

INITIAL REPORT

25 September 2015

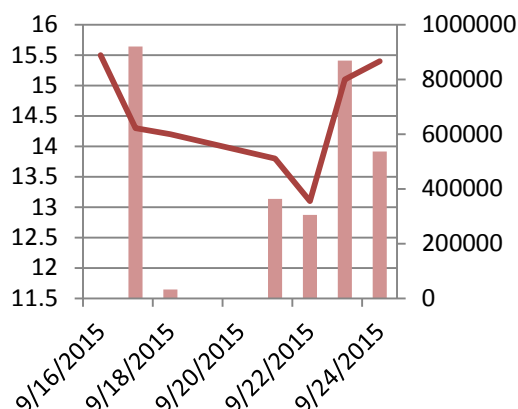
MASAN RESOURCES JSC

Ticker: MSR (UPCOM) | Industry: Mineral

Recommendation

Target price (2 years)(VND)	9,200
Current price (VND)	15,100
% change	-39%

Price chart



TRADING INFORMATION

Current price (VND):	15,100
EPS (VND):	50
P/E:	310
Book value (VND):	15,600
Beta:	N/A
Average trading volume:	233,383
Listed share volume:	719.45
Outstanding share vol:	703.54
Capitalmarket(billionVND)	9,216

SHAREHOLDER

Masan horizon JSC	74.39%
MRC Ltd.	20.49%
Vu Thi Hien	0.10%
Other	5.02%

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Recommendation:

We evaluate that the price of each stock will be 9,200 VND with long term vision – 2 years. The current price of MSR (23 Sep, 2015) is 15,100. However, in present, the price does not reflect the true value because there are only 5% of stocks in the market (95% are held by organizations and parent company). With a low number of stocks in the market like present, MSR price is easy to be manipulated, MSR can be held or invested short term by investors with the expectation of growth before being diluted to reflect true value.

Highlights:

- ❖ **Company had profit but it did not come from operating activities:** In 2014, MSR had a loss of 219 billion from operating activities but earning after tax was positive 35 billion. The reason may be: (1) 268 billion from other profit and (2) 27 billion came from deferred corporate tax. The first 6 months of 2015, MRS continued to have 329 billion of loss from operating activities.
- ❖ **The price of tungtens is decreasing and will continue to go down in the future, which will have negative effects on profit:** (1) The growth of industries using Tungtens is under 3%, (2) The volume of recycled Tungtens used in Asian countries is only 20% and will increase to 45% in the future, which will reduce the demand of Tungtens, (3) In the short term, the supply climbed by 9% and will continue to increase more thanks to both new and old exploiting projects, (4) China can not take actions to reduce the supply in the short term because of commitment with WTO.
- ❖ **High financial costs are short term risk:** Every year, company paid over 700 billion of interest, which makes up more than half of gross profit. In which, more than 60% of debts is borrowed in USD. The expectation of the growth of interest rate and the risk of exchange rate of USD will increase financial costs in the short term.

Advantages:

- ❖ **Parent company MSN has financial potentiality and prestige.** MSN can raise capital and take part in M&A activities. MSR can expand scale by buying potential mines to make motivation for growth in the long term, increasing the influence in tungtens market.

Summary financial ratios

Ratios	2013	2014	H2015
Revenue (billion dong)	0	2,946.23	1,246.63
+/- yoy	N/A	N/A	N/A
Earnings after tax (billion dong)	2.15	35.65	35.79
+/- yoy	N/A	N/A	N/A
Total assets (billion dong)	21,197.97	25,106.29	26,017.96
+/- yoy	N/A	18.4%	3.6%
Equity (billion dong)	10,970.99	11,132.95	11,237.03
Debts/Total assets	N/A	1.5%	0.9%
Gross profit margin	N/A	17.34%	25.1%
Net profit margin	N/A	10.32%	1.21%
EPS (VND)	N/A	50	50
ROA	N/A	0.15%	0.28%
ROE	N/A	0.32%	0.64%

OVERVIEW

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History

Masan resource JSC was a subsidiary company of Masan Group, which was established in 27 April, 2010. The main activity is mining mineral and resources. Now, the only company's project is Tungstens Nui Phao project in Thai Nguyen – a precious metal mine making up 33% of the world volume, excepted for China.

About Nui Phao mine, it is founded in 1990, surveyed in 2000, and constructed in 2005. It is owned by Tiberon (70%) and Vietnamese State (30%). In 2006, Tiberon was bought by Dragon Capital which was expected to exploit this mine from 2009. However, until 2010, this expectation did not come true. After that, MSR appeared and bought Nui Phao mine, owned this project under the name MSR.

17 Sept 2015, MSR was listed in UPCOM. The process of increasing capital of company is listed in the below table. The capital scale is up to 7,194,473 million VND.

Time	Charter capital (Million VND)
February – 2015	7,194,473
July – 2013	6,851,880
January – 2013	5,565,851
March – 2011	5,406,826
September – 2010	1,892,875
July – 2010	20

Shares structure

To 06 August, 2015, parent company MSN possessed the biggest proportion, next is MRC Ltd. Detailed shares structure is listed in the below table:

Shareholder	Proportion %	Tính đến ngày
Masan horizon JSC	74.39%	06 August 2015
MRC Ltd.	20.49%	06 August 2015
Vu Thi Hien	0.10%	06 August 2015
Other	5.02%	06 August 2015

Now, the real number of stocks in the market is very low, 5%, and 95% are owned by parent company and other organizations. This is the reason why the market value is easy to be manipulated and not reflect the true corporate value.

Managers

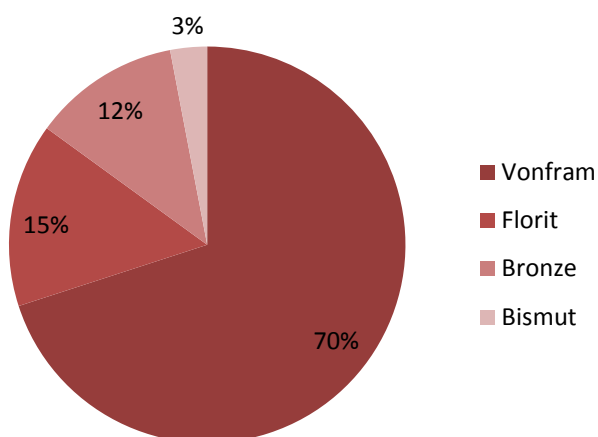
Mr Nguyen Dang Quang is now chairman of board. He started this position from 18 February 2013. The detailed information is listed in the below table:

Board	Full name	Note
Chairman of board	Nguyen Dang Quang	President of Masan Group
Member	Chetan Prakash Baxi	Take responsibility for financial activities of MSR, have experiences related to accounting and auditing.
Member	Nguyen Thieu Nam	Important factor in MSR
Member	Jonathan David Fiorello	Representative for MRC Ltd.

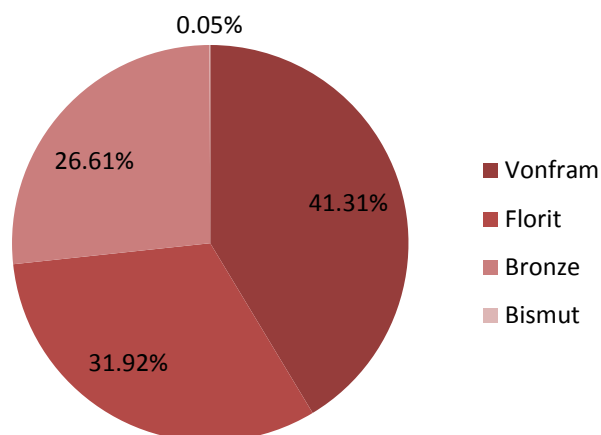
OPERATING ACTIVITIES

Revenue structure

Revenue Structure 2014



Revenue structure of the first 6 months in 2015



Source: Financial report of MSR

The Revenue of company came from 4 kinds of mineral: tungstens, bismut, florit and bronze. 4 minerals all come from the only ore at Nui Phao following a special process.

In average, 5% of ore mining from Nui Phao is Tungstens, 0.05% is Bismut, 0.5% is florit, 0.18% is bronze. The metal proportion in ore will be improved in the next 2 years because company is having an investment project to improve mining process.

In the first half of 2015, the volume of Tungstens mining and selling was 2,410 ton, which was higher than the first half of 2014. However, the revenue was only 515 billion VND, decreasing compared to the first half of 2014. This makes the proportion of Tungstens sale in total revenue decreased significantly from 70% in 2014 to 41.8% in the first half of 2015.

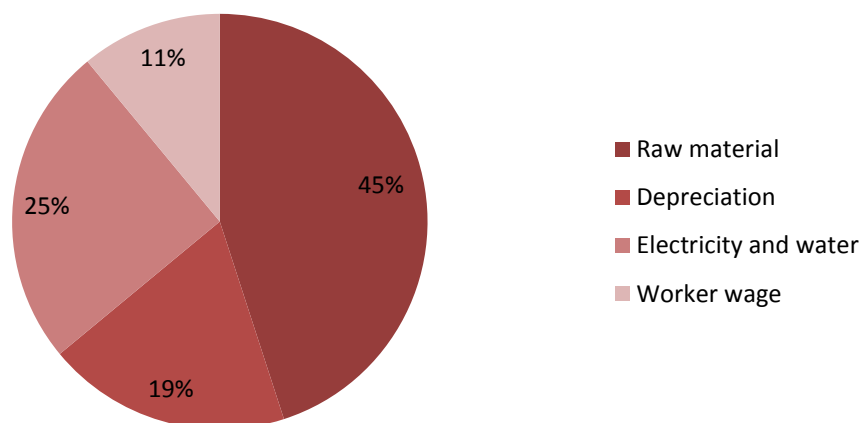
Mining activities of company will increase output production in this year when the total time of mining is 12 months, which is longer than 10 months in 2014.

The output of MSR is stable to exploit 100% productivity. MSR signed contracts to sell bismut, florit and tungstens from 7 to 10 years to HC Starck, 5N Plus Inc, CMC. These contracts' size were twice times as much as the capacity of MSR and the price will be change according to the market situation.

Producing expenses

Having advantages of open pit mine, **company will bear lower mining cost about 10 times compared to underground mines** (According to Jan Mostrom, president of BA Mines)

Cost of goods sold structure 2014



Source: Financial report of MSR

In cost of goods sold, the raw material cost make up about 45%. This material is used to exploiting mine. From 2015, the raw material cost will go up 1.2 times compared to 2014 because the exploiting period will be 12 months instead of 10 months.

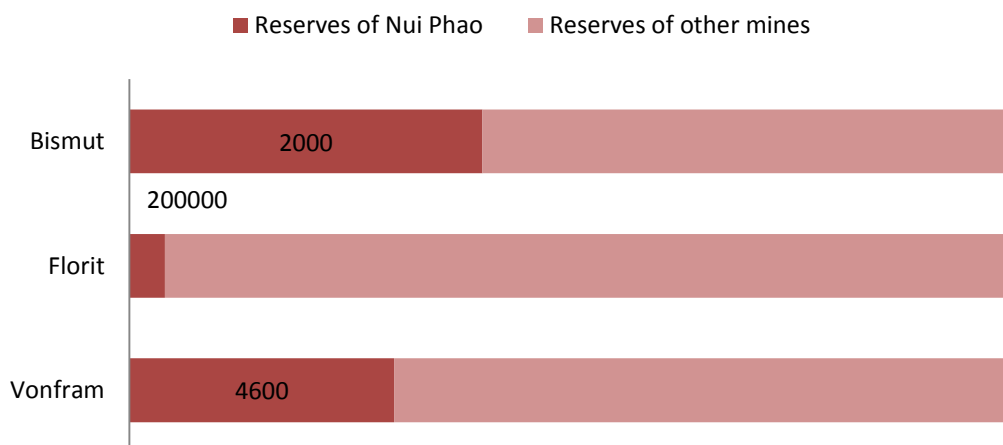
In the future, raw material cost will be stable. The company signed contracts to buy raw material with fixed price in 3-4 years to hedge the material price volatility risk.

The general characteristic of mine industry is the high demand of warehouse and machine systems, the percentage of long term assets over total assets was 90%. This leads to high depreciation cost, about 400 billion (19.17% in total cost of goods sold) although depreciation period is so long (15 years).

Now, MSR is having 1,128 workers with the average wage is 23 million VND/worker/month. In which, 70-80% is mining workers.

Producing scale and mine reserves.

Nui Phao reserves compared to the world reserves (including China)



Source: Financial Report of MSR

The reserves of Nui Phao mine are 66 million tons of ore. In which, the volume of tungstens is 4,600, Florit: 200,000, Bismut: 2,000 thousand tons.

The company has risk because of under-expected reserves of mine.

At present, only 1/3 of 4,600 million tons of tungstens was asserted as real by trustful organizations. This makes long term risk for MSR because the company invested a huge amount of capital into mining machine.

The expected reserves of Tungstens Nui Phao mine make up 33% of the world Tungstens reserves except China. However, considering the contribution per year to the world scale, Nui Phao mine only contributes 9%.

At present, the company is operating about 90% capacity, producing 3.5 million tons of Tungstens every year. MSR had specific plan to exploiting 66 million tons in 20 years, so that it is predicted that the future output of company will not have breakthrough if the tungstens market is still gloomy as present.

INDUSTRY ANALYSIS



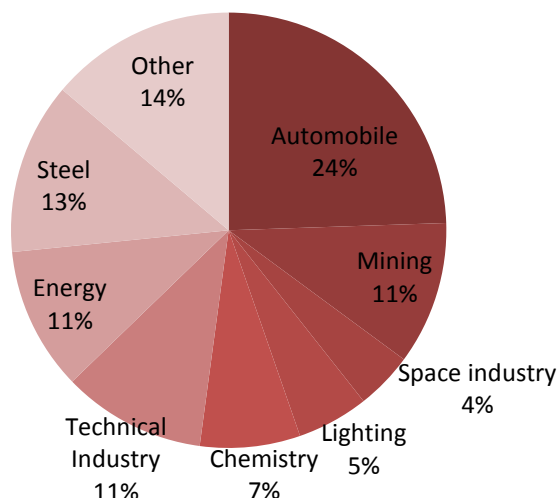
Tungstens price reached the peak in 2011, 2010, after that it decreased gradually. At the beginning of 2015, the tungstens price went down to the bottom as 2009 (in the diagram), many people considered that this is the bottom price and it could not reduce anymore. However, it continued to decrease 90% in the first half of 2015 (according to mineralprices.com). Roskill forecasted that the tungstens price will decrease till the end of this year. This is reasonable because: (1) the demand of Tungstens do not have motivation to grow, (2) the recycled tungstens is used more and more instead of exploiting tungstens, this leads to the decrease in the demand, (3) the supply of tungstens will gradually increase in the future due to some new tungstens mines are going to be exploited and China can not limit export tariffs according to commitment with WTO.

The proportion of the recycled tungstens has been increasing and will take the place of exploiting tungstens. Now, only EU and North American markets used 45% the recycled tungstens while the Asian and Japanese markets used 20%. China which consumes 60% the volume of tungstens in the world used 15% of this artificial tungstens. Using the recycled tungstens nearly does not have any disadvantages; so that the proportion of the recycled tungstens has to increase from 15% to at least 30%, reducing the demand. This is the main reason why the price go down in the long term. (data from Roskill)

The motivation of tungstens can not increase in the next years when: Industries which consume the most tungstens like steel (use 18% of tungstens

production) and automobile (use 25% of tungstens production) grew under 3% in average. And more, Technical industry recorded the highest growth rate, being just 5.4%.

The percentage of using Vonfram



Source: cafef.vn

The demand of tungstens is increasing in the short term and will continue to increase to 2018. At present, the new mines which started to operate are Nui Phao and Thor Mining in Australia. These mines increase the supply by 9%. The supply is growing thanks to not only new mines but also old mines in Brazil and Peru. These mines returned to operate after maintenance period. For long term vision, Hemerdon in England and Barruecopardo in Spain which is building now will start to operate in the next some years. This new supply is estimated to increase the total tungstens output by 5%.

The supply can not decrease dramatically as 2010, 2011 to make the price go up. The tungstens market at present is affected strongly by China because it produces and consumes most in the world (80% of output production and consume 60%). The tungstens price reached the peak in 2010-2011 when China promulgated strict tariff and went down significantly in Q4/2014 when China deleted this strict tariff according to commitment with WTO. In the long term future, it is difficult for China to reduce the supply because they can not use the old policy.

FINANCIAL ANALYSIS

Operating results

Unit: Billion VND	2013	2014	2015H	2015F
Net revenue	0	2,946.23	1,246.63	3,374.33
+/- yoy	N/A	N/A	N/A	19.8%
Gross profit	0	739.42	355.89	2,086.30
Profit from operating	2.15	(219.18)	(329.02)	(145.09)
Earnings after tax	2.15	35.65	35.79	(145.09)
EPS	0	50	50	<0

The company recorded profit but it did not come from operating activities:

In 2014, MSR had a loss of 219 million from operating activities but earning after tax was still positive (35 billion). The reasons of this: (1) recorded 268 billion of other profit and (2) 27 billion from corporate deferred tax. In 2015, MRS has continued to have a loss of 329 billion from operating activities.

This is virtual profit and not stable because: (1) This came from selling

compensation receivable, profit from this selling recorded as short term assets in 2014 and it did not change until June, 2014, (2) earnings after tax was 35 billion but CFO was negative 500 billion, which expresses unsound financial situation of MSR.

Financial cost of MSR was up to more than 700 billion, accounting for more than half of gross profit, which brings big interest burden for company. Total debts/total assets ratio is 54% and is experiencing an increasing to 55.62% in the first half of 2015. In total debts, 60% is debts in USD, which makes company face to not only interest risk but also exchange rate risk. The interest rate of debts are from 11% to 13%. From 2015, the company plans to restructure debts, issuing bonds with 11% of yield to reduce this burden.

The products of MSR are not be affected by increasing tax policy for mineral industry because the products of MSR all are considered as other products when processing the pure ore to ST, APT, BTO and YTO.

Financial ratios

Financial ratios	2013	2014	2015H
Payment ability			
Current ratio	15.45%	76.89%	80.10%
Quick ratio	6.67%	41.67%	36.41%
Short term debt payment	2.70%	5.14%	2.67%
Financial structure			
Long term assets/ Total assets	95.94%	91.87%	89.74%
Debt payable/ Total assets	48.25%	54.15%	55.62%
Debt payable/Equity	93.22%	122.12%	128.78%
Operating effectiveness			
Assets turnover	N/A	0.13	0.10
Equity turnover	N/A	0.27	0.22
Profitability			
Gross profit/ Revenue	N/A	25.10%	28.55%
Profit from operating activities/ Revenue	N/A	-7.44%	-26.39%
Earnings before tax/ Revenue	N/A	0.26%	1.84%
Earnings after tax/ Revenue	N/A	1.21%	2.87%
ROA	0.02%	0.15%	0.28%
ROE	0.04%	0.32%	0.64%

Payment ability: liquidity of company was improved in 2014, current ratio increased from 15.45% in 2013 to 76.89% in 2014 and 80.10% in the first half of 2015. This growth was from starting commercial activities in 2014, starting to record cash flow. Although it was improved, it is still much lower than industry average 113%, expressing the unstable financial situation of MSR.

Operating effectiveness: At present, total assets turnover ratio is 0.13, being lower than industry average because the company has operated just 10 months in 2014. This ratio will be improved by time when the company operates full capacity, bettering by investing machine systems to improve working productivity.

Profitability: ROE of the company have increased significantly in the first 6 months of 2015 but it is still so low, increasing from 0.32% to 0.64%. Moreover, the profit did not come from operating activities. If eliminate all other profit, the profit of the company would be a negative number because of the strong decrease of tungstens price in the recent time

Compare to other company in the same industry in Vietnam

Chỉ số	MSR	SQC	KSS	TC6	NBC
Market Capital (Billion VND)	9,216	8,910	54	136	210
Basic EPS (VND)	4,381	-1,180	-136	3,980	1,908
Book Value (VND)	15,600	8,700	9,600	25,400	14,000
Basic P/E	6.8	-68.6	-8.1	2.6	2.8
P/B	0.97	9.05	0.11	0.38	0.53
Short term assets/ Total assets	8%	18%	82%	32%	26%
Debt payable/ Total equity	54%	24%	75%	77%	67%
Current ratio	77%	74%	185%	66%	71%
Inventory turnover	384%	29%	41%	1,856%	940%
Earnings before tax/ Revenue	0.26%	-318%	2%	1%	8%
Earnings after tax/ Revenue	1.21%	-318%	1%	1%	6%
ROA	0.15%	-2%	0%	3%	10%
ROE	0.32%	-3%	1%	13%	32%

Source: Bloomberg

In recent years, the raw material's price went down, leading to difficulty of mining companies. Profitability ratios were 0 or negative numbers. Companies which recorded high profit like MSR, NBC had profit mainly from other activities. In general, mining industry will still have worse performance in the next some years until the raw material price recovers.

Compare to other Tungstens mining companies in other countries:

We compare MSR to other Tungstens mining companies like Glencore (Spain), Wolf Minerals (Australia), North American Tungsten and Almonty Industries (Canada). We realized that **foreign investors do not prefer stocks of Tungstens mining companies**. The reasons are: (1) negative profit in 2013, 2014, (2) the price of stocks are decreasing from listed time in 2011 to now (see stock price chart in the appendix).

COMPANY'S PROSPECT

The profit of the company depend much on Tungstens price because: (1) the output production of company is guaranteed thanks to selling contracts in 7 to 10 years, (2) the raw material cost will be unchanged, (3) the annual production is difficult to change because the investment cost to expand scale is too high.

At present, Tungstens price is in a downward trend, decreasing more than 90% in 2015 according to mineralprices.com. We forecast the current price of tungstens has not stood in the bottom, it can still continue to decline. The reasons are: (1) the demand do not have motivation to increase because the industries which consume tungstens in producing do not have any sign to go up, (2) China can not decrease the supply because of the commitment with WTO, (3) the recycle tungstens used in Asia is still so small at present and it will be continue to go up in the future, leading to the decrease of the demand, (4) the supply climbed in the short run and will increase in the long run thanks to both new and old projects.

Standing before short term prospect, MSR still have comparative power compared to other tungstens companies in specific and other mining companies in general. (1) Be an open pit mine, MSR have lower mining and producing costs than industry average, (2) the tungstens reserves of Nui Phao is abundant compared to other mines in the world, (3) the parent company MSN, a trustful group with great financial ability, can expand the scale of

MSR, raising capital to buy potential mines with a low cost like present.

Forecast revenue

Unit: Billion VND	2014	2015	2016	2017	2018	2019
Tungtens	2,065.69	1,479.58	2,225.15	2,447.67	2,692.43	2,961.68
Florit	89.89	3.12	5.01	5.27	5.53	5.81
Bismut	447.30	1,075.85	1,235.55	1,297.33	1,362.20	1,430.31
Bronze	343.34	959.64	1,102.08	1,157.19	1,215.05	1,275.80
Total revenue	2,946.23	3,518.19	4,567.80	4,907.45	5,275.20	5,673.58

PRICING, RECOMMENDATION

To MSR, we use DCF method to pricing.

DCF Method

In calculating process, we eliminated all other profit of company to pricing.

Because MSR had already listed in the recent time, we can not use the average beta of MSR to calculate WACC, we have to use beta of mineral industry. WACC used is 12%.

DCF	2014	2015	2016	2017	2018
EBIT	209.2	563.2	677.4	812.8	951.9
+ Depreciation	974.8	973.8	973.5	964.2	959.3
+ Amortization	7.1	9.5	10.5	9.0	9.7
EBITDA	1,191.1	1,546.5	1,661.5	1,786.0	1,920.9
- Capex	3.4	4.4	4.7	5.1	5.4
EBITDA - Capex	1,194.5	1,550.9	1,666.2	1,791.0	1,926.3
- Taxes on EBIT	(43.3)	(114.5)	(137.6)	(164.4)	(192.3)
- Change in WC	(326.9)	(142.3)	(47.0)	(50.7)	(54.8)
FCF	824.3	1,294.0	1,481.6	1,576.0	1,679.1

Pricing scenarios when having fluctuations on tungtens price:

In the case that the tungtens price is in the bottom and is going up gradually 10% annually, the stock price under DCF method will be 9,200 VND.

In the case that the tungtens will improve suddenly in 2016, 2017 (increase 100% and 50% respectively) and grow 10% annually after that, the stock price under DCF method will be 21,000 VND.

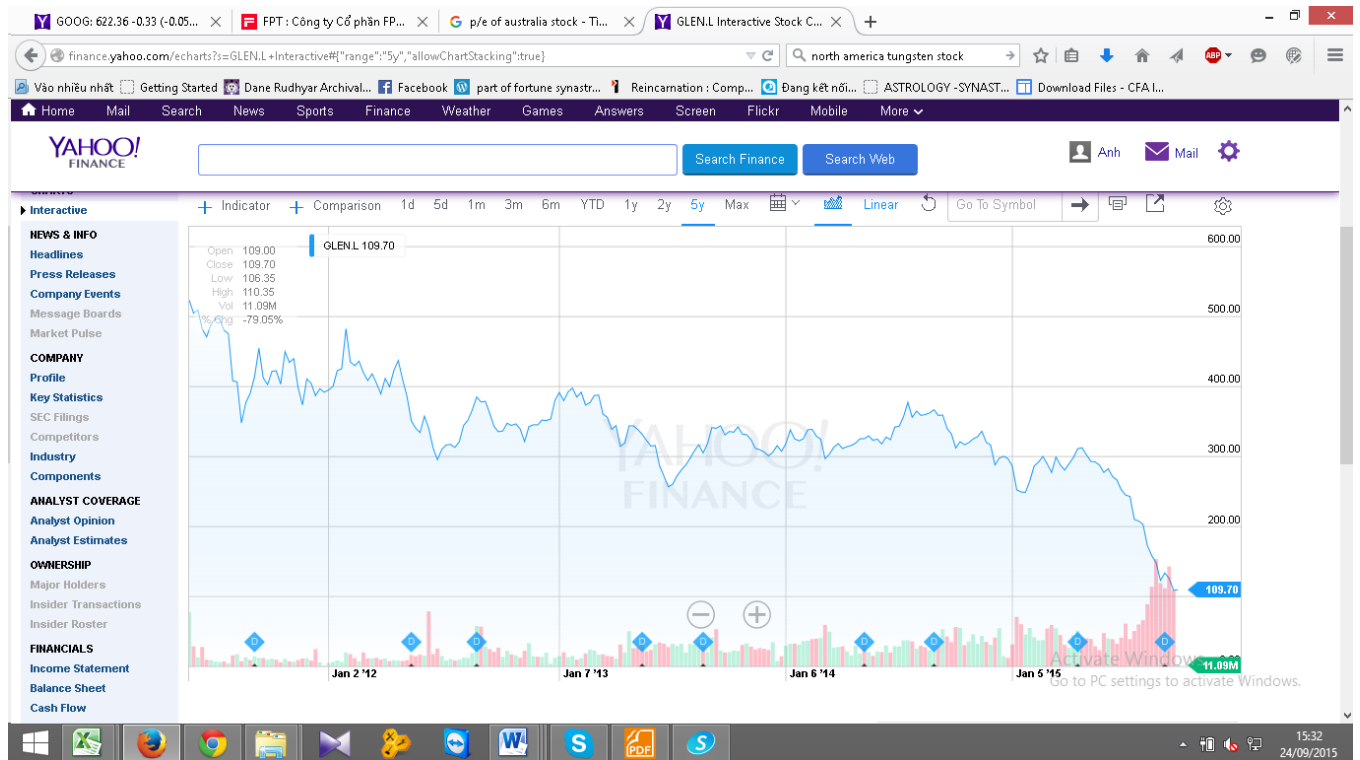
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APPENDIX

Price chart of tungsten mining companies in other countries:

Glencore (Spain):



Source: Yahoo Finance

Wolf Minerals (Australia):



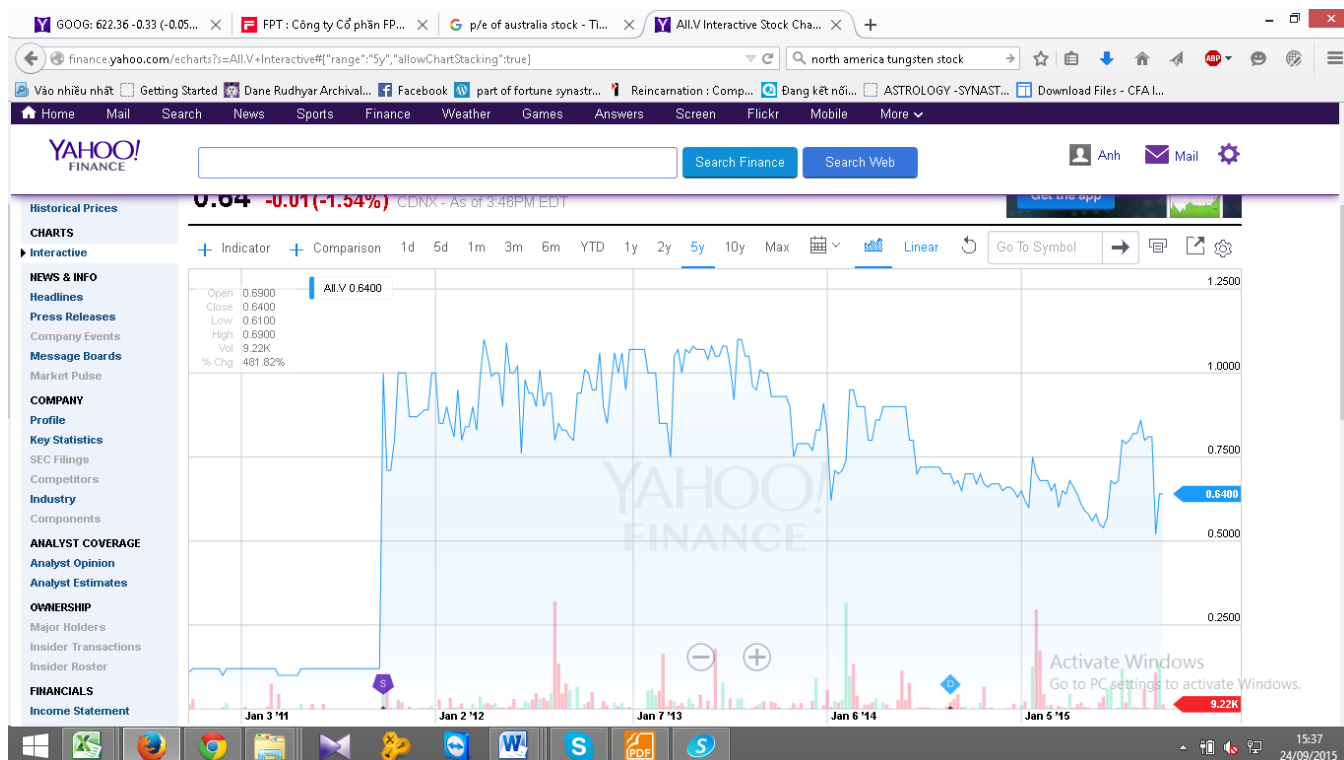
Source: Yahoo Finance

North American Tungsten (Canada):



Source: Yahoo Finance

Almonty Industries (Canada):



Source: Yahoo Finance

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