

Comments

Price Target: +\$2.00/sh

The strong June H result included underlying EBIT of \$15m from Trading and \$4.6m from Qinzhou, offset by an EBIT loss of \$5m from Bootu Ck. Consequently we have significantly upgraded our forecast NPAT for CY'07 from \$30m to \$51m.

It is important to remember the benefits of Bootu Ck which is now operating at design rates and with buoyant manganese ore prices is yet to contribute to OMH's reported results. We believe this could be as much as a \$29m EBIT contribution for the Dec H based on 50kt/mth of product sales. Volume & price contracts for 75% of this product are already secure.

Bootu Ck production target for 2008 is 700kt (previously 600kt). Mn price is assumed to moderate to US\$4.00/dmtu rec'd FOB lump from close to US\$5.00/dmtu in the current period. Accordingly we have upgraded our 2008 earnings forecast from \$33m to \$55m NPAT. It is possible that with the increasingly tight supply of "high grade" Mn ore prices may remain high for an extended period, unlike in previous cycles.

Exploration drilling at Bootu Ck is well underway with a budget of \$3.6m to be largely spent on 25,000m of RC drilling. We anticipate a meaningful upgrade to resources in early 2008 as a result. Perhaps this may lead to justification for further investment in capacity expansion in due course.

We estimate the trading division has contributed EBIT of ~\$14m pa (before admin costs) over the 5 yrs (2003-2007). Arguably this average represents a "through the cycle" view on the business. Notably the volumes are growing as Bootu Ck and Qinzhou augment third party ore and alloy sources. The June H'07 was well above average at \$15m contribution. Qinzhou also contributed meaningfully to the group for the first time. Sales volume in the Dec H will more than double, however we would also expect contraction in margin as Mn ore feedstock prices have risen. Overall we are forecasting the Trading division contribution to moderate by ~25% in the Dec H and Qinzhou to contribute at a similar level to the June H.

Investment Case

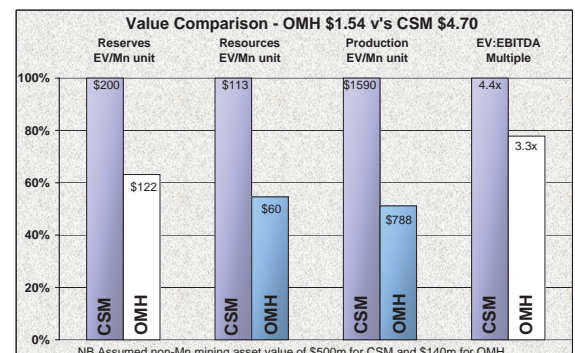
OMH is cheap against our \$2.00/sh NPV based valuation. It is priced at a PER of 5.3x the annualized forecast for the Dec H'07 or 6.7x the 2008 forecast. Beyond 2008 the potential for capacity expansion could contribute above our base case forecasts. This story will unfold over the next six months. Our target price of +\$2.00/sh envisages some exploration success.

Strategically we believe Bootu Ck will emerge as the key independent asset in the "high grade" global manganese market. ConsMins' Woodie Woodie manganese mine is arguably worth 60% of the nearly \$1,200m offered for the company. On a full costs basis we believe Bootu Ck can compete with Woodie Woodie, and Bootu Ck has the potential to produce an equivalent volume of product. Comparison of the value offered for Woodie Woodie v's Bootu Ck is shown in the adjacent chart.

The manganese market is less fragmented at the quality end than it was a year ago. With Ghana Manganese and ConsMins some 15% of the independent supply side has been consolidated during the last 6 months. This will result in more discipline in the supply side, while the demand side themes remain strong across the whole steel inputs sector.

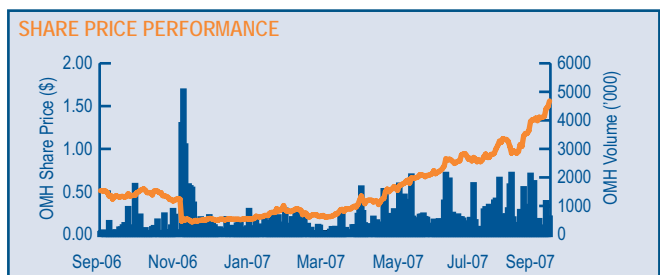
Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to OM Holdings during the last year. Euroz Securities has received a fee for these services.

This analyst also declares that he has a beneficial interest in OM Holdings.



TOP 20 SHAREHOLDERS AS AT 7 SEPTEMBER 2007		
Shareholders	Shares (m)	(%)
1 HSBC Custody Nominees (Australia) Limited	23.86	10.72
2 Dino Company Limited	23.57	10.59
3 Ramley International Limited	18.20	8.17
4 Zero Nominees Pty Limited	16.67	7.49
5 DBS Vickers Securities (Singapore) Pty Limited	15.47	6.95
6 Newtimes Marine Co Limited	15.00	6.74
7 Lai Shun Holdings Limited	9.50	4.27
8 Mr Yang Xifu	7.50	3.37
9 National Nominees Limited	6.78	3.05
10 J P Morgan Nominees Australia Limited	4.34	1.95
11 Shenyin Wanguo Securities (HK) Limited	3.68	1.65
12 ANZ Nominees Limited	3.19	1.44
13 UOB Kay Hian Private Limited	3.02	1.36
14 RBC Dexia Investor Services Aust Nom Pty Limited	2.84	1.27
15 Seetoh Kwok Weng	2.69	1.21
16 Chao Fan Huang	2.00	0.90
17 HSBC Custody Nominees (Australia) Limited	1.79	0.81
18 Phillip SecuritEs Pty Limited	1.57	0.70
19 Nefco Nominees Pty Limited	1.50	0.68
20 Plama Pty Limited	1.50	0.67
TOTAL	164.67	73.99

MARKET STATISTICS		
Share Price	\$1.54 A\$/sh	Directors
Issued Capital		J Raubenheimer
FP Ord	223.8m	Low Ngee Tong
Opt	21.6m	Ong Beng Chong
Total Dil. FPOrd	245.4m	Bill MacKenzie
		Julie Wolseley
Market Capitalisation	\$378m	Yeo Wee Kiong
Enterprise Value	\$376m	Paul Thomas
Debt	\$(19)m	Shareholders
Cash	\$21m	SK Heng
Currency Hedging	nil	NT Low
		Huang Gang
		Westoz
		Chair'n
		Mgr Dir
		Dir
		Dir
		Dir
		CEO, OMM
		10.6%
		9.3%
		5.0%
		6.3%



OM Holdings Limited

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EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

OM HOLDINGS (OMH)		YEAR END 31 DECEMBER				
ASSET VALUATION		A\$m	A\$/sh			
Bootu Ck		329	1.34			
OMH Trading		99	0.40			
OMH Quinzhou		51	0.21			
Hedging		0	0.00			
Corporate		(33)	-0.13			
Other		-	-			
Territory Iron		25	0.10			
Working Capital		3	0.01			
Unpaid Capital		14	0.06			
Debt		(19)	-0.08			
Cash		21	0.08			
Total @ 10% nom		490	2.00			
Total @ 5% nom		496	2.02			
Total @ 15% nom		343	1.40			
FORECAST PROD'N		2006a	Dec H'07f	2007f	2008f	2009f
Bootu Ck						
Lump Mn Ore Shipped	kt	138	224	391	527	527
Fines Mn Ore Shipped	kt	44	84	135	171	171
Total Mn Ore Shipped	kt	182	308	526	698	698
Total Cash Costs	A\$/t	136	128	123	113	114
Mn Net Lump Rec'd	A\$/t	122	268	203	219	191
Mn Net Fines Rec'd	A\$/t	115	249	195	203	180
Mn price ass. (lump fob)	US\$/dmu 2.15	5.30	3.75	4.30	3.50	3.50
OM Trading						
Mn Ore	kt	500	400	700	800	800
Cr Ore	kt	100	50	187	100	100
Mn Alloy	kt	60	30	43	60	60
Cr Alloy	kt	40	5	7	30	30
Revenue	A\$m	201	140	241	268	263
Gross Margin	%	12.0%	16.0%	19.8%	13.5%	13.0%
OM Quinzhou						
Revenue	A\$m	35	26	43	47	55
Gross Margin	%	1%	26%	27%	15%	11%
Foreign Exchange						
Ass'd Spot Rate	US\$:A\$	0.75	0.84	0.82	0.83	0.80
Avg Rate Ach'd	US\$:A\$	0.75	0.84	0.82	0.83	0.80
RATIO ANALYSIS		2006a	Dec H'07f	2007f	2008f	2009f
CF (A\$m)		(19)	-	50	64	52
CF / Sh (Ac/sh)		(12)	-	21	26	21
CF Ratio (x)		(2.6)	-	7.5	5.9	7.3
Earnings (A\$m)		(33)	36	51	55	42
EPS (Ac/sh)		(21)	15	21	23	17
EPS Growth (%)		-689%	0%	-199%	8%	-24%
Earnings Ratio (x)		(1.5)	5.3	7.4	6.8	9.0
E'prise Val. (A\$m)		60	-	318	267	228
EV : EBITDA (x)		(27.3)	-	4.8	3.3	3.7
EV : EBIT (x)		(2.0)	-	5.3	3.7	4.4
Net Debt / ND+Eq (%)		18%	0%	-16%	-58%	-94%
Interest Cover (x)		n/a	-	36	n/a	n/a
EBIT Margin (%)		-16%	0%	16%	16%	12%
ROE (%)		-45%	0%	33%	28%	18%
ROA (%)		-20%	0%	29%	29%	19%
Div. (Ac/sh)		-	3.0	5.0	5.0	5.0
Div. payout ratio		0%	0%	24%	22%	29%
Div. Yield		0.0%	0.0%	3.2%	3.2%	3.2%
Div. Franking		33%	-	0%	0%	0%
RESERVES AND RESOURCES						
		Resources				
	mt	Mn%	Fe%	P%	Al2O3%	SiO2%
Bootu Ck						
(Shekuma&Gogo dil.)	8.45	27.0	5.8	0.03	3.4	39
Bootu Ck						
(Chugga&Tourag undil.)	4.96	23.5				
Total (undil)	13.4	25.7				

PROFIT & LOSS	2006a	Dec H'07f	2007f	2008f	2009f
Mining Revenue	15	73	95	142	127
Trading Revenue	139	140	237	268	263
FerroAlloy Revenue	30	26	36	47	55
Forex Hedging Revenue	-	0	0	0	0
Interest Income	-	0	1	2	3
Other Revenue	-	1	1	-	-
TOTAL REVENUE	184	241	369	459	449
Operating Costs	183	187	292	368	376
Dep/Amort	5	4	8	8	9
W/O & Provisions	23	4	(2)	1	1
Corp O/H	3	4	11	8	8
EBITDA	(2)	49	66	81	62
EBIT	(30)	41	60	72	52
Interest Expense	2	0	2	0	0
NPBT	(32)	41	58	73	55
Tax	1	5	7	18	13
Minority Interest	0	0	0	0	0
NET PROFIT	(33)	36	51	55	42
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(33)	36	51	55	42
CASHFLOW	2006a	Dec H'07f	2007f	2008f	2009f
Net Profit	(33)	36	51	55	42
+ Working Capital Adj.	(15)	-	(8)	-	-
+ Dep/Amort	5	4	8	8	9
+ Provisions/WO	23	4	(2)	1	1
+ Tax Expense	1	5	7	18	13
- Tax Paid	-	5	5	18	13
Operating Cashflow	(19)	44	50	64	52
-Capex + Development	19	9	15	2	2
-Exploration	2	4	4	-	-
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	5	-	-
Investing Cashflow	(21)	(13)	(14)	(2)	(2)
+Equity Issues	9	-	15	-	-
+Loan D'down/Receivable	21	-	-	-	-
+Other	2	(3)	(3)	-	-
-Loan Repayment	-	17	27	-	-
-Dividends	-	4	4	11	11
Financing Cashflow	32	(25)	(20)	(11)	(11)
Period Sur (Def)	(8)	6	17	51	39
Cash Balance	12	26	26	78	117
BALANCE SHEET	2006a	Dec H'07f	2007f	2008f	2009f
Assets					
Cash	12	26	26	78	117
Current Receivables	16	39	39	39	39
Other Current Assets	35	24	24	24	24
Non-Current Assets	86	116	116	109	102
Total Assets	148	205	205	250	281
Liabilities					
Borrowings	27	5	5	5	5
Current Accounts Payable	48	44	44	44	44
Other Liabilities	2	2	2	2	2
Total Liabilities	77	51	51	51	51
Net Assets	72	154	154	199	231
SEGMENT EBITDA	2006a	Dec H'07f	2007f	2008f	2009f
Mining	(7)	33	33	64	48
FX Hedging	0	0	0	0	0
Trading	10	12	28	18	16
Quinzhou	0	7	12	7	6
Other	(6)	(4)	(7)	(8)	(8)
Total EBITDA	(2)	49	66	81	62
SEGMENT EBIT	2006a	Dec H'07f	2007f	2008f	2009f
Mining	(10)	30	25	56	40
FX Hedging	0	0	0	0	0
Trading	10	12	27	18	16
Quinzhou	(0)	7	11	7	5
Other	(30)	(7)	(5)	(9)	(9)
Total EBIT	(30)	41	60	72	52

Resources Quarterly ▶ September 2007

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