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On 11 Nov 2016, NBC stock traded at VND 7,900 per share, equivalent to PE trailing of 5.81x and PB trailing of 0.73x.

We estimates that EPS 2016 for NBC share will be VND 726 per share, equivalent to P/E fw of 10.88x.

Vinacomin NuiBeo Coal JSC (NBC) is one of the subsidiaries of Vietnam national coal – mineral industry holding corporation limited (Vinacomin), mining opencast coal in Quang Ninh Province.

Some notes about NBC's business in the period 2016 -2018:

- *In 2016, NBC will recognize additional VND 12 billion of EBT from the liquidation of opencast mining equipment.*
- *The company will mine opencast coal up to the end of 2018 since the opencast coal reserve has been exhausted.*
- *The very first 170,000 tons of underground coal is expected to be mined in 2017 and the volume will increase in the following years.*

Business Results: In 9M2016, NBC's revenue reached VND 883.8 billion (-12% yoy), profit after tax reached VND 19.6 billion (+ 7.7% yoy). Gross margin was 15.4%, higher than the 13.53% in 9M2015 due to the strong decrease in depreciation expense by 68.3% to be VND 40.6 billion when some machinery's depreciation ended and the company liquidated a part of surface mining equipment.

In 2016, output is expected to reach 900,000 tons of coal, and 2016 EBT is estimated to reach VND 33.6 billion, of which 65% from coal and the rest from the liquidation of assets.

Coal mining operations of the Corporation comply with the division mechanism: Coal mines is owned by the State, Vinacomin represents the ownership and allocates to each of mining company member, then the Corporation repurchases and distributes coal via the warehousing subsidiary. Beginning of each year, Vinacomin assigns quotas on coal volume, purchase price, the technical criteria for each mining company members. Companies implementing as planned will receive a fixed profit margin (typically 3% of revenue; those firms can be understood as the outsourcing mining firms for the Corporation.

Thus, under this mechanism:

- Domestic and global coal price fluctuations do not have direct effects to the mining companies in the Corporation. Instead, Vinacomin will bear the direct impacts (both positive and negative), and the purchase price can be adjusted in subsequent years;
- Taxes and fees for the coal industry increase do not affect mining companies. Since 1st July, natural resource tax increased from 7% to 10%

for underground coal and from 9% to 12% for open-cast coal; Since 2014, coal mining operations are subject to a grant exploitation fee of 2%. These costs are paid by Vinacomin.

- The profit of mining firms will vary with the actual output sold and annual price prescribed, as well as the implementation of the technical criteria during the year.

The remaining opencast coal reserves of NBC is low, the peeling rate nearly doubles but is still the lowest level among the opencast mining enterprises: Currently, opencast mining capacity of NBC is about 1.2 million tonnes per year. The remaining reserves is about 1.6 million tons, after 2016, the company will mine about 700,000 tons per year till the end of 2018. As the final stage of opencast coal, NBC's peeling rate increased to 8x compared with the rate of 4.7x previously. However this is still the lowest peeling rate among opencast mining firms (average rate of 12x), which help the exploiting cost of NBC become the lowest level in the Corporation. This can be an advantage when Corporation prefers allocating higher volume for firms with lower mining cost.

Underground coal mining will have been started since 2017: Pit coal project began in 2012. The pit coal reserves estimated at 28 million tons, total project investment is VND 5,300 billion, and the targeted mining capacity is 2 million tons per year. So far, the company has invested about VND 800 billion, and is expected to mine 170,000 tons of coal in 2017. NBC will keep investing and increasing up to the amount planned.

- ***Pit coal mining has many different features compared to opencast mining such as*** (1) Higher depreciation expense as the total investment in pit coal project is much larger than that of opencast mining; (2) Long investment term (5-10 years) for a project; (3) Large labor cost due to particular labor requirements (such as under 40-year-old, male, very good health); (4) Less affected by the weather, such as not necessarily stop / restrict mining in the rainy season as the opencash mining.
- ***With these characteristics*** pit coal mining cost in general and the costs of NBC in the next time in particular, will be higher than opencast mining cost. This is not necessarily a disadvantage for mining enterprises because the Corporation's repurchasing price will increase correspondingly to assure the profit margin of the mining firms. Then, profits for the mining companies can still grow. Besides, the recruitment and training of workers for underground mining will be a problem for NBC in the following time since NBC's mining area does not have the traditional pit coal mining.

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