

OM Holdings Ltd

(OMH \$1.71) Buy

Comments

Price Target: \$2.21/sh

Bootu Ck production guidance in 2010 is 1.0mt of Mn ore, up 33% on 2009, comprising 0.58mt of lump grading 38% Mn, 0.18mt of fines grading 42% Mn, and 0.25mt of SPP fines grading 35% Mn. Cash costs (C1) are expected to be A\$3.50/dmtu, down from A\$4.03/dmtu in Dec H'09. Economies of scale due to the Bootu Ck expansion (SPP) are the main driver of cost improvement.

We estimate OMH's NPAT sensitivity to Mn price is ~\$25m per US\$1.00/dmtu change in the China cif Mn price. Assuming a PER of 8x this equates to \$0.40/sh of value.

The manganese market outlook is firm with Mar/Apr'10 contracts already set at US\$7.50/dmtu cif China, slightly ahead of Jan/Feb'10 at US\$6.70-US\$7.00/dmtu cif China. Our long run assumption is US\$8.00/dmtu cif China.

We believe there is upside risk in our manganese price assumption over the next 6-12 months or so. The market had been relatively stable during the period Aug'09 to Feb'10 reflecting improving demand matched by capacity restart by all the major seaborne suppliers. The strong demand trend is continuing while supply side capacity is now at/near capacity limit. The benchmark March/April pricing is indicative of the tightening market. The nature of manganese demand & supply results in volatile prices due to the size of the market (China importing >1mt/mth), breadth of demand and quite narrow supply side (only 6 major suppliers into the Chinese market).

OMH's Singapore marketing division has a good track record of earnings, characterised by very strong contributions in rising markets, and an overall uptrend at other times consistent with higher volumes traded. We forecast a \$32m EBIT contribution in 2010 based on assumed 1.35mt of product traded. This is consistent with the annualised volume weighted Dec H'09 contribution. We recall the exceptional contribution of ~\$70m EBIT achieved in the 12 months to June 2008 when Mn ore prices rallied from US\$3.00/dmtu to US\$12.00/dmtu.

OMH's strategy is to grow as a steelmaking raw materials producer over the long run, diversifying from being a pure manganese play. The Northern Iron investment is the first step away from manganese, and it is unlikely that OMH intends to remain at its current level in our view. OMH has invested \$61.4m in the 14.6% stake in Northern Iron.

It is obvious that additional funding will be required to settle the Ntsimbintle transaction which is expected in late March. OMH has stated that it is currently "assessing a number of financing options", which we understand to include a corporate debt facility. OMH will acquire 26% of Ntsimbintle (which owns 50.1% of Tshipi Mn project in Sth Africa) at a cost of \$64m cash. OMH will endeavour to secure the marketing rights to the product from Tshipi.

Recently Jupiter Mines has agreed to acquire from Pallinghurst the 49.9% of Tshipi on similar pricing (\$490m on 100% basis) to the deal that OMH and Pallinghurst elected not to proceed with.

We look forward to OMH revealing more details regarding its strategy for a Southeast Asian located Mn alloy plant as a means of hedging against rising power costs and export tariffs in China.

Investment Case

Our valuation of OMH is \$2.21/sh.

OMH offers leverage to upside in manganese prices. It remains as the only producing listed pure play.

The manganese market is at a satisfactory price point however the demand side suggests a tighter outlook. The market is currently absorbing the restarted mine capacity which will be at capacity during Jun H'10 leading to a more buoyant dynamic, consistent with the bullish demand outlook for iron ore.

OMH's growth strategy does cloud the appeal of the pure Mn exposure in a rising market however the resulting diminished project and commodity risk through the cycle will also be of benefit to shareholders in the long run.

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 2 March 2010

Shareholders	Shares (m)	(%)
1 HSBC Custody Nominees (Aus) Ltd	65.59	13.36
2 Stratford Sun Limited	57.23	11.66
3 Dino Company Limited	47.13	9.60
4 Ramley International Ltd	36.40	7.41
5 Newtimes Marine Co Ltd	31.00	6.31
6 National Nominees Limited	29.00	5.91
7 J P Morgan Nominees Australia Limited	28.46	5.80
8 Zero Nominees Pty Ltd	27.16	5.53
9 Lai Shun Holdings Ltd	19.00	3.87
10 Citicorp Nominees Pty Limited	13.55	2.76
11 Mr Ngee Tong Low	13.00	2.65
12 ANZ Nominees Limited	9.90	2.02
13 DBS Vickers Securities	8.94	1.82
14 Ms Julie Anne Wolseley	5.56	1.13
15 Citicorp Nominees Pty Limited	5.48	1.12
16 HSBC Custody Nominees (Aus) Ltd	5.29	1.08
17 Cogent Nominees Pty Limited	4.12	0.84
18 Citicorp Nominees Pty Limited	3.05	0.62
19 HSBC Custody Nominees (Aus) Ltd	2.46	0.50
20 Queensland Investment CorporatioN	2.31	0.47
TOTAL	414.63	84.46

Market Statistics

Share Price	\$1.71 A\$/sh	Directors	
Issued Capital		Low Ngee Tong	Ex. Chair'n
FP Ord	490.7m	Peter Toth	CEO
Opt (\$0.33/sh)	3.4m	Ong Beng Chong	Exec Dir
Opt (\$1.64/sh)	32.0m	Tan Peng Chin	Dir
Opt (\$2.49/sh)	23.2m	Julie Wolseley	Dir
Total Dil. FPOrd	526.1m	Wong Fong Fui	Dir
Market Capitalisation	\$846m	Thomas Teo Liang Huat	Dir
Enterprise Value	\$758m	Paul Thomas	CEO, OMM
Debt	\$(1)m	Shareholders	
Cash	\$89m*	SK Heng	10.0%
Currency Hedging	nil	NT Low	9.0%
*at Dec 31st, Ntsimbintle and NFE		Huang Gang	11.2%
transactions in Unpaid Capital net of In		Westoz	6.9%
Money Opt		ConsMins	12%

Share Price Performance



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 DEC				
ASSET VALUATION		A\$M	A\$/sh			
Rootu Ck		628	1.19			
OMH Trading		218	0.41			
OMH Quinzhou		151	0.29			
Tshipi (49.9%)		-	-			
Ntsimbintle (26%)		64	0.12			
Hedging		0	0.00			
Corporate		(41)	-0.08			
Other		-	-			
Investments		70	0.13			
Working Capital		60	0.11			
Unpaid Capital		(74)	-0.14			
Debt		(1)	-0.00			
Cash		89	0.17			
Total @ 10% nom		1,164	2.21			
Total @ 5% nom		1,562	2.97			
Total @ 15% nom		1,007	1.91			
FORECAST PRODUCTION		2009a	Jun H'10f	2010f	2011f	2012f
Bootu Ck						
Lump Mn Ore Shipped	kt	598	280	588	588	588
Fines Mn Ore Shipped	kt	149	80	168	168	168
Total Mn Ore Shipped	kt	747	484	1,004	1,004	1,004
Total Cash Costs (C1)	A\$/dmtu	4.14	3.51	3.54	3.54	3.55
Mn price ass. (lump cif)	US\$/dmtu	5.06	7.50	8.00	8.00	8.00
Mn price rec'd (lump fob)	US\$/dmtu	4.18	6.17	6.64	6.62	6.62
OM Trading						
Mn Ore	kt	882	584	1,204	1,204	1,204
Cr Ore	kt	100	40	80	80	80
Mn Alloy	kt	20	20	40	40	40
Cr Alloy	kt	2	10	20	20	20
Revenue	A\$m	314	214	456	488	505
Gross Margin	%	13.1%	14.0%	14.0%	14.0%	14.0%
OM Quinzhou						
Revenue	A\$m	37	40	119	160	179
Gross Margin	%	11%	15%	15%	13%	17%
Foreign Exchange						
Ass'd Spot Rate	US\$:A\$	0.79	0.91	0.91	0.88	0.85
Avg Rate Ach'd	US\$:A\$	0.81	0.91	0.91	0.88	0.85
RATIO ANALYSIS		2009a	Jun H'10f	2010f	2011f	2012f
CF (A\$m)		18	-	106	120	138
CF / Sh (Ac/sh)		3	-	20	23	26
CF Ratio (x)		57.8	-	8.5	7.5	6.5
Earnings (A\$m)		27	-	91	109	127
EPS (Ac/sh)		5	-	17	21	24
EPS Growth (%)		-78%	0%	238%	20%	16%
Earnings Ratio (x)		38.1	-	9.9	8.3	7.1
E'prise Val. (A\$m)		824	-	766	684	578
EV : EBITDA (x)		21.0	-	5.5	4.3	3.2
EV : EBIT (x)		31.1	-	6.1	4.6	3.4
Net Debt / ND+Eq (%)		-42%	0%	-32%	-65%	-110%
Interest Cover (x)		n/a	-	n/a	(33)	(19)
EBIT Margin (%)		9%	0%	15%	16%	18%
ROE (%)		10%	0%	27%	26%	24%
ROA (%)		8%	0%	31%	31%	30%
Div. (Ac/sh)		2.0	2.0	6.0	6.0	2.0
Div. payout ratio		39%	0%	35%	29%	8%
Div. Yield		1.0%	0.0%	3.5%	3.5%	1.2%
Div. Franking		0%	0%	0%	0%	0%

PROFIT AND LOSS	2009a	Jun H'10f	2010f	2011f	2012f
Mining Revenue	229	118	264	272	282
Trading Revenue	-	214	456	488	505
FerroAlloy Revenue	52	40	119	160	179
Forex Hedging Revenue	-	0	0	0	0
Interest Income	2	2	2	4	8
Other Revenue	19	-	-	-	-
TOTAL REVENUE	302	373	841	924	974
Operating Costs	223	308	685	752	779
Dep/Amort	10	4	9	10	10
W/O & Provisions	3	3	6	1	1
Corp O/H	37	7	14	8	5
EBITDA	39	57	140	160	182
EBIT	26	49	125	149	171
Interest Expense	0	0	0	0	0
NPBT	28	51	127	153	178
Tax	1	15	38	46	53
Minority Interest	0	0	0	0	0
NET PROFIT	27	35	89	107	125
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	27	35	89	107	125
CASH FLOW	2009a	Jun H'10f	2010f	2011f	2012f
Net Profit	27	35	89	107	125
+ Working Capital Adj.	(9)	-	-	-	-
+ Dep/Amort	10	4	9	10	10
+ Provisions/WO	3	3	6	1	1
+ Tax Expense	1	15	38	46	53
- Tax Paid	14	15	38	46	53
Operating Cashflow	18	43	104	117	135
-Capex + Development	36	4	9	7	4
-Exploration	3	3	6	-	-
-Assets Purchased	4	64	64	-	-
+Asset Sales	2	-	-	-	-
Investing Cashflow	(39)	(71)	(79)	(7)	(4)
+Equity Issues	4	-	-	-	-
+Loan D'down/Receivable	1	-	-	-	-
+Other	13	-	-	-	-
-Loan Repayment	0	-	-	-	-
-Dividends	15	10	20	29	25
Financing Cashflow	4	(10)	(20)	(29)	(25)
Period Sur (Def)	(17)	(38)	5	81	106
Cash Balance	80	41	85	166	273
BALANCE SHEET	2009a	Jun H'10f	2010f	2011f	2012f
Assets					
Cash	80	41	85	166	273
Current Receivables	24	24	24	24	24
Other Current Assets	94	94	94	94	94
Non-Current Assets	129	194	194	192	186
Total Assets	327	353	398	476	577
Liabilities					
Borrowings	1	5	5	5	5
Current Accounts Payable	47	47	47	47	47
Other Liabilities	13	13	13	13	13
Total Liabilities	61	64	64	64	64
Net Assets	266	289	333	412	513
SEGMENT EBITDA	2009a	Jun H'10f	2010f	2011f	2012f
Bootu Ck	26	43	104	111	118
FX Hedging	(13)	0	0	0	0
Tshipi (49.9%)	-	-	-	-	-
Marketing	14	15	33	36	39
Quinzhou	4	6	18	21	30
Other	8	(7)	(14)	(8)	(5)
Total EBITDA	39	57	140	160	182
CASH FLOW	2009a	Jun H'10f	2010f	2011f	2012f
Bootu Ck	17	40	98	104	112
FX Hedging	(13)	0	0	0	0
Tshipi (49.9%)	-	-	-	-	-
Trading	14	15	32	36	38
Quinzhou	3	5	15	18	27
Other	5	(10)	(20)	(9)	(6)
Total EBIT	26	49	125	149	171
RESOURCES AND RESERVES					
	Reserves		Resources		
	mt	Mn%	mt	Mn%	
Measured / Proved	8.2	21.0	10.4	22.6	
Indicated / Probable	12.3	21.6	19.7	23.4	
Inferred	-	-	2.7	22.9	
Total	20.5	21.3	32.8	23.1	

Resources Quarterly ▶ March 2010

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