

# CNMC Goldmine Holdings Limited

Still fundamentally sound

## SINGAPORE | MINING | RESULTS

- FY16 Revenue missed our full year expectation of US\$42.2mn by 17.8%
- FY16 Operating income missed our full year expectations of US\$20.9mn by 45.9%
- FY16 Net income missed our full year expectation of US\$20.56mn by 44.0%
- 0.2 SG cents final dividend and 0.534 cents special dividends proposed with respective Y-o-Y growth of 11% and 32%
- We revise down our FY17e and FY18e revenue to US\$39.9mn and US\$46.1mn from previous forecast of US\$49.5mn and US\$55.8mn respectively. We maintain our "Buy" rating with a reduced discounted FCFE-derived TP of S\$0.68 (from S\$1.01). Cost of equity used remains unchanged at 9.8%. Our TP implies a 68% return from the last close price of S\$0.41.

### Results at a glance

(USD mn)	FY16	FY15	y-y (%)	Comments
Revenue	34.7	36.5	↓(4.9)	Due to 44.2% yoy decrease in 4Q16 revenue, which amounted to US\$5.19mn. The substantial drop was mainly attributable to lower gold grade.
Operating profit	11.3	14.0	↓(19.1)	Due to increase in management remuneration and employees' compensation by US\$0.85mn as well as increase in depreciation and amortisation by US\$0.54mn
Profit before tax	12.3	14.4	↓(14.8)	Due to higher interest income from placement of fixed deposit
Profit after tax	11.5	13.4	↓(14.2)	Due to lower tax expenses, resulting from lower profit for the year

Source: Company, Phillip Securities Research (Singapore)

### Unexpected underperformance was due to several unfavorable factors, including one-off and recurring items.

The unsatisfactory 4Q16 results was mainly due to the top line downfall, mainly resulting from 52.5% Y-o-Y decrease in production volume to 4040.58 ounces (oz), and the fall was partially offset by the 17.4% Y-o-Y increase in average realized gold price to US\$1283.29/oz. The two revenue drivers, production volume and gold price, are the performance instabilities that are not within CNMC's control.

Firstly, gold price has been volatile. Fiscal or monetary policies launched by major economies or political events such as country leader elections could trigger gold price shock. Generally, gold has been viewed as an inflation hedge and safe heaven commodity. Economic and political uncertainties are expected to persist in 2017. Whether Trump's economic revitalisation can be achieved, whether tensions regarding South China Sea will be escalated, or whether European Union will approach to disintegration with Netherlands, France, and Germany election held one after another this year, will reinforce the market sentiment towards risk awareness. Therefore, we still have a bullish view on gold price.

Secondly, production volume is decided by two factors, capacity and gold grade. The former is at the discretion of the management, who have been actively optimising it. While the latter is at the mercy of existing geological features, which can be prospected rather than transformed. At this moment, we think the substantial reduction in gold grade in 4Q16 could be temporary, since Sokor's reserves are yet close to total depletion based on gauge from FY15 JORC report. Moving forward, we need to see the remaining quarters' results to have a clear view on gold grade.

23 February 2017

### Buy (Maintained)

CLOSING PRICE	SGD 0.410
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 0.680
TOTAL RETURN	80.5%

#### COMPANY DATA

O/S SHARES (MN):	407
MARKET CAP (USD mn / SGD mn):	118 / 167
52 - WK HI/LO (SGD):	0.61 / 0.2
3M Average Daily T/O (mn):	3.12

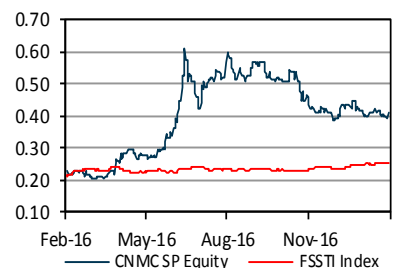
#### MAJOR SHAREHOLDERS (%)

INNOVATION CHINA LIMITED	26.3%
MESSIAH LIMITED	13.0%
NG ENG TIONG	9.8%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(12)	(114)	96.2
STI RETURN	3.9	112	22.0

#### PRICE VS. STI



Source: Bloomberg, P.SR

#### KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue (USD mn)	36	35	40	45
EBIT (USD mn)	14	11	13	15
Net Profit (USD mn)	13	12	13	15
P/E (x)	5	19	19	16
P/B (x)	2	4	4	3
EV/EBITDA (x)	2	6	9	7
Dividend Yield (%)	4	2	1	2

#### VALUATION METHOD

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

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Thirdly, as our 9M16 results report had mentioned, the stop-work order generated opportunity cost that made CNMC miss 21 days' operation. Besides, the c.RM20mn (US\$5mn) expenditure of mining concession extension and large scale operation approval impacted the free cash flow. These are one-off events that should not be expected again. Finally, operating expenses increased by 8% Y-o-Y to US\$17.1mn in FY16, due mainly to upward adjustment of compensation package. Moreover, royalty and tribute fee rate was up from 5% to 10% since 4Q16. The rise in overhead costs is expected are recurring in the upcoming future.

**Long-term fundamental is still sound**

In terms of Pulai project, the management has not delivered new updates since last year. The management shed some light of the future that they will focus on gold mining industry within the border in Malaysia. Rule of thumb for acquisitions is potential project's commercial viability and synergy with current operation. Gold mining market in Malaysia is fragmented, according to the management, and CNMC has competitive advantages in low all-in cost operation together with know-how in mining industries, which are the merits that attract other miners to seek for cooperation. We believe that Pulai is just the start for CNMC to pursue inorganic growth, which is expected to materialise soon.

**Revise down the valuation due to uncertainty of gold price and output volume, as well as expected increasing overhead costs**

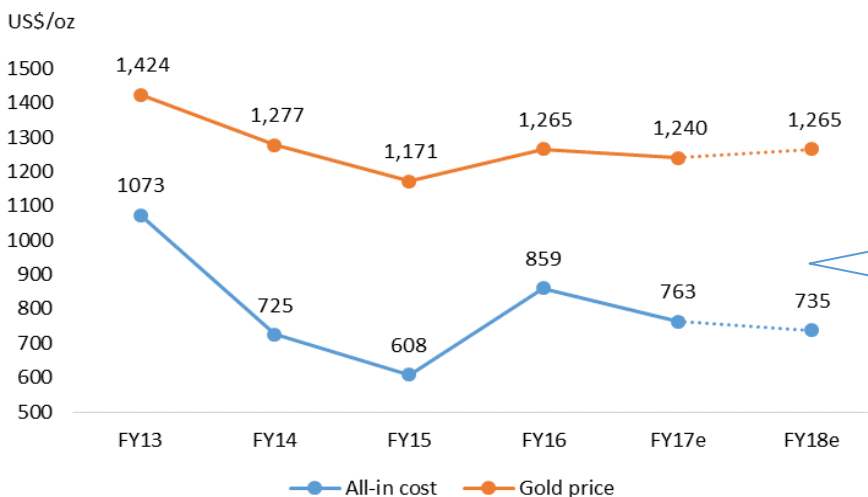
We revise down our FY17e and FY18e revenue forecast to US\$39.9mn and US\$46.1mn from previous forecast of US\$49.5mn and US\$55.8mn respectively. Consequently, our new net profit forecast of US\$10.4mn and US\$12.1mn for FY17e and FY18e respectively, are both 47% lower than our previous forecast.

**Change in assumption**

Y/E Dec (US\$'000)	FY14	FY15	FY16e	FY17e	FY18e
Ore tonnes processed (tonnes)	1,362,138	2,236,674	2,534,897	2,684,009	2,952,410
Capacity (tonnes)	1,000,000	1,000,000	1,133,333	1,200,000	1,320,000
<b>Production volume (ounces)</b>	<b>26,122</b>	<b>31,206</b>	<b>27,404</b>	<b>32,208</b>	<b>35,429</b>
Implied gold grade (oz/tonne)	0.019	0.014	0.011	0.012	0.012
<b>Gold price (US\$/oz)</b>	<b>1,277</b>	<b>1,171</b>	<b>1,265</b>	<b>1,240</b>	<b>1,265</b>
Total revenue	33,213	36,471	34,668	39,938	44,818

We lower the forecast of implied gold grade from 0.014 oz/tonne to 0.012 oz/tonne. Meanwhile, we update the projection of gold price from Bloomberg. The forecast prices are changed from previous US\$1,321/oz to US\$1,240/oz in FY17, and from US\$1,355/oz to US\$1,265/oz in respective FY17 and FY18.

**All-in cost & gold price**



Due to lower estimated production volume, the all-in cost estimation is change from previous US\$630/oz in both FY17 and FY18 to respective US\$763/oz and US\$735/oz

Source: Company, PSR

Based on unchanged 9.8% cost of equity and discounted FCFE, we derive our updated TP of S\$0.68 (previous: S\$1.01). We maintain our “Buy” rating, which implies a 65.8% return from the last close price of S\$0.41.

#### Valuation

Y/E US\$'000	FY16	FY17e	FY18e	FY19e
CFO	16,906	19,508	21,863	24,049
FCInv	(6,403)	(3,711)	(3,211)	(3,532)
Net borrowing	93	58	46	-
FCFE	10,596	15,854	18,698	20,517
PV of FCFE		14,439	15,509	15,499
Terminal value				190,795
PV of terminal value				144,132
Total PV				189,580
Cost of equity				9.80%
Sustainable growth rate				0%
Target price (US\$)				0.47
<b>Target price (S\$)</b>				<b>0.68</b>

Source: PSR

## Financials

### Income Statement

Y/E Dec (US\$'000)	FY14	FY15	FY16	FY17e	FY18e
Revenue	33,213	36,471	34,668	39,938	44,818
EBITDA	17,847	17,962	15,828	18,250	20,768
Depreciation & Amortisation	(3,051)	(3,986)	(4,527)	(5,049)	(5,439)
EBIT	14,796	13,976	11,301	13,201	15,329
Net Finance Inc/(Exp)	36	463	1,006	826	1,031
PBT	14,832	14,438	12,307	14,026	16,360
Tax	489	(1,010)	(792)	(982)	(1,145)
Net profit before NCI	15,320	13,429	11,515	13,045	15,214
Non-controlling interest	3,077	2,762	2,361	2,674	3,119
<b>Net Profit , reported</b>	<b>12,243</b>	<b>10,666</b>	<b>9,155</b>	<b>10,370</b>	<b>12,096</b>

### Per share data

Y/E Dec (US cents)	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	3.0	2.6	2.2	2.5	3.0
DPS	0.5	0.7	0.9	0.6	0.7
BVPS	6.2	8.2	9.7	12.3	15.2

### Cash Flow

Y/E Dec (US\$'000)	FY14	FY15	FY16	FY17e	FY18e
<b>CFO</b>					
Profit for the year	15,320	13,429	11,515	13,045	15,214
Adjustments	3,343	7,528	5,868	6,205	6,554
WC changes	(446)	(882)	(1,076)	(99)	(397)
Others	(265)	155	598	357	492
<b>Cashflow from ops</b>	<b>17,952</b>	<b>20,230</b>	<b>16,906</b>	<b>19,508</b>	<b>21,863</b>
<b>CFI</b>					
CAPEX, net	(2,836)	(2,894)	(894)	(2,015)	(1,515)
Exploration & Evaluation Exp	(2,064)	(1,253)	(5,509)	(1,696)	(1,696)
<b>Cashflow from investments</b>	<b>(4,900)</b>	<b>(4,146)</b>	<b>(6,403)</b>	<b>(3,711)</b>	<b>(3,211)</b>
<b>CFF</b>					
Dividends to Company	(1,148)	(2,155)	(2,888)	(3,176)	(2,737)
Dividends to NCI	(448)	(753)	(992)	(899)	(876)
Others	(464)	(143)	(47)	(36)	(12)
<b>Cashflow from financing</b>	<b>(2,060)</b>	<b>(3,050)</b>	<b>(3,928)</b>	<b>(4,111)</b>	<b>(3,624)</b>
<b>Net change in cash</b>	<b>10,992</b>	<b>13,034</b>	<b>6,575</b>	<b>11,686</b>	<b>15,028</b>
Effects of exchange rate	(859)	(3,239)	(1,754)	(1,200)	(1,350)
<b>Ending cash</b>	<b>12,340</b>	<b>22,135</b>	<b>26,955</b>	<b>37,441</b>	<b>51,119</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

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

### Balance Sheet

Y/E Dec (US\$'000)	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
Exploration & Evaluation Asset:	4,990	2,085	2,200	2,260	2,294
Mine Properties	6,517	9,617	14,129	14,907	15,219
Property, Plant and Equipment	7,569	8,163	6,384	6,282	4,316
Others	-	-	-	-	-
<b>Total non-current assets</b>	<b>19,076</b>	<b>19,866</b>	<b>22,713</b>	<b>23,449</b>	<b>21,829</b>
Cash	12,340	22,135	26,955	37,441	51,119
Trade receivables	613	832	1,397	1,676	1,844
Inventories	802	869	660	759	835
Others	-	-	-	-	-
<b>Total current assets</b>	<b>13,755</b>	<b>23,835</b>	<b>29,012</b>	<b>39,876</b>	<b>53,797</b>
<b>Total Assets</b>	<b>32,831</b>	<b>43,701</b>	<b>51,725</b>	<b>63,325</b>	<b>75,626</b>
<b>LIABILITIES</b>					
Trade payables	3,157	2,999	2,791	3,071	2,917
Borrowings	73	43	36	12	9
Dividend payable	761	917	1,030	991	1,101
Others	311	347	680	879	962
<b>Total current liabilities</b>	<b>4,301</b>	<b>4,305</b>	<b>4,537</b>	<b>4,952</b>	<b>4,989</b>
Borrowings	176	100	58	46	37
Others	542	1,250	1,581	1,581	1,581
<b>Total non-current liabilities</b>	<b>718</b>	<b>1,350</b>	<b>1,639</b>	<b>1,627</b>	<b>1,618</b>
<b>Total Liabilities</b>	<b>5,019</b>	<b>5,655</b>	<b>6,175</b>	<b>6,579</b>	<b>6,607</b>
<b>Shareholder Equity</b>	<b>25,160</b>	<b>33,495</b>	<b>39,635</b>	<b>50,159</b>	<b>61,762</b>
Non-controlling interest	2,653	4,551	5,914	6,587	7,258

### Valuation Ratios

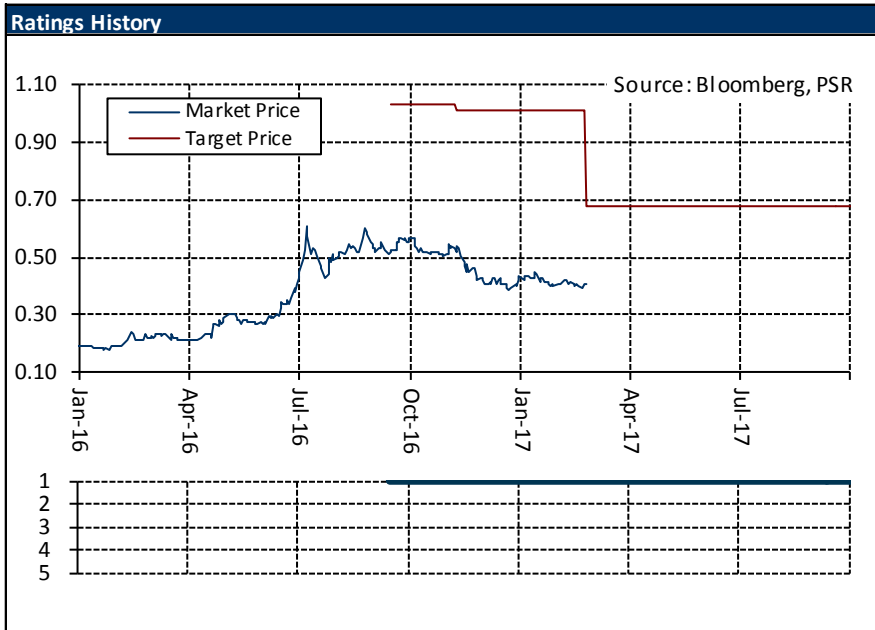
Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	6.54	5.10	19.35	19.24	16.50
P/B (x)	3.18	1.6	4.5	4.0	3.2
EV/EBITDA (x)	3.96	2.06	6.42	9.25	7.50
Dividend yield (%)	2.04	3.61	2.15	1.30	1.52

### Growth & Margins (%)

Growth					
Revenue	99.8%	9.8%	-4.9%	15.2%	12.2%
EBITDA	154.1%	0.6%	-11.9%	15.3%	13.8%
EBIT	68.9%	-5.5%	-19.1%	16.8%	16.1%
Net profit	356.9%	-12.9%	-14.2%	13.3%	16.6%
Margins					
EBITDA margin	53.7%	49.2%	45.7%	45.7%	46.3%
EBIT margin	44.5%	38.3%	32.6%	33.1%	34.2%
NP margin	36.9%	29.2%	26.4%	26.0%	27.0%

### Key Ratios

ROE (%)	49%	32%	23%	21%	20%
ROA (%)	37%	24%	18%	16%	16%
Net Debt or (Net Cash)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



**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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