

# CNMC Goldmine Holdings Limited

Expect a turnaround next year



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## SINGAPORE | MINING | 2Q17 RESULTS

16 August 2017

- Revenue and net profit missed our expectations due to a substantial drop in sales volume of gold resulting from lower ore grades.
- 1HFY17 output has been a disappointment. We cut our earnings forecast by 84.6% for FY17e but raise earning forecast by 17.7% for FY18e respectively. Similarly, we lower our TP to S\$0.29 (previous: S\$0.44), and we downgrade our recommendation from BUY to NEUTRAL. We are upbeat on gold prices and expect the current lacklustre production to recover in FY18.

### Neutral (Downgrade)

CLOSING PRICE	SGD 0.270
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.290
TOTAL RETURN	7.4%

### Results at a glance

(USD mn)	1H17	1H16	YoY (%)	Comments
Revenue	9.59	21.03	(54.4)	56% YoY decrease in sales volume offset by 4% YoY increase in average realised gold price
Operating profit	0.28	11.38	(97.5)	Increase in operating expenses offset by FX gains
PBT	0.68	11.82	(94.2)	In line with the above
PATMI	0.53	9.26	(94.2)	In line with the above

Source: Company, PSR

### Positives

**+ Carbon-in-leach (CIL) plant is under construction:** The group has been working on the CIL project since 1Q17 and expects to complete construction in mid Nov-17. Preliminary estimation of newly-added capacity will be 150k to 180k tonnes of ore processed. CIL will enhance efficiency in extracting gold with maximum 30 ppt increase in recovery rate from the current average 65% at the existing heap leaching facilities. At the moment, the group is speeding up the construction progress, inasmuch as it has located spots with higher ore grade, from which it specifically plans to extract gold by harnessing CIL. It is expected to have one and a half months of trial production in FY17.

**+ Ongoing exploration for Pulai and KelGold project:** For the Pulai project, the group completed 3 drill holes in 2Q17, but the results failed to meet Geology Department's expectation. Based on the previous magnetic survey showing some anomalies, the group decided to conduct diamond drilling with 11 designed drill holes in the potential iron deposit area in 3Q17. For the KelGold project, soil sampling program has been carried out since May-17 and will last till Aug-17. As of Jun-17, 2,560 samples were collected and 48.24km of designed tracks were surveyed.

### Negatives

**- Low ore grade dragged the performance:** The total sales volume of gold only arrived at 3,670 oz in 1H17, compared to 17,079 oz in 1H16. The dive was attributed to substantial fall in ore grade. Though average realised selling price (ASP) increased to US\$1,277/oz during the period (1H16: US\$1,231/oz), the group delivered an unsatisfactory performance.

### Outlook

We believe the low-grade situation could continue to late FY17 until the trial run of CIL plant. Hence, the FY17 performance is expected to be the worst since 2012. The short-term catalyst that could be looked forward to is the possible turnaround by incorporating CIL's results in FY18. From a long-term perspective, it is expected to create synergies from monetising on minerals from Pulai and KelGold.

### COMPANY DATA

Bloomberg Code	CNMC SP
O/S SHARES (MN) :	407
MARKET CAP (USD mn / SGD mn) :	80 / 110
52 - WK HI/LO (SGD) :	0.6 / 0.25
3M Average Daily T/O (mn) :	19

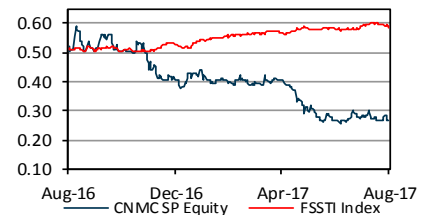
### MAJOR SHAREHOLDERS (%)

INNOVATION CHINA LIMITED	26.3%
MESSIAH LIMITED	12.9%
NG ENG TIONG	9.6%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(3.6)	(10.0)	(48.4)
STIRETURN	13	2.3	18.8

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (US cents)	FY 15	FY 16	FY 17e	FY 18e
Revenue (USD mn)	36	35	21	33
EBIT (USD mn)	14	11	1	11
Net Profit (USD mn)	11	12	13	15
P/E (x)	5	13	106	13
P/B (x)	2	3	3	2
EV/EBITDA (x)	2	6	19	6
Dividend Yield (%)	0.05	0.03	-	0.02

### VALUATION METHOD

DCF (Cost of Equity: 12%; Terminal g: 0%)

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**Change in assumption**

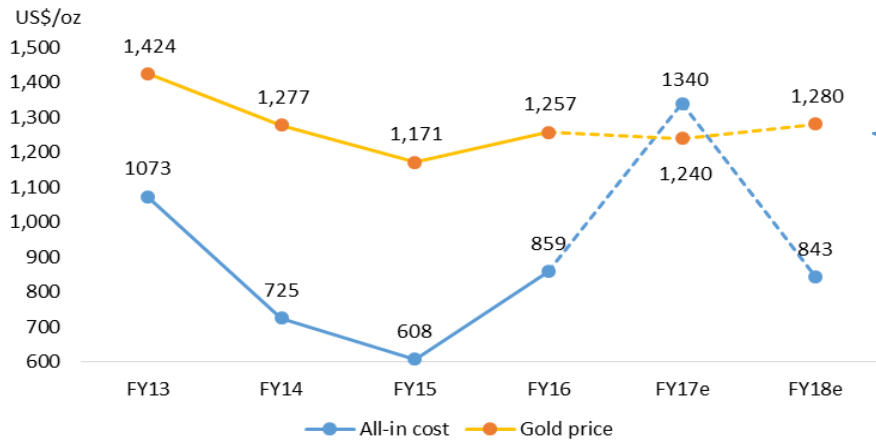
Y/E Dec (US\$'000)	FY14	FY15	FY16	FY17e	FY18e
Ore tonnes processed (tonnes)	1,362,138	2,236,674	2,397,908	2,544,000	2,862,000
Capacity (tonnes)	1,000,000	1,000,000	1,133,333	1,200,000	1,350,000
Production volume (oz)	27,685	29,645	27,404	16,536	25,758
Implied gold grade (g/tonne)	0.60	0.43	0.36	0.20	0.28
Gold price (US\$/oz)	1,277	1,171	1,265	1,240	1,280
Total revenue	33,213	36,471	34,668	20,505	32,970

Source: Company, PSR

We lower the forecast of implied gold grade to 0.2 g/tonne (previous 0.31 g/tonne).

The forecast prices remain US\$1,240/oz in FY17 and US\$1,280/oz in FY18.

**All-in cost & gold price**



Due to lower estimated production volume, the all-in cost estimation is changed from previous US\$945/oz to US\$1,340/oz in FY17. The surge is due to lower sales volume as well as substantial capex for CIL plant

Due to higher estimated production, the all-in cost estimation is changed from previous US\$855/oz to US\$843/oz in FY18.

Source: Company, PSR

**Investment action**

1HFY17 output has been a disappointment. We cut our earnings forecast by 84.6% for FY17e but raise earning forecast by 17.7% for FY18e respectively. Similarly, we lower our TP to S\$0.29 (previous: S\$0.44), and we downgrade our recommendation from BUY to NEUTRAL. We are upbeat on gold prices and expect the current lacklustre production to recover in FY18.

## Financials

### Income Statement

Y/E Dec (US\$'000)	FY14	FY15	FY16	FY17e	FY18e
Revenue	33,213	36,471	34,668	20,505	32,970
EBITDA	17,847	17,962	15,828	4,865	14,858
Dep & Amt	(3,051)	(3,986)	(4,527)	(4,241)	(4,236)
EBIT	14,796	13,976	11,301	624	10,622
Net Finance Inc/(Exp)	36	463	1,006	782	998
PBT	14,832	14,438	12,307	1,406	11,619
Tax	489	(1,010)	(792)	(98)	(813)
PATMI	12,243	10,666	9,155	1,040	8,591
Non-controlling interest	3,077	2,762	2,361	268	2,215

### Per share data

Y/E Dec (US cents)	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	3.0	2.6	2.2	0.3	2.1
DPS	0.5	0.7	0.9	-	0.5
BVPS	6.2	8.2	9.7	9.3	11.8

### 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	1,308	10,806
Adjustments	3,343	7,528	5,868	1,792	2,552
WC changes	(446)	(882)	(1,076)	(1,357)	(411)
Others	(265)	155	598	314	459
<b>Cashflow from ops</b>	<b>17,952</b>	<b>20,230</b>	<b>16,906</b>	<b>2,057</b>	<b>13,405</b>
<b>CFI</b>					
CAPEX, net	(2,836)	(2,894)	(894)	(6,371)	(1,815)
Exploration & Evaluation Exp	(2,064)	(1,253)	(5,509)	(380)	(500)
<b>Cashflow from investments</b>	<b>(4,900)</b>	<b>(4,146)</b>	<b>(6,403)</b>	<b>(6,751)</b>	<b>(2,315)</b>
<b>CFF</b>					
Dividends to Company	(1,148)	(2,155)	(2,888)	(2,714)	-
Dividends to NCI	(448)	(753)	(992)	(469)	(366)
Others	(464)	(143)	(47)	(1,021)	(750)
<b>Cashflow from financing</b>	<b>(2,060)</b>	<b>(3,050)</b>	<b>(3,928)</b>	<b>(4,204)</b>	<b>(1,116)</b>
<b>Net change in cash</b>	<b>10,992</b>	<b>13,034</b>	<b>6,575</b>	<b>(8,899)</b>	<b>9,975</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>16,856</b>	<b>25,481</b>

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	FY16	FY17e	FY18e
<b>ASSETS</b>					
Exploration & Evaluation Asset:	4,990	2,085	2,200	8,987	9,487
Mine Properties	6,517	9,617	14,129	13,650	12,794
Property, Plant and Equipment	7,569	8,163	6,384	7,998	7,249
Others	-	-	-	-	-
<b>Total non-current assets</b>	<b>19,076</b>	<b>19,866</b>	<b>22,713</b>	<b>30,634</b>	<b>29,529</b>
Cash	12,340	22,135	26,955	18,262	26,887
Trade receivables	613	832	1,397	3,492	4,190
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>22,513</b>	<b>31,912</b>
<b>Total Assets</b>	<b>32,831</b>	<b>43,701</b>	<b>51,725</b>	<b>53,147</b>	<b>61,442</b>

### LIABILITIES

Trade payables	3,157	2,999	2,791	3,629	3,992
Borrowings	73	43	36	40	40
Dividend payable	761	917	1,030	-	1,266
Others	311	347	680	549	760
<b>Total current liabilities</b>	<b>4,301</b>	<b>4,305</b>	<b>4,537</b>	<b>4,217</b>	<b>6,058</b>
Borrowings	176	100	58	760	50
Others	542	1,250	1,581	1,460	1,460
<b>Total non-current liabilities</b>	<b>718</b>	<b>1,350</b>	<b>1,639</b>	<b>2,220</b>	<b>1,510</b>
<b>Total Liabilities</b>	<b>5,019</b>	<b>5,655</b>	<b>6,175</b>	<b>6,437</b>	<b>7,568</b>

<b>Shareholder Equity</b>	<b>25,160</b>	<b>33,495</b>	<b>39,635</b>	<b>37,776</b>	<b>48,217</b>
Non-controlling interest	2,653	4,551	5,914	8,934	5,657

### Valuation Ratios

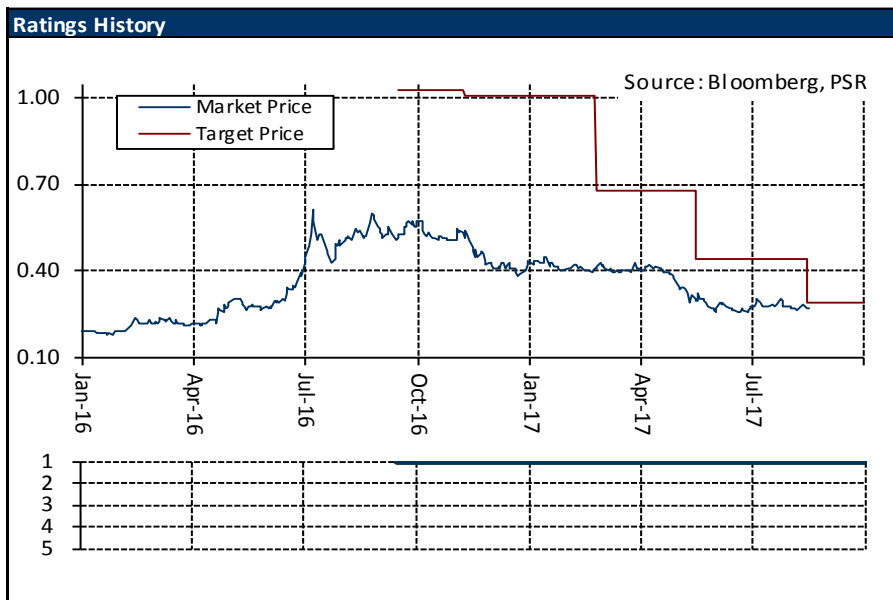
Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	6.54	5.10	13.48	82.27	9.96
P/B (x)	3.12	1.60	3.09	2.26	1.77
EV/EBITDA (x)	3.64	1.71	5.92	13.99	3.95
Dividend yield (%)	0.03	0.05	0.03	0.00	0.03

### Growth & Margins (%)

<b>Growth</b>					
Revenue	99.8%	9.8%	-4.9%	-40.9%	60.8%
EBITDA	154.1%	0.6%	-11.9%	-69.3%	205.4%
EBIT	68.9%	-5.5%	-19.1%	-94.5%	1602.8%
Net profit	356.9%	-12.9%	-14.2%	-88.6%	726.3%
<b>Margins</b>					
EBITDA margin	53.7%	49.2%	45.7%	23.7%	45.1%
EBIT margin	44.5%	38.3%	32.6%	3.0%	32.2%
NP margin	36.9%	29.2%	26.4%	5.1%	26.1%

### Key Ratios

ROE (%)	49%	32%	23%	3%	18%
ROA (%)	37%	24%	18%	2%	14%
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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