

OM Holdings Ltd

(OMH \$1.09) Buy

EUROZ
SECURITIES LIMITED
AUSTRALIAN RESEARCH

Comments

Price Target: \$1.93/sh

OMH achieved 2008 NPAT of \$116m, after the June H'08 had already reported NPAT of A\$97m. 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 from Bootu Ck, and Qinzhou sales were into legacy contracts.

Sales guidance for the March Q'09 is 150kt of manganese ore. Product inventories grew by 160kt 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 Bootu Ck 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. 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 reasonable as the destocking process has matured.

We are of the view that the manganese market will recover by mid year to the levels indicated by the spot market in January this year 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.

The resource upgrade to 30mt and reserves to 22mt has exceeded expectations. Bootu Ck is now a 15year project, and could support and expansion in our view.

The Bootu Ck Reject retreatment plant project at Bootu Ck remains on track for completion by year end, coinciding with completion of the sinter plant at Qinzhou. Total capital expenditure for these projects in 2009 is roughly \$35m.

Our forecast for 2009 is for NPAT of \$87m, 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.

Investment Case

Our NPV based valuation has been upgraded to \$1.93/sh following the resource upgrade. 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 type 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 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 shares.

Top 20 Shareholders

as at 15 January 2009

Shareholders	Shares (m)	(%)
1 HSBC Custody Nominees (Australia) Ltd	59.15	12.39
2 Stratford Sun Limited	57.23	11.98
3 Dino Company Limited	47.13	9.87
4 Ramley International Ltd	36.40	7.62
5 Zero Nominees Pty Ltd	34.99	7.33
6 Newtimes Marine Co Ltd	30.00	6.28
7 National Nominees Limited	23.13	4.84
8 Lai Shun Holdings Ltd	19.00	3.98
9 J P Morgan Nominees Australia Limited	18.75	3.93
10 DBS Vickers Securities (Singapore) Pte Ltd	13.83	2.90
11 ANZ Nominees Limited	13.05	2.73
12 HSBC Custody Nominees (Australia) Ltd	6.52	1.37
13 Citicorp Nominees Pty Limited	6.46	1.35
14 Mr Ngee Tong Low	6.00	1.26
15 Ms Julie Anne Wolseley	5.56	1.16
16 Chao Fan Huang	4.00	0.84
17 UBS Nominees Pty Ltd	2.48	0.52
18 AMP Life Limited	2.29	0.48
19 HSBC Custody Nominees (Australia) Ltd	2.25	0.47
20 Cogent Nominees Pty Ltd	2.15	0.45
TOTAL	390.37	81.75

Market Statistics

Share Price	\$1.09A\$/sh	Directors	
Issued Capital		Low Ngee Tong	Ex, Chair'n
FP Ord	472.4m	Peter Toth	CEO
Opt (\$0.33/sh)	21.8m	Ong Beng Chong	Exec Dir
Opt (\$1.64/sh)	32.0m	Tan Peng Chin	Dir
Opt (\$2.49/sh)	14.0m	Julie Wolseley	Dir
Total Dil. FPOrd	494.2m	J Raubenheimer	Dir
Market Capitalisation	\$539m	Wong Fong Fui	Dir
Enterprise Value	\$422m	Thomas Teo Liang Huat	Dir
Debt	\$(2)m	Paul Thomas	CEO, OMM
Cash	\$119m	Shareholders	
Currency Hedging US\$61m @ \$0.826		SK Heng	10.0%
		NT Low	9.0%
		Huang Gang	11.2%
		Westoz	6.9%
		ConsMins	12%

Share Price Performance



Resources Quarterly ▶ March 2009

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OM Holdings Ltd

Analyst ▶ Greg Chessell

Ph: +61 8 9488 1409 E: gchessell@euroz.com.au

EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

OM HOLDINGS LTD (OMH)		YEAR END 31 DECEMBER				
		A\$M	A\$/sh			
ASSET VALUATION						
Bootu Ck		579	1.17			
OMH Trading		133	0.27			
OMH Quinzhou		113	0.23			
Hedging		(8)	-0.02			
Corporate		(27)	-0.06			
Other		-	-			
Territory Iron		4	0.01			
Working Capital		35	0.07			
Unpaid Capital		7	0.01			
Debt		(2)	-0.00			
Cash		119	0.24			
Total @ 10% nom		953	1.93			
Total @ 5% nom		1,171	2.37			
Total @ 15% nom		805	1.63			
FORECAST PRODUCTION						
Bootu Ck		2008a	Jun H '09f	2009f	2010f	2011f
Lump Mn Ore Shipped	kt	393	200	440	566	566
Fines Mn Ore Shipped	kt	111	60	125	176	176
Total Mn Ore Shipped	kt	504	260	565	891	891
Total Cash Costs	A\$/t	229	146	165	172	170
Mn Price Rec'd Blended	A\$/t	451	269	328	291	282
Mn price ass. (lump cif) US\$/dmt	13.38	5.65	6.83	8.00	8.00	8.00
Mn price rec'd (lump fob) US\$/dmt	9.19	4.44	5.55	6.21	6.03	6.03
OM Trading						
Mn Ore	kt	735	330	630	600	600
Cr Ore	kt	100	50	90	80	80
Mn Alloy	kt	60	25	50	50	50
Cr Alloy	kt	20	10	20	20	20
Revenue	A\$m	399	169	334	316	306
Gross Margin	%	24.4%	15.0%	15.0%	15.0%	12.0%
OM Quinzhou						
Revenue	A\$m	68	37	86	114	114
Gross Margin	%	29%	14%	19%	23%	23%
Foreign Exchange						
Ass'd Spot Rate	US\$:A\$	0.85	0.68	0.69	0.80	0.80
Avg Rate Ach'd	US\$:A\$	0.85	0.80	0.73	0.80	0.80
RATIO ANALYSIS						
		2008a	Jun H '09f	2009f	2010f	2011f
CF (A\$m)		143	-	97	116	107
CF / Sh (Ac/sh)		29	-	20	23	22
CF Ratio (x)		3.5	-	5.6	4.6	5.0
Earnings (A\$m)		116	-	87	104	95
EPS (Ac/sh)		23	-	18	21	19
EPS Growth (%)		1%	0%	-25%	19%	-8%
Earnings Ratio (x)		4.4	-	6.2	5.2	5.7
E'prise Val. (A\$m)		398	-	410	333	258
EV : EBITDA (x)		2.5	-	3.4	2.1	1.8
EV : EBIT (x)		3.0	-	3.7	2.3	2.0
Net Debt / ND+Eq (%)		-88%	0%	-68%	-115%	-166%
Interest Cover (x)		n/a	n/a	n/a	(13)	(13)
EBIT Margin (%)		23%		19%	21%	19%
ROE (%)		46%		30%	28%	22%
ROA (%)		40%		30%	32%	24%
Div. (Ac/sh)		6.5	2.0	5.0	6.0	6.0
Div. payout ratio		28%		28%	29%	31%
Div. Yield		6.4%		4.6%	5.5%	5.5%
Div. Franking		0%		0%	0%	0%

PROFIT AND LOSS	2008a	Jun H '09f	2009f	2010f	2011f
Mining Revenue	225	70	185	259	251
Trading Revenue	295	169	334	316	306
FerroAlloy Revenue	70	37	86	114	114
Forex Hedging Revenue	(19)	(13)	(13)	(0)	0
Interest Income	3	2	4	6	9
Other Revenue	-	-	-	-	-
TOTAL REVENUE	574	264	597	695	681
Operating Costs	386	221	464	526	527
Dep/Amort	9	3	9	12	12
W/O & Provisions	16	0	1	1	1
Corp O/H	29	4	8	8	5
EBITDA	156	37	121	156	140
EBIT	132	33	111	143	127
Interest Expense	1	0	0	0	0
NPBT	134	35	114	148	136
Tax	18	8	27	44	41
Minority Interest	0	0	0	0	0
NET PROFIT	116	27	87	104	95
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	116	27	87	104	95
CASH FLOW					
Net Profit	116	27	87	104	95
+ Working Capital Adj.	(7)	-	-	-	-
+ Dep/Amort	9	3	9	12	12
+ Provisions/WO	16	0	1	1	1
+ Tax Expense	18	8	27	44	41
- Tax Paid	8	8	27	44	41
Operating Cashflow	143	30	97	116	107
-Capex + Development	15	21	40	6	4
-Exploration	12	4	8	6	-
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
Investing Cashflow	(24)	(25)	(48)	(12)	(4)
+Equity Issues	6	-	-	-	-
+Loan D'down/Receivable	-	-	-	-	-
+Other	(19)	-	-	-	-
-Loan Repayment	4	-	-	-	-
-Dividends	26	14	24	24	28
Financing Cashflow	(43)	(14)	(24)	(24)	(28)
Period Sur (Def)	76	(9)	25	81	75
Cash Balance	97	88	122	203	278
BALANCE SHEET					
	2008a	Jun H '09f	2009f	2010f	2011f
Assets					
Cash	119	88	122	203	278
Current Receivables	27	27	27	27	27
Other Current Assets	86	86	86	86	86
Non-Current Assets	100	122	138	138	130
Total Assets	332	323	374	454	522
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	239	290	371	438
SEGMENT EBITDA					
	2008a	Jun H '09f	2009f	2010f	2011f
Mining	112	32	92	106	100
FX Hedging	(19)	(13)	(13)	(0)	0
Trading	54	17	34	31	19
Qinzhou	20	5	16	26	26
Other	(10)	(4)	(8)	(8)	(5)
Total EBITDA	156	37	121	156	140
SEGMENT EBIT					
	2008a	Jun H '09f	2009f	2010f	2011f
Mining	99	29	85	99	93
FX Hedging	(19)	(13)	(13)	(0)	0
Trading	53	17	34	31	18
Qinzhou	19	5	15	22	22
Other	(21)	(4)	(9)	(9)	(6)
Total EBIT	132	33	111	143	127
RESOURCES AND RESERVES					
	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	30.601	24.1	

Resources Quarterly ▶ March 2009

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