

OM Holdings Ltd

(OMH \$1.98) Buy

EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

067 08

Comments

Price Target: \$2.64/sh

OM Holdings reported June H'08 NPAT of \$97m including a write back of \$9.6m of mine development previously written off. The underlying \$87m NPAT was broadly in line with guidance. An interim dividend of \$0.035/sh represents a payout ratio of 18%. Typically the full year payout ratio is 25-30% and we expect this to be maintained in 2008.

This result is somewhat of a transition into the expected future contributions from the buoyant manganese market. Overall group EBITDA is expected to increase 50% in the Dec H to ~\$150m driven mainly by the contribution from Bootu Ck capitalizing on the high Mn prices.

OMH has several low cost organic growth opportunities all potentially funded through cashflow:

- Bootu Ck production will grow 20% from mid 2009 to 850ktpa with the coarse reject re-treatment plant at a cost of A\$13m.
- Continuous improvement projects are expected to yield an additional 50-10kt over the next 2 yrs.
- A major expansion of the Bootu Ck processing plant is contemplated subject to growth in the mineral resource. This project could double the existing capacity to produce an additional 750ktpa. Capex on such an expansion is expected at ~\$80m.
- A sinter plant at Qinzhou is likely to be developed in 2009 at a cost of A\$20m to value add 300ktpa of lower grade fines product, some of which is generated by the coarse reject processing at Bootu Ck.

We have not yet factored the major expansion into our forecast and valuation as no certainty exists until an update in the mineral resource estimate in February. A target of 30mt is stated, while the current inventory is 18mt. The exploration budget for 2008 is \$10m.

OM Marketing is forecast to contribute less in future periods as the opportunity to benefit from a rising manganese market is assumed not to exist, resulting in a reduced overall margin. We have forecast an EBITDA contribution of \$20m, down from the \$42m achieved in the June H'08.

Qinzhou is expected to contribute less in the Dec H based on lower production previously guided of 14kt HCFeMn, down from 27kt HCFeMn in the June H. The lower production is mainly due to the seasonal availability of hydro power. The FeMn alloy market remains firm and high prices will be received for product although this will be partially offset by higher ore costs. The extent to which OMH has built an inventory of lower priced ore may temporarily insulate against this but this is unknown. Our Dec H EBITDA forecast is \$8m, down from the \$13m recorded in the June H.

Investment Case

OMH continues to offer value and organic growth. It is currently priced at a discount to our NPV based valuation of \$2.65/sh. It is also cheap on a PER of 5.3x forward NPAT and at 3.0x EV:EBITDA. Its growth is internally funded.

The fortunes of OMH remain primarily linked to the manganese ore price which appears to be maintaining the buoyant prices despite the uncertainty for global growth at present. A lack of new growth in supply in the high grade segment (+40%Mn) due to exploration and infrastructure constraints coupled with demand linked to steel production growth has supported this environment. The highly concentrated supply side makes for a very controlled response to the higher prices, enabling longer term stability at the elevated levels. Nonetheless we have reduced our assumed 2009 price from US\$16/dmtu to US\$14/dmtu. Our NPV based valuation is based on the long term manganese price trending back to US\$10.00/dmtu over a 3 yr period.

The organic growth described above offers both blue sky upside to our valuation and insurance against diminished value should a lower Mn price eventuate. We estimate the expansion scenario could add \$0.50-\$0.70/sh to NPV value at this early stage, with more as the project draws closer to actually contributing. We continue to rate OMH as a BUY.

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

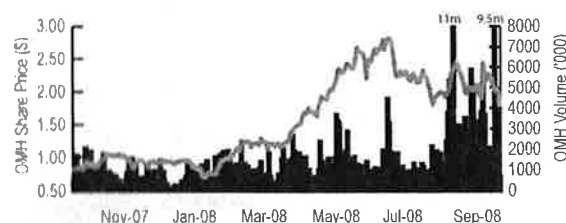
Top 20 Shareholders as at 17 September 2008

Shareholders	Shares (m)	(%)
1 HSBC Custody Nominees (Australia) Ltd	72.02	15.17
2 Dino Company Limited	47.13	9.93
3 Zero Nominees Pty Ltd	36.70	7.73
4 Ramley International Ltd	36.40	7.67
5 National Nominees Limited	30.15	6.35
6 Newtimes Marine Co Ltd	30.00	6.32
7 DBS Vickers Securities (Singapore) Pte Ltd	20.71	4.36
8 Lai Shun Holdings Ltd	19.00	4.00
9 J P Morgan Nominees Australia Limited	17.36	3.66
10 ANZ Nominees Limited	13.20	2.78
11 Merrill Lynch (Australia) Nominees Pty Ltd	9.56	2.01
12 Hsbc Custody Nominees (Australia) Ltd	9.38	1.98
13 Citicorp Nominees Pty Limited	6.63	1.40
14 Mr Ngee Tong Low	6.00	1.26
15 Shenyn Wanguo Securities (HK) Limited	5.05	1.06
16 Ms Julie Anne Wolseley	4.05	0.85
17 Merrill Lynch (Australia) Nominees Pty Ltd	3.88	0.82
18 Woodross Nominees Pty Ltd	3.08	0.65
19 Citicorp Nominees Pty Limited	2.53	0.53
20 HSBC Custody Nominees (Australia) Ltd	2.37	0.50
TOTAL	375.21	79.03

Market Statistics

Share Price	\$1.98 A\$/sh	Directors	
Issued Capital		J Raubenheimer	Chair'n
FP Ord	472.4 m	Low Ngee Tong	Mgr Dir
Opt (\$0.33/sh)	21.8 m	Ong Beng Chong	Exec Dir
Opt (\$1.64/sh)	32.0 m	Tan Peng Chin	Dir
Opt (\$2.49/sh)	14.0 m	Julie Wolseley	Dir
Total Dil. FPOrd	526.2 m	Paul Thomas	CEO, OMM
		Peter Toth	jt CEO elect
Market Capitalisation	\$1,042 m	Wong Fong Fui	Dir
Enterprise Value	\$984 m		
Debt	\$(2)m	Shareholders	
Cash	\$60 m	SK Heng	10.6%
Currency Hedging		NT Low	9.3%
	US\$11m @ \$0.84	Huang Gang	5.0%
		Westoz	6.9%

Share Price Performance



Resources Quarterly ▶ October 2008

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OM Holdings Ltd

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Oct 08

OM HOLDINGS LTD (OMH)		YEAR END 31 DEC				
ASSET VALUATION		A\$M	A\$/sh			
Bootu Ck		970	1.84			
OMH Trading		121	0.23			
OMH Quinzhou		133	0.25			
Hedging		0	0.00			
Corporate		(33)	-0.06			
Other		-	-			
Territory Iron		15	0.03			
Working Capital		68	0.13			
Unpaid Capital		60	0.11			
Debt		(2)	-0.00			
Cash		60	0.11			
Total @ 10% nom		1,391	2.64			
Total @ 5% nom		1,597	3.04			
Total @ 15% nom		1,243	2.36			
FORECAST PRODUCTION		2007a	Dec H'08f	2008f	2009f	2010f
Bootu Ck						
Lump Mn Ore Shipped	kt	376	257	501	546	566
Fines Mn Ore Shipped	kt	127	96	152	156	176
Total Mn Ore Shipped	kt	503	353	654	777	891
Total Cash Costs	A\$/t	125	245	220	223	213
Mn Price Rec'd Blended	A\$/t	186	597	496	507	449
Mn price ass. (lump cif)	US\$/dmtu	5.35	16.00	14.53	14.00	13.00
Mn price rec'd (lump fob)	US\$/dmtu	3.76	12.09	10.24	10.86	10.18
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	215	402	486	296
Gross Margin	%	25.1%	20.0%	27.0%	17.0%	16.0%
OM Quinzhou						
Revenue	A\$m	43	25	62	88	113
Gross Margin	%	31%	36%	36%	30%	24%
Foreign Exchange						
Ass'd Spot Rate	US\$:A\$	0.84	0.83	0.88	0.85	0.85
Avg Rate Ach'd	US\$:A\$	0.84	0.83	0.87	0.85	0.85
RATIO ANALYSIS		2007a	Dec H'08f	2008f	2009f	2010f
CF (A\$m)		42	-	163	214	192
CF / Sh (Ac/sh)		17	-	31	41	37
CF Ratio (x)		11.9	-	6.4	4.9	5.4
Earnings (A\$m)		57	100	197	198	177
EPS (Ac/sh)		23	19	37	38	34
EPS Growth (%)		-210%	0%	63%	0%	-11%
Earnings Ratio (x)		8.8	5.2	5.3	5.3	5.9
E'prise Val. (A\$m)		456	846	831	736	636
EV : EBITDA (x)		6.1	2.8	3.3	2.6	2.5
EV : EBIT (x)		7.3	3.1	3.5	2.8	2.6
Net Debt / ND + Eq (%)		-12%	0%	-74%	-107%	-162%
Interest Cover (x)		5.4	-	n/a	n/a	n/a
EBIT Margin (%)		22%	-	32%	27%	30%
ROE (%)		34%	-	62%	44%	32%
ROA (%)		29%	-	59%	50%	38%
Div (Ac/sh)		7.0	10.0	13.5	15.0	12.0
Div payout ratio		30%	-	36%	40%	36%
Div Yield		3.5%	-	6.8%	7.6%	6.1%
Div Payouting		0%	-	0%	0%	0%
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	25.5	
Total		10.3	24.5	17.75	25.7	

PROFIT AND LOSS	2007a	Dec H'08f	2008f	2009f	2010f
Mining Revenue	85	210	324	394	400
Trading Revenue	169	215	343	486	296
FerroAlloy Revenue	35	25	62	88	113
Forex Hedging Revenue	-	0	6	0	0
Interest Income	1	1	2	6	10
Other Revenue	1	-	1	-	-
TOTAL REVENUE	291	452	739	974	820
Operating Costs	205	294	466	678	543
Dep/Amort	9	6	11	15	15
W/O & Provisions	4	6	3	1	1
Corp O/H	10	8	19	8	8
EBITDA	75	148	253	282	259
EBIT	63	137	239	266	243
Interest Expense	2	0	1	0	0
NPBT	62	138	241	271	253
Tax	5	37	43	73	76
Minority Interest	0	0	1	0	0
NET PROFIT	57	100	197	198	177
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	57	100	197	198	177
CASH FLOW					
Net Profit	57	100	197	198	177
+ Working Capital Adj.	(32)	-	(52)	-	-
+ Dep/Amort	9	6	11	15	15
+ Provisions/WO	4	6	3	1	1
+ Tax Expense	5	37	43	73	76
- Tax Paid	-	37	39	73	76
Operating Cashflow	42	112	163	214	192
-Capex + Development	9	9	9	40	6
-Exploration	4	5	5	8	6
-Assets Purchased	-	-	4	-	-
+Asset Sales	-	-	0	-	-
Investing Cashflow	(11)	(14)	(17)	(48)	(12)
+Equity Issues	17	-	5	-	-
+Loan D'down/Receivable	-	-	-	-	-
+Other	3	-	-	-	-
-Loan Repayment	23	-	4	-	-
-Dividends	5	17	26	71	66
Financing Cashflow	(8)	(17)	(25)	(71)	(66)
Period Sur (Def)	23	81	120	95	114
Cash Balance	21	141	141	236	351
BALANCE SHEET					
Assets					
Cash	24	141	141	236	351
Current Receivables	27	94	94	94	94
Other Current Assets	51	61	61	61	61
Non-Current Assets	116	112	112	145	142
Total Assets	218	408	408	536	648
Liabilities					
Borrowings	6	5	5	5	5
Current Accounts Payable	41	81	81	81	81
Other Liabilities	5	2	2	2	2
Total Liabilities	52	89	89	89	89
Net Assets	166	320	320	448	559
SEGMENT EBITDA					
Mining	31	124	180	221	211
FX Hedging	0	0	6	0	0
Trading	48	23	65	43	29
Qinzhou	13	9	22	26	27
Other	(18)	(8)	(20)	(8)	(8)
Total EBITDA	75	148	253	282	259
SEGMENT EBIT					
Mining	22	119	169	209	201
FX Hedging	0	0	6	0	0
Trading	48	23	64	42	29
Qinzhou	13	9	22	24	22
Other	(21)	(14)	(22)	(9)	(9)
Total EBIT	63	137	239	266	243

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