

CNMC Goldmine Holdings Limited

A respite in the bull run

SINGAPORE | MINING | RESULTS

9 November 2016

- 9M16 Revenue met 65.8% of our full year expectation of US\$44.8mn
- Operating income met 62.2% of our full year expectations of US\$21.9mn
- Net income met 64.8% of our full year expectation of US\$21.1mn
- We revise down our FY16e revenue from US\$44.8mn to US\$42.1mn while maintaining FY17e and FY18e unchanged. We maintain our "Buy" rating with a reduced discounted FCFE-derived TP of S\$1.01 (from S\$1.03). Cost of equity used remains unchanged at 9.8%. Our TP implies a 96% return from the last close price of S\$0.515.

Results at a glance

(USD mn)	9M16	9M15	y-y (%)	Comments
Revenue	29.5	27.2	↑8.5	Due to 4.8% yoy growth in average realised gold price and 2.9% yoy growth in production and sales volume
Operating profit	13.6	9.4	↑45.1	Due mainly to 97% yoy reduction of other operating expenses, resulting from strengthened USD against MYR
Profit before tax	14.4	9.7	↑48.1	Due to higher interest income from placement of fixed deposit
Profit after tax	13.7	9.3	↑46.6	Due to higher tax expenses, resulting from a tax on interest income and withholding taxes accrued on management fees

Source: Company, Phillip Securities Research (Singapore)

Missing the higher gold price for 21 days

Compared to US\$1,197/oz of average realised gold price in 9M15, CNMC's dore gold was sold at average US\$1,255/oz with 4.8% y-o-y growth in 9M16, and meanwhile the production and sales volume was reported at 23,363 ounces with 2.9% y-o-y growth. However, the group could have performed even better during this period, since the operation was suspended due to the temporary stop work order (SWO) lasting for 21 days in 3Q16 (c.90 days). It took 7 days for the State Government to review the application for large scale operation starting on 25 Jul-16, and another 14 days for the group to reinstate operation. During the 21 days' suspension, the spot gold was trading at US\$1,342/oz on average. Also, based on YTD production and sales volume, we can derive the daily volume of 93.8 ounces, which infer that the group could have produced 1,970 ounces if SWO was not incurred. Thus, theoretically we estimate that the group's 3Q normalised revenue should have been US\$2.6mn or 31.3% higher.

Long-term prospects remain

From the perspective of long-term development, CNMC is still riding on the tailwind of both organic and inorganic growth. As of Sep-16, the group was producing gold at the capacity of 1.2mn tonnes ores per annum (mt/y), of which 0.2 mt/y was ramped up in Apr-16. According to the management, 1 mt/y leaching capacity in the northern part of the Sokor field has been saturated, while the newly-built leaching yard in southern part is awaiting larger expansion next year from the current base of 200,000 tonnes per annum. Besides, the group holds a mid-and long-term bullish view on gold price. For Sokor project, it took 3 years for CNMC to start producing gold from the beginning of the project. Comparatively, the management guided that it should take shorter time to start producing gold operation on Pulau project once it seals the deal. We expect the group to have updates on it in the near term.

Buy (Maintained)

CLOSING PRICE	SGD 0.515
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 1.010
TOTAL RETURN	98.7%

COMPANY DATA

O/S SHARES (MN) :	407
MARKET CAP (USD mn / SGD mn) :	123 / 175
52 - WK HI/LO (SGD) :	0.61 / 0.16
3M Average Daily T/O (mn) :	4.6

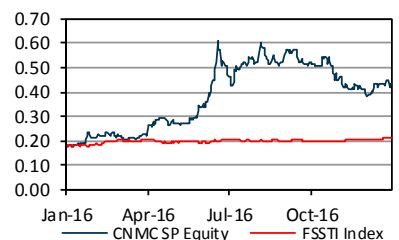
MAJOR SHAREHOLDERS (%)

INNOVATION CHINA LIMITED	26.3%
M ESSIHA LIMITED	13.0%
NG ENG TIONG	9.8%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	5.4	(5.3)	1418
STI RETURN	2.8	7.4	18.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16e	FY17e	FY18e
Revenue (USD mn)	36	42	49	56
EBIT (USD mn)	14	21	25	28
Net Profit (USD mn)	11	16	20	23
P/E (x)	5	19	16	13
P/B (x)	2	6	4	3
EV/EBITDA (x)	2	11	8	7
Dividend Yield (%)	4	1	2	2

Source: Company Data, PSR est.

VALUATION METHOD

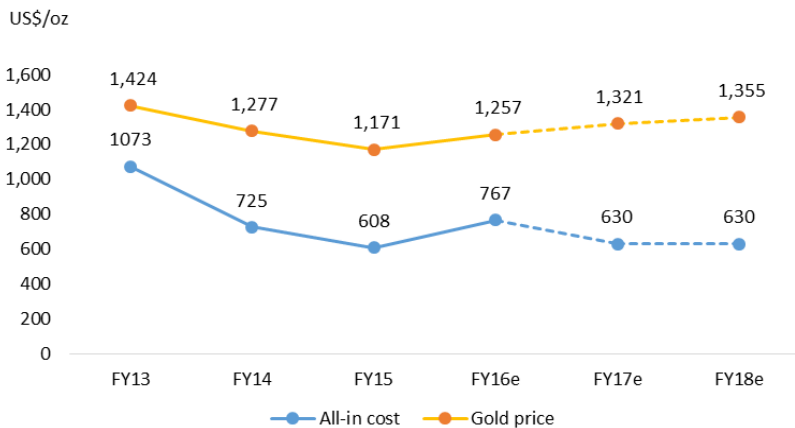
DDM (Cost of Equity: 9.8%; Terminal g: 0%)

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All-in cost will shoot up this year due to non-recurring expenditure on license extension

The management has guided that the one-off processing fees for 21-year mining lease extension rounded up to US\$5mn will be paid off this year. As of 9M16, the group has paid US\$0.6mn, which translated into average US\$95/oz all-in cost, and the remaining US\$4.4mn is expected to result in cash outflows in 4Q16. Accordingly, the FY16e all-in cost is expected to be US\$767/oz (previous forecast US\$725/oz), since we revised up the forecast for marketing and publicity expenses to US\$580,000 (previous US\$ 150,000) and for Capex (exploration) expenses to US\$300,000 due to higher lease extension fees than previously forecasted.

All-in cost forecast



Source: Company, PSR

Sensitivity analysis

	FYe16	FY17e	FY18e	Target price (US\$)	FX conversion (SGD/USD:1.35)
Production and sales volume (ounces)	33,332	37,447	41,192		
Cost of equity	9.80%				
	1,266	1,100	1,100	0.53	0.72
	1,266	1,200	1,200	0.62	0.84
Avg gold price (US\$/oz)	1,266	1,300	1,300	0.70	0.95
	1,266	1,400	1,400	0.79	1.07
	1,266	1,500	1,500	0.87	1.17
Our forecast	1,266	1,321	1,355	0.75	1.01

Source: PSR

Valuation

Y/E US\$'000	FY16e	FY17e	FY18e
CFO	25,654	31,712	37,056
FCInv	(8,455)	(4,650)	(5,454)
Net borrowing	100	80	60
FCFE	17,300	27,143	31,663
PV of FCFE	15,756	22,514	23,919
Terminal value			323,091
PV of terminal value			244,072
Total PV	306,261		

Weighted average number of ordinary shares 407,693,000
 Cost of equity 9.80%
 Sustainable growth rate 0%

Target price (US\$) 0.75
Target price (S\$) 1.01

Source: PSR

Due to SWO, we revise down the sales and production volume in FY16e from previous 35,367 ounces to 33,332 ounces. Correspondingly, FCFE in FY16e is forecasted at US\$17,300 (previous US\$19,087)

We revise down our FY16e revenue from US\$44.8mn to US\$42.1mn while maintain FY17e and FY18e unchanged, and accordingly respective net profit to the company is estimated to be US\$16.8mn, US\$19.2mn, and US\$22.7mn in FY16e, FY17e, and FY18e.

Based on unchanged 9.8% cost of equity and discounted FCFE, we derive our updated TP of S\$1.01, slightly down 2 SG cents from our previous forecast. We maintain our “**Buy**” rating, which implies a 96% return from the last close price of S\$0.515.

Financials

Income Statement

Y/E Dec (US\$'000)	FY14	FY15	FY16e	FY17e	FY18e
Revenue	33,213	36,471	42,168	49,468	55,815
EBITDA	17,847	17,962	25,512	30,198	34,533
Depreciation & Amortisation	(3,051)	(3,986)	(4,581)	(5,432)	(6,034)
EBIT	14,796	13,976	20,931	24,766	28,499
Net Finance Inc/(Exp)	36	463	842	1,345	1,913
PBT	14,832	14,438	21,773	26,112	30,412
Tax	489	(1,010)	(1,218)	(1,461)	(1,701)
Net profit before NCI	15,320	13,429	20,555	24,651	28,711
Non-controlling interest	3,077	2,762	4,214	5,053	5,886
Net Profit , reported	12,243	10,666	16,341	19,598	22,825

Per share data

Y/E Dec (US cents)	FY14	FY15	FY16e	FY17e	FY18e
EPS, reported	3.0	2.6	4.0	4.8	5.6
DPS	0.5	0.7	1.0	1.2	1.4
BVPS	6.2	8.2	12.2	16.8	22.2

Cash Flow

Y/E Dec (US\$'000)	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Profit for the year	15,320	13,429	20,555	24,651	28,711
Adjustments	3,343	7,528	4,757	6,047	6,822
WC changes	(446)	(882)	(145)	76	78
Others	(265)	155	488	938	1,445
Cashflow from ops	17,952	20,230	25,654	31,712	37,056
CFI					
CAPEX, net	(2,836)	(2,894)	(2,015)	(2,615)	(3,215)
Exploration & Evaluation Exp	(2,064)	(1,253)	(6,440)	(2,035)	(2,239)
Cashflow from investments	(4,900)	(4,146)	(8,455)	(4,650)	(5,454)
CFF					
Dividends to Company	(1,148)	(2,155)	(3,433)	(4,338)	(5,128)
Dividends to NCI	(448)	(753)	(1,097)	(1,403)	(1,653)
Others	(464)	(143)	(43)	(20)	(20)
Cashflow from financing	(2,060)	(3,050)	(4,573)	(5,760)	(6,801)
Net change in cash	10,992	13,034	12,627	21,302	24,801
Effects of exchange rate	(859)	(3,239)	(1,000)	(1,200)	(1,350)
Ending cash	12,340	22,135	33,761	53,863	77,315

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based

Balance Sheet

Y/E Dec (US\$'000)	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
Exploration & Evaluation Asset:	4,990	2,085	2,282	2,504	2,751
Mine Properties	6,517	9,617	14,582	14,485	14,745
Property, Plant and Equipment	7,569	8,163	7,397	6,826	6,328
Others	-	-	-	-	-
Total non-current assets	19,076	19,866	24,261	23,815	23,824
Cash	12,340	22,135	33,761	53,863	77,315
Trade receivables	613	832	1,664	1,831	2,014
Inventories	802	869	782	899	1,034
Others	-	-	-	-	-
Total current assets	13,755	23,835	36,207	56,593	80,363
Total Assets	32,831	43,701	60,469	80,408	104,186

LIABILITIES

Trade payables	3,157	2,999	3,599	3,958	4,354
Borrowings	73	43	20	20	20
Dividend payable	761	917	1,178	1,405	1,653
Others	311	347	917	1,041	1,149
Total current liabilities	4,301	4,305	5,714	6,425	7,176
Borrowings	176	100	80	60	40
Others	542	1,250	1,500	1,500	1,500
Total non-current liabilities	718	1,350	1,580	1,560	1,540
Total Liabilities	5,019	5,655	7,294	7,985	8,716

Shareholder Equity	25,160	33,495	49,580	68,491	90,421
Non-controlling interest	2,653	4,551	3,594	3,932	5,049

Valuation Ratios

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	6.5	5.1	18.7	15.6	13.4
P/B (x)	3.2	1.6	6.2	4.5	3.4
EV/EBITDA (x)	4.0	2.1	10.8	8.5	6.8
Dividend yield (%)	2.0	3.6	1.3	1.6	1.9

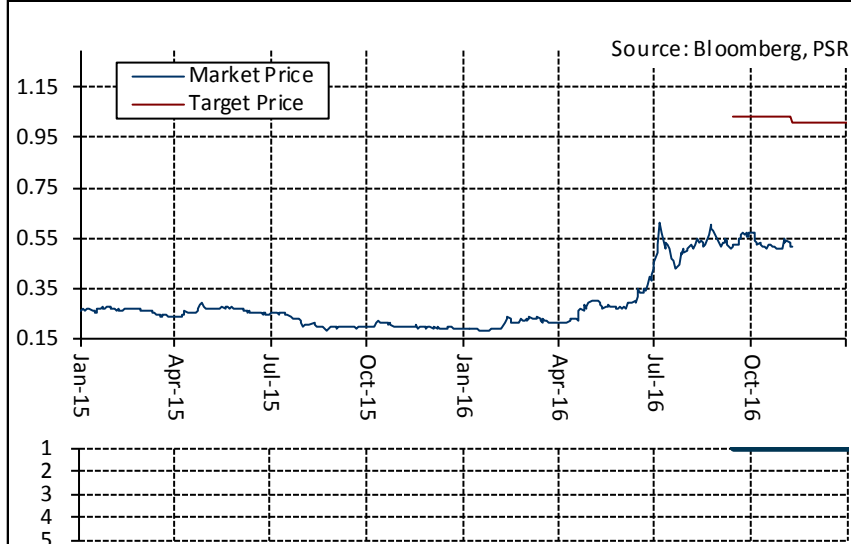
Growth & Margins (%)

Growth					
Revenue	99.8%	9.8%	15.6%	17.3%	12.8%
EBITDA	154.1%	0.6%	42.0%	18.4%	14.4%
EBIT	68.9%	-5.5%	49.8%	18.3%	15.1%
Net profit	356.9%	-12.9%	53.2%	19.9%	16.5%
Margins					
EBITDA margin	53.7%	49.2%	60.5%	61.0%	61.9%
EBIT margin	44.5%	38.3%	49.6%	50.1%	51.1%
NP margin	36.9%	29.2%	38.8%	39.6%	40.9%

Key Ratios

ROE (%)	49%	32%	33%	29%	25%
ROA (%)	37%	24%	27%	24%	22%
Net Debt or (Net Cash)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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