



**MONGOL BASALT JSC**

**IPO Teaser**

April 2018

# IPO Summary



Issuer name	Mongol Basalt JSC
Exchange	Mongolian Stock Exchange
IPO share price	380 MNT
Shares outstanding	39,491,900
Additional shares offered at IPO	16,925,100
Total shares outstanding post IPO	56,417,000
IPO shares/Total shares outstanding	30%
Offer amount	6,431,538,000 MNT
Share type	Ordinary shares
Listing date	Pending (April 2018)
Use of proceeds	Capital expenditure for capacity expansion and renewal of manufacturing facility, lowering financing costs
Status	Approval pending from FRC and MSE

## Unique product and positioning

- The only producer of Rockwool (Basaltwool) insulation products in Mongolia
- Production know-how developed and patented by founder L.Ariunbold
- Owns and operates Basalt mine with 125 years of reserves

## Opportunities for export and expanding basalt fiber material market

- Fire safe, noise reducing, ecologically friendly Basaltwool insulation demand growing globally
- Opportunities to export to Russian, Chinese, and Japanese markets
- Continued innovation and product development of basalt fiber materials

## Capacity expansion

- The new factory will expand capacity 1.6x and increase product range
- Better efficiency will cut production costs 20-30%, improving price competitiveness
- Increased capacity and product quality will open new markets abroad for export

# Company Overview

## Company highlights

- The only producer of Rockwool insulation in Mongolia
- Production capacity of 5,000 ton/year
- Owns and operates its own Basalt ore mine, with 2 million tones of reserves
- Employs 55 people

## Company history

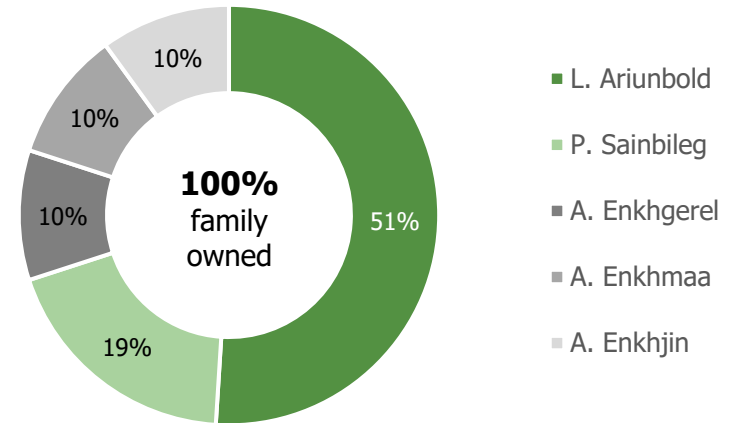
- 2007 – Founded as the first rock wool manufacturer in Mongolia
- 2009 – Increased manufacturing capacity, added product variety
- 2013 – Introduced Thermobasalt production line for heating pipe insulation materials
- 2016 – Introduced Spray Basalt product with new Japanese technology

## L. Ariunbold, Founder and CEO:

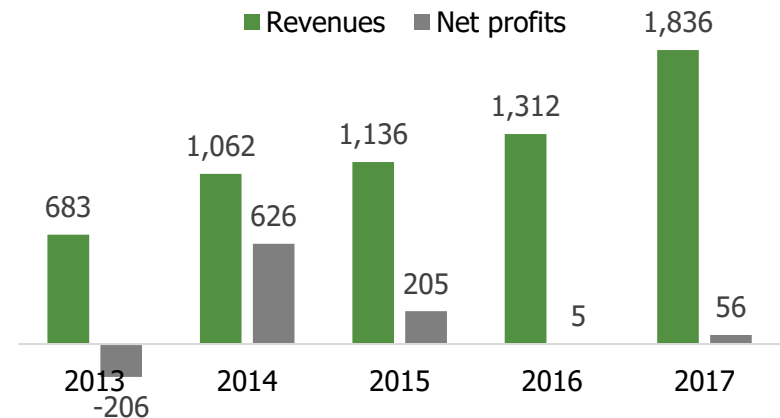


- Graduated with an engineering degree from then USSR
- Founded the first automobile windshield manufacturing company in Mongolia in 1990
- Completed the first Mongolian Rockwool manufacturing factory with his own design
- Awarded "Inventor of the Year" in 2011

## Shareholders structure



## Company revenues (MNT millions)



# Company Operations

## Main Operations

Raw materials extracted from own basalt ore mine 158 km from the factory



Basalt ores melted at over 1,400 C and goes through high speed spinning machine to form a wool



Basaltwool is then pressed to form a shape fit for insulation material



Finished products supplied to construction sites



## Current Products

### Basaltwool Batts

- Fire resistant insulation material
- Main product of the company

### Basaltwool Flexible

- Fire resistant flexible insulation material
- Mainly for private houses

### Thermobasalt Pipe

- Insulation for heating pipes
- Reduces heat loss and improves energy efficiency

### Spray Basalt

- Insulation for roof, concrete walls and other areas that are hard to reach



# Notable Customers

Shangri-La Complex



Gegeenten Complex



Grand Plaza



Best Western Premier Inn



Romana Residence



Chonjin Boldog Complex



UB Department Store



Regency Residence



Zaisan Village



# Basalt Wool and Basalt Fiber

## Basalt Wool

### Key characteristics:



#### Thermal efficiency

Thermal conductivity of  $\lambda = 0.038\text{W/mK}$ , at same level as other common insulation materials such as glass wool and foam boards

#### Fire safety

Basalt is sedimentary rock, therefore does not burn until  $+1,400^\circ\text{C}$ , while building fires reach  $960^\circ\text{C}$  at highest



#### Flexible usability

Easy to install and could be formed to any shape which leaves less gaps than normal fitting insulation materials

#### Acoustical comfort

Good sound absorption and noise reduction due to the space between the fibers and its porous, absorbing more than 45dB of noise

#### Durable and moist resistant

The fine Basalt fiber makes it moisture and solvent resistant, resulting in tough and longer-lasting insulation

#### Ecological and safe

Uses 97% natural mineral materials to produce

## Basalt Fiber

### Key characteristics:



#### High tensile strength

Basalt fiber materials are 4 times stronger and 3 times lighter than steel

#### Fire safety

Compared to carbon and aramid, Basalt fiber has the features of wider application temperature range at  $-369$  to  $+650^\circ\text{C}$

#### Alternative to carbon and glass fibers

Stronger than glass fiber, while being cheaper than carbon fiber materials, Basalt fiber materials have potential usages beyond high-end synthetic materials

Fibers	Density (g/cm <sup>3</sup> )	Mechanical Strength (Mpa)	Elastic Modulus (Gpa)	Elongation (%)
Carbon	1.80	6,210	297	2.20
<b>Basalt</b>	<b>2.65</b>	<b>4,800</b>	<b>110</b>	<b>3.3</b>
Kevlar	1.47	3,480	41.4	3.6
E-Glass	2.60	3,450	76	4.76
Steel	7.20	1,100	200	-
Polypropylene	0.91	650	38	18

# Future Potential of Basalt Materials

## Hydroponic farming

- Rock wool is the most widely used medium in hydroponics



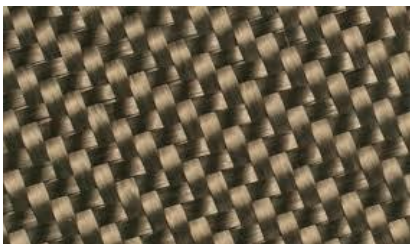
## Road construction

- Skeleton frames made from Basalt fiber are more durable



## Composite materials

- Basalt fiber materials are similar to carbon fiber and Kevlar fiber materials



## Composite components

- Basalt fiber materials to replace carbon fiber components for premium sports cars





# Key Financials



Income Statement (MNT million)	2013	2014	2015	2016	2017
<b>Revenue</b>	<b>682.9</b>	<b>1,062.4</b>	<b>1,136.2</b>	<b>1,311.8</b>	<b>1,835.8</b>
COGS	400.5	166.6	460.9	1,024.9	1,461.3
<b>Gross profit</b>	<b>282.4</b>	<b>895.9</b>	<b>675.3</b>	<b>286.9</b>	<b>374.5</b>
Operating expenses	381.9	270.0	447.9	281.9	327.6
<b>Operating profit</b>	<b>154.0</b>	<b>261.0</b>	<b>447.7</b>	<b>182.3</b>	<b>171.1</b>
Other income (expenses)	(106.7)	-	-	3.7	18.4
<b>Profit before tax</b>	<b>(206.2)</b>	<b>625.9</b>	<b>227.8</b>	<b>8.8</b>	<b>65.3</b>
Tax expenses	-	0.4	22.8	3.9	9.7
<b>Net profit</b>	<b>(206.2)</b>	<b>625.5</b>	<b>205.0</b>	<b>4.9</b>	<b>55.6</b>

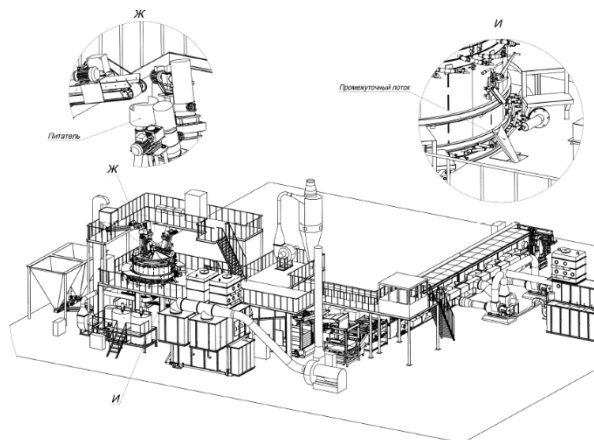
Balance Sheet (MNT million)	2013	2014	2015	2016	2017
Current assets	1,075.6	1,255.0	1,821.0	1,915.4	867.3
Fixed assets	4,315.8	23,019.5	22,920.7	23,464.6	22,190.5
<b>Total assets</b>	<b>5,391.3</b>	<b>24,274.5</b>	<b>24,741.7</b>	<b>25,380.0</b>	<b>23,057.8</b>
Liabilities	1,782.7	1,347.1	1,609.2	2,242.7	1,391.2
Equity	3,608.6	22,927.4	23,132.4	23,137.3	21,666.6
<b>Total liability and owner's equity</b>	<b>5,391.3</b>	<b>24,274.5</b>	<b>24,741.7</b>	<b>25,380.0</b>	<b>23,057.8</b>

Cash Flow Statement (MNT million)	2013	2014	2015	2016	2017
Cash flow from operations	254.0	146.2	(40.0)	379.4	401.4
Cash flow from investing	(0.7)	(2.6)	(0.2)	(250.8)	(20.1)
Cash flow from financing	3.6	(182.0)	(26.4)	278.1	(867.3)
<b>Net cash flow</b>	<b>256.9</b>	<b>(38.3)</b>	<b>(66.5)</b>	<b>406.7</b>	<b>(486.0)</b>
Opening balance	42.6	299.4	261.1	194.6	601.3
<b>Closing balance</b>	<b>299.4</b>	<b>261.1</b>	<b>194.6</b>	<b>601.3</b>	<b>115.3</b>

## Capital Expenditures

- The company will spend the IPO proceeds on capital expenditures to increase manufacturing capacity from 5,000 tons/year to 8,000 tons/year

Capital Expenditures			
	Purpose	Amount (MNT)	Percentage
1	Factory expansion	2,525,000,000	39.3%
2	Power substation	1,100,000,000	17.1%
3	Factory building	680,000,000	10.6%
4	Factory equipment and machinery	330,000,000	5.1%
5	Basalt rock mine equipment	490,976,700	7.6%
6	Basalt rock mine machinery	210,000,000	3.3%
7	Working capital	599,013,800	9.3%
8	Refinancing	496,547,500	7.7%
<b>TOTAL</b>		<b>6,431,538,000</b>	<b>100%</b>



# Financial Projections (2018-2022)



Income Statement (MNT million)	2018	2019	2020	2021	2022
<b>Revenue</b>	<b>2,450.0</b>	<b>3,785.3</b>	<b>6,757.9</b>	<b>11,298.7</b>	<b>14,828.7</b>
COGS	953.5	1,502.7	2,709.1	4,529.4	5,944.5
<b>Gross profit</b>	<b>1,496.5</b>	<b>2,282.6</b>	<b>4,048.8</b>	<b>6,769.3</b>	<b>8,884.2</b>
Operating expenses	1,413.6	1,277.9	1,501.6	1,777.3	2,117.4
<b>EBITDA</b>	<b>810.5</b>	<b>1,004.7</b>	<b>2,547.3</b>	<b>4,992.0</b>	<b>6,766.9</b>
Depreciation	649.7	649.7	646.3	646.3	646.3
<b>EBIT</b>	<b>160.7</b>	<b>354.9</b>	<b>1,901.0</b>	<b>4,345.7</b>	<b>6,120.6</b>
Interest expenses	119.2	119.2	119.2	119.2	0.0
<b>Profit before tax</b>	<b>41.5</b>	<b>235.8</b>	<b>1,781.8</b>	<b>4,226.5</b>	<b>6,120.6</b>
Tax expenses	4.2	23.6	178.2	606.6	1,080.1
<b>Net profit</b>	<b>37.4</b>	<b>212.2</b>	<b>1,603.6</b>	<b>3,619.9</b>	<b>5,040.4</b>

Balance Sheet (MNT million)	2018	2019	2020	2021	2022
Current assets	2,793.8	3,935.2	6,784.8	11,955.7	18,345.8
Fixed assets	26,780.3	26,130.6	25,484.2	24,837.9	24,191.5
<b>Total assets</b>	<b>29,574.2</b>	<b>30,065.8</b>	<b>32,269.0</b>	<b>36,793.6</b>	<b>42,537.4</b>
Liabilities	1,438.6	1,718.0	2,317.7	3,222.4	3,925.7
Equity	28,135.5	28,347.7	29,951.3	33,571.2	38,611.7
<b>Total liability and owner's equity</b>	<b>29,574.2</b>	<b>30,065.8</b>	<b>32,269.0</b>	<b>36,793.6</b>	<b>42,537.4</b>

Cash Flow Statement (MNT million)	2018	2019	2020	2021	2022
Cash flow from operations	(1,085.6)	1,571.6	1,160.1	2,599.1	4,390.7
Cash flow from investing	(5,239.6)	0.0	0.0	0.0	0.0
Cash flow from financing	6,431.5	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>106.4</b>	<b>1,571.6</b>	<b>1,160.1</b>	<b>2,599.1</b>	<b>4,390.7</b>
<b>Closing balance</b>	<b>221.6</b>	<b>1,793.3</b>	<b>2,953.4</b>	<b>5,552.5</b>	<b>9,943.2</b>

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