OM Holdings Ltd

(OMH $1.21) Buy, Initiation of Coverage

EUROZ

Analyst	Date	Price Target
Michael Emery	1st May 2018	$1.67/sh

Yes OMH is a Manganese producer...but the Ferro Alloy Smelting is World Class

Investment case

We initiate coverage on OM Holdings (ASX:OMH) with a Buy recommendation.

We value OMH at $1.67/sh.

OMH reported significant improvement in earnings during 2017, with the turnaround ostensibly commencing mid-year.

EBITDA reported for 2017 was $186m. Of this, $145m was achieved in Dec H'17, an impressive annualised EBITDA run rate of $290m.

We believe a similar result is achievable again in June H'18, with our forecast EBITDA of $156m for the period. This implies a current market value of 4.8x EV:EBITDA.

NPAT attributable to OMH for Dec H'17 was $106m. OMH's immediate strategy is to reduce debt and recommence dividends ASAP. Future periods will benefit from diminishing interest and other financial expenses, leading to improved bottom line profitability.

OMH's Sarawak smelter is a world class low cost producer of ferroalloys (FeSi, SiMn & HCFeMn), used in steel production. It is underpinned by an attractively priced, long term 300MW hydro-electricity supply contract. We estimate electricity costs in a range of US$0.04-US$0.06/kwhr.

China's ability to compete in these markets is diminishing as increasing cost of domestic electricity, export tariffs & focus on reducing CO2 emissions enhance OMH's strategic position.

The Sarawak smelter has growth potential. OMH has indicated it is considering production of silicon metal. Implicitly this is conditional upon securing additional electricity capacity.

Silicon metal production is similarly electricity intensive, and demand linked to industrial and renewable energy application.

OMH's Mn production (attributable) is ~1,300ktpa, from Bootu Creek & Tshipi Borwa. This is equivalent to 44m units pa of contained Mn. By comparison, Jupiter Mines (ASX:JMS) production is 61m units pa of Mn.

OMH Mn production is partially vertically integrated with Sarawak smelter consuming ~40% of Mn sales, with the 60% balance sold to 3rd parties.

Mn ore prices are currently buoyant at ~US$8.15/dmtu, up from US$4.70/dmtu average in 2017, resulting in strong cash flow. We believe prices will remain firm in the long run, albeit not at current highs.

OMH's growth projects are: Bootu Creek Tailings Retreatment Plant (TRP); Sarawak Sinter Plant; Sarawak Waste Heat Recovery and Metallic Silicon production.

OMH's largest shareholder group is the family interests of Executive Chairman Low Ngee Tong at 18.04%.

We believe OMH may eventually be a corporate target, given its strategic position in smelting, the existing assets and network in China, Mn producing assets, and share ownership structure.

OMH has future potential to be included in the S&P ASX200 index based on Market Capitalisation, however liquidity and free float criteria need to be considered.

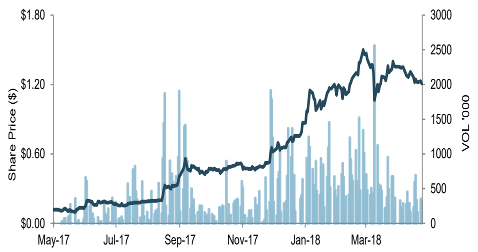
OM Holdings Ltd	Year End 31 December	
Share Price	1.21	A$/sh
Price Target	**1.67**	**A$/sh**
Valuation	1.67	A$/sh
Shares on issue	759	m, diluted *
Market Capitalisation	902	A$m
Enterprise Value	1379	A$m
Debt	-511	A$m
Cash	34	A$m
Largest Shareholder	Huang Gang - 12.10%	

Sales F/Cast	2017a	2018f	2019f
Bootu Ck (100%) (kt)	656	840	840
Tshipi (13%) (kt)	407	429	429
OM Sarawak FeSi (75%) (kt)	182	217	217
OM Swk Mn Alloys (75%) (kt)	160	245	245

Assumptions	2017a	2018f	2019f
Mn Ore US$/dmtu (44% CIF)	6.68	6.50	6.00
FeSi US$/t	1300	1400	1450
Mn Alloy US$/t	1200	1200	1200
AUD:USD	0.78	0.78	0.78
ZAR:USD	11.80	11.80	11.80

Key Financials	2017a	2018f	2019f
Revenue (A$m)	988	1322	1336
EBITDA (A$m)	186	293	294
NPAT (A$m)	91	149	150
Cashflow (A$m)	11	101	102
Cashflow from Ops ($m)	133.3	206.2	209.3
Cashflow per Share	17.0	27.2	27.6
Cashflow Ratio (x)	8.0	4.5	4.4
Total Assets/sh ($ cents)	1.6	1.7	1.9
Net Asset Backing/sh ($ cents)	39.3	60.8	82.7
Basic Profit/(Loss)/sh ($ cents)	12.7	20.2	20.4
Enterprise Value (A$m)	1,211	1,054	892
EV : EBITDA	6.5	3.6	3.0
EV : EBIT	8.5	4.3	3.6
Net Debt ($m)	-477	-316	-154
Debt:EBITDA (x)	2.6	1.1	0.5
Return on Equity (%)	0.3	0.3	0.2
Return on Assets (%)	0.1	0.2	0.2

Share Price Chart



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Market Statistics			Year End 31 December	
Share Price	$1.21	A$/sh	**Directors**	
Issued Capital			Low Ngee Tong	Ex. Chair'n
FP Ord	737.8	m	Zainul A Rasheed	Dep Ch
Opt ($0.40/sh)	0.8	m	Tan Peng Chin	Dir
Conv Note ($0.80/sh)	20.0	m	Julie Wolseley	Dir
			Peter Church	Dir
Total Dil. FPOrd	758.6	m	Thomas Teo Liang Huat	Dir
			Shareholders	
Market Capitalisation	$902	m	Huang Gang	12.10%
Enterprise Value	$1,379	m	Marc Chan	10.92%
Debt	$(511)	m	NT Low	9.10%
Cash	$34	m	Dino Co	8.94%
Currency Hedging	nil		Stratford Sun	7.96%

Asset Valuation	A$m	A$/sh
Bootu Ck (100%)	266	0.35
Tshipi (13%)	322	0.42
Sarawak Smelter (75%)	772	1.02
OMH Qinzhou (100%)	25	0.03
OMH Trading (100%)	161	0.21
Project Pipeline	20	0.03
Debt Cons.	(511)	-0.67
Debt Attr. OEI	116	0.15
Cash	34	0.04
Working Capital	59	0.08
Total	**1,264**	**1.67**

F/Cast Production (A$m)		2017a	J H'18	2018f	2019f	2020f
OMM Bootu Ck (100%)						
Mine Ore Shipped	kt	656	420	840	590	590
TRP Ore Shipped	kt	-	-	-	250	250
Total Mn Ore Shipped	kt	656	420	840	840	840
Total Cash Costs (C1)	A$/dmtu	3.66	4.00	4.00	4.00	4.00
Tshipi (26% x 50.1%)						
Total Mn Ore Shipped	kt	3,130	1,650	3,300	3,300	3,300
Attr. Mn Ore Shipped	kt	407	215	429	429	429
Total Cash Costs (C1)	A$/dmtu	2.80	2.80	2.80	2.80	2.80
OM Sarawak (75%)						
FeSi Sales	kt	182	98	217	217	217
Mn Alloy Sales	kt	160	123	245	245	245
Attrib. Revenue	A$m	492	274	577	588	588
OM Qinzhou (100%)						
Total Sales	kt	92	46	92	92	92
Revenue	A$m	54	27	50	48	48
OMS Trading (100%)						
Mn Ore Traded	kt	1,771	900	1,800	1,800	1,800
Alloys Traded	kt	429	250	500	500	500
Revenue	A$m	818	641	1,204	1,184	1,184
Gross Margin	%	3.8%	2.2%	2.2%	2.2%	2.2%
Assumptions						
Mn Ore Price (44% CIF)	US$/dmtu	6.68	7.00	6.50	6.00	6.00
FeSi Price	US$/t	1,300	1,400	1,400	1,450	1,450
Mn Alloy Price	US$/t	1,200	1,200	1,200	1,200	1,200
AUD:USD		0.78	0.78	0.78	0.78	0.78
ZAR:USD		11.80	11.80	11.80	11.80	11.80

Reserves and Resources

	Reserves		Resources	
	mt	Mn%	mt	Mn%
OMM Bootu Creek	7.3	20.7	10.0	22.4
OMH Tshipi (OMH Attrib.)	86.4	36.3	460.0	33.1
Total	**93.7**	**35.1**	**470.0**	**32.9**

Profit and Loss (A$m)	2017a	J H'18f	2018f	2019f	2020f
Total Revenue	988	661	1,322	1,336	1,336
Cost of Sales	779	521	1,042	1,053	1,053
Gross Profit	**210**	**140**	**280**	**283**	**283**
Other Expenses	114	61	122	122	122
Finance Costs	44	33	64	57	49
Profit/(loss) from Ops	**52**	**46**	**94**	**105**	**112**
Share of results of Assoc.	21	33	56	47	47
Profit/(loss) Before Tax	73	79	150	151	159
Tax	(19)	0	1	1	1
Net Profit After Tax	**91**	**78**	**149**	**150**	**158**
EBITDA	**186**	**151**	**293**	**294**	**298**

Cash Flow (A$m)	2017a	J H'18f	2018f	2019f	2020f
Net Profit	73	79	150	151	159
+Working Capital Adjustment	2	-	-	-	-
+Dep/Amort	44	24	48	48	48
+Writeoffs/provisions	(4)	-	-	-	-
Interest Expense	44	33	64	57	49
Shared results of Assoc.	(21)	(33)	(56)	(47)	(47)
+ Tax Expense	(4)	2	4	4	4
- Tax Paid	-	2	4	4	4
= Operating Cashflow	**133**	**103**	**206**	**209**	**209**
-Capex	1	10	19	22	16
-Assets Purchased	45	26	26	26	26
+Asset sales	-	-	-	-	-
+ Other	19	-	-	-	-
= Investing Cashflow	**(27)**	**(36)**	**(45)**	**(47)**	**(41)**
+Equity Issues	-	-	-	-	-
+Loan D'down/Receivable	5	-	-	-	-
-Loan Repayment	101	30	60	60	60
-Dividends	-	-	-	-	-
Financing Cashflow	**(96)**	**(30)**	**(60)**	**(60)**	**(60)**
Period Sur (Def)	**11**	**37**	**101**	**102**	**108**
Cash Balance	**34**	**71**	**135**	**237**	**345**

Balance Sheet (A$m)	2017a	J H'18f	2018f	2019f	2020f
Assets					
Cash	34	71	135	237	345
Current Receivables	91	91	91	91	91
Other Current Assets	259	258	258	258	258
Non-Current Assets	793	793	793	793	793
Total Assets	**1,177**	**1,214**	**1,278**	**1,380**	**1,488**
Liabilities					
Borrowings	511	481	451	391	331
Current Accounts Payable	214	214	214	214	214
Other Liabilities	165	165	165	165	165
Total Liabilities	**889**	**859**	**829**	**769**	**709**
Net Assets	**288**	**355**	**448**	**610**	**778**

Ratio Analysis (A$m)	2017a	J H'18f	2018f	2019f	2020f
Cashflow from Ops ($m)	133.3	103.1	206.2	209.3	209.3
Cashflow per Share	17.0	13.6	27.2	27.6	27.6
Cashflow Ratio (x)	8.0		4.5	4.4	4.4
Total Assets/sh ($ cents)	1.6	1.6	1.7	1.9	2.0
Net Asset Backing/sh ($ cents)		39.3	48.1	60.8	82.7
105.5					
Basic Profit/(Loss)/sh ($ cents)		12.7	10.6	20.2	20.4
21.5					
Enterprise Value (A$m)	1,211	1,147	1,054	892	724
EV : EBITDA	6.5	7.6	3.6	3.0	2.4
EV : EBIT	8.5	9.0	4.3	3.6	2.9
Net Debt ($m)	(477)	(410)	(316)	(154)	14.1
Debt:EBITDA (x)	2.6	2.7	1.1	0.5	(0.0)
Return on Equity (%)	32%	22%	33%	25%	0.2
Return on Assets (%)	12%	10%	19%	18%	0.2
Dividend (Ac/sh)	-	-	-	-	-
Dividend payout ratio	-	-	-	-	-
Dividend Yield	-	-	-	-	-
Dividend Franking	-	-	-	-	-

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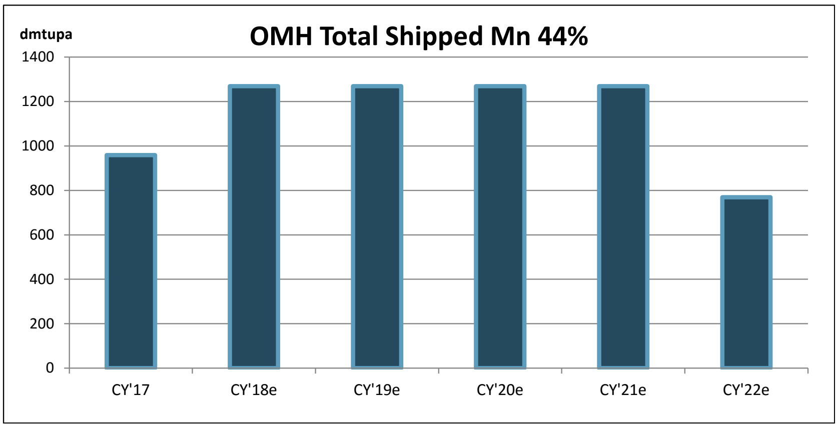
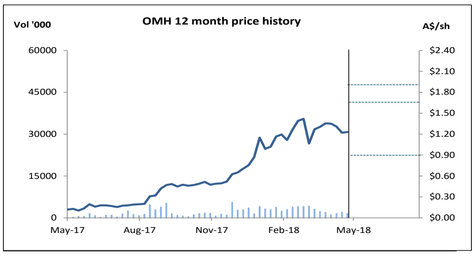
Key Variables

Val/ Sh		Mn Ore/dmtu								
	$1.67	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%
AUDUSD	30%	$2.14	$2.19	$2.23	$2.26	$2.28	$2.30	$2.32	$2.33	$2.35
	20%	$1.94	$1.99	$2.03	$2.05	$2.08	$2.10	$2.11	$2.13	$2.14
	10%	$1.73	$1.78	$1.82	$1.85	$1.87	$1.89	$1.91	$1.92	$1.93
	0%	$1.52	$1.57	$1.61	$1.64	$1.67	$1.69	$1.70	$1.72	$1.73
	-10%	$1.32	$1.37	$1.41	$1.44	$1.46	$1.48	$1.50	$1.51	$1.52
	-20%	$1.11	$1.16	$1.20	$1.23	$1.25	$1.27	$1.29	$1.30	$1.31
	-30%	$0.90	$0.96	$0.99	$1.02	$1.05	$1.07	$1.08	$1.10	$1.11

Euroz Forecast	CY'18	CY'19	CY'20	CY'21	CY'22	CY'23
ZAR:USD	11.8	11.8	11.8	11.8	11.8	11.8
Mn Ore 44%	6.5	6	6	6	6	6



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - $1.67/sh

Price Target - $1.67/sh

Bull Scenario - $1.87/sh

Manganese ore price remains buoyant at current highs and the ZAR drops 10% from forecast. Ferrosilicon and manganese alloy prices also remain at current prices for the foreseeable future.

Base Scenario - $1.67/sh

OMH continues to achieve production at its assets per guidance and underlying commodity prices drop 10% from current elevated levels. This coupled with continued Chinese pro-green policies to shut down high emission smelters sees Sarawak's margins maintained and the Group using strong FCF to pay down debt.

Bear Scenario - $0.90/sh

Significant strengthening of ZAR, coupled with lower underlying commodity prices leads to thinner margins and less overall trading revenue. Third parties reduce trading volumes through OMH. Pipeline projects do not eventuate and there is no growth in the Group.

Company Summary

OMH is a vertically integrated manganese player engaged in the mining, smelting, trading and marketing of manganese ore, manganese alloys and ferrosilicon. Recent buoyant ferrosilicon and manganese ore and alloy prices helped OMH generate Dec H'17 EBITDA of $145m, allowing it to deleverage its Balance Sheet.

With long-term, low cost electricity secured at its flagship Sarawak smelter, OMH is a lowest cost quartile smelter operator, allowing it to generate healthy margins throughout the market cycle. Smelter expansions, a growing product mix and beneficiation of existing stockpiles will continue to improve earnings and further strengthen its financial position.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Valuation

We value OMH at $1.67/sh.

Our valuation is based on a sum of parts of the various subsidiaries that comprise the OM Holdings Group (OMH). Broadly, OMH's mining operations are valued on an NPV (10% nominal, after tax) of our forecast cash flows, while it's smelting operations and trading house are valued on comparable EV:EBITDA multiples. Pipeline projects are risk-adjusted and incorporated into the valuations of the relevant subsidiaries or valued as standalone projects where appropriate.

ASSET VALUATION		
	A$m	**A$/sh**
Bootu Ck (100%)	266	0.35
Tshipi (13%)	322	0.42
Sarawak Smelter (75%)	772	1.02
OMH Qinzhou (100%)	25	0.03
OMH Trading (100%)	161	0.21
Project Pipeline	20	0.03
Debt Cons.	(511)	-0.67
Debt Attr. OEI	116	0.15
Cash	34	0.04
Working Capital	59	0.08
Total	**1,264**	**1.67**

Source: Euroz

Mining Operations

OMH has manganese mining exposure through its Bootu Creek mine in Australia and its effective 13% stake in the Tier 1 Tshipi Borwa mine in South Africa. Mining assets are valued on an after tax NPV (10%) of expected cash flows from operations. We have summarised our assumptions and production forecast for these operations below:

- Ex-pit mining at Bootu Creek will continue until 2021, when the asset reaches the end of LOM. The Tailings Retreatment Project (TRP) is expected to commence in 2019, which will supplement feed from the pit to extend the effective mine life of the project to 2027.
    - Total mine output is expected to be 800ktpa, with the TRP contributing 250ktpa at comparable margins to the mining.
- Tshipi will maintain nameplate capacity of 3.3Mtpa, of which 13% is attributable to OMH. Costs and forecasts were attained largely from Jupiter Mines Ltd (ASX:JMS) Prospectus.

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Other Operations

Smelting and trading operations are valued on a conservative 5.0x EV:EBITDA multiple, based on relevant peer sets. The following assumptions were used to form our model:

- Sarawak will operate 16 furnaces by mid-2018, producing between 200-210ktpa of ferrosilicon and 250-300ktpa of manganese alloys;
- Qinzhou is expected to continue production of manganese alloys at 80ktpa and sinter product at 300ktpa;
- The relevant smelting peers are trading at the following EV:EBITDA multiples:

	EV/EBITDA				
Company	**Last**	**LTM**	**NTM**	**2017a**	**2018e**
OM Holdings Ltd	8.93	8.93	N/A	N/A	N/A
Peer Median	6.05	6.28	6	7.06	6.03
Eramet SA	5.97	5.97	5.18	5.75	5.08
Moll Limited	10.14	6.82	5.38	6.69	5.41
Ferroglobe PLC	N/M	13.15	4.8	12.15	4.91
Galaxy Resources Ltd	29.14	29.14	8.97	29.37	8.98
Dowa Holdings Co. Ltd	6.05	5.25	5.96	5.92	5.97
African Rainbow Minerals	4.28	4.28	10.19	9.86	10.27
SCHMOLZ + BICKENBACH AG	5.35	5.35	4.6	4.85	4.81
PT Timah (Persero) Tbk	7.97	7.97	6.93	8.32	7.14
Outokumpu Oyj	5.35	5.35	6.05	5.72	6.3
Kloeckner & Co SE	6.59	6.59	6.37	6.71	6.45
Glencore plc	8.51	8.51	6.04	7.4	6.03
Shenzhen Zhongjin Lingnan	11.04	11.04	8.57	9.97	8.67
Nyrstar NV	4.72	4.72	4.68	8.6	4.91
eCobalt Solutions Inc.	N/M	N/M	N/M	N/M	11.36
Merafe Resources Ltd	1.99	1.99	3.1	2.09	3.01

Source: Infront Analytics

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FORECAST PRODUCTION						
Yr End 31 Dec (A$m)		**2017a**	**J H'18f**	**2018f**	**2019f**	**2020f**
OMM Bootu Ck (100%)						
Mine Ore Shipped	kt	656	420	840	590	590
TRP Ore Shipped	kt	-	-	-	250	250
Total Mn Ore Shipped	kt	656	420	840	840	840
Total Cash Costs (C1)	A$/dmtu	3.66	4.00	4.00	4.00	4.00
Tshipi (26% x 50.1%)						
Total Mn Ore Shipped	kt	3,130	1,650	3,300	3,300	3,300
Attr. Mn Ore Shipped	kt	407	215	429	429	429
Total Cash Costs (C1)	A$/dmtu	2.80	2.80	2.80	2.80	2.80
OM Sarawak (75%)						
FeSi Sales	kt	182	98	217	217	217
Mn Alloy Sales	kt	160	123	245	245	245
Attrib. Revenue	A$m	492	274	577	588	588
OM Qinzhou (100%)						
Total Sales	kt	92	46	92	92	92
Revenue	A$m	54	27	50	48	48
OMS Trading (100%)						
Mn Ore Traded	kt	1,771	900	1,800	1,800	1,800
Alloys Traded	kt	429	250	500	500	500
Revenue	A$m	818	641	1,204	1,184	1,184
Gross Margin	%	3.8%	2.2%	2.2%	2.2%	2.2%
Assumptions						
Mn Ore Price (44% CIF)	US$/dmtu	6.68	7.00	6.50	6.00	6.00
FeSi Price	US$/t	1,300	1,400	1,400	1,450	1,450
Mn Alloy Price	US$/t	1,200	1,200	1,200	1,200	1,200
AUD:USD		0.78	0.78	0.78	0.78	0.78
ZAR:USD		11.80	11.80	11.80	11.80	11.80
ZAR:USD		11.80	11.80	11.80	11.80	11.80

Source: Euroz

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Comparison with Other ASX-listed Companies

OMH has no readily identifiable peers, however comparisons can be drawn between OMH and two other ASX-listed companies. Jupiter Mines (ASX:JMS) is a manganese ore producer that controls 49.9% of the Tshipi Borwa Manganese Mine in which OMH has an effective 13% stake. Lynas Corporation (ASX:LYC) has recently had a similar journey to OMH with respect to commodity movement, strategic asset locations and financial matters.

Jupiter Mines (ASX:JMS)

Jupiter Mines (ASX:JMS) owns a beneficial interest of 49.9% in the Tshipi Borwa Manganese Mine. It listed on the ASX in April 2018, with the majority of its value being held in the mine. The relative valuation between JMS and OMH can be seen below.

As at April 26, 2018	JMS	OMH
Shares on Issue (m)	1948	738
Share Price ($)	0.39	1.18
Mkt Cap ($m)	760	871
Cash ($)	71	34
Debt attr. ($)	0	405
Other Assets ($)	30	830
EV of Mn ($m)	659	407
Tshipi (M Mn units pa)	61	16
Bootu (M Mn units pa)		28
Total (M Mn units pa)	61	44
EV/dmtu ($)	**10.8**	**9.2**

Source: Euroz

The $240m JMS IPO in April 2018 attracted a lot of fanfare as the largest mining IPO since BHP's spinoff of South32 (ASX:S32) in 2015. Analysts saw it as an attractive investment for exposure to manganese, given its 49.9% stake in a world class orebody. However the table above shows that on an EV/dmtu pa basis, OMH provides greater value, trading at 15% cheaper than JMS.

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Lynas Corporation (ASX:LYC)

Lynas Corporation (ASX: LYC) is an integrated player in Rare Earths, operating across the value chain from mining and processing through to sales. Like OMH, it has mining operations in Australia and processing in Malaysia. Importantly, LYC is a major player ex-China in a key commodity that is largely controlled by China. A recent restructure of debt has seen the Company repair its Balance Sheet and, coupled with an increase in underlying commodity price, has produced a staggering uplift in share price.

Despite these similarities, LYC is trading at a 114% premium to OMH on an annualised EV/EBITDA, based on their respective last half results. We foresee that the continued deleveraging of OMH will see this significant gap narrow, suggesting that OMH has tremendous upside.

As at March 31, 2018	LYC	OMH
Shares on Issue (m)	644	738
Share Price ($)	2.46	1.35
Mkt Cap ($m)	1584	996
Cash ($)	53	34
Debt attr. ($)	197	405
EV ($m)	1728	1362
Dec H EBITDA ($m)	85.5	145
EV/EBITDA (annualised)	**10.1**	**4.7**

It is interesting to note that LYC was recently included in the S&P ASX200 index. We believe that based on Market Capitalisation. OMH has the potential to be included in the same index, however liquidity and free float criteria would need to be considered. Currently LYC daily turnover is ~$14m whereas OMH is $0.5m. This elevation in status would significantly increase OMH's investor exposure which would have a positive effect on share price.

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OM Holdings Limited Corporate Structure

As an integrated commodity and alloy Company, operating in a number of jurisdictions, the Group structure requires attention. It is outlined below, broadly integrating its mining, smelting and trading subsidiaries under the Group banner.

Source: OM Holdings Ltd

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Financials

Earnings

OMH reported significant improvement in earnings during 2017, with the turnaround ostensibly commencing mid-year. EBITDA reported for 2017 was $186m, of which $145m was achieved in Dec H'17. This is an impressive annualised EBITDA run rate of $290m. We believe a similar result is achievable again in June H'18, with our forecast EBITDA of $149m for the period.

NPAT attributable to OMH for Dec H'17 was $106m. This compares favourably to the June H'17 NPAT loss of $21m. We expect the manganese ore and alloy markets to remain robust, allowing the Group to continue strengthening its Balance Sheet. Future periods will benefit from diminishing interest and other financial expenses, leading to improved bottom line profitability.

Below is the breakdown of contributing segments to the Group.

A$ million	Year ended 31 December 2017	
	Revenue*	**Contribution**
Mining	**136.4**	**38.9**
Smelting	**545.6**	**25.4**
Marketing, logistics and trading	**947.7**	**29.5**
Other	**6.6**	**1.5**
Net profit before finance costs		**95.2**
Finance costs (net of income)		**(43.7)**
Share of results of associates		**21.1**
Income tax		**18.8**
Profit/(loss) after tax **		**91.4**
Non-controlling interests		**1.3**
Profit attributable to owners of the Company		**92.7**

Source: OMH

Balance Sheet (as at December 31, 2017)

The Group's consolidated position at end of FY17 (OMH reporting date 31 December) reported a cash balance of $34.4m, including cash collateral of $4.5m. Total Group debt was $510.7m, of which $405m was attributable to OMH. The balance belongs to OMH's Sarawak smelter partner, Cahya Mata Sarawk Berhad, as a result of the Sarawak Project Finance. $42m is current debt. Other significant items on OMH's Balance Sheet are PP&E of $609m, Working Capital of $90m, and NC Trade and Other Payables of $140m.

We estimate that $561m of the PP&E relates to Sarawak's Book Value, being the most valuable asset controlled by the Group. The majority of Inventories also relate to Sarawak operations with an estimated $130-140m being unconsumed power that is capitalised under the take-or-pay agreement. This corresponds to the NC Trade and Other Payables of $140m which largely relates to deferral of power payments for the unused take-or-pay power. Construction delays of the smelting facility led to these liabilities being incurred however we anticipate that with Sarawak's 16th furnace coming online in 2018, these balances will reduce as the excess power is consumed.

Debt comprises

$464m in bank loans

Of these loans, $405m is attributable to OMH. These loans comprise predominantly the Sarawak Project facility, of which 75% is attributable to OMH and 25% attributable to the smelter's BURSA Malaysia-listed partner, Cahya Mata Sarawak Berhad (MK:CMS) . Loans are secured by shares in OM Materials (Sarawak), charge over certain bank accounts and a corporate guarantee from OMH and CMS.

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We estimate the effective interest rate of these loans to average 6.5%pa. however, given the significantly improved profitability of Sarawak, we believe restructuring of the Project facility may now be possible on better terms.

The Company signed a Restructuring Facilities Agreement on 23 October 2017 which deferred the repayment period of US$66.6m in existing loans. We understand this to comprise the Current Liabilities attributable to the Group and expect these to be repaid in 2018.

$29m in other loans

A combination of secured and unsecured loans with effective interest rates ranging from 1.6% to 5.3%pa interest. $8m is repayable on 4 January 2019 with the balance being on an amortisation schedule starting 2019.

$12m of this is loans to Sarawak from Malaysian partner CMS. We understand the terms on this loan to be less onerous than other facilities.

$26m in 5% convertible note

Hanwa Co Ltd holds convertible notes to the value of $26m, with terms extended in 2016 out to March 2020. The initial conversion price of this loan was $0.80/sh and the following terms were included:

- The convertible notes which are not purchased, converted, redeemed or cancelled by OMH will be redeemed by OMH as follows:
  - 20% of the principal amount of loan outstanding as at effective date, on or before 6 March 2018 (Note: this was subsequently paid in March 2018)
  - 30% of the principal amount of loan outstanding as at effective date, on or before 6 March 2019;
  - Remaining balance of the principal amount of the convertible notes outstanding as at the effective date, on or before 6 March 2020.
- At any time, OMH may give notice to Hanwa that OMH wishes to redeem such number of convertible notes as it specifies. There shall be no limit on the number and amount of redemptions, no premium, fee or penalty payable.

$2m obligations under finance leases

The Group leases motor vehicles, plant and equipment from non-related parties under finance leases. The lease agreements do not have renewal clauses but provide the Group with the options to purchase the leased assets at nominal value at the end of the lease term. Average interest rate is 4.87% to 7.07%.

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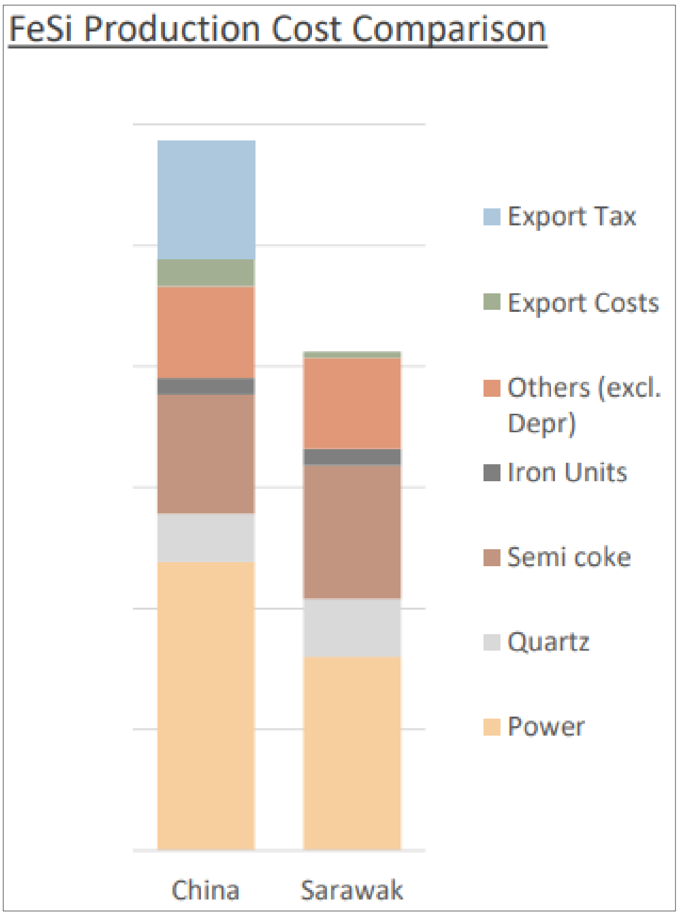
Smelting Assets

OM Materials Sarawak (OMSA) – Sarawak Smelter, Malaysia (OMH 75%)

The Sarawak smelter in Malaysia is OMH's flagship asset, operating under the subsidiary OM Materials Sarawak Sdn Bhd ("OMSA"). OMH controls 75% of OMSA which holds the asset, with the remaining 25% attributable to Cahya Mata Sarawak Berhad (CMS), a leading industrial conglomerate listed on the BURSA Malaysia (MK:CMS).

The key value driver of the Sarawak smelter is the 20-year take-or-pay power purchase agreement which provides 300MW of stable and very low cost hydro power to the complex. Pressmetal, which also operates in the Samalaju Industrial Park, is reported to have secured power at US$0.04/kwh for 25 years with a 1.5%pa price escalation. We assume OMH has secured a similar deal, likely around US$0.04-0.06/kwh, subject to a 1.5-2.5% pa escalation.

Electricity accounts for around 40-45% of the cost of smelting and so a long-term low price on a key input places OMH at the bottom of the cost curve, giving it a significant advantage over competitors. We believe comparable Chinese smelter run at a cost about 30% higher than Sarawak, as can be seen in the chart below.



Source: OM Holdings Ltd

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This is significant because ferrosilicon (FeSi) typically requires 8,500-9,000kwh to produce one tonne of product, while manganese alloys range from 3000-4500kwh required per tonne. As a result, OMH is able to produce ferrosilicon at about US$900-950/t and its manganese alloys at about US$1,000-1,100/t. This puts the Group into the lowest quartile for production costs which has allowed it to competitively become the 4th largest FeSi producer globally.

The smelter complex comprises 15 furnaces with a 16th planned to commence operating in mid-2018. Production is expected to be 200-210ktpa of ferrosilicon (FeSi), 140-150kt SiMn & 90-100kt HCFeMn. With FeSi selling for ~US$1400/t, SiMn at ~US$1,150/t and HCFeMn at ~US$1,250/t, Sarawak operates on very healthy margins and is expected to produce strong cash flow.

We expect that EBITDA from Sarawak will be in the order of US$150m per year over for the foreseeable future, further assisting OMH in repairing its Balance Sheet. The asset also enjoys a tax holiday until 2028, adding to the competitive advantage this asset offers the Group.

OM Materials Qinzhou (OMQ) - Qinzhou Smelter, China (OMH 100%)

The Qinzhou ferroalloy smelter is a strategic asset operating under the subsidiary OM Materials Qinzhou Co Ltd ("OMQ"). The asset has a production capacity of 80ktpa of High Carbon Ferromanganese and 300ktpa of Mn Sinter ore and is marginally cash flow positive. The smelter is located ~1km from Qinzhou port, which provides OMQ with an advantage in accessing imported raw material and gives OMH a footing in the Chinese market. Intangible benefits of the operation include market intelligence and insight into smelter economics in China and access to skilled labour familiar with smelting operations.

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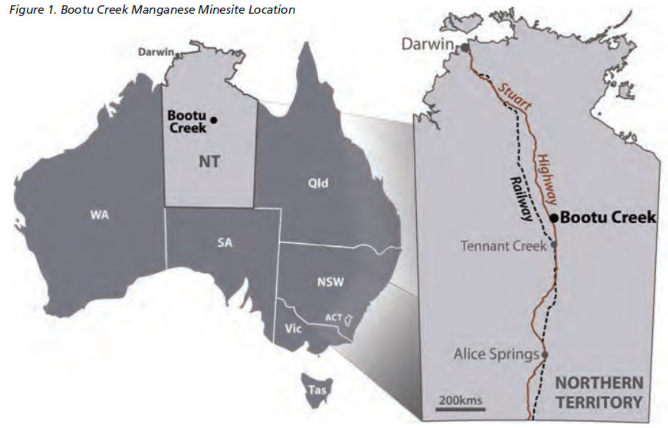
Mining Assets

OM Manganese (OMM) - Bootu Creek Mine, Australia (OMH 100%)

OM (Manganese) Ltd (OMM) is a wholly-owned subsidiary of the Company and one of the Group's core businesses with its main activities being exploration and mining of manganese ore at the Bootu Creek Mine. The Bootu Creek Mine is located 110km north of Tennant Creek in the Northern Territory of Australia.

Figure 1. Bootu Creek Manganese Minesite Location



Source: OM Holdings Ltd

The exploration and subsequent development of the Bootu Creek Project commenced in September 2001. Mining operations commenced in November 2005 and the first batch of ore was processed in April 2006. Two regional exploration project areas are located at Renner Springs and Helen Springs.

Mining at the Bootu Creek Mine is carried out using a conventional open-cut method of mining, blasting and excavation using hydraulic excavators and dump trucks.

The Bootu Creek plant is a relatively simple crushing and screening operation, followed by heavy media separation (HMS) to concentrate the manganese minerals. The plant comprises of two separately built processing plants. The original primary processing plant (PPP) was commissioned in 2006 and processes the Run of Mine ("ROM") ore while the secondary processing plant (SPP) commissioned in December 2009 abuts the PPP and selectively processes drum plant rejects and washed fines from the PPP and previously stockpiled drum plant rejects. With the commissioning of the SPP in 2009, the combined production capacity from the two plants approximates 1 million tonnes per annum.

The mine is targeting production of 800ktpa, which is currently ex-pit. The Tailings Retreatment Project (TRP) is expected to proceed, contributing material from 2019. TRP involves the processing of tailings material to produce a fine manganese product which would be used to feed a sinter plant. The remaining life of mine for ex-pit Bootu material is 3 years, to 2021, however the TRP will add 200-300ktpa of the 800ktpa total output at Bootu Creek, effectively increasing ex-pit mine life out to 2027.

The Bootu Creek Project area contains a number of manganese deposits located along the western and eastern limbs of the Bootu syncline. The individual mineralised horizons are generally strata-bound in character and can persist over strike lengths of up to 3km. The Mineral Resources defined to date at the project are long shallow, gently dipping deposits amenable to open-pit mining.

The Renner Springs Project area is located approximately 70km northwest of the Bootu Creek mine site covering an extensive dolomite-siltstone sequence which hosts several shallow dipping and flat lying manganese occurrences.

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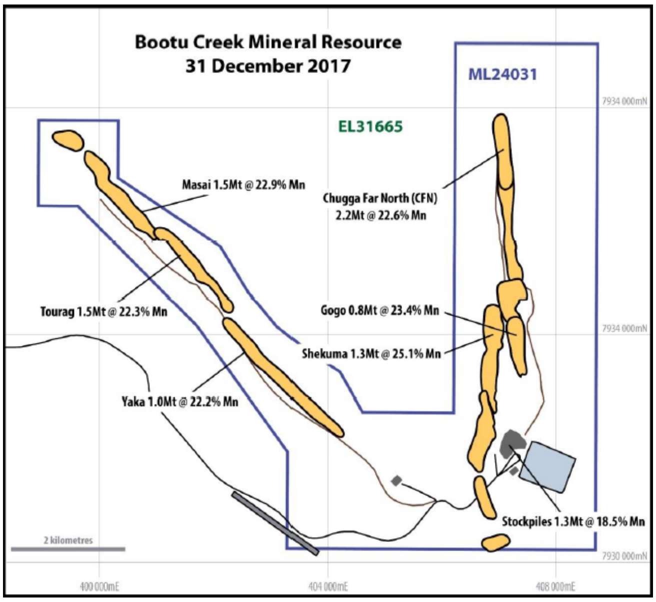
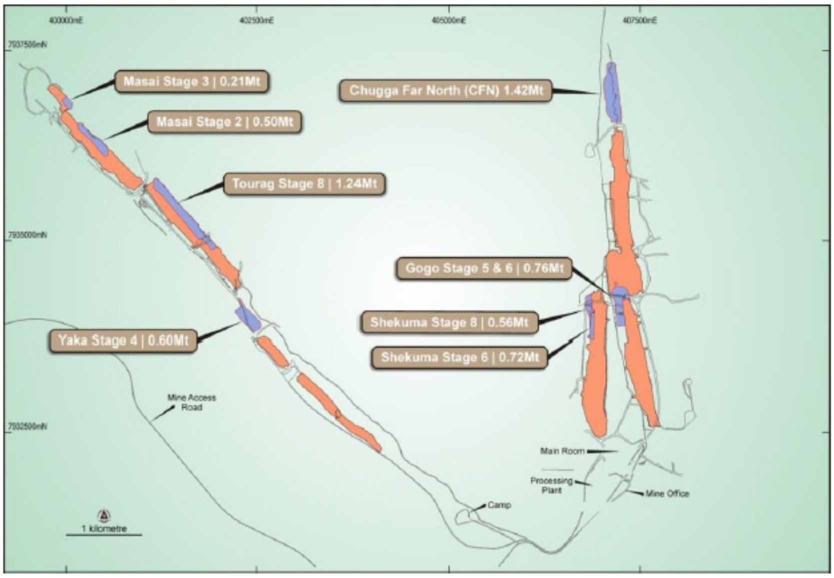
OMH published updated JORC figures for Bootu Creek in April 2018, with the following balances:

- Resources: 9.95Mt at 22.4% Manganese
- Reserves: 7.32Mt at 20.7% Manganese

The images below indicate the location of both resources and reserves remaining at the project.



Source: OM Holdings Ltd



Source: OM Holdings Ltd

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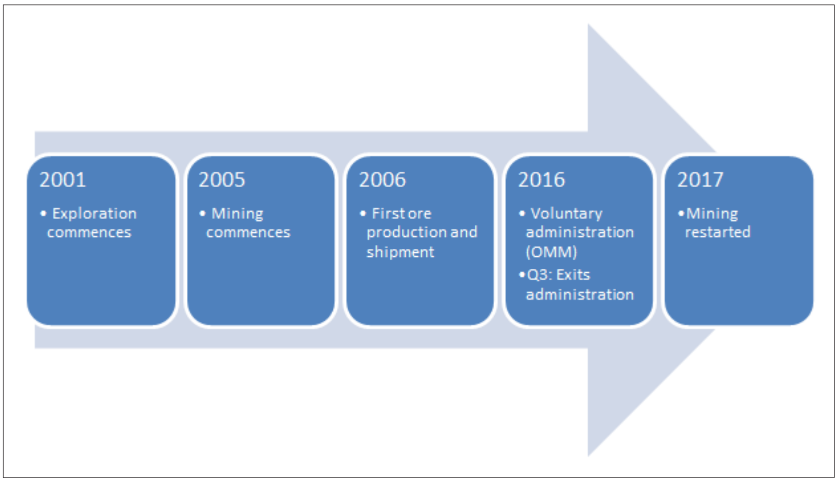
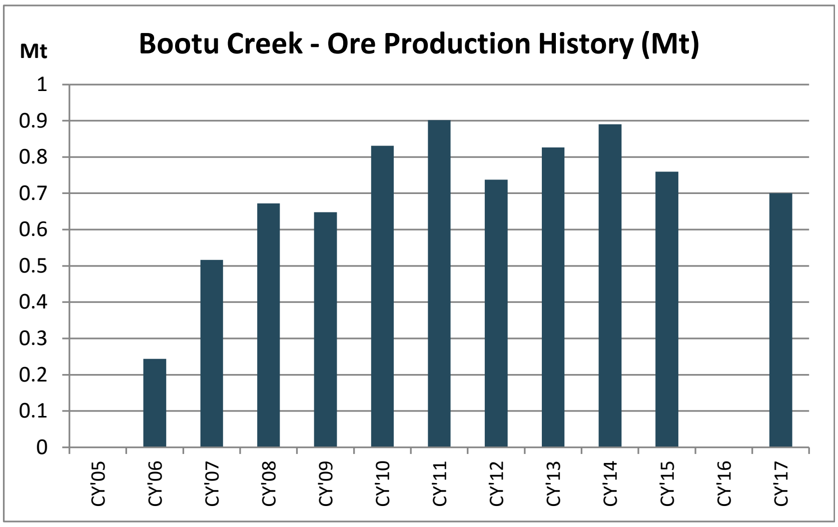
The following diagram highlights the key milestones in the Bootu Creek timeline.



Source: Euroz

The mining subsidiary OMM was put into voluntary administration in 2016 as a result of a prolonged downturn in the manganese ore price. In Q3 2016 OMM emerged from administration as the manganese ore price increased nearly 50% from US$2.96/dmtu in late 2015 to US$4.30/dmtu in late 2016. Mining was then restarted in 2017 when prices continued to climb to US$5.50/dmtu.

These events can be observed in the production history of Bootu Creek, which has seen a cumulative 4.6Mt of manganese extracted from the orebody to date. This is outlined below.



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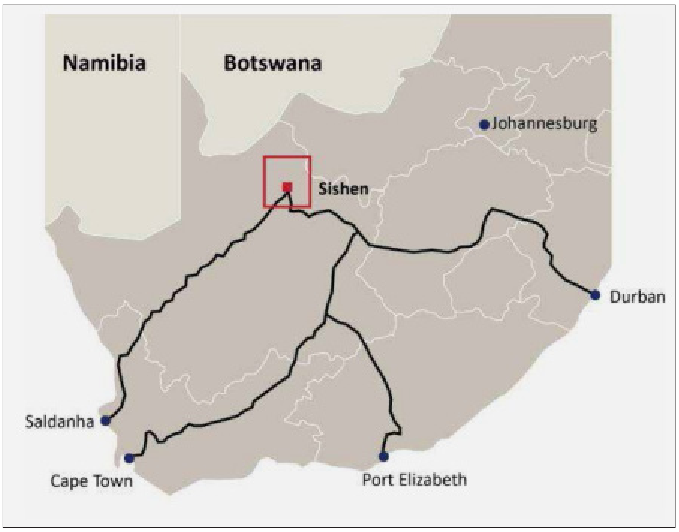
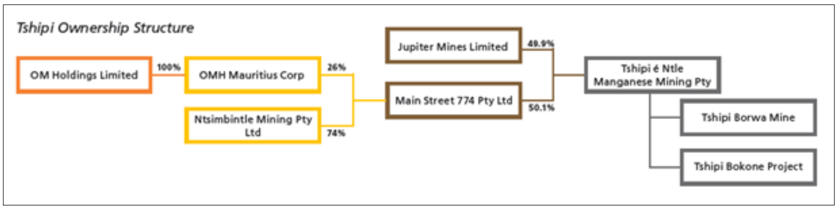
Tshipi Borwa Manganese Mine, South Africa (OMH 13%)

Tshipi Borwa is a shallow open-cast mine located on a large and homogenous ore body which is located in the Southern portion of the Kalahari Manganese Field (KMF), the largest manganese bearing geological formation in the world. Current expected life of mine is 29 years based on total ore reserves estimate of 86.4Mt.



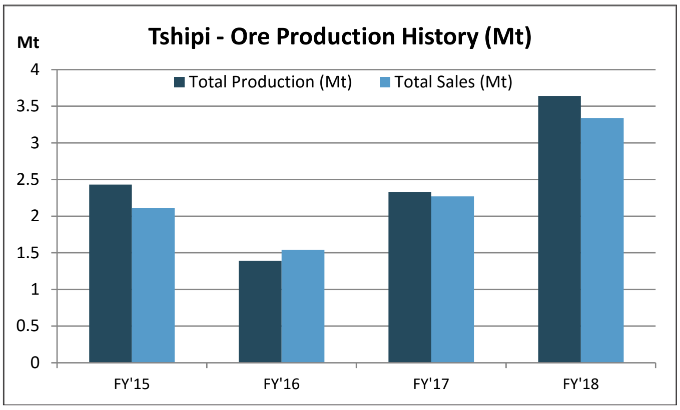
Source: Jupiter Mines

The Tshipi Borwa mine has an ownership structure detailed below. By holding a 26% interest in Main Street 774 Pty Ltd, OMH effectively owns 13% of the Tshipi Borwa Project.



Source: Jupiter Mines

OMH acquired its stake in the Tshipi Borwa mine in 2010. Ramp up of operations commenced in 2012 with steady-state production achieved late FY'14. Full production of 2.43Mt was achieved in FY'15 until curtailment took place in FY'16 in response to the subdued manganese price. The lift in price in late 2017 has seen a projected production rate of 3.64Mtpa from 2018 with sales of 3.3Mtpa. Below is a graph outlining the fluctuations in Tshipi Borwa's production since achieving commencement of operations.



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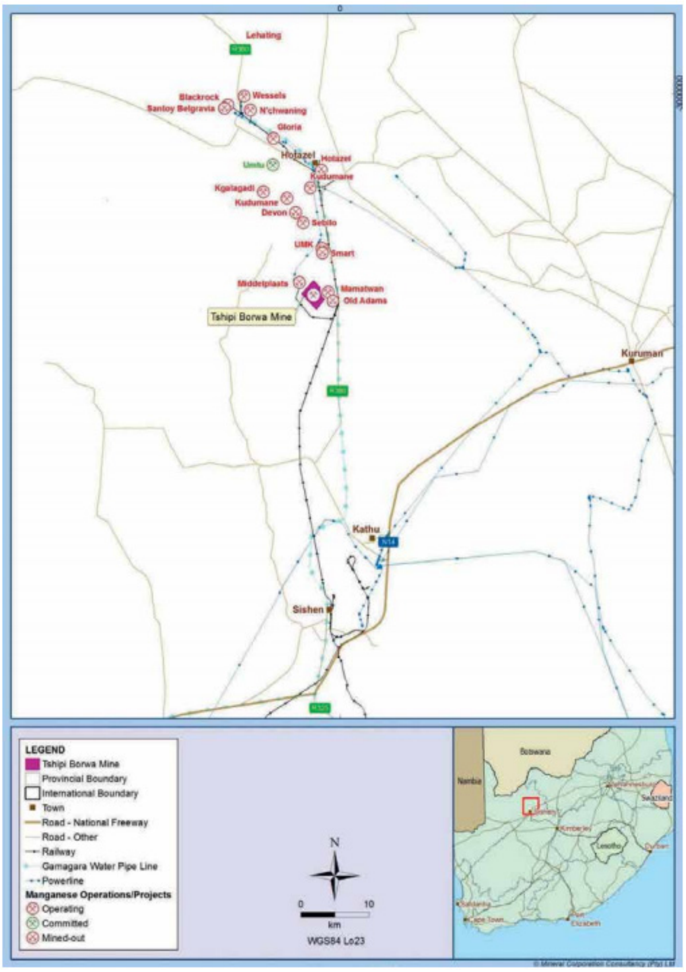
Current total onsite processing capacity is ~3.6mtpa which has the ability to increase to 5mtpa using mobile equipment. As has historically been demonstrated, production can be relatively quickly ramped up or curtailed in response to the prevailing manganese ore price.



Source: Jupiter Mines

The location of Tshipi Borwa, on the South-Western outer rim of the KMF, puts it on the largest manganese bearing geological formation in the world. Based on current and projected production rates, the operation has an expected life of mine of 29 years. Total ore reserves estimate are 86.4Mt, broken down below:

Ore Reserves (end Dec'17):

Classification	Zone	Mt	Mn (%)
Proved	Z	2.9	31.6%
	M	12.2	38.0%
	C	24.4	36.5%
	N	7.4	34.4%
	Supergene	0.77	37.0%
	Sub-total	**47.6**	**36.3%**
Probable	Z	3.3	32.1%
	M	9.2	38.2%
	C	21.7	36.8%
	N	4.5	33.9%
	Sub-total	**38.4**	**36.4%**
Total Reserve		**86.41**	**36.3%**

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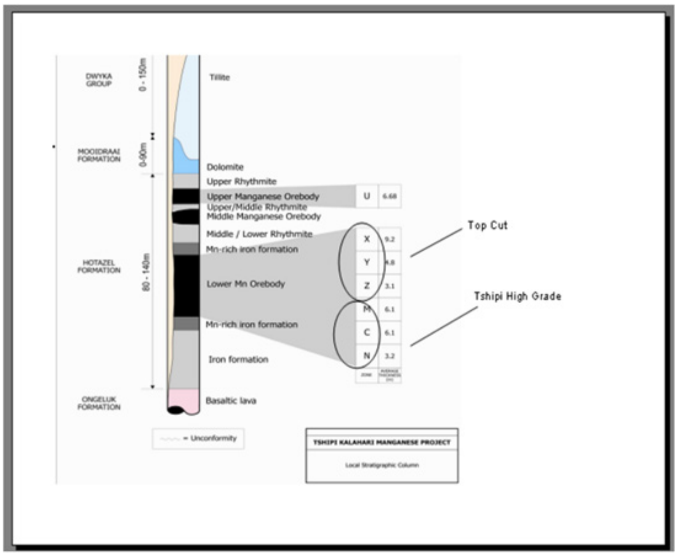
Mineral Reserves (end Dec'17):

Mineral Reserves (end Dec'17):				
Classification	Zone	Mt	Mn (%)	Fe (%)
Measured	X	19.3	31.9%	4.8%
	Y	9.5	22.2%	5.7%
	Z	9.1	32.5%	5.8%
	M	16.9	38.2%	4.6%
	C	32.0	36.4%	3.7%
	N	13.7	35.6%	4.9%
	Supergene	2.0	36.4%	4.7%
	Total	**102.6**	**34.1%**	**4.6%**
Indicated	X	37.7	31.2%	4.9%
	Y	6.2	23.1%	5.5%
	Z	16.7	31.4%	6.3%
	M	15.4	37.8%	5.3%
	C	33.0	36.7%	3.7%
	N	10.9	35.0%	5.5%
	Total	**119.5**	**33.5%**	**3.6%**
Inferred	X	68.0	30.9%	5.2%
	Y	22.7	25.4%	5.4%
	Z	22.8	31.4%	5.7%
	M	43.8	34.7%	5.1%
	C	53.5	35.4%	4.1%
	N	26.7	34.4%	5.4%
	Total	**237.5**	**32.5%**	**5.0%**
Total Resource		**459.5**	**33.1%**	**4.9%**

A graphical representation of the zones can be seen in the diagram below. The Kalahari Manganese Field comprises Ongeluk formation, which is a 140m-thick Hotazel formation constituting banded iron formations mixed with manganese lutites.

The Tshipi Borwa mineralisation is a lighter BIF deposit of high-grade manganese ore and low grade silica, alumina, phosphorous and other deleterious elements. The lower section of the Hotazel formation constitutes three manganese rich zones, the upper manganese ore body (UMO), middle manganese ore body (MMO) and lower manganese ore body (LMO).



Source: Jupiter Mines

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Lasah/Lawin Quartzite Mine – Perak, Malaysia

High grade quartzite is the key raw material of ferrosilicon production. To continue with its vertical integration strategy, OMH plans to use this deposit to supply the OMH Sarawak ferrosilicon smelting project in Malaysia. The mine has a High-grade Quartzite production capacity of 300k MT per annum, with a mine life expected to exceed 10 years.

This is a strategic asset providing locally sourced, large portions of key raw smelting materials, ensuring supply security and control over production costs. High-grade quartzite has silica (SiO_2) content greater than 97% and is a critical input allowing OMH to control this supply chain.

Trading and Marketing

OM Materials (S) Pte Ltd (OMS) (OMH 100%)

OMH's trading and marketing business is based in Singapore, under the subsidiary OM Materials (S) Pte Ltd (OMS). The subsidiary acts as an agent for the flow of products within the Group, as well as a trading and marketing house for 3rd party products.

We estimate that OMS receives agency fees of 2-5% on the value of products traded, based on figures from other trading houses. We estimate that ~1,300kt of manganese ore sourced from Bootu Creek and Tshipi Borwa are traded at present, with ~500kt used as inputs by the Sarawak smelter. The remaining ~800kt of OMH manganese ore is sold to 3rd parties alongside ore sourced externally to its mining operations.

Ferroalloys (smelter products) are also traded through OMS, with offtake partners purchasing approximately 30% of Sarawak's outputs and the remainder being marketed by OMS to 3rd parties.

OMH's ability to trade 3rd party material is largely limited by its financial position. Typically, financiers place restrictions on the value of trading performed by other trading houses and we expect OMH is in a similar position. However, given the recent and anticipated improvement of the Group's Balance Sheet, we expect these restrictions to be lifted, allowing the trading arm to generate significantly more revenue.

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Pipeline Projects

There are currently four key projects in the pipeline for OMH, aimed at achieving organic growth for the business in the near to mid-term. The Tailings Retreatment Plant, Sinter Plant and Waste Heat Recovery projects are designed to optimise the existing business to achieve greater FCF from operations. OMH is also seeking to venture into a new market segment by producing silicon metal.

Bootu Creek Tailings Retreatment Plant

The Bootu Creek Tailings Retreatment Plant (TRP) project focusses on extending the effective life of operations at Bootu Creek. At current mining rates and reserves, ex-pit mining is expected to end by mid-2021. The TRP project aims to upgrade the current tailings material at Bootu Creek for export to Sarawak at a rate of 200-300ktpa. It is expected that this will extend the effective life of Bootu Creek by supplementing ex-pit material that is shipped from the operation. In total, around 2Mt of manganese is expected to be recovered from this project, giving it an effective life of 7 years. This can be achieved with a relatively low capex for the plant which we estimate to be $8-10m.

Sarawak Sinter Plant

In conjunction with the TRP project, a Sinter Plant is proposed for Sarawak which will utilise the TRP product. The cost of this project is estimated at US$15-20m and a FID will be made late in 2018.

Waste Heat Recovery

The Waste Heat Recovery project aims to effectively improve the efficiency of Sarawak operations by recovering waste heat to recycle into smelting. This would effectively generate 20MW for use in smelting operations with implementation by 2019.

Metallic Silicon

We understand that the Company is investigating the production of Metallic Silicon at the Group's Sarawak smelter, however this is an early stage project with few details. It is expected that any expansion of production at this facility will require additional power which is would ideally be sourced under a similar low cost agreement as the initial 300MW.

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Manganese Ore Market

More than 95% of manganese ore is used to produce either manganese ferroalloys (silicomanganese and ferromanganese) or electrolytic manganese metal, which in turn feed the crude and stainless steel markets respectively. The key driver of manganese ore demand is therefore the volume of steel production.

Manganese is also used in the manufacturing of aluminium alloys and other non-metallurgical products such as battery cathodes, water treatment chemicals, soft ferrites used in electronics and micronutrients found in fertilisers and animal feed. The largest growth segment for manganese going forward is likely to be driven by its applications in new battery technologies for electric and hybrid vehicles. In particular, the growing use of nickel-metal hydride (NiMH) and lithium-ion (Li-ion) batteries, as well as the introduction of the lithiated manganese dioxide (LMD) batteries are expected to be major growth areas, although these segments remain significantly smaller than steel demand.

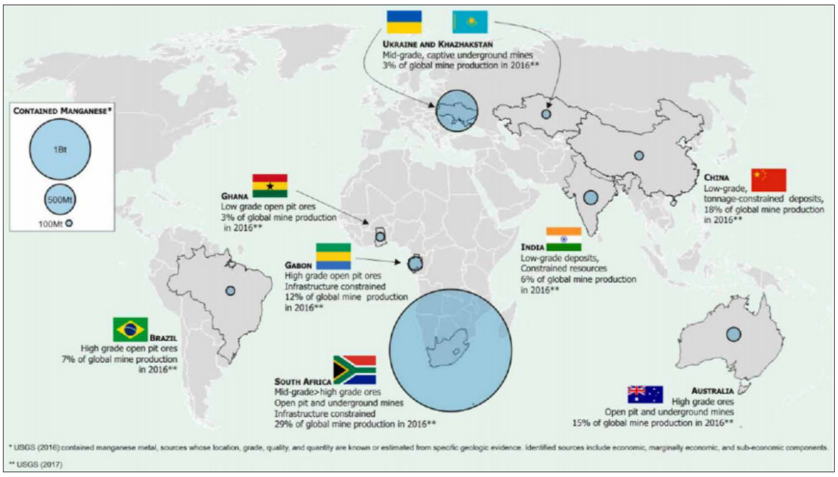
Manganese ore is not exchange traded, and prices are largely determined by supply and demand dynamics linked to the global steel industry production levels. Manganese ore is priced in US dollars per dry metric tonne unit (US$/dmtu), and consequently ore grade is directly reflected in the price per tonne of ore.

Supply

Manganese is deemed by the USGS as a "critical mineral", defined as being essential to the economy, as well as being at significant risk of incurring supply interruptions. Five countries dominate production with South Africa and Australia the largest producers, while the riskier jurisdictions of Gabon, Brazil and Ghana make up the rest of the major suppliers of manganese ore.

While the bulk of the world's manganese alloy is produced in China and India in support of their domestic steel production capacity, China's diminishing primary manganese ore supply is typically of low grade and is insufficient to meet domestic demand, while India relies on imported manganese ore feedstock to augment constrained domestic ore sources. Japan and the United states have no domestic manganese ore sources.

South Africa is host to the largest repository of in situ manganese mineralisation and accounts for nearly 30% of annual global mined production from open pit and underground mining operations, as illustrated in the figure below.



Source: Jupiter Mines

In the face of an unprecedented ore demand and price collapse during 2015, global manganese ore producers curtailed considerable mining capacity.

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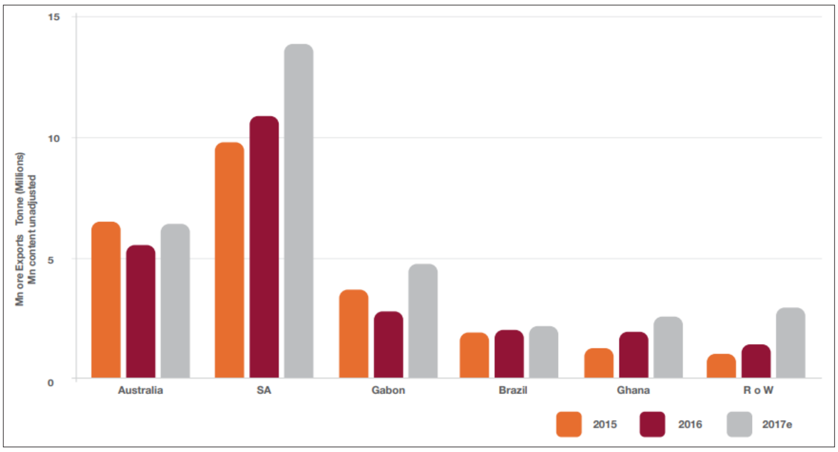
Production restarts during the second half of 2016 in response to resurgent market demand and volatile price recovery on the back of Chinese restocking, continued in 2017. Due to sustained high ore prices in 2017, ore production in South Africa is likely to eclipse its previous 2014 peak by as much as 10%.

Elsewhere, ore production has also increased in 2017 due to the restart of the Woodie Woodie and Bootu Creek mines in Australia, and additional production expansions from jurisdictions such as Gabon and Ghana. Manganese ore export trends over the last three years are illustrated in the figure below.



Source: Jupiter Mines

In South Africa notwithstanding mining production headroom, mine-to-port product logistics and constraints remain a key factor limiting national output. Incumbent producers with established logistics channels are well placed to respond to improved market demand as the consistency of South African manganese ore grade and quality is globally recognised.

Demand

The 18 months to January 2018 have seen an extraordinary increase in demand and price for manganese ores. The pace of this change may be attributable to the tightened supply environment of 2015, resulting from the previously discussed production cuts. Chinese restocking has also contributed to the recent rise with short-term demand for manganese ore likely to be linked to the pace of Chinese restocking.

In the long term, manganese ore demand will continue to track world steel production. Manganese remains a primary input to steel manufacturing which cannot be substituted. An increase in steel recycling has little impact on primary manganese demand as it is lost in the recycling process. While forecasts for steel demand vary and have predicted a downtrend in steel demand, historical downward forecasts have often proved incorrect with production exceeding forecasts.

Price History and Outlook

In mid-2016, manganese ore prices surged in response to a sharp drawdown of industry stock levels. These reflected substantial production cutbacks brought about by low prices over the previous year, in combination with logistical problems in South Africa and a resurgence of demand from China. In 2018, ore prices have remained high which has, in turn, supported elevated manganese alloy prices. While companies were, at first, reluctant to bring high-cost production back on line, sustained high price levels have boosted confidence and supply has increased substantially.

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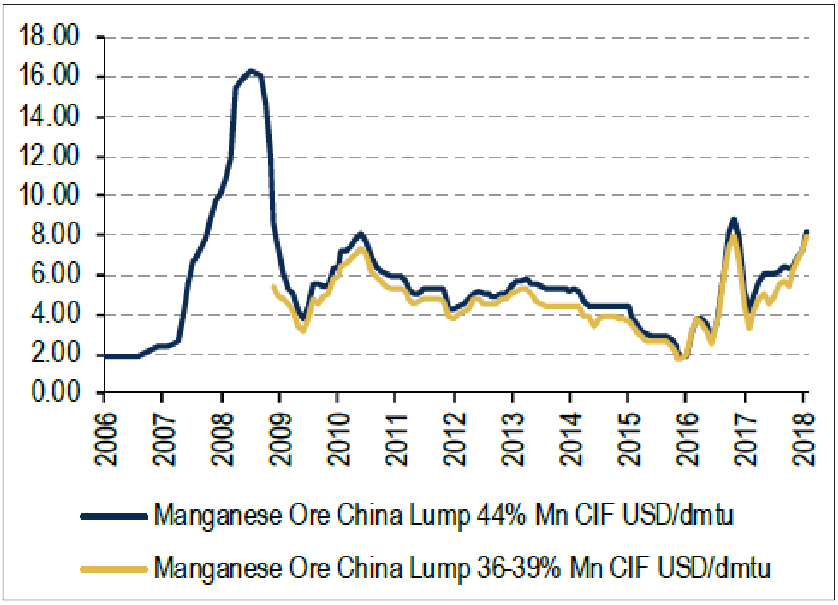
Record prices were achieved in late 2016, followed by a relatively sharp correction in the first quarter of 2017, with prices increasing again in the successive quarters of 2017. The figure below illustrates the US$ denominated Free on Board (FOB) price trends for 37% and 44% manganese ore over the last 3 years.



Source: CRU International

It is understood that the rapid ore price recovery commencing during Q1 2016 was led by Chinese port-stock depletion which prompted some alloy producers to seek ore stock feedstock directly from mines. South African logistics disruptions during Q3 2016 exacerbated perceived ore scarcity and supported further ore price increases as South African miners re-engaged idled mining capacity and procured more expensive, alternative transport and shipping options.

Early 2017 saw low port stock in China, which triggered a restocking effort from mid 2017. Strong pricing dynamics since Q3'17 has also been correlated with a strengthening South African Rand. As the jurisdiction with the largest supply growth potential, the stronger Rand has driven manganese ore prices to encourage marginal South African operations to contribute to world supply. With limited rail available in the country, operators face higher road transport costs, which is the major contribution to the increased cost base of the marginal producer. Increased South African production during 2017 has yet to alleviate this perceived ore scarcity and ore prices have continued to be buoyant into 2018.

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Manganese Alloy Market

Manganese alloys are a critical input in the production of steel and demand is therefore driven by global steel consumption. There is no threat from substitutes. Three main categories of manganese alloy exist, namely High-carbon Ferromanganese (HCFeMn), Refined Ferromanganese (MCFeMn) and Silicomanganese (SiMn).

Generally, FeMn production is dominated by South African and other ex-China producers for use in flat steel. Chinese producers tend to favour SiMn production which can be produced from lower grade manganese ores, sourced domestically, which is used in long steel.

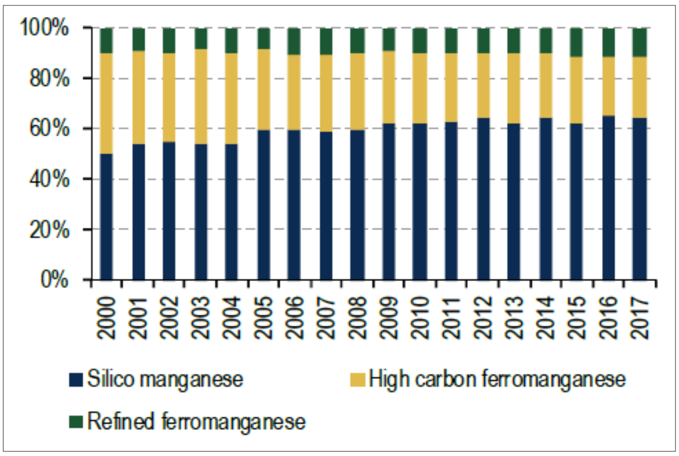
Demand

Demand for manganese alloys is aligned with the production of steel, however both the volume of steel produced and the intensity of manganese in the steel are important. Different series of steel contain differing percentages of manganese and therefore both volume and series must be assessed.

The global steel industry produced approximately 1.6Bt of raw steel in 2017. China (848Mt), Japan (104Mt), India (100Mt) and the United States (82Mt) represent the top four steel producing countries in 2017, contributing some 61% to current global steel production. It is noteworthy that this level of steel production represents only 70% utilisation of the installed 2.3Bt global steel production capacity, arising from a decade of unprecedented steel production capacity expansion largely in Asia. Stainless steel production is forecast to grow at around 3% CAGR out to 2025.

There are 3 main series of steel that drive the consumption of manganese in the global market - 200, 300 and 400 series steel. 200 series steel contains around 10-11% manganese, while the 300 and 400 series steel contains around 1% manganese, demonstrating the significance of the type of steel demanded. While there has been a recent shift to 300 and 400 series steel, the growth in total steel production has offset the lower intensity demand to generate an annualised 2% growth forecast, out to 2025 for manganese alloys. We expect the ratio of steel series to stabilise, continuing this 2% growth trend for the medium-term.

In terms of the consumption of the different manganese alloy products, SiMn dominates the market at about 63% consumption, while HCFeMn makes up 27% of the market and refined ferromanganese making up the remaining 10%. Refined ferromanganese consumption has been relatively stable over time while HCFeMn has recently lost market share to SiMn. SiMn is preferred by Chinese steel producers as a cost effective way to add both silica and manganese. This bodes well for OMH which can relatively quickly reconfigure its furnaces to suit demand as required.



Source: CRU International

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Supply

Manganese alloy production is a downstream process industry and as such, the supply of manganese alloys is capital constrained rather than resource constrained. That is, alloy production assets will be built to the extent that a suitable return can be realised.

In 2016 and 2017, supply growth for manganese alloys was 5% and 3% respectively, almost an exact correlation with the increased production of steel during that period. We expect global manganese alloy supply growth to remain at around 2% until 2025, in line with effective steel growth, which will largely be driven by Malaysia (Sarawak), India and Europe. The additional supply is expected to push higher cost producers from India and South Korea out of the market, while China's recent environmental push will likely see some of its less efficient smelters shut down. Rising power costs in South Africa and Ukraine are also likely to curtail supply from alloy producers there, increasing the value proposition of the OMH Sarawak asset.

The trends outlined above highlight the importance of electricity prices to smelting operations. Along with the price of manganese ore, electricity makes up the majority of the costs of operations. Sarawak's long-life, low price power contract gives the smelter complex a fundamental advantage to its peers which will become more pronounced in the medium-term as uncontracted smelters face ongoing price rises. With other inputs largely dictated by broader market pricing, electricity price is the real differentiator.

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Ferrosilicon Market

Ferrosilicon is an alloy of iron and silicon with average silicon content between 15 and 90 weight percent. Like manganese alloys, it is a key ferroalloy used to deoxidize and preserve the carbon content in molten steel. It is predominantly used in the transport (automotive) industry and in the manufacture of electrical steel (silicon steel) for electromotors and transformer cores.

Prices for ferrosilicon are primarily cost driven and fairly inelastic to demand increases beyond short-term fluctuations, due to global overcapacity. In recent years, production costs have trended down overall, but have been subject to a rebound in 2017 due to higher coal prices. This again places Sarawak in a strong competitive position with its long-term, low cost power supply placing it firmly in the lowest quartile of the world's ferrosilicon producers.

Demand

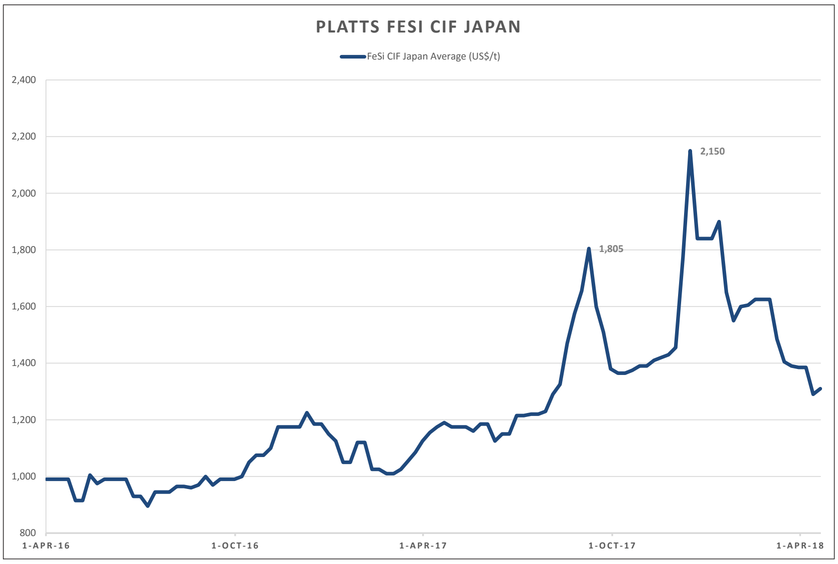
Growth in both the automotive industry and electrical steel demand globally are driving higher consumption of ferrosilicon (FeSi). Recent growth of 3.6% CAGR is looking likely to continue until 2025, with forecast consumption to reach 9.7Mt.

Demand is aligned with the global production of automotive and electrical steel with China dominating the consumption of FeSi at around 60%. Outside of China, Japan, South Korea and India are the next largest consumers in Asia. Europe and North America make up the balance of major consumers.

Supply

The majority of ferrosilicon production takes place in China, CIS countries, Europe and Brazil. Due to Chinese export restrictions however, Chinese production is predominantly for domestic use with negligible export volumes.

Future supply will be dictated by cost of production and, as mentioned previously, will be largely driven by the availability of cheap power. Malaysia, Russia and Kazakhstan are well positioned in this regard however Russia is currently facing rising electricity prices. Sarawak's long-term, low cost power contract looks certain to continue to keep the operation at the bottom end of the cost curve. Its proximity to the major markets outside of China such as Japan, South Korea and India make it ideally placed to continue to be global leader in both the ferrosilicon and manganese alloy market.



Souce: Platts

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Investment Issues

OMH is a vertically integrated commodity player engaged in the mining, smelting, trading and marketing of manganese ore, manganese alloys and ferrosilicon. Recently, strong ferrosilicon and manganese alloy prices on the back of a rising steel market have bolstering FCF, allowing OMH to deleverage its Balance Sheet.

With long-term, low cost electricity secured at Sarawak, OMH is a lowest quartile cost smelter operator, allowing it to generate healthy margins throughout the market cycle. Smelter expansions, a growing product mix and beneficiation of existing stockpiles will continue to improve earnings and further strengthen its financial position.

Fiscal Regime, Tax & Royalties

Singapore

Singapore resident companies are typically taxed at a fixed rate of 17% on profits, however the Group has secured a 10% rate for the foreseeable future. The lower rate was secured under Enterprise Singapore's Global Traders Program which encourages Singapore-based trading by offering the 10% concessionary rate. This is applicable to the trading and marketing arm of OMH, namely OM Materials (S) Pte Ltd.

Malaysia

OMH has secured a 10 year tax holiday for its Sarawak operations, commencing from 2018. Thereafter the tax rate reverts back to the corporate rate of 24%, however further tax deals may be struck, given the strategic significance of the smelter complex to the Sarawak region.

Australia

OMH's Bootu Creek operations are currently covered by carry forward losses until around mid-2019. Thereafter, the Australian corporate tax rate of 30% applies to the asset. The Northern Territory also has a royalty applicable on profits from operations of 18%.

South Africa

South Africa imposes a 28% company tax rate on resident companies which applies to Main Street 774 Pty Ltd. Main Street holds 50.1% of the Tshipi mine and OMH has a 26% in Main Street. There is a withholding tax attributable to Main Street of 5%.

Dividends

Since the 2014 manganese market downturn, the Company has not paid dividends. It is anticipated that with continued strength in the manganese ore and alloys markets the Company will continue to strengthen its Balance Sheet and perhaps will recommence dividends. OMH founder and Executive Chairman, Ngee Tong Low owns a combined 18.2% of the Company with his family through Dino Company Ltd. We therefore expect that the Company would be motivated to pay future dividends.

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Hedging and Contract Pricing

OMH currently has no hedging against manganese ore pricing or forex fluctuations. Due to its diverse operations, OMH is therefore exposed predominantly to exchange rate risk between Malaysian Ringgit, USD, AUD and Renminbi. Previous hedging activities by OMH resulted in significant hedging losses however these have now been extinguished.

Currency

All financials are reported in AUD. The final figures are converted to AUD for our Valuation. Our A$/US$ forex forecast is US$0.78 long term.

Sovereign Risk

We consider sovereign risk for Australia, Singapore and Malaysia to be low. South Africa has historically had some in-country operations risks, however the recent change in President from Zuma to Ramphosa is viewed as a positive shift. The country has a well-established mining industry and a strong legal framework and we therefore view the sovereign risks associated with the Tshipi Borwa mine as low to medium. We view sovereign risk associated with OMH's Chinese asset as mininmal.

Risks

Operational - low risk. Australia and South Africa are relatively stable mining jurisdictions and we foresee no repatriation risk. Both mines are currently in production and have established supply chains and infrastructure in place.

The smelting operations are close to nameplate capacity and will likely reach those production levels in 2018. Electricity supply from stable, hydroelectric sources is locked in for 20 years reducing the risk of one of the greatest inputs.

Commodity Price – Manganese, ferroalloy and ferrosilicon demand is linked to the demand for steel. Demand for steel increased 5% in 2017 and is projected to grow another 2% in 2018. Recent suggestions of a looming trade war between the US and China will likely hamper this growth in demand, particularly in China which may affect the demand for OMH's products. However Mn ore has traditionally been plagued with supply issues which may support prices for the foreseeable future.

Funding – As discussed, OMH has taken action to fix its Balance Sheet, paying down 17% of its debt in 2017. With a growth in cashflows from a strong Mn price, we see the Company's ability to continue to pay down its debt as very high. The biggest risk to the Balance Sheet will be from a dramatic fall in Mn prices, but we view this as low risk.

Market Risk – General Market Risk

Issued Capital (as at 31 March, 2018)

OM Holdings Ltd is listed on The Australian Stock Exchange (ASX: OMH).

Capital Structure:

Fully paid ordinary shares – 737,791,337

Convertible notes (@ $0.80 per note, maturity 6 March 2020) – 20,000,000

Unlisted warrants (@ $0.40, expiring 19 March 2019) – 832,000

Total Fully Diluted Capital – 758,623,337

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OMH Board of Directors

Low Ngee Tong – Executive Chairman & CEO

A qualified mechanical engineer, graduated from the National University of Singapore with over 3 decades of experience in steel, ferroalloy and building materials industry in Asia. Founded OMH and held position of CEO from incorporation to subsequent listing on ASX in 1998. In 2008, he became the Executive Chairman of OMH.

Zainul Abidin Rasheed – Independent Deputy Chairman

Graduated with Bachelor of Arts (Honours) in Economics and Malay Studies from the University of Singapore. Had an extensive career in journalism and served as Member of the Parliament of Singapore and in a number of government agencies. Non-resident Ambassador to the State of Kuwait and the Foreign Minister's Special Envoy in the Middle East.

Julie Wolseley – Independent Non-Executive Director & Joint Company Secretary

Holds a Bachelor of Commerce degree and is a Chartered Accountant. Has over 26 years' experience as Company Secretary to a number of ASX listed companies operating primarily in the resources sector. Previously an audit manager both in Australia and overseas for an international accounting firm.

Tan Peng Chin – Independent Non-Executive Director

Founded Tan Peng Chin LLC, a Singapore based law firm and was formerly its MD and consultant until he retired from the firm in 2015. Legal expertise includes corporate finance, banking, company and commercial laws, international trade, joint ventures, and shareholder issues. Currently holds a number of directorships at a number of companies in Asia.

Thomas Teo Liang Huat – Independent Non-Executive Director

Holds a Master of Business in Information Technology from the Royal Melbourne Institute of Technology and a Bachelor of Accountancy from the National University of Singapore. A fellow member of the Institute of Singapore Chartered Accountants and the CFO of G. K. Goh Holdings Ltd. Current executive responsibilities extend to the financial and investment management as well as being a board representative on various subsidiaries and associates.

Peter C. Church OAM (FAICD) – Independent Non-Executive Director

An Australian commercial lawyer with over 30 years of experience providing legal and corporate advisory in South East Asia and India. Holds various executive roles which includes the Chairman of AFG Venture Group, Special Counsel to Stephenson Harwood and a non-executive director of a number of corporations and not-for-profit organizations. Awarded the Medal of Order of Australia (OAM) for his promotion of business between Australia and South East Asia and is a Fellow of the Australian Institute of Company Directors (FAICD).

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Top 20 Shareholders

		as at 3rd April 2018	
	Shareholder	**Number of Shares**	**%**
1	Hsbc Custody Nominees (Australia) Limited	356.17	48.28%
2	Hsbc Custody Nominees (Australia) Limited	99.34	13.46%
3	Citicorp Nomineers Pty Limited	81.53	11.05
4	Stratford Sun Limited	58.73	7.96
5	Hanwa Co Ltd	32.50	4.41
6	Bnp Paribas Noms Pty	16.29	2.21
7	Dbs Vickers Securities (Singapore) Pte Ltd	13.82	1.87
8	J P Morgan Nominees Australia Limited	8.70	1.18
9	Ms Julie Anne Wolseley	5.56	0.75
10	Mr Hamid Mahdavi Ardabili	5.00	0.68
11	Rhb Securities Singapore Pte Ltd	4.09	0.55
12	Bnp Paribas Nominees Pty Ltd	3.78	0.51
13	National Nominees Limited	2.53	0.34
14	Bi Li	2.08	0.28
15	Chao Fan Huang	1.69	0.23
16	Mr Keith William Sheppard	1.40	0.19
17	Mr Peng Chin Joseph Tan	1.30	0.18
18	Bnp Paribas Noms Pty Ltd	1.28	0.17
19	Mr Mohammad Reza Arefpour	1.06	0.14
20	Lim & Tan Securities Pte Ltd	1.01	0.14
	Total	**697.86**	**94.58**

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