OM Holdings Ltd
(OMH $1.82) Buy

EUROZ
SECURITIES LIMITED
AUSTRALIAN RESEARCH

Comments **Price Target:** $2.20/sh

OMH has used the recent weakness in the Manganese market to restructure its business to capitalize on a recovery in Mn markets. It has:

- Upgraded Bootu Ck resources giving it a 13 year mine life;
- Achieved economies of scale by lowering yield, lifting production and reducing costs to compete with the lowest cost global producers;
- Established a market niche where it can achieve attractive pricing relative to the spot market;
- Commenced and internally funded an expansion at the mine to grow output by an additional 20%;
- Commenced and internally funded an expansion at Qinzhou to add value to Mn fines ore;
- Completed maintenance at Qinzhou smelter to integrate with the new sinter plant.

The recovery in the manganese market has been faster than we had expected. OMH has revealed that its August sales were achieved near US$6.40/dmtu CIF, up significantly from the US$4.75/dmtu for July. The spot market is roughly ~US$6.00-7.00/dmtu and we assume long run pricing of US$7.50/dmtu CIF. We caution that strength in the Mn market creates risk that domestic Chinese production may re-emerge if prices approach the US$10/dmtu region.

The expansion at Bootu Ck is due for commissioning in Dec'09. This project will add ~150ktpa of low cost medium grade fines product, taking overall production rate to ~1.0mtpa. This coincides with commissioning of the Qinzhou sinter plant project which will consume and value add the fines product from Bootu Ck.

In evidence of escalating costs within the Mn industry we have recently analysed historical financial results of BHPB Manganese division (the market leader). The chart on the next page shows that during the last 8 yrs cost of sales have increased steadily despite production volume growth. Costs increased dramatically during the June H'09 as production fell in response to the market weakness. BHPB costs will obviously reduce again with normalised production volume, however the general uptrend and impact of a high fixed cost component is undeniable. OMH's costs guidance (on comparable basis) are now sustainably close to the trend of BHPB's divisional average. Within this average Groote Eylandt would have a much lower cost than Wessels/Mamatwan in Sth Africa.

Investment Case

We continue to be attracted by OM Holdings' strong strategic position within the global manganese industry which sets it apart from typical small-mid sized mining companies:

- It is among the six largest seaborne exporters around the globe, and largest independent producer.
- It is vertically integrated and therefore captures value through to the alloy market.
- The marketing division has a well established network in China, enabling good market share enabling competitive pricing.

OM Holdings has many of the attributes that investors seek in small-mid cap'n mining stocks:

- Low cost and long mine life;
- Globally significant production scale;
- Production growth;
- Uncommitted offtake – strategically important;
- Corporate action potential.

OMH offers value at ~7x forecast 2010 earnings using an Mn price similar to the current spot market. We continue to believe that the Mn industry supply side remains tight over the short to medium term, constrained by rail and port bottlenecks in Sth Africa where the obvious long term supply growth will most likely originate. It is possible that the Mn price may track higher than our assumptions given the tight supply side.

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.

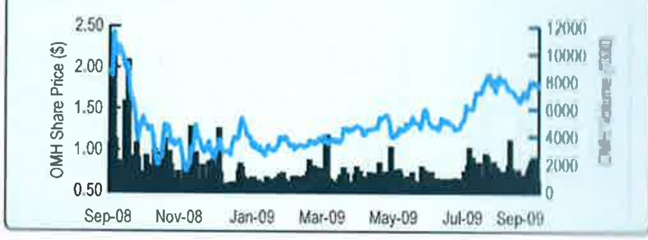
Top 20 Shareholders **as at 8 September 2009**

	Shareholders	Shares (m)	(%)
1	HSBC Custody Nominees (Aust) Limited	58.86	11.99
2	Stratford Sun Limited	57.23	11.66
3	Dino Company Limited	47.13	9.6
4	Ramley International Ltd	36.40	7.42
5	Newtimes Marine Co Ltd	31.00	6.32
6	J P Morgan Nominees Australia Ltd	28.79	5.87
7	National Nominees Limited	28.13	5.73
8	Zero Nominees Pty Ltd	27.72	5.65
9	Lai Shun Holdings Ltd	19.00	3.87
10	Mr Ngee Tong Low	13.00	2.65
11	ANZ Nominees Limited	11.16	2.27
12	DBS Vickers Securities (Singapore) Pty Ltd	10.93	2.23
13	Citicorp Nominees Pty Limited	9.73	1.98
14	HSBC Custody Nominees (Aust) Limited	7.33	1.49
15	Ms Julie Anne Wolseley	5.56	1.13
16	Citicorp Nominees Pty LimitEd	4.08	0.83
17	UBS Nominees Pty Ltd	3.42	0.7
18	Cogent Nominees Pty Limited	3.14	0.64
19	Citicorp Nominees Pty Limited	2.88	0.59
20	Australian Reward Investment Alliance	2.37	0.48
	TOTAL	**407.87**	**83.10**

Market Statistics

Share Price	**$1.82 A$/sh**	**Directors**	
Issued Capital		Low Ngee Tong	Ex.Chair'n
FP Ord	486.8m	Peter Toth	CEO
Opt ($0.33/sh)	3.5m	Ong Beng Chong	Exec Dir
Opt ($1.64/sh)	36.7m	Tan Peng Chin	Dir
Opt ($2.49/sh)	22.0m	Julie Wolseley	Dir
		Wong Fong Fui	Dir
Total Dil. FPOrd	**527.0m**	Thomas Teo Liang Huat	Dir
		Paul Thomas	CEO, OMM
Market Capitalisation	$959m		
Enterprise Value	$880m	**Shareholders**	
Debt	$-m	SK Heng	10.0%
Cash	$79m	NT Low	9.0%
Currency Hedging	nil	Huang Gang	11.2%
		Westoz	6.9%
		ConsMins	12%

Share Price Performance



OM Holdings Ltd

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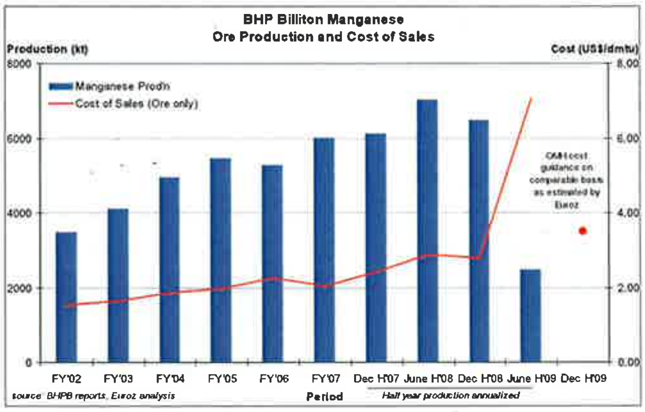
OM HOLDINGS LTD (OMH)	YEAR END 31 DECEMBER	
ASSET VALUATION	**A$M**	**A$/sh**
Bootu Ck	566	1.15
OMH Trading	239	0.48
OMH Quinzhou	143	0.29
Hedging	0	0.00
Corporate	(25)	-0.05
Other	-	-
Territory Iron	6	0.01
Working Capital	73	0.15
Unpaid Capital	8	0.02
Debt	-	-
Cash	79	0.16
Total @ 10% nom	**1,090**	**2.20**
Total @ 5% nom	1,332	2.70
Total @ 15% nom	897	1.81

FORECAST PRODUCTION		2008a	Dec H'09f	2009f	2010f	2011f
Bootu Ck						
Lump Mn Ore Shipped	kt	397	300	593	660	660
Fines Mn Ore Shipped	kt	112	90	161	180	180
Total Mn Ore Shipped	kt	508	390	754	990	990
Total Cash Costs (C1)	A$/dmtu	4.05	3.53	4.30	3.43	3.39
Mn price ass. (lump cif)	USc/dmtu	13.38	7.00	5.88	7.50	7.50
Mn price rec'd (lump fob)	USc/dmtu	9.20	6.85	5.48	6.46	5.67
OM Trading						
Mn Ore	kt	735	465	864	1,140	1,140
Cr Ore	kt	100	60	120	80	80
Mn Alloy	kt	60	15	20	40	40
Cr Alloy	kt	20	1	2	20	20
Revenue	A$m	402	181	326	484	500
Gross Margin	%	25.2%	14.0%	13.1%	14.0%	14.0%
OM Quinzhou						
Revenue	A$m	68	32	51	179	179
Gross Margin	%	29%	26%	21%	19%	17%
Foreign Exchange						
Ass'd Spot Rate	US$:A$	0.85	0.84	0.78	0.82	0.82
Avg Rate Ach'd	US$:A$	0.85	0.84	0.79	0.82	0.82

RATIO ANALYSIS	2008a	Dec H'09f	2009f	2010f	2011f
CF (A$m)	143	-	65	143	128
CF / Sh (Ac/sh)	29	-	12	27	24
CF Ratio (x)	3.5	-	14.7	6.7	7.5
Earnings (A$m)	116	-	60	130	115
EPS (Ac/sh)	23	-	11	25	22
EPS Growth (%)	1%	0%	-51%	118%	-11%
Earnings Ratio (x)	4.4	-	16.0	7.4	8.3
E'prise Val (A$m)	395	-	799	698	604
EV / EBITDA (x)	2.5	-	12.7	3.6	3.6
EV / EBIT (x)	3.0	-	11.0	3.8	3.9
Net Debt / ND+Eq (%)	-88%	0%	-54%	-116%	-179%
Interest Cover (x)	n/a		n/a	n/a	(15)
EBIT Margin (%)	23%		13%	19%	17%
ROE (%)	46%		23%	35%	25%
ROA (%)	40%		21%	40%	29%
Div. (Ac/sh)	6.5	3.0	3.0	6.0	6.0
Div. payout ratio	28%		26%	24%	27%
Div. Yield	6.4%		1.6%	3.3%	3.3%
Div. Franking	0%		0%	0%	0%



source: BHPB reports, Euroz analysis

PROFIT AND LOSS	2008a	Dec H'09f	2009f	2010f	2011f
Mining Revenue	225	121	204	285	249
Trading Revenue	295	181	326	484	500
FerroAlloy Revenue	70	32	51	179	179
Forex Hedging Revenue	(19)	0	(13)	-	0
Interest Income	3	1	3	5	9
Other Revenue	-	-	1	-	-
TOTAL REVENUE	**574**	**336**	**571**	**952**	**936**
Operating Costs	386	261	497	745	753
Dep/Amort	9	7	12	12	12
W/O & Provisions	16	0	(22)	1	1
Corp O/H	29	4	8	8	5
EBITDA	156	70	63	195	169
EBIT	132	63	72	182	157
Interest Expense	1	0	0	0	0
NPBT	134	64	75	186	165
Tax	18	15	15	56	50
Minority Interest	0	0	0	0	0
NET PROFIT	**116**	**48**	**60**	**130**	**115**
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	**116**	**48**	**60**	**130**	**115**

CASH FLOW	2008a	Dec H'09f	2009f	2010f	2011f
Net Profit	116	48	60	130	115
+ Working Capital Adj.	(7)	-	15	-	-
+ Dep/Amort	9	7	12	12	12
+ Provisions/WO	16	0	(22)	1	1
+ Tax Expense	18	15	15	56	50
- Tax Paid	8	15	15	56	50
Operating Cashflow	**143**	**56**	**65**	**143**	**128**
-Capex + Development	15	20	42	6	4
-Exploration	12	4	8	6	-
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
Investing Cashflow	**(24)**	**(24)**	**(50)**	**(12)**	**(4)**
+Equity Issues	6	-	-	-	-
+Loan D'down/Receivable	-	-	-	-	-
+Other	(19)	-	-	-	-
-Loan Repayment	4	-	-	-	-
-Dividends	26	-	15	24	29
Financing Cashflow	**(43)**	**-**	**(15)**	**(24)**	**(29)**
Period Sur (Def)	**76**	**32**	**1**	**106**	**95**
Cash Balance	**97**	**98**	**98**	**204**	**299**

BALANCE SHEET	2008a	Dec H'09f	2009f	2010f	2011f
Assets					
Cash	119	98	98	204	299
Current Receivables	27	27	27	27	27
Other Current Assets	86	86	86	86	86
Non-Current Assets	100	137	137	138	130
Total Assets	**332**	**348**	**348**	**455**	**542**
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**	**264**	**264**	**371**	**458**

SEGMENT EBITDA	2008a	Dec H'09f	2009f	2010f	2011f
Mining	120	55	62	125	97
FX Hedging	(19)	0	(13)	-	0
Trading	57	10	12	44	46
Qinzhou	20	8	10	33	31
Other	(22)	(4)	(7)	(8)	(5)
Total EBITDA	**156**	**70**	**63**	**195**	**169**

SEGMENT EBIT	2008a	Dec H'09f	2009f	2010f	2011f
Mining	109	50	51	117	89
FX Hedging	(19)	0	(13)	-	0
Trading	57	10	11	43	46
Qinzhou	19	7	9	30	28
Other	(34)	(4)	15	(9)	(6)
Total EBIT	**132**	**63**	**72**	**182**	**157**

RESOURCES AND RESERVES	Reserves		Resources	
	mt	Mn%	mt	Mn%
Measured / Proved	7.4	22.1	8.6	24.2
Indicated / Probable	15	22.1	19.2	24.1
Inferred			2.8	24.4
Total	**22.4**	**22.1**	**30.6**	**24.1**