

Industry: Mining

Quick Update Report

April 3, 2014

 Short-term recommendation **UNDERPERFORM**

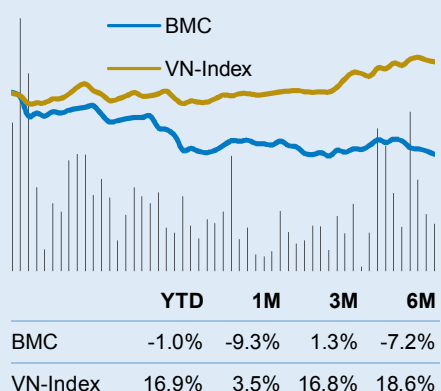
 Target price in 6-12 months **27,000**

Market price (3/4/2014) 39,800

Expected return -32 %

STOCK INFORMATION

Exchange	HSX
52-week price range	VND38,160-58,720
Capitalization	VND493 billion
Outstanding shares	12,392,630
10-day average volume	85,206
% foreign ownership	12.15%
Foreign ownership limit	49%
Dividend per share	VND4,000
Dividend yield	10%
Beta	0.95

PRICE MOVEMENT


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Binh Dinh Minerals Joint Stock Company

Ticker: BMC

Reuters: BMC.HM

Bloomberg: BMC VN

Recommend "Underperform" on BMC in short-term

Titanium slag export price has dropped by 40% against 2013. At present, Titanium slag export price is about \$800-900/ton, down 40% against 2013, largely affecting the operation and profit of Titanium slag export companies. The price decrease is attributed mainly to the European economic recession and the Chinese economy forecast to grow more slowly.

Natural resources consumption tax is raised to 16%: The natural resource tax incurred by Titanium production companies have been raised to 16% since early 2014 (versus 11% in 2013). In addition, Titanium slag export tax rate is currently at 10% and environment fee is VND70,000 on one ton of exploited ilmenite. For BMC, the increase in natural resource tax in 2014 will cause its expense to increase by about 4% equivalent to VND9 billion per year.

Sales volume. In 2014, BMC expects to sell:

- ❑ 17,000 tons of Titanium slag (up 13% yoy).
- ❑ 8,000 tons of pig iron. The price of pig iron is about VND7 million per ton.
- ❑ 3,000 tons of Zircon, Rutil, Monazit and Magnetic;
- ❑ 6,000 tons of Ilmenite. IN 2013, BMC was permitted by the Government to export 34,000 tons of ilmenite in stockpile, but the Company exported only 28,000 tons. The remaining of more than 6,000 tons will be exported in 2014.

FY2014 profit is projected to fall by 70% against 2013. In 2014, BMC targets revenue of VND340 billion and net profit of VND24 billion, down 70% yoy. The decrease in Titanium slag export prices along with the increase in natural resources consumption tax prompted BMC to set up cautious business plans in 2014.

BMC's advantages over other companies in the industry: At present, there are hundreds of ilmenite production companies in Vietnam, but there are only five Titanium slag producers, including BMC. Compared to other firms in the industry, BMC has low cost per unit, low electricity consumption and higher product quality, thereby offering higher selling prices.

Investment recommendation. BMC is one of the leading companies in the Titanium mining industry and among the five domestic companies which have switched to Titanium slag production in order to protect itself against the Government's policy to limit crude Titanium ore export. BMC has many advantages against other titanium slag producers such as low cost per unit, high product quality and low energy consumption. However, as BMC's profit is expected to tumble in 2014, so we rate UNDERPERFORM on this stock.

General introduction about BMC

Production capacity: BMC has a capacity of 60,000 tons of ore, 90% of which is ilmenite and the remaining 10% is by-products including Zircon, Rutile, Magnetic and Monazit. The Company's refining line for the production of Titanium slag (which is refined from ilmenite) has a capacity of 21,000 tons of Titanium slag and 14,000 tons of pig iron (which is a by-product of Titanium slag production). Currently, BMC is producing 15,000-17,000 tons of Titanium slag per year, equivalent to 70-80% of full capacity. Due to the Government's ban on ilmenite export, the key product of BMC is Titanium slag.

Ore reserve. The current mine of BMC has a reserve of about 460,000 tons of ores, sufficient for Titanium slag production in 8-9 years. When the mine is fully exploited, BMC can ask permission to buy a new mine or purchase ilmenite from other companies.

Consumption markets: BMC exports its products mainly to China, Japan, South Korea, EU and Malaysia with the same proportion of export volume. Its products are used for the production of paint and soldering stick. Its pig iron is mainly sold to local firms.

BMC's advantages over other companies in the industry: At present, there are hundreds of ilmenite production companies in Vietnam, but there are only five Titanium slag producers, including BMC. Compared to other firms in the industry, BMC has low cost per unit, low electricity consumption and higher product quality, thereby offering higher selling prices. In 2013, its gross profit margin reached 38% while the margin of SQC in the same industry was only 7%).

Development strategy. In the future, BMC will focus on improving the quality of its Titanium products in order to offer higher selling prices (fine grinding, higher content of TiO₂, less impurities).

BMC's financial indicators

Item	2011	2012	2013	2014F
Revenue (billion VND)	309	331	445	340
EBITDA (billion VND)	132	132	120	157
EBIT (billion VND)	115	112	100	137
Net profit (billion VND)	91	86	80	24
EPS (VND)	11,062	7,771	6,457	1,937
P/E (x)	3.69	5.25	6.32	21.06
P/B (x)	1.79	2.48	2.64	2.46
ROA (%)	43%	33%	28%	9%
ROE (%)	59%	44%	36%	11%



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