



# CNMC Goldmine Holdings

## (CNMC SP/CNMC.SI)

### Operations improving but expenses expected to remain high

Joel Ng / 62 6202 1192 / [joel.ng@kqi.com](mailto:joel.ng@kqi.com)

- 2Q18 sales surged 145% YoY to US\$11.5mn but net profits declined 42% YoY to US\$0.6mn.
- Excluding one-off items such as listing expenses and forex losses, profits would have increased 140% YoY to US\$1.9mn.
- We had expected 2018 to be the turning point but given the higher-than-expected expenses spilling over into 2019, we estimate a meaningful earnings rebound only by 2020.
- We cease coverage due to reallocation of resources; investors with a longer investment horizon may look forward to its improving operational performance as it continues to add new processing facilities.

**3Q18 earnings overview.** CNMC's 3Q18 earnings of US\$0.6mn was impacted by US\$0.4mn of forex losses, US\$0.8mn from HK listing expenses and US\$0.08 for the grant of performance shares. Excluding these costs, earnings would have increased to US\$1.9mn from US\$0.8mn in the prior year period.

**Improving performance.** The group sold 9,569 oz of gold in 3Q18, the highest since 2Q16, due mainly from increased processing from the CIL plant which began contributing meaningfully from 2Q18. All-in-costs continued to improve to US\$952/oz from US\$1,038/oz in 2Q18 and US\$1,546/oz in 3Q17.

**Higher-than-expected expenses.** In addition to the one-off expenses mainly from its HK listing, CNMC is planning several expansion to its current facilities which will lead to higher costs in the next 3-4 quarters. Although we note that these are long-term positive for the group, the variability and impact on efficiency makes it difficult to estimate the expenses and margins going forward.

**Ambitious plans.** CNMC is planning for:

- 1) Gold de-absorption and smelting facility next to its CIL plant.
- 2) Replace the three existing heap leach pads with two new ones in order to improve heap leaching capacity to an estimated 6m tonnes of ore from 2.8mn tonnes currently.
- 3) Underground mining in 2019, which would increase mining costs by 30% but should eventually be compensated by an increase in revenue as underground mining is expected to yield higher ore grades.

#### Cease Coverage

Price 15 Nov 18 (S\$)	0.22
12M TP (S\$)	na
Previous TP (S\$)	0.33
Upside (%)	na

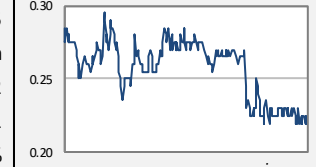
#### Performance (Absolute)

1M	-4.3
3M	-16.7
12M	-20.8

#### Trading data

Mkt Cap (S\$m)/(US\$m)	90 / 65
Issued Shares (m)	408m
Vol (3M Daily avg)	0.2
Val (3M Daily avg)	\$0.1
Free Float (%)	55.0%

#### Performance (1 YR)



#### Major Shareholders

Prof. Lin Xiang Xiong	26.3%
Choo Chee Kong	12.5%

#### Previous Recommendations

13-Nov-18	BUY TP \$0.33
14-Aug-18	BUY TP \$0.33
31-May-18	BUY TP \$0.33

4) Build a new floatation plant to process 500 tonnes of ore per day to monetise silver, lead and zinc. This would cost RM20mn and expected to start full commercial production in 2H19.

5) Laying a national grid power line to Sokor to reduce dependence on third-party suppliers of diesel, one of its main mining consumables that represent 19% of the group's overall purchases in 3Q18. Electricity at the mine site is currently provided by diesel generators onsite, so a connection to the national power grid would help reduce costs. This is estimated to cost RM10mn.

**HK listing.** Plans to list in HK are proceeding but there is still uncertainty on the timing. However, even if it does manage to list in the next two quarters, we are unsure of the benefits to shareholders in the short-term. Additional expenses are still expected in 4Q18.

**Valuation & Action:** We had expected an earnings recovery in 2018 but now estimate that the higher-than-expected expenses would continue to weigh on margins going into 2019.

Given the lack of near term catalysts and the reallocation of internal resources, we cease coverage. The expansion plans are positive for the long-term growth of the group and we would have a relook at its progress at a later date.

**Risks:** CNMC's revenue is based on two key components: production volumes and gold prices. Adverse weather conditions or low ore grades could affect CNMC's gold production volume.

**KGI's Ratings****Rating Definition**

KGI Securities Research's recommendations are based on an Absolute Return rating system.

**BUY** >10% total return over the next 12 months

**HOLD** -10% to +10% total return over the next 12 months

**SELL** <-10% total return over the next 12 months

**Disclaimer**

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2018. KGI Securities (Singapore) Pte. Ltd. All rights reserved.