

CNMC Goldmine Holdings

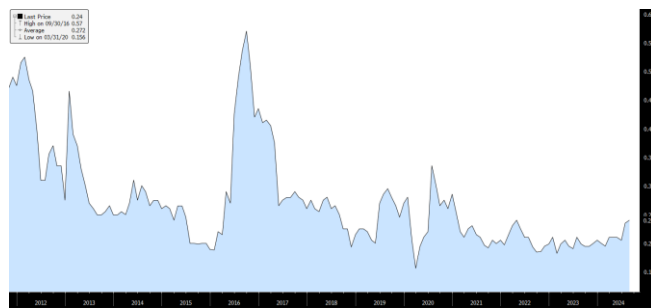
Date: 16 September 2024

BUY (Initiation)

BBG	CNMC SP	
Market Cap (S\$m)	80.0	
Price (S\$)	0.24	
52-week range (S\$)	0.187 - 0.245	
Target Price (S\$)	0.33	
Shares Outstanding (m)	405.3	
Free Float	62.0%	
Major Shareholder	Innovation	26.4%
	China Ltd	
	Messiah Ltd	10.5%

Source: Company data, Bloomberg, SAC Capital

Share Price



Source: Bloomberg

Analyst

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Shining Brightly In Times of Uncertainty

CNMC Goldmine Holdings Limited, established in 2006 and headquartered in Singapore, commenced operations in 2007 and became the first gold miner listed on the SGX Catalist board in 2011. The company focuses on gold production, exploration, mining, and processing, with additional interests in silver, lead and zinc. Its flagship project, the Sokor Gold Field in Kelantan, Malaysia, covers 10 km² and contains JORC-compliant resources of 918,000 ounces of gold.

1H24 revenue was up 13.1% yoy to \$29.7m, driven by increased gold production and favorable gold prices. The Group's flagship Sokor mine in Malaysia's Kelantan state saw a 27.2% rise in gold output to 9,357 ounces, with an average selling price of US\$2,266 per ounce—the highest in the Group's history. Despite increased output, the all-in cost per ounce of gold decreased to US\$1,325 from US\$1,415 in 1H2023, reflecting improved operational efficiencies. Net profit after tax surged by 159.2% yoy to US\$5.5m, with net profit attributable to owners increasing by 160.4% to US\$4.4m. The Group's profitability was significantly bolstered by higher gold prices and enhanced production levels, leading to the highest 1H profit in eight years.

The Group has announced the expansion of the carbon-in-leach (CIL) plant at its Sokor Gold Project, which is expected to increase the Group's gold processing capacity by 60%, from the existing 500 tonnes per day to 800 tonnes per day. The estimated cost of this expansion is up to RM9.0 million, to be funded through the Company's internal resources, and it is expected to be completed by the first half of next year, barring any unforeseen circumstances.

Several factors could influence gold prices in the coming months. The Federal Reserve is anticipated to start reducing US interest rates soon, while central banks globally are showing strong interest in gold. The approach of the US presidential election in November 2024 is also likely to impact gold prices, potentially benefiting CNMC's financial performance in the latter half of the year. Additionally, ongoing geopolitical tensions—including conflicts in Europe and the Middle East, disruptions in supply chains following rebel attacks on commercial vessels in the Red Sea last year, and more than 60 elections occurring globally in 2024—could further enhance gold's appeal as a safe-haven asset.

BUY; Amid the uncertain backdrop, we anticipate elevated gold prices to persist, coupled with the planned capacity expansion we project revenue growth of 17% and 18% for FY24 and FY25, respectively, which in turn is expected to enhance net profit by 16% and 15%. By applying a 40% discount to the valuation of larger global peers, we arrive at a price target of S\$0.33, representing a 39% upside from current levels. We initiate coverage with a buy recommendation.

Potential risks include (i) volatility in gold prices, which could significantly impact revenue and profitability if prices decline due to global economic shifts or reduced investor demand, (ii) operational risks related to mining activities, such as equipment failures or delays in the expansion of the Sokor mine and carbon-in-leach (CIL) plant, which could disrupt production and increase costs, and (iii) regulatory and environmental risks, particularly changes in mining regulations or environmental standards in Malaysia, which could lead to increased compliance costs, fines, or operational shutdowns.

YE Dec (US\$m)	FY21	FY22	FY23	FY24E	FY25E
Revenue	32.9	25.6	52.2	60.8	71.8
% Growth	37.7%	-22.1%	103.8%	16.6%	18.0%
EBIT	3.0	1.6	7.8	17.2	20.2
EBIT margin (%)	9.3%	6.1%	15.0%	28.2%	28.2%
Net profit	2.1	0.6	5.1	9.6	10.5
Net profit margin (%)	6.3%	2.2%	9.7%	15.8%	14.7%
EPS (S\$ cents)	0.56	0.04	1.36	2.54	2.79
Dividend per share (S\$ cents)	0.80	0.20	0.90	0.76	0.84
Dividend payout ratio (%)	141.7%	499.7%	66.2%	30.0%	30.0%

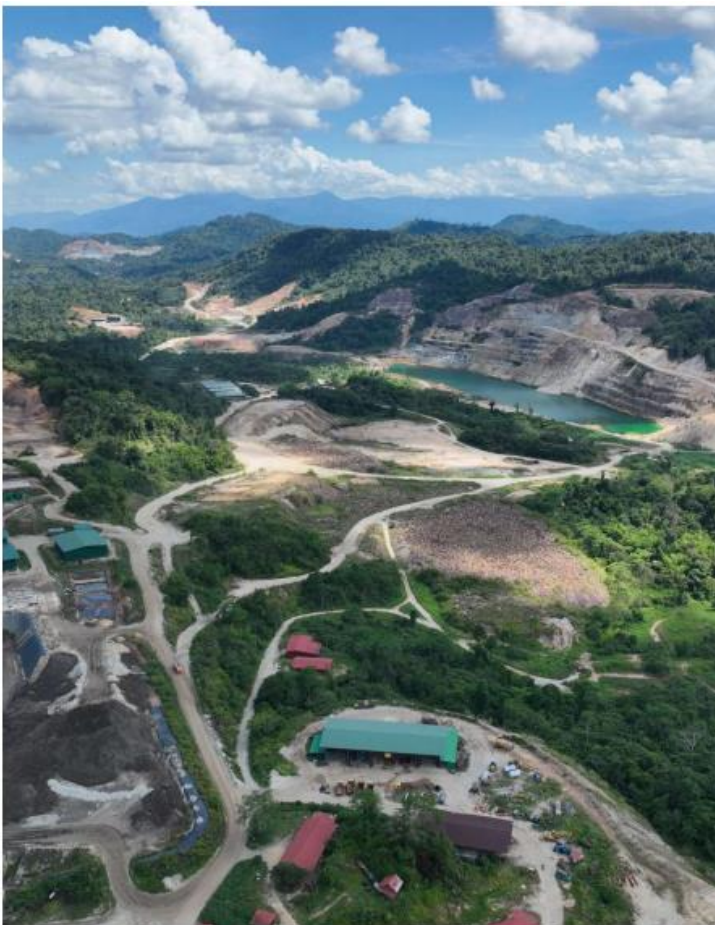
Company Overview

The Group is primarily involved in the exploration, mining, and processing of gold ore into gold dore bars. The Group's main focus is the development of its flagship Sokor Gold Field Project, located in the state of Kelantan, Malaysia. The Group poured its first gold on July 21, 2010, and has seen a steady increase in production. By December 2017, gold production had surpassed three metric tonnes of gold bullion.

The Sokor Gold Field Project spans an area of 10 square kilometers and includes five identified gold deposits: Manson's Lode, New Discovery, New Found, Sg. Ketubong, and Rixen. As of 31 December 2023, the total Measured, Indicated and Inferred gold Mineral Resources for the Group's flagship Sokor project (cut-off grade is 0.5 g/t gold for the transitional and fresh rock at New Discovery and New Found, 1.0g/t gold within the vicinity of the planned underground workings at Ketubong and Rixen, 0.17g/t gold for the oxide material at New Discovery and New Found, and 0.17 g/t gold for material at Rixen planned to be extracted using open pit mining) amounted to 16,240 kt at 1.7 g/t gold for 880,000 ounces of contained gold (inclusive of material used to define Ore Reserves) for CIL processing and 2,470 kt at 0.5 g/t gold for 38,000 ounces of contained gold (inclusive of material used to define Ore Reserves) for flotation processing.

The total Mineral Resource for the silver, lead and zinc mineralisation, as of 31 December 2023, is 2,720 kt with an average grade of 78 g/t silver, 2.8% lead and 3.5% zinc. This represents contained silver of 6,890,000 ounce, contained lead of 76,850 tonnes, and contained zinc of 96,270 tonnes. Ongoing exploration at the Sokor Gold Field Project aims to extend the mine's life and identify new production targets.

With its extensive experience in the Malaysian mining sector and a focus on long-term growth, the Group actively seeks strategic opportunities for collaboration with potential partners or the acquisition of new exploration and mining licenses within the ASEAN region and Australasia.



Aerial view of Sokor project

Source: Company data

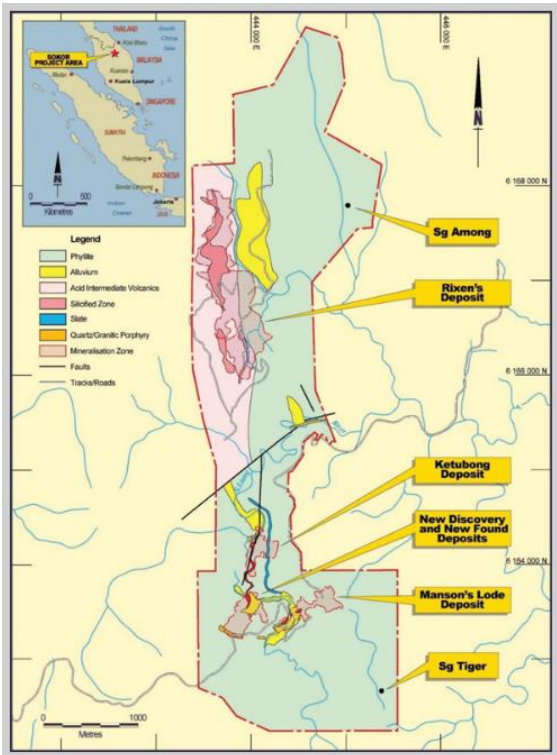
Sokor Gold Field Project

Geographical Location

The Sokor Gold Field is the company's primary project. It spans 2,370 acres and is located in the Tanah Merah District, Kelantan, Malaysia. The site can be accessed by traveling southwest from the town of Tanah Merah. Geologically, the area consists of mildly metamorphosed volcanic formations dating back to the Permian and Triassic periods. The Permian rocks, situated in the eastern section, are primarily composed of phyllite with interbedded limestone, slate, metasandstone, and schist. These layers are overlain by a Triassic sequence, mostly intermediate tuffs and flows, which are most prominent in the western part of the field. Open-pit mining at the site is carried out using a combination of haul trucks and excavators.



Source: Company data



Source: Company data

Recent Developments

Expansion of Gold Processing Capacity at Sokor Gold Project

The Group is expanding the carbon-in-leach ("CIL") plant at its Sokor Gold Project, increasing processing capacity by 60% from 500 to 800 tonnes per day. The RM9.0 million expansion, funded internally, is set for completion by the first half of next year, subject to any unforeseen delays. This initiative aims to enhance efficiency, boost output, and improve profitability.

10-year sales agreement with Yuchen Resources

CNMC has initiated a growth strategy to ramp up base metal production through a 10-year sales agreement with Yuchen Resources, providing long-term income stability. This agreement, effective from January 1, 2024, to December 31, 2033, is expected to offer greater financial visibility and contribute to the company's sustained growth.

Reduce Costs

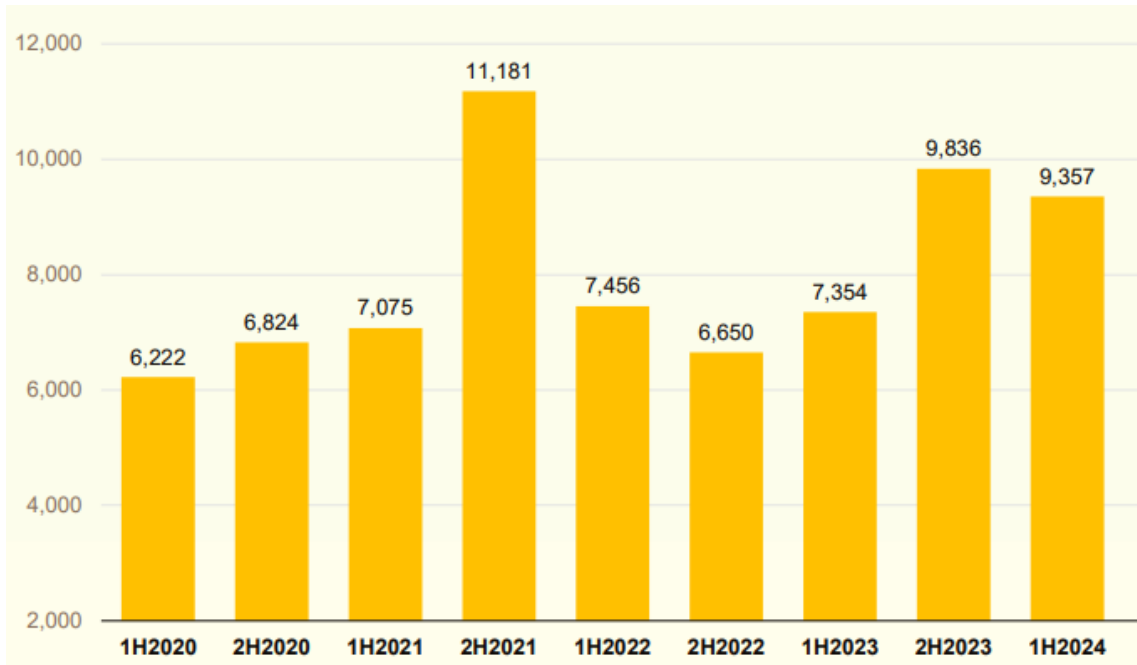
CNMC is focusing on tightening cost controls by implementing energy-efficient power generators to reduce fuel consumption and carbon emissions. Optimizing fuel usage is expected to lower operational expenses at the site and factory, as fuel is one of the Group's largest cost components.



Source: Company data

Fine Gold Produced (ounces)

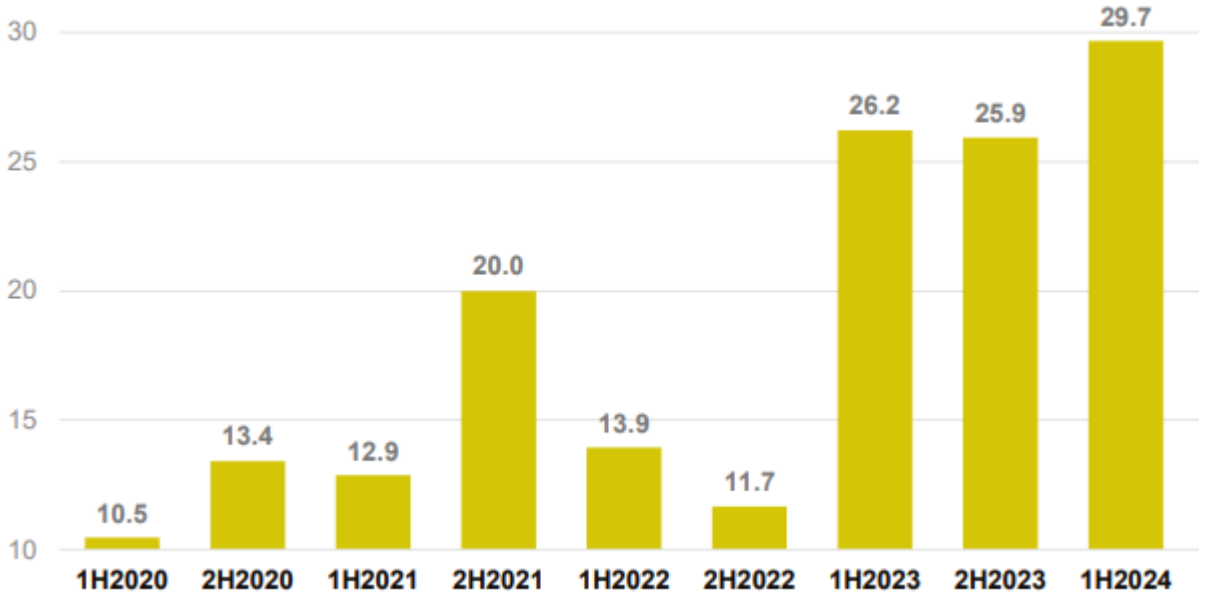
There was a significant peak in fine gold production at 11,181 ounces in 2H21, followed by a recovery to 9,357 ounces in 1H24, reflecting a 16.3% decline from the peak but a 40.7% increase from the low of 6,650 ounces in 2H 2022.



Source: Company data

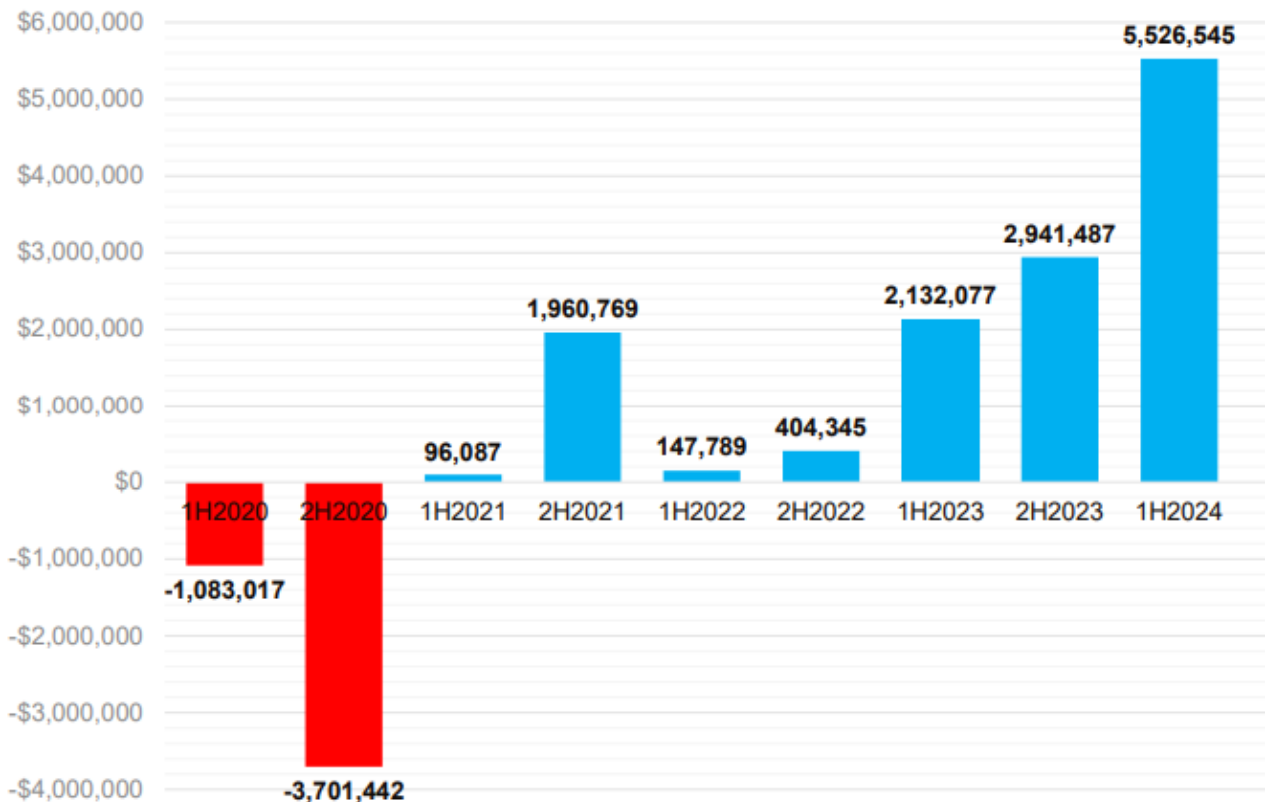
Half-yearly Revenue (USD m)

Revenue steadily increased from \$10.5 million in 1H20 to \$29.7 million in 1H24. Net profit also recovered from a significant loss of \$3.7 million in 2H20 to a profit of \$5.5 million in 1H24, showcasing a marked turnaround in financial performance.



Source: Company data

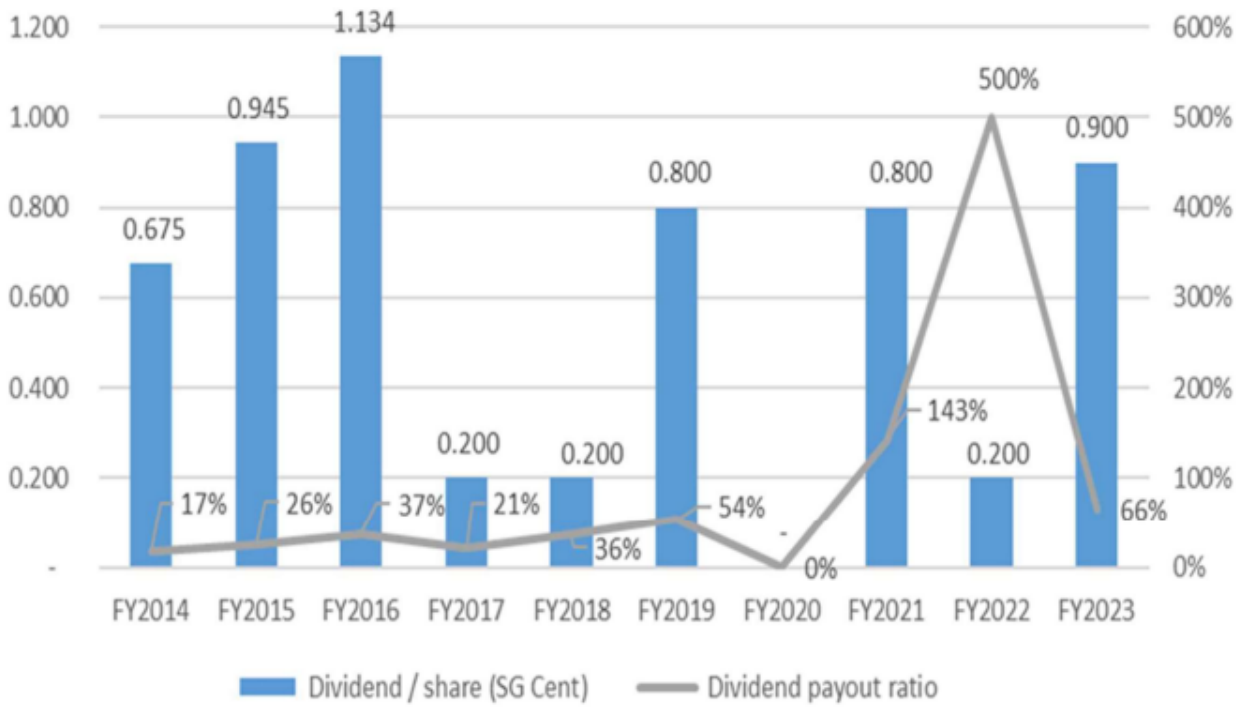
Half-yearly Profit/ (Loss) (USD)



Source: Company data

Dividend Payout Ratio

The Group has a fixed dividend policy, aiming to distribute up to 30% of our net profit to shareholders as dividends whenever possible. For 1H2024, the company has declared an interim dividend of 0.400 SG cents, reflecting continued commitment to shareholder returns.



Source: Company data

Valuation

Applying a 40% discount to the valuation of larger global peers, we set a price target of S\$0.33, offering a 39% upside, and initiate coverage with a buy recommendation.

	Ticker	Market Cap (S\$'M)	P/E: Latest FY (X)	P/E: Trailing 12M (X)	P/E: Forward
CNMC GOLDMINE	CNMC SP	80.0	11.0	-	-
NEWMONT CORP	NEM	78155.8	26.0	24.9	15.5
BARRICK GOLD CORP	ABX CN	47322.4	21.0	19.8	12.9
ALAMOS GOLD INC-CLASS A	AGI CN	10910.9	22.9	35.9	22.3
BESRA GOLD INC-CDI	BEZ AU	38.7	-	-	-
MONTERO MINING AND EXPLORATI	MON CN	13.6	-	-	-

	Discount to P/E				
	0.0%	10.0%	20.0%	30.0%	40.0%
P/E	16.9	15.2	13.5	11.8	10.1
Target Price	55.5	49.9	44.4	38.8	33.3
Premium	131.2%	108.1%	85.0%	61.9%	38.7%

Source: Bloomberg

Income Statement

YE Dec (US\$m)	FY21	FY22	FY23	FY24E	FY25E
Revenue	32.9	25.6	52.2	60.8	71.8
<i>Other income</i>	0.5	0.1	1.4	0.7	0.7
Changes in inventories	(0.5)	8.5	(6.2)	(0.8)	(0.9)
<i>Amortisation & depreciation</i>	(4.8)	(5.1)	(4.8)	(6.0)	(7.1)
Employee benefits expenses	(4.2)	(4.5)	(5.7)	(5.5)	(6.5)
<i>Key management remuneration</i>	(2.8)	(1.8)	(4.2)	(3.8)	(4.5)
Marketing and publicity expenses	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)
Office and administration expenses	(0.3)	(0.5)	(0.5)	(0.5)	(0.6)
Professional fees	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)
Rental and other lease expenses	(1.6)	(1.6)	(1.8)	(2.0)	(2.4)
Royalty and tribute fee expenses	(4.5)	(3.4)	(6.9)	(8.0)	(9.5)
Site and factory expenses	(10.1)	(12.7)	(13.9)	(15.9)	(18.7)
% revenue	30.7%	49.5%	26.7%	26.1%	30.8%
Travelling and transportation expenses	(0.3)	(0.3)	(0.6)	(0.7)	(0.9)
Other expenses	(0.5)	(2.0)	(0.1)	(0.3)	(0.4)
Total expenses	(30.3)	(24.2)	(45.7)	(44.3)	(52.3)
Finance income	0.2	0.1	0.2	0.2	0.2
Finance costs	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Net finance (costs)/income	0.1	0.028	(0.003)	0.152	0.152
Profit before tax	3.1	1.6	7.8	17.3	20.4
Tax expenses	(1.1)	(1.0)	(2.8)	(7.7)	(9.8)
Profit for the year	2.1	0.6	5.1	9.6	10.5
Total attributable to owners (USD S\$m)	1.715	0.118	4.10	7.67	8.42

Balance Sheet

YE Dec (US\$m)	FY21	FY22	FY23	FY24E	FY25E
Assets					
Exploration and evaluation assets	6.0	6.5	6.4	6.4	6.4
Mine properties	16.5	16.7	17.5	17.5	18.1
Property, plant and equipment	13.2	14.2	14.7	12.2	9.6
Interests in subsidiaries	-	-	-	-	-
Deferred tax assets	1.2	1.0	0.9	0.9	0.9
Mine rehabilitation fund	0.7	0.7	0.7	0.7	0.7
Other investment	-	-	-	-	-
Non-current assets	37.5	39.1	40.3	37.7	35.7
Inventories	2.6	11.9	7.4	8.5	11.8
Current tax assets	-	0.2	-	-	-
Trade and other receivables	1.4	1.3	1.3	1.3	1.3
Cash and cash equivalents	16.4	1.3	10.8	13.5	21.3
Current assets	20.4	14.6	19.5	23.3	34.4
Total assets	58.0	53.8	59.7	61.0	70.1
Equity					
Share capital	18.0	18.0	18.0	18.0	18.0
Preference shares	-	-	-	-	-
Treasury shares	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Reserves	3.2	3.4	3.5	3.5	3.5
Retained earnings/(Accumulated losses)	19.8	17.5	20.3	20.3	27.4
Equity attributable to owners	40.7	38.6	41.5	41.5	48.6
Non-controlling interests	5.5	5.6	5.6	5.6	5.6
Total equity	46.2	44.2	47.1	47.1	54.2
Liabilities					
Loans and borrowings	0.1	1.1	1.4	1.4	1.4
Rehabilitation obligations	2.2	2.1	2.1	2.1	2.1
Non-current liabilities	2.3	3.2	3.5	3.5	3.5
Loans and borrowings	0.7	0.2	0.5	0.5	0.5
Trade and other payables	7.0	5.8	7.7	8.9	10.5
Dividends payable	1.1	0.4	0.7	0.6	1.2
Current tax liabilities	0.7	-	0.3	0.3	0.2
Current liabilities	9.5	6.3	9.2	10.4	12.5
Total liabilities	11.8	9.6	12.6	13.9	15.9
Total equity and liabilities	58.0	53.8	59.7	61.0	70.1

Cashflow

YE Dec (US\$'m)	FY21	FY22	FY23	FY24E	FY25E
Cash flows from operating activities					
Profit for the year	2.1	0.6	5.1	9.6	10.5
Adjustments for:					
Amortisation of mine properties	0.9	0.8	1.2	1.2	1.2
Depreciation of property, plant and equipment	3.9	4.2	3.6	3.6	3.6
Gain on disposal of property, plant and equipment	(0.1)	-	(0.2)	(0.2)	(0.2)
Interest expense	0.2	0.1	0.2	0.2	0.2
Interest income	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Plant and equipment written off	-	0.5	-	-	-
Unrealised loss on foreign exchange	0.6	0.6	0.0	0.0	0.0
Tax expenses	1.1	1.0	2.8	2.8	2.8
Impairment losses on exploration and evaluation assets	-	-	-	-	-
Inventories written down	-	1.0	(1.0)	(1.0)	(1.0)
Change in fair value of derivative financial instrument of a subsidiary	-	-	-	-	-
Gain on discounting of convertible loan issued by a subsidiary	-	(0.1)	(0.1)	(0.1)	(0.1)
	8.4	8.6	11.4	15.9	16.9
Changes in:					
Inventories	(0.6)	(10.3)	5.5		
Trade and other receivables	2.0	0.2	0.1	2.3	5.0
Rehabilitation obligations, and Trade and other payables	(0.2)	(3.0)	(1.2)		
Cash (used in)/generated from operations	9.6	(4.5)	15.8	18.3	21.9
Tax paid	(1.0)	(1.6)	(2.1)	(7.7)	(9.8)
Net cash (used in)/generated from operating activities	8.6	(6.1)	13.7	10.5	12.0
Cash flows from investing activities					
Payment for exploration and evaluation assets, and mine properties	(1.1)	(1.2)	(1.4)	(1.4)	(1.4)
Proceeds from sales of property, plant and equipment	0.1	-	0.1	-	-
Purchase of property, plant and equipment	(1.9)	(4.1)	(1.1)	(1.1)	(1.1)
Interest received	0.2	0.1	0.2	0.2	0.2
Net cash used in investing activities	(2.7)	(5.2)	(2.2)	(2.3)	(2.3)
Cash flows from financing activities					
Dividends paid to equity holders of the Company	-	(2.4)	(1.2)	(3.4)	(1.7)
Dividends paid to preference shares holder and non-controlling interests	-	(1.2)	(0.6)	(1.7)	(0.8)
Payment of lease liabilities	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Interest paid	(0.1)	-	-	(0.1)	(0.1)
Share buyback	(0.4)	-	-	-	1.0
Net cash used in financing activities	(0.6)	(3.7)	(2.1)	(5.3)	(1.8)
Net (decrease)/increase in cash and cash equivalents	5.3	(15.0)	9.4	2.9	7.9
Cash and cash equivalents at 1 January	11.3	16.4	1.3	10.8	13.5
Effect of exchange rate fluctuations on cash held	(0.1)	(0.1)	0.1	(0.1)	(0.1)
Cash and cash equivalents at 31 December	16.4	1.3	10.8	13.5	21.3

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