

Record production, profitability & cash

Equity | Australia | Non-Ferrous-Mining
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Q308 production +4% vs ML; +12% vs Q208

OMH has delivered an impressive Q308 production result reporting manganese ore production of 182,738t +4% vs ML; +12% vs Q208A. OMH remains on track to deliver 700,000t in 2008, with Q408 production targeted at 171kt, below Q3 levels due to the impacts of the wet season. Q308 HCFEMn Alloy production was 8,284t +25% vs ML, but 51% lower than Q208A, following the planned furnace reline during the quarter. OMQ is expected to deliver at least 41,200t HCFEMn in CY08.

Record profitability driven by price & currency

The OMM operations achieved record profitability for the quarter with operating profit after tax more than 50% higher than Q208. Record high manganese prices (US\$16.20/dmtu), coupled with a weaker A\$, saw the realised US\$ Mn price +37% vs Q208. As at Sept 08 OMH has cash position of A\$138m (20% of current market cap), coupled with a strong balance sheet & continued cash generating capability, more than sufficient to support their organic growth strategy.

Rejects plant approved & positive exploration results

During the quarter the A\$12.6m rejects plant was approved (already factored into our valuation), increasing Mn Ore production by ~150kt during the 1st 3yrs of operation, 100kt thereafter. The A\$10m exploration programme at Bootu Creek also delivered outstanding results during the quarter, confirming the ability to significantly expand the resource body in early 2009 (ML est+10mt; +25% NPV).

Earnings unchanged, BUY maintained

Our full year earnings estimates for OMH remain unchanged. Despite record high manganese prices of US\$16.20/dmtu (vs MLe US\$15/dmtu), we expect prices will soften in Q408, offsetting any earnings upgrades as demand for steelmaking raw materials slows. We maintain our BUY on OMH with the stock trading at a 56% discount to its NPV & PO of A\$3.06/sh. Near term positive catalysts for the stock include a likely 10mt resource upgrade & mine life extension, weakening A\$ and approval of the Sinter Plant.

Estimates (Dec)

(A\$)	2006A	2007A	2008E	2009E	2010E
Net Profit b/f Abnormals	(32)	57	190	233	303
EPS	(0.217)	0.262	0.402	0.493	0.642
EPS Change (YoY)	NA	NM	53.2%	22.7%	30.1%
Dividend / Share	0	0.069	0.085	0.104	0.148
Free Cash Flow / Share	(0.358)	0.128	0.303	0.410	0.585
EPS - Ordinary	-0.230	0.288	0.423	0.519	0.675

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	NM	5.11x	3.33x	2.72x	2.09x
Dividend Yield	0%	5.12%	6.31%	7.74%	11.08%
EV / EBITDA*	-7.32x	4.34x	2.37x	1.27x	0.473x
Free Cash Flow Yield*	-8.85%	4.63%	23.75%	32.19%	45.88%

* For full definitions of *iQmethod*SM measures, see page 6.

Stock Data

Price	A\$1.34
Price Objective	A\$3.06
Date Established	21-Aug-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	A\$0.700-A\$2.87
Mkt Val / Shares Out (mn)	US\$405 / 448.4
Average Daily Volume	3,379,042
ML Symbol / Exchange	XOMHF / ASX
Bloomberg / Reuters	OMH AU / OMH.AX
ROE (2008E)	89.9%
Net Dbt to Eqty (Dec-2007A)	-11.0%
Est. 5-Yr EPS / DPS Growth	1.1% / 5.7%
Free Float	72.0%



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iQprofileSM OM Holdings Ltd.

Key Income Statement Data (Dec)

(A\$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	186	299	703	921	1,146
Operating Expenses	(216)	(236)	(464)	(595)	(725)
EBITDA	(30)	64	239	326	422
Depreciation & Amortization	0	0	(9)	(11)	(19)
EBIT	(30)	64	229	315	403
Net Interest & Other income	(2)	(2)	1	3	6
Associates	NA	NA	NA	NA	NA
Pretax Income	(32)	62	231	318	409
Tax (expense) / Benefit	(1)	(5)	(41)	(86)	(106)
Net Profit b/f Abnormals	(32)	57	190	233	303
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	(32)	57	190	233	303
Avg F Diluted Shares Outstanding	149	218	471	471	471

Key Cash Flow Statement Data

EBITDA	(30)	64	239	326	422
Change in Working Capital	(10)	(34)	(31)	(26)	(28)
Deferred Taxation Charge	(1)	5	0	0	0
Other Adjustments, Net	6	9	(4)	(4)	(6)
Cash Flow from Operations	(37)	37	164	214	287
Capital Expenditure	(16)	(9)	(21)	(20)	(12)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(5)	(3)	3	4	6
Cash Flow from Investing	(21)	(11)	(18)	(16)	(6)
Shares Issue / (Repurchase)	9	17	(46)	0	0
Cost of Dividends Paid	0	(5)	(38)	(47)	(67)
Cash Flow from Financing	31	(7)	(84)	(47)	(67)
Free Cash Flow	(53)	28	143	193	276
Net Debt	17	(18)	(68)	(219)	(434)
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	59	60	73	83	78
Other Non-Current Assets	15	14	13	11	10
Trade Receivables	15	27	60	81	100
Cash & Equivalents	12	24	74	225	440
Other Current Assets	1	0	11	13	17
Total Assets	148	219	363	572	834
Long-Term Debt	19	0	0	0	0
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	10	6	6	6	6
Other Current Liabilities	0	5	5	5	5
Total Liabilities	77	53	103	126	152
Total Equity	71	166	259	445	681
Total Equity & Liabilities	148	219	363	572	834

iQmethodSM - Bus Performance*

Return on Capital Employed	NA	42.0%	86.8%	65.0%	53.2%
Return on Equity	NA	49.0%	89.9%	66.3%	53.9%
Operating Margin	-16.2%	21.9%	33.3%	34.4%	35.3%
EBITDA Margin	-16.0%	21.3%	34.0%	35.4%	36.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.1x	0.6x	0.9x	0.9x	1.0x
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate (Reported)	-2.3%	7.4%	17.8%	26.9%	25.9%
Net Debt-to-Equity Ratio	23.8%	-11.0%	-26.4%	-49.2%	-63.7%
Interest Cover	-17.0x	34.3x	422.0x	579.5x	741.7x

Key Metrics

Franking	0%	0%	51%	100%	100%
Ordinary Shares On Issue	140	199	448	448	448

* For full definitions of iQmethodSM measures, see page 6.

Company Description

OM Holdings Ltd has been listed on the ASX since Mar 98, head office located in Singapore. It's core operating business is exploration & mining of manganese (OMM), trading of Mn ore & alloy (OMS), and production of Fe Mn alloy from its semi integrated operations in China (OMQ). Current mine life is 8yrs however extensive exploration drilling is underway to increase resources by 10mt. OMH also owns 11% of ASX listed Territory Resources.

Investment Thesis

OMH is the only global pure play manganese listed stock, leveraged to both Mn ore and alloy. OMH's ore is high grade and high value in use, with a freight advantage vs competitors into the Chinese market, Upside to earnings and valuations expected from growth in both ore and alloy production with anticipated 2H2008 Board Approval for a rejects re-treatment plant at mine site and a sinter plant at the ferro alloy plant site. Strong earnings and cashflow growth plus a conservative balance sheet.

Stock Data

Price to Book Value 2.3x

Q3 Production Report

OMM : Q308 production +4% vs ML; +12% vs Q208

OMH has delivered an impressive Q308 production result with quarterly manganese production of 182,738t +4% vs ML; +12% vs Q208A. OMH reaffirmed that they remain on track to deliver annual production of 700,000t for 2008, with Q408 production expected to be 171,000t, lower than Q308 due to impacts of the wet season. Record sales (7 shipments) were also achieved during the quarter with total sales of 203kt +13% vs ML estimate of 180kt, & +44% vs Q208. The seventh shipment represented a cargo brought forward from the contracted sales book of the Dec 08 quarter.

Table 1: OMH Q308 Production

Year Ending Dec	Q308A	Q308E	vs ML	vsQ208	vsQ307
Mining (OMM)					
Ore Mined (kt)	719	690	4%	40%	52%
Total Production (kt)	183	175	4%	12%	8%
Mn grade	41%	42%	-1%	0%	-3%
Total Sales (kt)	203	180	13%	44%	87%
Smelting (OMQ)					
HC FeMn (tonnes)	8284	6651	25%	-51%	-37%

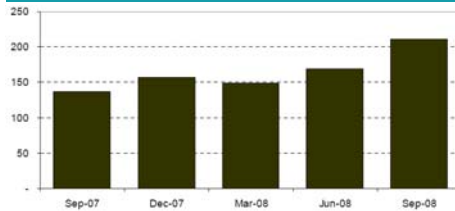
Source: OM Holdings, Merrill Lynch

Chart 1: OMM Manganese Production (t)



Source: OM Holdings

Chart 2: OMM Quarterly Shipping (Wet tonnes)



Source: Om Holdings

Chart 3: Q308 Drilling at Bootu Creek

Project	Number Of Holes	Total Metres
Chugga	34	3,114
Chugga North	106	7,841
Gogo	2	240
Masai	225	14,951
Other	10	1,008
Shekuma	44	4,381
Tourag	22	2,316
Yaka	137	9,261
Zulu	34	1,596
Total	614	44,708

Source: OM Holdings

OMQ: on track to deliver 41,200t in CY08

During the September quarter OMQ (Qinzhou Smelter) produced 8,284t of High Carbon Ferro Manganese (HCFEMn) +25% above ML estimate of 6,651t, but 51% lower than Q208A due to the planned furnace reline. OMQ remains on track to deliver 41,200t HCFEMn in CY08. In addition the Feasibility Study of OMQ's proposed 300,000t sinter plant project is expected to be completed by the end of 2008, with commissioning in Q409.

Record profitability driven by price & currency

The OMM operations achieved record profitability for the quarter with operating profit after tax more than 50% higher than Q208. Record high manganese prices of US\$16.20/dmtu, coupled with a weaker A\$, resulted in the realised average US\$ Mn price +37% vs Q208. In addition OMH is set to benefit from US\$160m in foreign exchange contracts at an average US\$/A\$ rate of 0.8236 which provides cover for ~67% of OMM's total forecast AUD operating & capital expenditure.

Unit cash operating costs for OMM in Q308 were A\$5.41/dmtu. Mining costs represented ~35% of total cash costs, while royalty costs contribute ~30%. Unit cash operating costs to date are A\$4.78/dmtu – representing an EBITDA margin >65%.

As at Sept 08 OMH has strong cash position of A\$138m (20% of current market cap) & continued cash generation capability to support the Board's ongoing commitment to deliver OMH's organic growth strategy, while also maintaining a progressive dividend policy.

Rejects plant approved

During the quarter OMH approved the A\$12.6m rejects re-treatment plant (already factored into our valuation) generating a further 150kt during the 1st 3yrs of operation.

Positive exploration results

The A\$10m exploration programme at Bootu Creek also delivered outstanding results during the quarter, confirming the ability to significantly expand Bootu Creek's resource (MLE +10mt) in early 2009, adding >25% to NPV. OMM expects RC delineation drilling will be completed at the Chugga North & Yaka deposits during October and diamond drilling to be completed in November 2008. Resource modelling & estimation will commence in December.

OMM outlook for Dec 2008 quarter

Manganese production from Bootu Creek is forecast to average ~57,000t/month, or ~171,000kt in the December quarter. OMM expects approximately eight days of marginally reduced production as a result of the wet season. OMM will focus on continuing to build ROM ore stockpiles in anticipation of the wet season as well expanding pit dewatering capability.

Market Outlook

OMH expects Chinese demand for steelmaking raw materials, including manganese ores & alloys to slow during the December 2008 quarter. Steel and alloy makers margins remain under pressure from high input costs for raw materials and falling end product prices caused by weakening demand.

While OMH expects short-term volatility to continue, they remain firm that Chinese Steel demand will remain strong in the medium to long-term. High-grade ore producers with favourable VIU product characteristics (such as OMH) and logistics for the Chinese market will continue to be well placed, even under more moderate Chinese GDP growth conditions.

High-grade ore producers with high VIU will continue to be well placed even under lower Chinese GDP growth conditions

Price objective basis & risk

OM Holdings Ltd (XOMHF)

Our Price Objective of A\$3.06/share is at parity with our NPV. Our NPV is based on a DCF analysis, using an 11% WACC, over the existing 8 year mine life, plus 20 year trading and smelting business life. Our price objective places the stock on a current year PER 7.5x and 2009E PER of 5.9x which remains at a substantial to market. We feel our NPV is conservative both from a mine life perspective as well as a WACC perspective. Upside risks to NPV exists with the current drilling programme likely to identify a further 10mt resource which would extend the mine life by a further 5 years which would add A\$0.88/share to our base case NPV. Our bear case NPV is a 16% premium to the current share price. Downside risk to our recommendation and price objective are persistent cost pressures on mining inputs such as fuel, normal risks around traded commodity prices such as iron ore and ferro alloy, capital cost over-run risks for the capex for the upcoming rejects plant (A\$15m) and sinter plant (capex U\$25m).

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	Atlas Iron	ATLGF	AGO AU	Mike Harrowell
	Avoca Resources	AVORF	AVO AU	Anna Kassianos
	BlueScope Steel	BLSFF	BSL AU	Mike Harrowell
	Felix Resources Limited	FLRFF	FLX AU	Stuart Howe
	Gloucester Coal	GCRLF	GCL AU	Stuart Howe
	Kingsgate Consolidated Ltd	KSKGF	KCN AU	Anna Kassianos
	Mount Gibson Iro	MTGRF	MGX AU	Mike Harrowell
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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

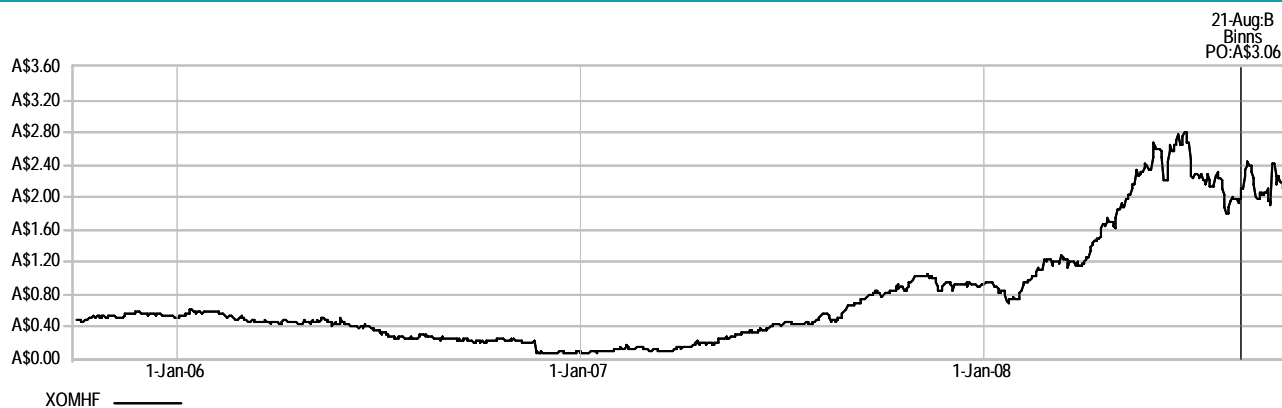
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XOMHF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2008 or such later date as indicated.

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	56.74%	Buy	15	21.13%
Neutral	32	22.70%	Neutral	11	44.00%
Sell	29	20.57%	Sell	6	27.27%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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