

Analyst: Greg Chessell

OM Holdings (OMH \$3.70) BUY

- ▶ **Price Target:** \$4.50/sh
- ▶ **Reason For Update:** Quarterly Update
- ▶ **Quick Comment:**

Profit guidance for the June H'08 is "a minimum of A\$80m NPAT". This compares to our earlier forecast of \$56m and the 2007 annual NPAT of \$57m.

The strong results are contributed to by all divisions, and of course the very strong underlying Manganese ore and alloy prices prevailing.

We have upgraded our forecasts. The June H NPAT is upgraded to \$80m NPAT and the full year to \$171m NPAT. The divisional revisions to our forecasts are shown in the following table. Most notable upgrades have occurred to the Trading and Qinzhou divisions.

OM Holdings - divisional EBITDA (\$m) revisions, May 2008

	June H'08		Dec H'08		Full Year	
	old	new	old	new	old	new
Bootu Ck	62	61	109	122	171	183
Hedging	5	5	2	2	7	7
Trading	19	37	14	15	33	52
Qinzhou	6	16	7	11	13	27
Other	-3	-5	-5	-5	-8	-10
Total	89	114	127	145	216	259

We have also upgraded our short and medium term Mn price forecasts, as shown in the following table.

Mn prices assumed (Euroz)

Bootu Ck FOB Lump (US\$/dmty)

period	old	new
Jun H'08	820	820
Dec H'08	1000	1150
Jun H'09	750	965
Dec H'09	750	965
Jun H'10	585	760
Dec H'10	585	760
LT	585	585

Trading division volume was up 27% over the Dec Q, leading to the comment "... outstandingfinancial result for the quarter." The Trading division contributed \$48m EBITDA in 2007 including a one-off \$8m significant item. Our revised forecasts anticipate a bigger contribution this year.

Qinzhou achieved record production of 10.3kt HCFeMn compared with pcp prod'n of 3.0kt. Production guidance of 41kt for 2007 remains unchanged. The FeMn market remains equally upbeat as does the ore market with HCFeMn prices of US\$2500/t being quoted. Expansion opportunities are being reviewed, in particular a sinter plant proposal is under feasibility study. Our revised forecasts anticipate roughly double last years \$13m EBITDA.

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Bootu Ck achieved record production of 183kt, well above design rates of 46kt/mth. This result is noteworthy also due to the period being the typical wet season. June Q production is forecast at 175kt. Sales volume was 45kt below production, probably due to the unexpectedly high output not matching with planned shipments. Guidance is that this inventory will be carried through to June 30th, indicating perhaps that the shipping market remains tight. Bootu Ck cash costs declined from A\$4.16/dmtu to A\$3.83/dmtu, and are expected to remain at these levels throughout the balance of the year. Our revised forecasts are based on higher Mn price received in the Dec H, while the June H forecast remains similar.

The Hong Kong SE listing continues in process with approvals expected by early July, indicating some minor time slippage.

The proposed 2:1 share split will be put to shareholders in late May.

The Mar Q financial result will be released in late May once the audit review process is completed.

OMH has hinted at other growth opportunities internationally aside from the organic opportunities presented at both Bootu Ck and Qinzhou.

▶ **Investment Case:**

OM Holdings is now generating outstanding returns for shareholders. The stock is currently priced at just 5.1x these earnings in the current year.

As a consequence of higher assumed Mn prices in 2009 and 2010 we have also upgraded our earnings forecasts in those years. The stock remains cheap across a 3 year horizon at a PER of 5-6x.

Our NPV valuation has been increased to \$3.93/sh.

The potential for resource growth at Bootu Ck is high. The 2008 drilling campaign will demonstrate this. The success of wide spaced drilling in 2007 suggests lower than usual risk of resource upgrade. In time resource expansion will lead to production growth, in say 2010. This growth, coupled with expansion at Qinzhou should underpin valuations and provide some insurance against a downturn in manganese markets. Our valuation does already assume a moderating Mn price beyond the next 12 months but has not priced in any of the growth projects that are possible.

The impending Hong Kong listing will potentially be a share price driver. However the need for OMH to raise new equity funds to facilitate the HK listing is difficult to envisage currently given the strong cashflow and balance sheet. While we can see growth projects on the horizon requiring modest investment at Bootu Ck, Qinzhou in China and other exploration, but we feel these are within the capability of the existing balance sheet.

We have upgraded our price target to \$4.50/sh. The price target is equivalent to a PER of 6.5x. An improved rating is possible through the HKSE listing and the improved transparency now being displayed through quarterly earnings disclosure and management communication with investors. Ultimately we believe that higher ratings above this level are possible once some long term sustainable earnings through the growth projects are more clearly demonstrated.

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.

OM HOLDINGS LIMITED (OMH)		YEAR END 31 DEC				
MARKET STATISTICS						
Share Price	\$3.70 A\$/sh	Directors				
Issued Capital		J Raubenheimer	Chair'n			
FP Ord	234.0 m	Low Ngee Tong	Mgr Dir			
Opt	12.5 m	Ong Beng Chong	Dir			
Opt (@\$1.05/sh)	nil	Tan Peng Chin	Dir			
Opt (@\$0.72)	nil	Julie Wolseley	Dir			
Total Dil. FPOrd	246.5 m	Paul Thomas	CEO, OMM			
Market Capitalisation	\$912 m	Shareholders				
Enterprise Value	\$894 m	SK Heng	10.6%			
Debt	\$(6)m	NT Low	9.3%			
Cash	\$24 m	Huang Gang	5.0%			
Currency Hedging	nil	Westoz	6.9%			
ASSET VALUATION		A\$m	A\$/sh			
Bootu Ck		715	2.90			
OMH Trading		126	0.51			
OMH Quinzhou		69	0.28			
Hedging		4	0.02			
Corporate		(31)	-0.13			
Other		-	-			
Territory Iron		26	0.11			
Working Capital		32	0.13			
Unpaid Capital		8	0.03			
Debt		(6)	-0.02			
Cash		24	0.10			
Total @ 10% nom		968	3.93			
Total @ 5% nom		1,141	4.63			
Total @ 15% nom		844	3.42			
FORECAST PRODUCTION		2006a	June H'07f	2007f	2008f	2009f
Bootu Ck						
Lump Mn Ore Shipped	kt	376	243	520	555	580
Fines Mn Ore Shipped	kt	127	84	180	192	200
Total Mn Ore Shipped	kt	503	327	700	746	780
Total Cash Costs	A\$/t	125	189	201	200	186
Mn Price Rec'd Blended	A\$/t	186	375	463	480	400
Mn price ass. (lump cif)	USc/dmtu	5.35	11.25	13.13	12.50	10.00
Mn price rec'd (lump fob)	USc/dmtu	3.76	8.18	9.94	9.65	7.58
OM Trading						
Mn Ore	kt	654	350	700	800	800
Cr Ore	kt	287	50	100	100	100
Mn Alloy	kt	63	25	50	60	60
Cr Alloy	kt	27	10	20	30	30
Revenue	A\$m	293	162	282	295	314
Gross Margin	%	25.1%	35.0%	30.7%	16.0%	16.0%
OM Quinzhou						
Revenue	A\$m	43	33	62	54	58
Gross Margin	%	31%	49%	44%	15%	15%
Foreign Exchange						
Ass'd Spot Rate	US\$:A\$	0.84	0.92	0.91	0.85	0.80
Avg Rate Ach'd	US\$:A\$	0.84	0.89	0.89	0.85	0.80
RATIO ANALYSIS		2006a	June H'07f	2007f	2008f	2009f
CF (A\$m)		42	-	193	182	152
CF / Sh (Ac/sh)		17	-	78	74	62
CF Ratio (x)		11.9	-	4.7	5.0	6.0
Earnings (A\$m)		57	-	175	169	141
EPS (Ac/sh)		23	-	71	69	57
EPS Growth (%)		-210%	0%	208%	-3%	-17%
Earnings Ratio (x)		8.8	-	5.2	5.4	6.5
E'prise Val. (A\$m)		445	-	711	574	489
EV : EBITDA (x)		5.9	-	2.7	2.4	2.4
EV : EBIT (x)		7.1	-	3.0	2.6	2.6
Net Debt / ND+Eq (%)		-12%	0%	-110%	-204%	-282%
Interest Cover (x)		53		n/a	n/a	n/a
EBIT Margin (%)		22%		36%	32%	28%
ROE (%)		34%		55%	37%	25%
ROA (%)		29%		65%	45%	31%
Div. (Ac/sh)		7.0	5.0	15.0	15.0	12.0
Div. payout ratio		30%		21%	22%	21%
Div. Yield		3.5%		4.1%	4.1%	3.2%
Div. Franking		0%		0%	0%	0%

	2006a	June H'07f	2007f	2008f	2009f
PROFIT & LOSS					
Mining Revenue	85	123	324	358	312
Trading Revenue	169	162	282	295	314
FerroAlloy Revenue	35	33	62	54	58
Forex Hedging Revenue	-	5	7	0	0
Interest Income	1	0	2	8	13
Other Revenue	1	-	-	-	-
TOTAL REVENUE	291	323	677	716	698
Operating Costs	205	203	406	462	477
Dep/Amort	9	6	14	12	10
W/O & Provisions	4	1	4	1	1
Corp O/H	10	5	10	8	8
EBITDA	75	114	259	238	200
EBIT	63	107	241	225	189
Interest Expense	2	0	0	0	0
NPBT	62	107	243	232	202
Tax	5	27	67	63	61
Minority Interest	0	0	0	0	0
NET PROFIT	57	80	175	169	141
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	57	80	175	169	141
CASHFLOW					
Net Profit	57	80	175	169	141
+ Working Capital Adj.	(32)	-	-	-	-
+ Dep/Amort	9	6	14	12	10
+ Provisions/WO	4	1	4	1	1
+ Tax Expense	5	27	67	63	61
- Tax Paid	-	27	67	63	61
Operating Cashflow	42	87	193	182	152
-Capex + Development	9	1	11	2	2
-Exploration	4	5	10	8	6
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
Investing Cashflow	(11)	(6)	(21)	(10)	(8)
+Equity Issues	17	2	2	-	-
+Loan D'down/Receivable	-	-	-	-	-
+Other	3	-	-	-	-
-Loan Repayment	23	-	-	-	-
-Dividends	5	12	23	35	33
Financing Cashflow	(8)	(10)	(21)	(35)	(33)
Period Sur (Def)	23	72	151	138	111
Cash Balance	21	92	171	309	420
BALANCE SHEET					
Assets					
Cash	24	92	171	309	420
Current Receivables	27	27	27	27	27
Other Current Assets	51	51	51	51	51
Non-Current Assets	116	115	120	118	116
Total Assets	218	285	369	504	614
Liabilities					
Borrowings	6	5	5	5	5
Current Accounts Payable	41	41	41	41	41
Other Liabilities	5	5	5	5	5
Total Liabilities	52	51	51	51	51
Net Assets	166	234	318	453	563
SEGMENT EBITDA					
Mining	31	61	183	209	167
FX Hedging	0	5	7	0	0
Trading	48	37	52	29	32
Quinzhou	13	16	27	8	8
Other	(18)	(5)	(10)	(8)	(8)
Total EBITDA	75	114	259	238	200
SEGMENT EBIT					
Mining	22	55	170	197	158
FX Hedging	0	5	7	0	0
Trading	48	36	51	29	32
Quinzhou	13	16	27	7	8
Other	(21)	(6)	(14)	(9)	(9)
Total EBIT	63	107	241	225	189
RESERVES AND RESOURCES					
	Reserves		Resources		
	mt	Mn%	mt	Mn%	
Measured / Proved	2.5	24.6	3.55	25.4	
Indicated / Probable	7.8	24.5	10.6	25.9	
Inferred			3.6	25.6	
Total	10.3	24.5	17.75	25.7	

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