

March 7th 2014

Mongolia Investors Cockpit

Monthly Report

MSE Top 20 Index, 1 year performance

16,577.12 -2.4% YOY



MSE Top 20 Stocks

(Share Price, Monthly performances as of 7/3/2014)

Gobi JSC (GOV)	6,695	+18.50%
Suu JSC(SUU)	105,000	+17.29%
Talkh Chikher JSC (TCK)	17,490	+16.52%
Ulaanbaatar ZB JSC (ULN)	106,800	+14.79%
BDSec JSC (BDS)	2,530	+1.20%
APU JSC (APU)	4,229	+0.71%
Telecom Mongolia JSC (MCH)	1,599	+0.00%
Remicon JSC (RMC)	153	+0.00%
Mogoin Gol JSC (BDL)	17,260	-1.37%
Mongol Shiltgeen JSC (MSH)	944	-1.56%
Jenco Tour Bureau JSC (JTB)	90	-2.17%
Mongolia Development Resources (MDR)	680.63	-2.77%
Sikilate JSC(SIL)	250	-3.10%
Tavantolgoi JSC (TTL)	5,300	-7.02%
Bayangol ZB JSC (BNG)	55,000	-7.56%
Baganuur JSC (BAN)	4,000	-8.07%
Khukh Gan (HGN)	120	-11.11%
Shivee Ovoo JSC (SHV)	6,800	-11.69%
Shariin Gol JSC (SHG)	8,300	-12.45%
State Department Store JSC (UID)	579.5	-17.21%

Source: MSE

Mongolia in the global context

Index	YOY perf.	YTD perf.
DJIA (US)	+17.71%	-0.44%
Nikkei 225 (JP)	+28.89%	-6.81%
Hang Seng (HK)	+2.89%	-2.89%
DAX 30 (DE)	+20.19%	-0.10%
SMI (CH)	+12.52%	+4.66%
MSE20	-2.53%	+2.11%

Source: Bloomberg

Foreign Exchange Rates

(Monthly performances)

USD-MNT	1,770.73	+2.34%
JPY - MNT	17.23	+1.06%
EUR-MNT	2,431.83	+3.93%
CHF-MNT	1,993.62	+4.18%

Source: Mongol Bank

February Trading

February 2014 MSE trade reports: 74 companies stocks have been traded this month. Total trade value was 3.5 billion MNT, which is 16.6% higher than the February 2013 trade value and 74.1% higher than the previous month. The market cap of MSE was 1.6 trillion MNT by the end of the month.

Listed Companies

Suu JSC (SUU)

SUU JSC's share price is on the rise. But the company will not distribute dividends for 2-3 years, because of a long term loan /7 year/ from The international finance corporation. In their Shareholder's meeting they decided they will not distribute dividends until the pay back 6 million dollars. This money used for equipment upgrade, repair extension. The main competitor is APU JSC which also produces milk named "Pure milk". APU JSC also recently upgraded its milk producing equipment.

2013 Q4 financial report:

Indicator	2012	2013
Share number	344,000	
Total Asset (Bil MNT)	28,923,153.8	36,754,415.7
Total liabilities (Bil MNT)	18,033,749.9	19,201,042.3
Net profit (Bil MNT)	2,533,625.0	2,327,738.2
Average annual price	76075.6	80431.47
Earning Per Share, (EPS)	10.3	11.9
Price to Earning Ratio, P/E	7.4	6.8
Price to book ratio, P/B	2.4	1.6

Merex JSC's IPO has already begun

- Subscription for shares of "Merex" JSC will be possible until the 21st of March 2014 through all brokerage companies.
- Merex IPO date is March 24th, 2014.
- Merex shares must be fully prefunded to purchase
- "Merex" JSC is offering 40% of its ordinary shares (26,000,000 shares) to the public at 100 MNT per share.
- Please see brief and detailed prospectus in English at www.mse.mn, www.merex.mn and www.standardinvestment.mn
- More information can be provided from the Underwriter Standard Investment LLC

Mongolian coal market

While with the ramp up of Oyu Tolgoi copper is going to be the number one export goods for Mongolia very soon, the economy is still heavily depending on its coal sector. In this report we take a closer look at Mongolia's coal sector.

Mongolia is famous for its large reserves of natural resources. The Mongolian proven coal reserve is estimated at 175.5 billion tons. 26.8 of them are proved reserves. According to the World energy council's report, the world's coal reserve is estimated at 861 billion tons. However in some American and European coal reports there is no mentioning of Mongolia's big reserves because the Mongolian Mining sector is still new to World.

In the last 5 years Mongolian coal export sharply increased due to Chinese coal import politics. Mongolian coal production and export is highly depending on Chinese coal import. In the last years China's cities' air pollution has increased. Looking at the Chinese 12th five years energy plan (2011-2015) China would like to choose clean energy in future. China aims to cut the amount of carbon dioxide emissions and its long term plan is to cut carbon intensity by 40% to 45% by 2020 compared to 2005 levels.

Mongolia exports coking coal to China and China uses coking coal for its iron and steel industry. Therefore Mongolian coking coal depends on the Chinese iron and steel market. The Chinese steel sector is huge and is still growing. China's investment in infrastructure is still growing. Housing, bridges, rails, pipelines, airports, subways, all of them use steel.

Chinese infrastructure developments

Indicator	2010	2015	Growth
Railway network open to traffic, 1,000 km	91	120	32%
Road open to traffic, 1,000 km	4008	4500	12%
National express network, 1,000 km	58	83	43%
Oil and gas pipelines, 1,000 km	78.5	150	91%
City rail open to traffic, km	1400	3000	114%
Deep water berths, number	1774	2214	25%
Civil aviation airports, number	175	230	31%

However the Chinese steel sector's growth rate is set to slow down during the 5YP period. Forecasts range from 5%-6%. Coal will still be the primary energy source and China is working on increasing its efficiency of steel production. For example; China's top 10 steel producers are expected to expand through M&A, and will represent 60% of the country's total steel output by 2015, up from 48 percent in 2010.

Chinese coking coal supply and demand, import (mln tons)

Year		2009	2010	2011	2012	2013	2014E
Supply	Net import	33.4	45.9	41.4	52.7	73.9	95.0
	Production	448.0	489.0	539.0	547.0	564.0	576.0
	Net availability	481.4	534.9	580.4	599.7	637.9	671.0
Demand		472.0	537.0	563.0	545.0	620.0	656.0

By Fenwei's forecast in 2014 the supply is growing steadily partly because of newly operating mines, whereas the growth of China's Demand is losing speed.

World Coal production

Year	2008	2009	2010	2011	2012
USA	1063	975.2	983.7	993.9	922.1
Germany	192.4	183.7	182.3	188.6	196.2

Kazakhstan	111.1	100.9	106.6	111.4	116.4
Poland	144	135.2	133.2	139.3	144.1
Russia	328.6	301.3	321.6	335.1	354.8
South Africa	252.6	250.6	257.2	251.6	260
Australia	404.6	418.5	424	415.5	431.2
China	2802	2973	3235	3516	3650
India	515.9	556	573.8	570.1	605.8
Indonesia	240.2	256.2	275.2	353.3	386
Mongolia	10	14.4	25.1	30	29.9

In 2012 Mongolian coal production was 0.3% in world coal production. But Mongolia is in the top 10 coking coal producer in World.

Top ten coking coal producer, mln tons (2012)

China	510	Canada	31
Australia	147	Mongolia	21
USA	81	Ukraine	18
Russia	75	Kazakhstan	13
India	47	Poland	12

Mongolian coal export, million tons

Year	2008	2009	2010	2011	2012	2013
Mongolia coal production	10	14.4	25.1	30	29.9	18.3
Mongolian coal export			15	20	19.1	15.4
Mongolian coal consumption	5.8	6.4	6.9	6.8	7.4	

Mongolia is exporting around 60% of its produced coal to China.

The Mongolian coal industry's share of GDP was 8.8% in 2011 and 4.8% in 2013. 2013 years percentage decreased because both the coking coal production and price decreased.

Mongolian coking coal export price, \$

Year	2011	2012	2013
Mongolian coking coal export price, \$	100.6	98.90	73.00

Chinese coking coal import price, 2013

Indicator	Total quantity (Million tons)	Total export value (Million US dollars)	Average coal price (US dollar)	% in quantity	
1	Australia	30.1	4,466.5	148.15	39.9%
2	Mongolia	15.4	1,127.6	73.02	20.48%
3	Canada	11.1	1,647.5	148.71	14.8%
4	Russia	8.4	1,091.1	129.28	11.2%
5	USA	6.1	926.3	152.7	8.04%
6	Indonesia	2.7	371.5	138.98	3.54%
7	Other	1.5	213.6	139	2.04%
	Total	75.4	9,844.1	130.58	100%

Mongolia is responsible for 20.48% of Chinese coal import but its value was only 11.45% of import. This shows that Mongolian coking coal price is almost twice as cheap as coking coal from other countries.

Mongolian coal sector's disadvantage

- Mongolia is transporting its coal on road.
- Exporting coal without washing.
- Transporting capacity is small.

The Mongolian government is working on the development of its coal sector. Here is some information:

- Mongolian government and Chinese government made memorandum on an export/import of 1 billion tons of coal during the next 20 years.
- On January 28, 2014 Mongolian Government approved its " Action plan in order to increase main product's export"
- Parliament has decided issues on railway gauge and started the construction of TavanTolgoi-gashuun Sukhait, The construction is scheduled to finish the third quarter of 2014
- According to the Government's 2013 Resolution 317 there are several coal related projects in place such as power stations construction and the use of coal liquefaction technology.
- The state plans to decrease state-ownership in energy and coal sector.

Mongolian net export was 2,534.5 mln US dollars in 2008 and the coal's share was 8%. Those numbers were 4,817.5 mln US dollars and 47% in 2011 and 4272.7 mln US dollar and 26% in 2013. The Mongolian government plans to product 53.3 mil tons, and export 34 mln.tons of coal in 2014.

Production and export plan (2014-2018)

	2014	2015	2016	2017	2018
Total production	53.33	64.6	69.6	74	76.04
Export	34	50	53	56	59

Mongolian Tavantolgoi and Gashuunsukhait railway will be finished in June 2015.

If Mongolian coal companies want to increase coal export their competitiveness must be increased. And for this, new infrastructures must be finished. Also, Mongolia is trying to begin production of alternative coal products like coal liquefaction produced diesel and gasoline.

While at a slower pace, developed countries' and Chinese economic growth is still continuing and Chinese steel industry will still use Mongolian coking coal over the coming years.

In the long term Mongolian economy shouldn't depend only on the mining sector. Other industries such as the agriculture sector are also increasingly attracting investment and are poised to grow.

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