



CMI STONE CORP (CMI – HNX)

Project restarts spark new hopes

Particulars (VND bn)	3QFY14	2QFY14	% Chg. (qoq)	3QFY13	% Chg. (yoy)
Net revenue	26.7	29.6	-10%	0.3	9502%
NPAT	7.5	12.3	-39%	(0.8)	-1073%
EBIT	11.0	16.9	-35%	(0.5)	-2411%
EBIT margin	41.0%	57.0%	-1,600bps	-170.2%	21,120bps

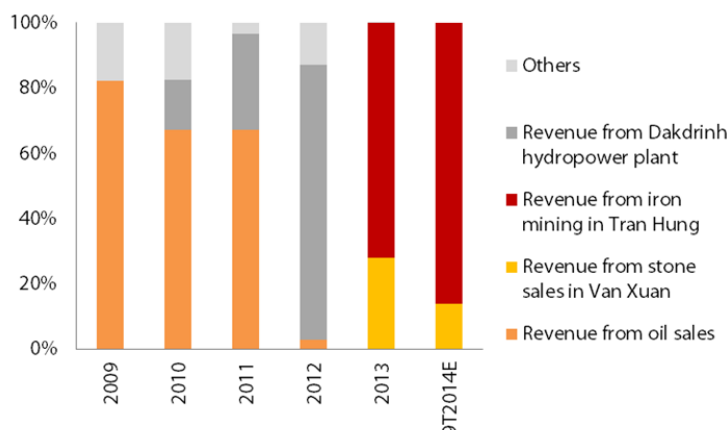
Source: CMI, Financial statement, RongViet Securities' compilation and estimates

Outstanding business performance thanks to iron mining project in Tran Hung-Yen Bai

The revenue and NPAT in 9M2014 showed significant improvements, reaching ~VND87 billion and VND19 billion respectively; net income in particular was 23 times as higher as in the same period of 2013. About VND61 billion (70%) from an iron mine in Tran Hung (Yen Bai) was the main reason for revenue growth in the nine months ended September.

A couple of years back, oil sales and hydropower plant construction provided CMI with income flows vital to the Company's operational livelihood. Coming into operation in August 2013, Tran Hung project has added substantially to CMI's 2014 revenue (~VND38 billion) and played its part as a driver of growth. On the other hand, due to changes in the costs of mining and ore sorting, the gross profit margin of Tran Hung mine has declined sharply, from 66% (2013) to 49% (9M2014) by our estimates. Therefore, the overall gross profit margin in nine-month period was posted only 41% as compared with 52% in 2013.

Figure: Revenue structure at CMI in the period of 2009-2014E



Sources: RongViet Securities compiled

MONITOR

CMI (VND)	16,500
Target Price (VND)	N/a
Investment Period	Intermediate

Stock Info

Sector	Mining
Market Cap (VND bn)	168
Current Shares O/S	9,002,500
Beta	0.9
Free float (%)	68.8
52 weeks High	16,900
52 weeks Low	16,200
Avg. Daily Volume (in 20 sessions)	126,141



Performance (%)

	3M	1Y	3Y
CMI	-4	123	267
Mining	4.7	7	n/a
HN30 Index	12	56	n/a
HNXIndex	12	44	44

Major Shareholders (%)

VietNam exploitation mineral and export corporation	21.08
Sieu Thi Thuoc Viet Cor	5.58
Tran Thanh Hiep	4.51
Foreigner Investor Room (%)	48.94

Tam Bui

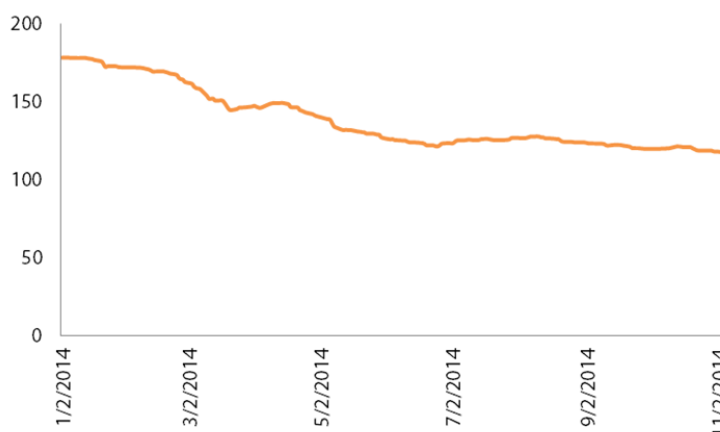
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On the other hand, plunging iron ore price has little effect on the project's earnings. This downtrend of ore price is forecasted to stay on track due to ample supply from Brazil, Australia but shrunken demand of China. CMI said it might have to adjust sales prices in 4Q2014, after some negotiations with its customers. This will likely influence the business results in the last quarter of the year.

Figure: The price movement of iron ore Fe₂O₃ 63%



Sources: RongViet Securities compiled

Tapping of Van Xuan-Yen Bai stone mine since November to bolster revenue in upcoming years

Aside from Tran Hung mine, CMI plans to start exploiting Van Xuan (Ha Tinh) stone quarry this year for initial investment of VND35 billion. At a location conveniently nearing the Iron and Formosa's (Taiwan) Steel Complex and Son Duong Deep-water Port in Vung Ang Industrial Zone, the project's output is almost guaranteed. The geographical advantages will also provide a drastic reduction in transportation cost thereby increasing the price competitiveness of CMI's stone against that of other miners. Set to start producing in June 2014, this quarry was expected contribute about VND23 billion to this year's revenue. However, as legal issues arose, the implementation of the project was delayed until November, said the Company's management. Therefore, we estimate CMI can recognize only VND4.3 billion of revenue from its newest quarry in FY2014 but the contribution will increase to about VND45 billion a year in the following years.

Private equity placement will provide funds to push investment

Since the year 2010, CMI has started investing in three projects: Quy Hop (Nghe An) white stone quarry, an artificial ashlar tile plant and a stone crushing plant, all of which, however, have been held off due to insufficient investment capital. CMI plans to restart these projects in late 2014 after raising new funds via a private equity placement in which an amount of VND60 billion will be offered at the VND10,000/share. About VND50 billion will be allocated to the construction of the artificial ashlar plant and VND10 billion to the stone crushing plant.



Figure: The investment plan at CMI in 2014

Year 2014	Estimated total values	Accumulated till 2013	Investment values in 2014	Accumulated till 2014
Stone crushing plant	55,590	11,590	44,000	55,590
Artificial ashlar tile plant	95,000	23,252	60,000	83,252
Quy Hop white stone quarry	49,591	11,174		11,174
Me Tri real estate		6,865		6,865
Khoambang iron mine	30,000		26,525	26,525
Tran Hung iron mine	50,000	49,326	2,000	51,326
Van Xuan stone quarry	35,000	5,000	29,756	34,756
Lang Ho iron mine	10,000		10,000	10,000

Sources: CMI (Annual General Meeting)

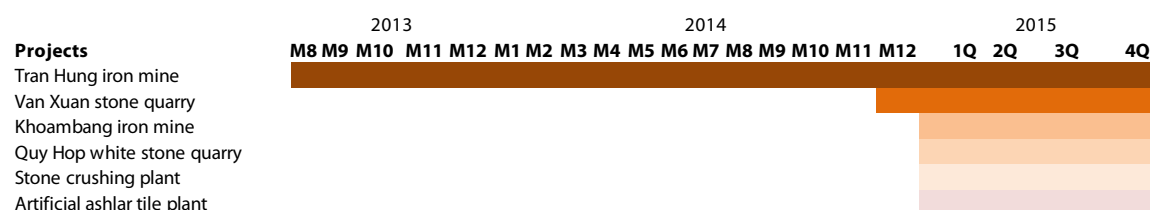
Figure: Planning projects funded by debt and equity

Projects	Estimated total values	Remaining investing values	Funded by equity	Funded by debts
Stone crushing plant	95,000	71,748	50,000	21,748
Artificial ashlar tile plant	55,590	44,000	10,000	34,000
Quy Hop white stone quarry	49,591	38,417		38,417

Sources: Rong Viet Securities compiled

We believe these projects, once put into operation, will bring a better prospect to CMI as they will add values to the Company's existing product lines. Moreover, 70% of inputs for the new plants will be supplied by Quy Hop white stone quarry. Also, with closed-end production line, material sourcing will be less of a concern for CMI, giving it more room to improve the gross profit margin. However, since the new facilities will be financed with 23% and 61% of debts, respectively, we estimate the Debt/Equity ratio will increase to 200% as Company accelerates its investments. We are also concerned that earnings from the early stage of these projects will be trivial, causing the Company to suffer some cost burdens, especially when interest expense incurs.

Figure: Progress in CMI's project implementation



Sources: Rong Viet Securities compiled

Please see more detail in the appendix (*)

Figure: The geographical location of CMI's projects



Sources: Rong Viet Securities compiled

Outlook

For a small-sized miner, the number of stone and iron mines CMI possesses is rather impressive. Given the new projects, we highly appreciate the possibility of generating revenue, profit for CMI's shareholder. However, what causes us to abstain from giving CMI a specific recommendation is the fact that the Company has encountered various legal complications and weather (or liquidity) issues that prevented it from completing its investment projects in the past few years. Moreover, the gross profit margin is likely to be affected if the downtrend of iron ore price stretches longer. Also, the ongoing projects may not generate enough cash flows in their early stage to cover the increased needs for liquidity as CMI pushes its investments. Therefore, in 2014, we forecast CMI's revenue to reach about VND103 billion, and NPAT about VND21.7 billion or 54% of the whole-year profit guidance. The forecasts take into consideration the delay of Khoambang (Laos) project and Van Xuan stone project's starting as late as November 2014. Projected 2014 EPS is around VND2,740/share, translating into a forward P/E ratio of about 5.8 times. In waiting for more certainty in progress of new projects, we recommend **MONITOR** for the stock of CMI.

Exhibit: Key financials

Y/E Dec (VND bn)	FY2012	FY2013	9T2014	FY2014F
Net Revenues	32.3	52.9	86.7	102.6
% chg	-63.6%	63.7%	273.2%	94.1%
PAT	1.3	13.1	18.8	21.7
% chg	-110.0%	869.8%	2267%	65.8%
EBIT margin (%)	4.2%	24.8%	21.7%	21.1%
ROA (%)	0.8%	6.6%		7.6%
ROE (%)	2.0%	18.0%		21.3%
EPS (VND)	37	1,763		2,740
Adjusted EPS (VND)	182	1,763		2,740
Book value (VND)	9,000	10,587		9,341
Cash dividend (VND)		1,000		1,500
P/E (x)	183.8	5.3		6.0
P/BV (x)	0.8	0.9		1.8

Source: CMI Financial statement, RongViet Securities' compilation and estimates, *As of 13/11/2014

Appendix (*)

IRON MINE PROJECTS				
Features	Tran Hung-Yen Bai iron mine	Van Xuan- Ha Tinh stone quarry	Khoambang- Laos iron mine	Quy Hop- Nghe An white stone quarry
Location	Van Yen and Tran Yen Province	Ba Dong Hamlet, Ky Phuong Commune, Kỳ Anh District, Hà Tĩnh Province	Bokikhan District, Bolikhamxay , Lao	Thung Xan, Quy Hop District, Nghe An Province
Main output	Refined ore & Crude ore	Freestone and crushed stone for building materials	Crude ore	CaCO ₃ white quarry
Highlight	High-grade ore, above Fe ₂ O ₃ 62%	A location nearing the Vung Ang Industrial Zone (5km). Vital partnership such as Posco E&C and companies in Vung Ang Zone	Lower royalty, income taxes in Laos.	CaCO ₃ white quarry being input materials for artificial ashlar tile plant and stone crushing plant
Volume	4,000-7,000 ton per month	8,000-25,000 ton per month	3,000-15,000 ton per month	N/a
Total investment	VND50 billion	VND35 billion	VND30 billion	VND49 billion
Operation start	August 2013	Late November (est.)	Early 2015 (est.)	Early 2015 (est.)
CMI'S PLANTS				
Features	Artificial ashlar tile plant		Stone crushing plant	
Location	Nam Cam Industrial Zone, Nghe An province		Nam Cam Industrial Zone, Nghe An province	
Planned capacity	1,000,000 ton per year		50,000 ton per year	
Technology	Breton (Italia)		N/a	
Input	White stone from Quy Hop- Nghe An quarry		White stone from Quy Hop- Nghe An quarry	

Sources: RongViet Securities compiled

BRIEF UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Return Potential					
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to - 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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