OM Holdings Ltd

(OMH $1.88) Buy

EUROZ SECURITIES LIMITED
AUSTRALIAN RESEARCH

Comments **Price Target:** $2.31/sh

The manganese ore market appears well balanced at present following the restocking recovery that was seen in June/July '09. OMH is guiding to expect prices to remain at around the US$6.00-US$6.50/dmtu CIF for the remainder of the year. BHP/Samancor has recently agreed similar pricing into the new year.

Bootu Creek operations have been stable, with the new high yield medium grade product strategy proving a success. Sep Q sales of 177kt of product grading 39.1% Mn and production of 205kt of product grading 39.3% Mn. C1 Cash costs were A$3.80/dmtu. The Dec Q target is production of 70kt/mth with C1 cash costs at the A$3.50/dmtu level fob. Sales are scheduled at 240kt.

The A$13m secondary process plant should be commissioned in Dec. We expect production 150ktpa of 35% Mn sinter fines, taking total Bootu Ck production to 990ktpa of ore grading 37.5% Mn.

Qinzhou Sep Q production of 9.4kt of HCFeMn is roughly in line with our Dec H'09 expectations. The US$18m 300ktpa sinter plant project is due for completion in Dec Q, matching the new supply of fines from Bootu Ck.

OMH will acquire a 26% shareholding in Ntsimbintle for A$64m. Ntsimbintle is the owner of a 50.1% interest in the Tshipi manganese project. OMH's intended acquisition of Pallinghurst's 49.9% interest for 139.9m new shares in OMH has stalled due to inability to agree on final terms and conditions. The parties are continuing to work towards a transaction which now may take some months to conculde. The due diligence process has confirmed that rational for the acquisition is robust on the terms originally anticipated.

Tshipi, in the Kalahari Basin in Sth Africa, contains 163mt of Mn ore grading 37% Mn, and is adjacent to Samancor's Mamatwan open pit operation. A feasibility study completed in 2009 called for production of 2mtpa after capital expenditure of US$200m.

OMH now has an enviable growth profile with a combination of short, medium and long term projects. The short term growth is fully funded, adds incremental scale, is very capital efficient and will optimize the existing operations, both at Bootu Ck and Qinzhou. The two projects involve capital expenditure of A$35m to generate EBITDA of A$20-$25m pa in aggregate, a payback of under 2 years.

Medium term growth potential includes feasibility study into further expansion at Bootu Ck, an additional module at Qinzhou (2x furnaces and another 300ktpa sinter plant). The Tshipi acquisition will provide growth over a 3-4 year horizon. We believe that a transcation is still a realistic chance to occur over the medium term.

Investment Case

Our valuation is $2.31/sh.

We continue to be attracted by OM Holdings' strong strategic position within the global manganese industry that set it apart from typical small-mid sized mining companies:

- It is among the six largest seaborne exporters around the globe, and largest independent producer.
- It is vertically integrated and therefore captures value through to the alloy market.
- The marketing division has a well established network throughout China, enabling good market share for its own and 3rd party ores, and enabling competitive pricing.

We are positive on the Tshipi deal, it will deliver plenty of blue-sky and this is a world class manganese province which will provide significant growth opportunities for OMH. The greatest risk to deriving value from the transaction is transport logistics and New Order Mining Rights however in our view this is outweighed by the long term benefits.

We continue to believe the Mn industry supply side remains tight over the medium term, constrained by rail and port bottlenecks in Sth Africa. The Tshipi deal will give OMH access to this area where inevitable supply growth will come from and secures its position as a globally significant Mn producer.

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 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.

Top 20 Shareholders as at 12 November 2009

	Shareholders	Shares (m)	(%)
1	HSBC Custody Nominees (Australia) Ltd	59.91	12.21
2	Stratford Sun Limited	57.23	11.66
3	Dino Company Limited	47.13	9.60
4	Ramley International Ltd	36.40	7.42
5	Newtimes Marine Co Ltd	31.00	6.32
6	National Nominees Limited	29.94	6.10
7	J P Morgan Nominees Australia Limited	29.13	5.94
8	Zero Nominees Pty Ltd	27.15	5.53
9	Lai Shun Holdings Ltd	19.00	3.87
10	ANZ Nominees Limited	13.17	2.68
11	Mr Ngee Tong Low	13.00	2.65
12	DBS Vickers Securities	10.58	2.16
13	Citicorp Nominees Pty Limited	8.53	1.74
14	Ms JuLie Anne Wolseley	5.56	1.13
15	HSBC Custody Nominees (Australia) Ltd	5.05	1.03
16	Citicorp Nominees Pty Limited	4.72	0.96
17	Cogent Nominees Pty Limited	3.01	0.61
18	Citicorp Nominees Pty Limited	2.88	0.59
19	Queensland Investment Corporation	2.40	0.49
20	AMP Life Limited	2.36	0.48
	TOTAL	**408.13**	**83.17**

Market Statistics

Share Price	**$1.88 A$/sh**	**Directors**	
Issued Capital		Peter Toth	CEO
FP Ord	490.7m	Ong Beng Chong	Exec Dir
Opt ($0.33/sh)	3.4m	Tan Peng Chin	Dir
Opt ($1.64/sh)	32.0m	Julie Wolseley	Dir
Opt ($2.49/sh)	23.2m	Wong Fong Fui	Dir
		Thomas Teo Liang Huat	Dir
Total Dil. FPOrd	**526.1m**	Paul Thomas	CEO, OMM
Market Capitalisation	$989m	**Shareholders**	
Enterprise Value	$974m	SK Heng	10.0%
Debt	$- m	NT Low	9.0%
Cash	$27m*	Huang Gang	11.2%
Currency Hedging	nil	Westoz	6.9%
**Post Ntsimbintle deal*		ConsMins	12%

Share Price Performance

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OM Holdings Ltd

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

EUROZ SECURITIES LIMITED
AUSTRALIAN RESEARCH

OM HOLDINGS LTD (OMH)			YEAR END 31 DEC	
ASSET VALUATION			**A$M**	**A$/sh**
Bootu Ck			632	1.20
OMH Trading			231	0.44
OMH Quinzhou			163	0.31
Tshipi (49.9%)			-	-
Ntsimbintle (26%)			64	0.12
Hedging			0	0.00
Corporate			(35)	-0.07
Other			-	-
Territory Iron			6	0.01
Working Capital			73	0.14
Unpaid Capital			54	0.10
Debt			-	-
Cash			27	0.05
Total @ 10% nom			**1,213**	**2.31**
Total @ 5% nom			1,613	3.07
Total @ 15% nom			1,042	1.98

FORECAST PRODUCTION		**2008a**	**Dec H'09f**	**2009f**	**2010f**	**2011f**
Bootu Ck						
Lump Mn Ore Shipped	kt	397	300	593	660	660
Fines Mn Ore Shipped	kt	112	90	161	180	180
Total Mn Ore Shipped	kt	508	390	754	990	990
Total Cash Costs (C1)	A$/dmtu	4.05	3.50	4.28	3.41	3.41
Mn price ass. (lump cif)	USc/dmtu	13.38	6.50	5.63	7.25	7.50
Mn price rec'd (lump fob)	USc/dmtu	9.20	6.40	5.25	6.40	6.17
OM Trading						
Mn Ore	kt	735	490	889	1,190	1,190
Cr Ore	kt	100	40	100	80	80
Mn Alloy	kt	60	15	20	40	40
Cr Alloy	kt	20	1	2	20	20
Revenue	A$m	402	179	323	457	500
Gross Margin	%	25.2%	14.0%	13.1%	14.0%	14.0%
OM Quinzhou						
Revenue	A$m	68	31	49	158	173
Gross Margin	%	29%	28%	22%	17%	17%
Foreign Exchange						
Ass'd Spot Rate	US$:A$	0.85	0.88	0.79	0.90	0.85
Avg Rate Ach'd	US$:A$	0.85	0.87	0.81	0.90	0.85

RATIO ANALYSIS	**2008a**	**Dec H'09f**	**2009f**	**2010f**	**2011f**
CF (A$m)	143	-	58	114	127
CF / Sh (Ac/sh)	29	-	11	22	24
CF Ratio (x)	3.5	-	17.1	8.6	7.8
Earnings (A$m)	116	-	52	102	115
EPS (Ac/sh)	23	-	10	19	22
EPS Growth (%)	1%	0%	-57%	94%	12%
Earnings Ratio (x)	4.4	-	18.9	9.7	8.6
E'prise Val. (A$m)	394	-	844	836	742
EV : EBITDA (x)	2.5	-	15.9	5.4	4.3
EV : EBIT (x)	3.0	-	13.4	5.8	4.7
Net Debt / ND+Eq (%)	-88%	0%	-50%	-42%	-85%
Interest Cover (x)	n/a		n/a	n/a	(28)
EBIT Margin (%)	23%		11%	16%	17%
ROE (%)	46%		20%	30%	27%
ROA (%)	40%		18%	34%	32%
Div. (Ac/sh)	6.5	3.0	3.0	6.0	6.0
Div. payout ratio	28%		30%	31%	28%
Div. Yield	6.4%		1.6%	3.2%	3.2%
Div. Franking	0%		0%	0%	0%

PROFIT AND LOSS	**2008a**	**Dec H'09f**	**2009f**	**2010f**	**2011f**
Mining Revenue	225	109	191	256	261
Trading Revenue	295	179	323	457	500
FerroAlloy Revenue	70	31	49	158	173
Forex Hedging Revenue	(19)	0	(13)	0	0
Interest Income	3	1	3	3	5
Other Revenue	-	-	1	-	-
TOTAL REVENUE	**574**	**320**	**555**	**874**	**939**
Operating Costs	386	254	490	708	757
Dep/Amort	9	7	12	12	12
W/O & Provisions	16	0	(22)	1	1
Corp O/H	29	4	8	8	5
EBITDA	156	60	53	156	172
EBIT	132	53	63	143	159
Interest Expense	1	0	0	0	0
NPBT	134	54	66	146	164
Tax	18	13	13	44	49
Minority Interest	0	0	0	0	0
NET PROFIT	**116**	**41**	**52**	**102**	**115**
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	**116**	**41**	**52**	**102**	**115**

CASH FLOW	**2008a**	**Dec H'09f**	**2009f**	**2010f**	**2011f**
Net Profit	116	41	52	102	115
+ Working Capital Adj.	(7)	-	15	-	-
+ Dep/Amort	9	7	12	12	12
+ Provisions/WO	16	0	(22)	1	1
+ Tax Expense	18	13	13	44	49
- Tax Paid	8	13	13	44	49
Operating Cashflow	**143**	**48**	**58**	**114**	**127**
-Capex + Development	15	19	42	6	4
-Exploration	12	4	8	6	-
-Assets Purchased	-	-	-	64	-
+Asset Sales	-	-	-	-	-
Investing Cashflow	**(24)**	**(23)**	**(50)**	**(76)**	**(4)**
+Equity Issues	6	-	-	-	-
+Loan D'down/Receivable	-	-	-	-	-
+Other	(19)	-	-	-	-
-Loan Repayment	4	-	-	-	-
-Dividends	26	-	15	25	29
Financing Cashflow	**(43)**	**-**	**(15)**	**(25)**	**(29)**
Period Sur (Def)	**76**	**25**	**(6)**	**14**	**94**
Cash Balance	**97**	**91**	**91**	**105**	**198**

BALANCE SHEET	**2008a**	**Dec H'09f**	**2009f**	**2010f**	**2011f**
Assets					
Cash	119	91	91	105	198
Current Receivables	27	27	27	27	27
Other Current Assets	86	86	86	86	86
Non-Current Assets	100	137	137	201	193
Total Assets	**332**	**341**	**341**	**419**	**505**
Liabilities					
Borrowings	2	5	5	5	5
Current Accounts Payable	64	64	64	64	64
Other Liabilities	16	16	16	16	16
Total Liabilities	**81**	**84**	**84**	**84**	**84**
Net Assets	**251**	**257**	**257**	**335**	**421**

SEGMENT EBIT	**2008a**	**Dec H'09f**	**2009f**	**2010f**	**2011f**
Bootu Ck	120	46	52	103	107
FX Hedging	(19)	0	(13)	0	0
Tshipi (49.9%)	-	-	-	-	-
Marketing	57	10	11	34	40
Qinzhou	20	9	11	27	30
Other	(22)	(4)	(7)	(8)	(5)
Total EBITDA	**156**	**60**	**53**	**156**	**172**

SEGMENT EBITDA	**2008a**	**Dec H'09f**	**2009f**	**2010f**	**2011f**
Bootu Ck	109	40	42	95	99
FX Hedging	(19)	0	(13)	0	0
Tshipi (49.9%)	-	-	-	-	-
Trading	57	10	11	34	40
Qinzhou	19	8	9	24	27
Other	(34)	(4)	15	(9)	(6)
Total EBIT	**132**	**53**	**63**	**143**	**159**

RESERVES AND RESOURCES		**Reserves**		**Resources**
	mt	**Mn%**	**mt**	**Mn%**
Measured / Proved	7.4	22.1	8.601	24.2
Indicated / Probable	15	22.1	19.2	24.1
Inferred			2.8	24.4
Total	**22.4**	**22.1**	**30.6**	**24.1**

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