

CHINA  
DEVELOPMENT  
FINANCIAL

# CNMC Goldmine Holdings

## (CNMC SP/CNMC.SI)

### Golden opportunity

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- We re-initiate with a **BUY** and TP of S\$0.38, based on 10x 2019F EPS, a 30% discount to global gold miners.
- Production and sales volume recovered in 1Q18 and was the highest since 3Q16.
- 1Q18 PATMI increased 8x YoY to US\$0.5m as gold production increased 23% YoY to 4,519 oz.
- The ramp-up in production was mainly due to the new carbon-in-leach (CIL) plant, which produced first gold bar in March 2018. The CIL plant officially opened on 2 May 2018.

#### Financials & Key Operating Statistics

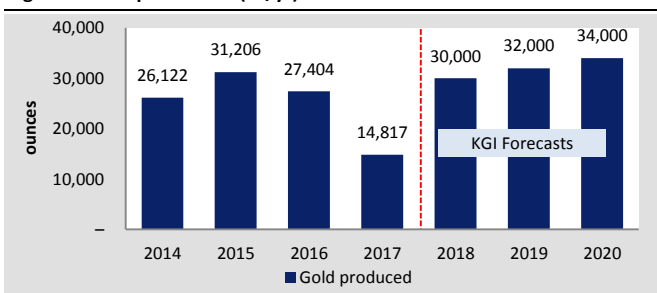
YE Dec (US\$m)	2016	2017	2018F	2019F	2020F
Revenue	34.7	19.2	37.5	40.3	44.3
PATMI	9.1	2.8	4.2	11.4	13.4
Core PATMI	9.1	2.8	4.2	11.4	13.4
Core EPS	2.2	0.7	1.0	2.8	3.3
Core EPS grth (%)	-14.8	-69.4	51.8	170.1	17.3
Core P/E (x)	9.0	29.3	19.3	7.2	6.1
DPS (SGCents)	1.1	0.2	0.2	1.0	1.0
Div Yield (%)	4.2	0.7	0.7	3.7	3.7
Net Margin (%)	26.2	14.5	11.3	28.3	30.2
Gearing (%)	NC	NC	NC	NC	NC
Price / Book (x)	2.1	2.0	1.9	1.7	1.4
ROE (%)	20.0	5.9	8.4	19.9	20.2

Source: Company Data, KGI Research

**Worst is over.** 2017 was a very challenging year for CNMC. Gold production fell to 14,817 oz in 2017 from 27,404 oz in 2016. The key reason was a setback to the group's plan to add a new facility to process high-grade ore at its Sokor gold mine, which was delayed until 2Q17 and did not contribute for the year. The group had wanted to obtain the extension of the Sokor gold mine for another 21 years before spending on capex.

**Increasing production and expanding to base metals.** The group completed the new ore processing facility – capable of processing 500 tonnes of ore per day - in November 2017 and began trial operation in March 2018. Also, CNMC's board has further approved a new facility capable of processing another 500 tonnes of raw materials per day, which would allow the group to diversify to base metals.

Figure 1: Gold production (oz/yr)



Source: Company data, KGI Research

#### Buy (Re-initiation)

Price as of 2 Jul 18 (SGD)	0.27	<b>Performance (Absolute)</b>	
12M TP (\$)	0.38	1 Month (%)	-1.8
Previous TP (\$)	na	3 Month (%)	6.7
Upside (%)	39.8	12 Month (%)	-2.9

#### Trading data

Mkt Cap (\$mn)	110	<b>Perf. vs STI Index (Red)</b> 
Issued Shares (mn)	407	
Vol - 3M Daily avg (mn)	0.4	
Val - 3M Daily avg (\$mn)	0.1	
Free Float (%)	54.2%	

#### Major Shareholders

Prof. Lin Xiang Xiong	26.3%	<b>Previous Recommendations</b>
Choo Kee Kong	12.5%	

**Hong Kong dual-listing.** The group is seeking a dual primary listing on the Hong Kong stock exchange to unlock value for shareholders by increasing market visibility and widening its investor base.

**Forecasts.** We expect 2018/19 earnings to jump 52%/170% YoY to US\$4.2/11.4mn. Our two key assumptions are mainly gold price to average US\$1,285/oz (5% discount to Bloomberg consensus average) and all-in-costs to decline from US\$1,150/oz in 2018F to US\$850/oz by 2019F, which we believe is CNMC's sustainable rate. All-in-costs surged to US\$1,367/oz in 2017 due to lower ore grades and costs for the new CIL plant. In the prior 3-year period, all-in-costs averaged US\$717/oz and even dropped to a low of US\$608/oz in 2015. In perspective, global peers are averaging US\$800-900/oz for all-in-costs.

**Valuation & Action:** We re-initiate with a BUY and TP of S\$0.38 based on 10x 2018F EPS. Global gold miners are trading at a 20-40% premium to our multiple-peg, which we believe lends enough margin of safety to our valuations. We also ran a DCF analysis on a set of fairly conservative assumptions to arrive at a fair value of S\$0.36.

To add to the margin of safety, we have not factored any upside from its second new processing plant that can process base metals such as lead and zinc. CNMC took just 6 months to construct the first CIL facility, much faster than industry norms of 18-24 months. Hence, it is not unreasonable to expect contribution from this diversification plan to come as early as 2019.

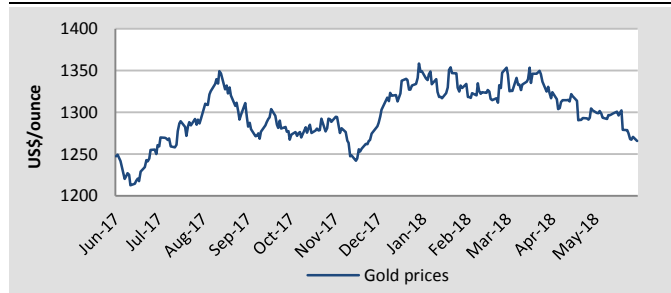
**Risks:** Its revenue is based on two key components: production volumes and gold prices. Adverse weather conditions or low ore grades could affect CNMC's gold production volume and lead to higher production costs per unit.

## Gold price forecasts

Forecasts based on consensus differs widely e.g., 2018 gold price forecasts based on Bloomberg compilation ranges from a low of US\$1,244 to a high of US\$1,493. In 2019, the range widens from US\$1,097 to US\$1,680. The wide dispersion in expectations may probably be due to analysts having differing opinions of where interest rate levels, geopolitical risks and the pace of global economic growth are going.

Gold prices Since June 2017 have been trading range bound due to the weak dollar and risk trends cancelling each other out. When there was a risk-off in global risk assets, the gains in gold prices were offset by a rising dollar. In our view, the fact that gold prices have been resilient above US\$1,250 despite a firming dollar in 2018 lends support that downside risks to gold prices may be limited.

Figure 4: Gold prices (1-year)



Source: Bloomberg, KGI Research

**CNMC's gold.** CNMC had an estimated 724,000 oz of JORC-compliant gold resources as at end Dec-17, the highest amount since it started exploration works in 2007. This amount does not include potential resources from its two other mines, KelGold and Pulai Mining.

Figure 2: Gold price forecasts based on Bloomberg consensus estimates

Gold	QUARTERLY					ANNUAL				
	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	2018	2019	2020	2021	2022
Forecast - Median	1,294.0	1,279.0	1,281.2	1,292.5	1,303.8	1,299.6	1,308.6	1,352.6	1,396.4	1,436.9
Average	1,319.7	1,322.2	1,321.4	1,302.3	1,308.6	1,320.4	1,325.2	1,372.7	1,462.6	1,327.6
High	1,445.0	1,522.0	1,590.0	1,520.0	1,651.0	1,493.0	1,680.0	1,920.0	2,300.0	1,382.7
Low	1,230.0	1,250.0	1,166.2	1,118.5	1,056.2	1,244.4	1,096.9	1,113.0	1,250.0	1,250.0
Diff (Median - Curr)	31.03	36.03	23.76	-9.05	-21.65	12.81	6.08	-40.09	-56.35	-86.92

Source: Bloomberg, KGI Research

Figure 3: Peer comparison (Global)

Company	Bloombe rg Ticker	Price (Lcl curr)	M kt Cap (\$m)	P/E (x) (hist)	P/E (x) (fwd)	P/B (x)	ROE (%)	EV/EBIT DA (x) (ttm)	EV/EBIT DA (x) (fwd)	EV/EBIT DA (x) (fwd 1 yr)	Net Gearin g (%)	Dvd Yld (%)
CNMC Goldmine	CNMC SP	0.27	10	29.3	19.3	2.0	8	13.8	5.5	3.1	NC	0.7
<b>Global Senior Gold Producers</b>												
Barrick Gold	ABX CN	17	20,927	15.4	17.9	16	10	5.5	5.7	5.9	35.7	0.9
Newmont Mining	NEM US	38	27,436	24.7	22.5	19	0	8.3	8.5	7.8	8.0	15
Goldcorp	G CN	18	16,290	50.2	18.9	0.8	4	10.3	8.7	6.4	17.7	0.6
Newcrest Mining	NCM AU	22	16,674	55.5	17.2	16	3	10.8	10.2	7.3	-	12
Randgold Resources	RRSLN	5,732	9,730	26.7	20.2	19	7	11.0	10.1	9.1	NC	2.5
Zijin Mining	2899 HK	3	15,365	16.3	11.0	1.7	11	-	8.4	7.8	68.5	3.7
Gold Fields	GFI SJ	4,819.00	3,918	13.4	13.7	0.9	(1)	3.1	3.5	3.1	-	19
Harmony Gold Mining	HAR SJ	2,214.00	1,096	-	9.0	0.4	(14)	-	2.9	2.5	9.4	16
<b>Global Mid-tier Gold Producers</b>												
Acacia Mining	ACA LN	124	915	-	5.9	0.6	(47)	19	2.7	2.2	-	-
Alamos Gold	AGI CN	7	3,027	34.4	22.6	0.8	1	9.3	7.7	6.1	NC	0.3
Oceanagold Corp	OGC CN	4	2,340	10.0	12.5	1.1	12	4.6	4.8	4.8	9.6	0.7
New Gold	NGD CN	3	1,647	6.8	13.3	0.6	(8)	7.1	5.0	4.0	38.6	-
Centamin	CEE CN	2	2,506	13.2	12.7	1.2	9	-	4.4	3.6	NC	7.7
Centerra Gold	CG CN	7	2,215	7.0	8.2	0.8	8	4.0	4.0	3.6	110	-
Golden Star Res	GSC CN	0.90	356	8.3	4.1	36.8	-	4.4	2.9	2.0	-	-
<b>Global Junior Gold Producers</b>												
Aneka Tambang Persero	ANTM IJ	820	1,873	52.5	19.3	1.1	2	11.7	14.2	9.7	22.8	0.2
B2Gold Corp	BTO CN	3	3,490	32.8	10.9	1.6	8	8.3	4.8	4.7	29.1	-
Saracen Mineral	SAR AU	2	1,788	29.7	15.2	5.1	19	14.0	8.3	6.9	-	-
Resolute Mining	RSG AU	1	988	8.6	9.1	1.4	18	6.7	10.3	4.3	-	15
OZ Minerals	OZL AU	9	3,052	12.3	17.1	1.1	9	3.5	4.7	4.8	-	3.0
Northern Star Resources	NST AU	7	4,382	23.4	15.7	6.4	32	9.2	9.2	7.6	-	2.1
Silver Lake Resources	SLR AU	1	296	-	9.0	1.5	(2)	3.7	2.9	3.0	-	-
Philex Mining	PX PM	5	595	15.2	14.2	0.9	6	8.5	6.8	7.5	36.5	0.9
Dundee Precious Metals	DPM CN	3	582	23.1	6.8	0.7	3	3.9	5.3	2.6	2.9	-
Wesdome Gold Mines	WDO CN	3	428	76.1	14.0	2.9	3	13.5	10.5	8.3	NC	-
<b>Average (Excluding CNMC)</b>				<b>25.2</b>	<b>13.6</b>	<b>3.0</b>	<b>4.0</b>	<b>7.4</b>	<b>6.7</b>	<b>5.4</b>	<b>24.1</b>	<b>1.9</b>

Source: Bloomberg, KGI Research

## DCF Valuation

In addition to our relative valuation metric, we ran a DCF on CNMC's free cash flows (FCF) on a set of fairly conservative estimates, to help develop a sense of its intrinsic value. We arrived at a fair value of US\$0.36, which is not too far off from the fair value we derived using relative valuation metrics. Our key assumptions were:

- (1) WACC of 10.0%,
- (2) Average gold price of US\$1,185/oz,
- (3) All-in-costs of US\$1,100/oz in 2018 and to stabilise at US\$850/oz thereafter, and
- (4) No terminal value; instead, we forecasted a steady-state FCF of US\$12.4/annum until 2038. We think this is still conservative; accumulated gold mined between 2018 and 2038 would total 708,000oz, slightly less than the JORC-compliant resources indicated as at end Dec-17.

In terms of production, we estimate a sustainable gold production of around 32,000-34,000 oz per annum. We believe this is easily achievable with the new CIL plant, which is capable of extracting gold from high-grade ore. In perspective, CNMC was able to achieve a peak production of 31,206oz in 2015 when it only had two processing plants – the heap leaching plant for lower-grade ore and the Vat leaching plant used for ore with low percolation rates.

**Upside from other assets.** We have not included any gains from the processing of base metals such as lead and zinc at the proposed flotation plant. As at Dec-17, CNMC's Sokor field had 1.9m oz of silver, 23,025 tonnes of lead and 23,505 tonnes of zinc resources. CNMC also has two other gold mines – KelGold Mining and 51%-owned Pulai – which are both under exploration stages.

Figure 5: DCF Valuation

Discounted Cash Flow Valuation	2016	2017	2018	2019	2020	2021	2022	2023
Gold produced (oz)	27,404	14,817	30,000	32,000	34,000	34,000	34,000	34,000
Implied gold price (US\$/oz)	1,265	1,293	1,250	1,259	1,304	1,304	1,304	1,304
Revenue (m)	34.7	19.2	37.5	40.3	44.3	44.3	44.3	44.3
Growth (%)	(4.9%)	(44.8%)	95.8%	7.4%	10.1%	–	–	–
EBIT (\$m)	11.3	1.8	4.5	13.1	15.4	15.4	15.4	15.4
EBIT margin (%)	32.6%	9.3%	12.0%	32.5%	34.8%	34.8%	34.8%	34.8%
EBIT (1-T) (\$m)	9.0	1.4	3.6	10.5	12.4	12.4	12.4	12.4
Plus Depreciation and Amortization (\$m)	2.7	2.4	2.6	2.8	3.1	3.1	3.1	3.1
Less Capital Expenditures (\$m)	(0.9)	(5.4)	(8.0)	(8.0)	(4.0)	(2.0)	(2.0)	(2.0)
Less Increase in Net Working Capital (\$m)	1.7	3.0	(1.4)	(0.2)	(1.1)	(1.1)	(1.1)	(1.1)
FCF	12.6	1.5	(3.2)	5.1	10.3	12.4	12.4	12.4
PV of FCF			(3.0)	4.4	8.1	8.9	8.1	7.3
Terminal Value					Stable FCF US\$12.4 to 2038 >>			73.4
FCF Total (Present Value)	91.2				WACC 10.0%			
Terminal Value (Present Value)	–				Terminal Growth Rate –			
Firm Value	91.2							
Less Net debt/(cash)	(18.8)							
Equity Value (US\$m)	110.0							
No of Shares (m)	407.7							
Equity Value per Share (US\$)	\$0.27							
Equity Value per Share (S\$)	\$0.36							@ 1.35 SGD/USD
Current Price	\$0.27							
Upside/Downside	35%							

Source: Company Data, KGI Research

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<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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