the Dec Q was 123.4kt of Mn ore at 41.3% Mn v's 169kt in the Sep Q. Lower yield, lower mine productivity and tie-in of the plant rectification work has caused the lower output. Additional mining fleet has been mobilised to increase ore supply however this will lead to higher costs (our forecast A$3.25/dmtu).

We suspect some of the effect of the higher trading but low mining contribution is due to the intercompany fee for marketing and sales of Bootu Ck product. Our forward forecasts now have more balance in this regard. We understand the tax rate applicable to earnings for the Trading division in Singapore is 10%. It is likely that the effect of some carry over of lower priced unfilled shipments from the June Q into the Sep Q has also muted the Bootu Ck contribution.

The plant rectification upgrade is designed to provide production stability during the wet season. The Mar Q'08 results will be the test of the success of this plant.

OMH will consider expansion beyond 700ktpa rate once the rectification upgrade is completed and more exploration data is available. This will unfold during 2008.

Manganese prices have continued to rise throughout the Dec Q and again for the Mar Q contracts already settled. OMH have not quoted any prices however we note the spot prices quoted recently of US$9.50/dmtu CIF for 44% Mn product which is equivalent to say +US$6.00/dmtu FOB for Bootu Ck in our estimation. This compares with our estimate of Bootu Ck price received of ~US$2.20/dmtu FOB during the June H'07, and will average ~US$5.00/dmtu FOB for the Dec H.

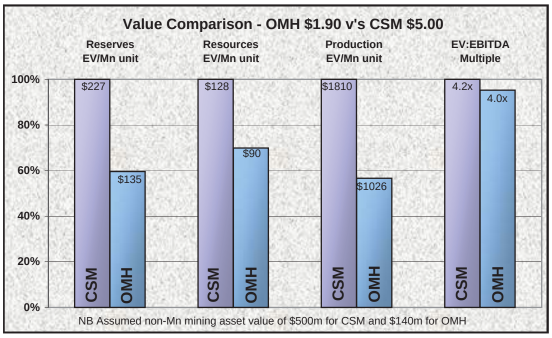
The trading division has an excellent track record of growing earnings and surprising on the upside. This is a well managed business. Unfortunately it offers investors little transparency and therefore predictability is not high. Accordingly our forward forecasts call for a considerable moderating of contribution but still above average while manganese prices remain high.

Investment Case

Our Dec H NPAT forecast is $40m and the 2008 forecast NPAT at a similar annualised level of $77m. OMH is currently priced at a PER of ~6x these estimates. The small resources peer group is typically priced at ~8-10x forecast earnings. Our price target of $2.50/sh reflects a PE multiple of 8x forecast Dec H earnings. Our revised NPV based valuation is $2.19/sh.

Manganese prices remain very firm and are likely to do so well into 2008 at least. We see risk on the upside to our Mn price forecast for Bootu Ck (US$5.80/dmtu FOB) in 2008.

Real upside with OMH lies with the expansion potential at Bootu Ck beyond the 700ktpa level. Further exploration evidence to support this case will be the key. We can already see the signs for a quantum increase in resources during 2008 to underpin a similar quantum increase in production.



Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to OM Holdings 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.

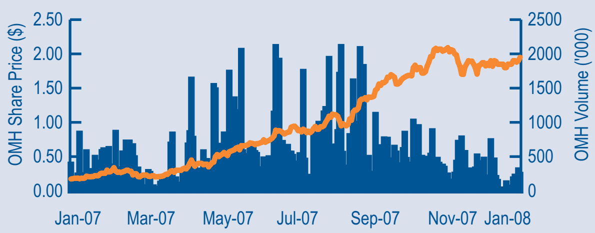
TOP 20 SHAREHOLDERS — AS AT 31 DECEMBER 2007

	Shareholders	Shares (m)	(%)
1	HSBC Custody Nominees (Australia) Limited	29.13	12.81
2	Dino Company Limited	23.57	10.36
3	Zero Nominees Pty Ltd	19.06	8.38
4	Ramley International Ltd	18.20	8.00
5	Newtimes Marine Co Ltd	15.00	6.59
6	DBS Vickers Securities (Singapore) Pty Ltd	12.64	5.56
7	National Nominees Limited	10.95	4.81
8	Lai Shun Holdings Ltd	9.50	4.18
9	Mr Yang Xifu	7.50	3.30
10	ANZ Nominees Limited	5.06	2.23
11	J P Morgan Nominees Australia Limited	3.98	1.75
12	Shenyin Wanguo Securities (HK) Limited	3.58	1.57
13	RBC Dexia Investor Services Australia Nom Pty Ltd	2.84	1.25
14	Seetoh Kwok Weng	2.69	1.18
15	UOB Kay Hian Private Limited	2.65	1.17
16	HSBC Custody Nominees (Australia) Limited	2.36	1.04
17	Chao Fan Huang	2.00	0.88
18	Ms Julie Anne Wolseley	1.53	0.67
19	Piama Pty Ltd	1.50	0.66
20	Phillip Securities Pty Ltd	1.18	0.52
	TOTAL	174.91	76.91

MARKET STATISTICS

Share Price	$1.90 A$/sh	**Directors**	
Issued Capital		J Raubenheimer	Chair'n
FP Ord	227.2 m	Low Ngee Tong	Mgr Dir
Opt	19.5 m	Ong Beng Chong	Dir
Opt (@$1.05/sh)	- m	Tan Peng Chin	Dir
Opt (@$0.72)	- m	Julie Wolseley	Dir
Total Dil. FPOrd	246.7 m	Paul Thomas	CEO, OMM
Market Capitalisation	$469 m	**Shareholders**	
Enterprise Value	$444 m	SK Heng	10.6%
Debt	$(5) m	NT Low	9.3%
Cash	$30 m	Huang Gang	5.0%
Currency Hedging	nil	Westoz	6.9%

SHARE PRICE PERFORMANCE



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Analyst ▸ Greg Chessell
Ph: +61 8 9488 1409 Email: gchessell@euroz.com.au

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OM HOLDINGS (OMH)	YEAR END 31 DECEMBER	
ASSET VALUATION	A$m	A$/sh
Bootu Ck	331	1.34
OMH Trading	110	0.45
OMH Quinzhou	55	0.22
Hedging	0	0.00
Corporate	(30)	-0.12
Other	-	-
Territory Iron	38	0.15
Working Capital	3	0.01
Unpaid Capital	14	0.06
Debt	(5)	-0.02
Cash	30	0.12
Total @ 10% nom	546	2.21
Total @ 5% nom	631	2.56
Total @ 15% nom	485	1.97

FORECAST PROD'N		2006a	Dec H'07f	2007f	2008f	2009f
Bootu Ck						
Lump Mn Ore Shipped	kt	138	214	381	527	527
Fines Mn Ore Shipped	kt	44	80	132	171	171
Total Mn Ore Shipped	kt	182	295	513	698	698
Total Cash Costs	A$/t	136	136	128	140	146
Mn Net Lump Rec'd	A$/t	122	241	186	282	256
Mn Net Fines Rec'd	A$/t	115	220	176	268	245
Mn price ass. (lump fob)	USc/dmtu	2.15	5.00	3.60	5.80	4.75
OM Trading						
Mn Ore	kt	500	350	650	800	800
Cr Ore	kt	100	50	187	100	100
Mn Alloy	kt	60	15	28	60	60
Cr Alloy	kt	40	5	7	30	30
Revenue	A$m	201	161	262	287	313
Gross Margin	%	12.0%	26.0%	25.7%	16.5%	16.0%
OM Quinzhou						
Revenue	A$m	35	25	42	46	58
Gross Margin	%	1%	28%	29%	18%	15%
Foreign Exchange						
Ass'd Spot Rate	US$:A$	0.75	0.88	0.84	0.88	0.80
Avg Rate Ach'd	US$:A$	0.75	0.88	0.84	0.87	0.80

RATIO ANALYSIS	2006a	Dec H'07f	2007f	2008f	2009f
CF (A$m)	(19)	47	54	84	73
CF / Sh (Ac/sh)	(12)	19	22	34	30
CF Ratio (x)	(2.6)	5.3	9.3	5.6	6.4
Earnings (A$m)	(33)	39	54	75	64
EPS (Ac/sh)	(21)	16	22	30	26
EPS Growth (%)	-689%	-172%	-205%	39%	-15%
Earnings Ratio (x)	(1.5)	6.4	9.2	6.2	7.4
E'prise Val. (A$m)	60	461	424	335	292
EV : EBITDA (x)	(27.3)	4.4	6.1	3.1	3.2
EV : EBIT (x)	(2.0)	5.2	6.7	3.4	3.6
Net Debt / ND+Eq (%)	18%	-19%	-19%	-64%	-99%
Interest Cover (x)	n/a	n/a	39	n/a	n/a
EBIT Margin (%)	-16%	18%	17%	19%	15%
ROE (%)	-45%	12%	35%	35%	25%
ROA (%)	-20%	11%	30%	37%	26%
Div. (Ac/sh)	-	5.0	7.0	10.0	10.0
Div. payout ratio	0%	0%	32%	33%	39%
Div. Yield	0.0%	0.0%	3.5%	5.3%	5.3%
Div. Franking	33%	-	0%	0%	0%

RESERVES AND RESOURCES

	Resources					
	mt	Mn%	Fe%	P%	Al2O3%	SiO2%
Bootu Ck (Shekuma&Gogo dil.)	8.45	27.0	5.8	0.03	3.4	39
Bootu Ck (Chugga&Tourag undil.)	4.96	23.5				
Total (undil)	13.4	25.7				

PROFIT & LOSS	2006a	Dec H'07f	2007f	2008f	2009f
Mining Revenue	15	63	85	175	159
Trading Revenue	139	161	257	287	313
FerroAlloy Revenue	30	25	35	46	58
Forex Hedging Revenue	-	0	0	0	0
Interest Income	-	0	1	2	4
Other Revenue	-	1	1	-	-
TOTAL REVENUE	184	249	378	510	534
Operating Costs	183	192	297	393	432
Dep/Amort	5	4	8	8	9
W/O & Provisions	23	4	(2)	1	1
Corp O/H	3	4	11	8	8
EBITDA	(2)	53	69	107	90
EBIT	(30)	45	63	98	80
Interest Expense	2	0	2	0	0
NPBT	(32)	44	61	99	84
Tax	1	5	7	24	20
Minority Interest	0	0	0	0	0
NET PROFIT	(33)	39	54	75	64
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(33)	39	54	75	64

CASHFLOW	2006a	Dec H'07f	2007f	2008f	2009f
Net Profit	(33)	39	54	75	64
+ Working Capital Adj.	(15)	-	(8)	-	-
+ Dep/Amort	5	4	8	8	9
+ Provisions/WO	23	4	(2)	1	1
+ Tax Expense	1	5	7	24	20
- Tax Paid	-	5	5	24	20
Operating Cashflow	(19)	47	54	84	73
-Capex + Development	19	9	15	2	2
-Exploration	2	4	4	5	5
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	5	-	-
Investing Cashflow	(21)	(13)	(14)	(7)	(7)
+Equity Issues	9	-	15	-	-
+Loan D'down/Receivable	21	-	-	-	-
+Other	2	(3)	(3)	-	-
-Loan Repayment	-	17	27	-	-
-Dividends	-	5	5	18	23
Financing Cashflow	32	(25)	(20)	(18)	(23)
Period Sur (Def)	(8)	9	20	59	44
Cash Balance	12	30	30	89	133

BALANCE SHEET	2006a	Dec H'07f	2007f	2008f	2009f
Assets					
Cash	12	30	30	89	133
Current Receivables	16	39	39	39	39
Other Current Assets	35	24	24	24	24
Non-Current Assets	86	116	116	114	112
Total Assets	148	208	208	266	307
Liabilities					
Borrowings	27	5	5	5	5
Current Accounts Payable	48	44	44	44	44
Other Liabilities	2	2	2	2	2
Total Liabilities	77	51	51	51	51
Net Assets	72	157	157	215	257

SEGMENT EBITDA	2006a	Dec H'07f	2007f	2008f	2009f
Mining	(7)	22	22	77	58
FX Hedging	0	0	0	0	0
Trading	10	27	42	29	32
Qinzhou	0	7	12	8	8
Other	(6)	(3)	(7)	(8)	(8)
Total EBITDA	(2)	53	69	107	90

SEGMENT EBIT	2006a	Dec H'07f	2007f	2008f	2009f
Mining	(10)	18	14	70	50
FX Hedging	0	0	0	0	0
Trading	10	27	42	29	32
Qinzhou	(0)	7	12	8	8
Other	(30)	(7)	(5)	(9)	(9)
Total EBIT	(30)	45	63	98	80

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