A Quantitative Look at Mongolian Equities April 8, 2013 Sales and Research Team, BDSec Joint Stock Company at www.bdsec.mn

Nick Cousyn Chief Operating Officer nick.cousyn@bdsec.mn Despite 2012 being a challenging year for investors in local and foreign listed Mongolian equities, the financial performance for local companies was quite good. Currently, many markets around the world are hitting multi year highs, while the MSE Top 20 recently touched a 26 month low, confounding Mongolia focused investors.

Uncertainty around the Oyu Tolgoi (OT) Investment Agreement and other large projects has clearly spooked foreign investment, with FDI down by over 40% in 2012. It continues to be our belief that the issues surrounding OT will be resolved, allowing the Mongolian economy to get back on track. However, resolution may not occur until after the Presidential Election, which is due to take place in late June. Populous political rhetoric is already beginning and will no doubt get more intense, as the election looms. During this process, investors will not only be able to buy local stocks at dirt cheap prices, but should also find pockets of liquidity, which is typically illusive.

To give investors a different and broader view of local companies, we ran three different quantitative filters for MSE listed stocks which include separate Growth, Value, and Proprietary screens. We assigned numerical values to metrics specific to each discipline, with a maximum of 20 total possible points. We weight these metrics differently to reflect unique aspects to Mongolian accounting and business practices. Unfortunately, we had to exclude many companies from our final lists based on a lack of liquidity. There are several MSE stocks that have no bid or offer and haven't traded in months. Some of these companies had exceptional scores based on our criteria and we will be approaching many of them soon in the hopes they will sell equity or debt to our investors.

Growth Screen

We applied several traditional growth metrics, with a proprietary weighting, which yielded the following list of 22 MSE stocks. On average, these companies had a median 2 year Revenue and Net Profit CAGR of 37.5% and 53.85, respectively. On a year on year basis, Revenue grew 26.1%, while EPS growth came in at 32.5%, this during a year where real GDP growth steadily declined to settle in the low teens. Most impressive in our view is how cheap this growth can be bought for, as this basket of stocks currently trade with a trailing P/E and P/B of 11.4x and 1.2x, respectively.

Table 1. Growth Screen

Ticker	Company name	Total Score	Revenue Growth*	Net profit Growth*	Revenue Growth YOY	EPS Growth YOY	P/E	P/B	P/S	ROE
MIE	Material Impex	15	53.2%	193.0%	86.4%	397.0%	5.7	0.7	0.6	73.1%
RMC	Remicon	15	102.2%	154.8%	56.8%	48.1%	5.5	0.9	8.0	27.0%
CHR	Uvs Chatsargana	14	381.1%	291.8%	5.0%	116.6%	201.2	4.5	10.7	12.9%
DHU	Darkhan Khuns	14	22.2%	266.2%	9.9%	-881.6%	4.7	0.4	0.3	28.3%
GOV	Gobi	14	108.5%	181.8%	15.4%	208.1%	6.5	0.5	8.0	15.1%
BDS	BDSec	13	47.3%	34.4%	17.3%	3.4%	25.3	3.8	6.4	16.1%
GTL	Gutal	13	484.8%	67.7%	49.8%	251.2%	13.5	1.7	5.3	14.2%
SUL	Gazar Suljmel	13	32.7%	72.4%	48.7%	88.0%	3.8	1.4	8.0	65.4%
APU	APU	12	52.5%	9.1%	27.7%	16.8%	11.2	1.5	0.9	30.6%
JTB	Genco Tour Bureau	12	50.4%	53.8%	21.6%	-5.7%	34.7	0.9	3.0	2.8%
TUS	Tushig Uul	12	26.8%	109.3%	24.5%	-51.1%	29.1	0.3	1.4	1.6%
ULN	Ulaanbaatar Hotel	12	18.2%	34.9%	10.4%	-0.7%	13.9	2.8	5.2	23.8%
Z00	Zoos Goyol	12	39.1%	30.8%	12.1%	16.8%	20.1	2.1	3.4	11.6%
ADL	Aduunchuluun	11	19.0%	24.0%	32.7%	59.5%	0.6	0.1	0.1	23.3%
MOG	Mongeo	11	36.0%	7.4%	131.4%	-35.1%	(32.3)	6.4	15.7	993.2%
SHG	Sharyn Gol	11	17.7%	195.1%	30.7%	344.4%	45.9	2.1	6.2	5.2%
BNG	Bayangol Hotel	10	18.0%	30.2%	9.7%	13.0%	4.5	0.6	2.0	16.1%
BUK	Ulaanbaatar BUK	10	159.2%	n/a	200.0%	2256.5%	11.6	1.4	1.6	92.7%
NEH	Darkhkan Nekhii	10	18.5%	14.4%	-7.6%	1.2%	4.1	0.3	0.7	13.3%
ORD	Orkhon Dalai	10	12.7%	31.9%	64.6%	115.5%	17.1	1.0	2.0	12.4%
	Median		37.5%	53.8%	26.1%	32.5%	11.4	1.2	1.8	16.1%

^{*}Both revenue and net profit growth is calculated CAGR of last 2 years



Value Screen

Not surprisingly, the number of Value stocks greatly outnumbers those from our growth screen, given the low levels the MSE Top 20 currently trades at. Our focus in this screen was to identify cheap assets with as little debt as possible and/or a strong ROE. Investor's in Mongolian Value stocks should weight Price/Book heavily, as we did in our criteria. What's especially unique about Mongolian companies, is most have not adjusted their book value (outside of depreciation) since they started trading publicly 5 or 10 years ago. Given that real estate in many cases is the largest part of Book Value for these companies, actual Price/Book is probably a fraction of stated Price/Book, considering property values have gone up several fold in the last 5-10 years. In this case, we are willing to stomach an average trailing 20x P/E, to buy this basket for a median P/B of .98 with a debt/equity of .38. Even those put off by this group's higher P/E should also notice that Revenues and EPS for these "Value" stocks grew at 16.4% and 12.2%, respectively in 2012.

Table 2. Value Screen

Ticker	Company name	Total score	Revenue Growth YOY	EPS Growth YOY	P/E	P/B	P/S	ROE	Debt to Equity
ADL	Aduunchuluun	20	32.7%	59.5%	0.6	0.1	0.1	23.3%	0.13
ATR	Atar-Urgoo	15	24.3%	53.2%	10.4	1.0	8.0	12.6%	0.25
DHU	Darkhan Khuns	15	9.9%	-881.6%	4.7	0.4	0.3	28.3%	1.72
GOV	Gobi	15	15.4%	208.1%	6.5	0.5	8.0	15.1%	0.83
NEH	Darkhkan Nekhii	15	-7.6%	1.2%	4.1	0.3	0.7	13.3%	0.50
BNG	Bayangol Hotel	14	9.7%	13.0%	4.5	0.6	2.0	16.1%	0.19
DAZ	Dornod Auto Zam	14	-38.9%	-50.4%	46.5	1.0	0.5	2.3%	0.01
DES	Dornod Khudaldaa	14	51.8%	19.8%	15.1	8.0	1.4	1.0%	0.01
HHS	Khuvsgul Khuns	14	22.0%	61.1%	24.8	0.3	0.2	3.4%	2.22
RMC	Remicon	14	56.8%	48.1%	5.5	0.9	8.0	27.0%	0.51
SUL	Gazar Suljmel	14	48.7%	88.0%	3.8	1.4	8.0	65.4%	0.57
TCK	Talkh Chikher	14	5.8%	59.3%	8.3	0.3	0.6	12.9%	0.90
HRM	Hermes Center	13	5.8%	11.5%	18.2	1.0	7.4	5.4%	0.02
JTB	Genco Tour Bureau	13	21.6%	-5.7%	34.7	0.9	3.0	2.8%	0.04
KEK	Mongol Keramik	13	79.5%	-111.0%	20.9	0.1	0.5	4.7%	7.15
SUU	Suu	13	7.8%	0.2%	10.9	1.0	1.1	23.3%	1.66
ZOO	Zoos Goyol	13	12.1%	16.8%	20.1	2.1	3.4	11.6%	0.06

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Ticker	Business	Total score	Revenue Growth YOY	EPS Growth YOY	P/E	P/B	P/S	ROE	Debt to Equity
APU	APU	12	27.7%	16.8%	11.2	1.5	0.9	30.6%	0.97
GTL	Gutal	12	49.8%	251.2%	13.5	1.7	5.3	14.2%	0.07
MIE	Material Impex	12	86.4%	397.0%	5.7	0.7	0.6	73.1%	3.22
MVO	Mongol Shevro	12	18.4%	34.6%	89.1	0.4	0.6	1.2%	1.71
ORD	Orkhon Dalai	12	64.6%	115.5%	17.1	1.0	2.0	12.4%	0.55
UND	Undarga Umnugobi	12	82.3%	-44.4%	37.9	1.6	1.5	4.4%	0.01
BDS	BDSec	11	17.3%	3.4%	25.3	3.8	6.4	16.1%	0.02
HBO	HBOil	11	67.1%	4065.6%	42.9	1.0	5.1	3.3%	0.38
JGV	Juulchin Gobi	11	-21.6%	-71.5%	73.3	1.0	2.1	2.1%	0.49
MCH	Telecom Mongolia	11	-3.5%	-72.3%	141.9	1.0	1.9	1.0%	0.31
SHG	Sharyn Gol	11	30.7%	344.4%	45.9	2.1	6.2	5.2%	0.04
TAV	Tav	11	-4.3%	-35.7%	27.9	3.6	2.8	19.5%	0.39
TEE	Darkhan Teever	11	15.5%	-51.1%	32.5	3.9	2.3	14.0%	0.12
ULN	Ulaanbaatar Hotel	11	10.4%	-0.7%	13.9	2.8	5.2	23.8%	0.06
BUK	Ulaanbaatar BUK	10	200.0%	2256.5%	11.6	1.4	1.6	92.7%	4.12
ETR	E-Trans Logistics	10	n/a	n/a	61.7	n/a	1.0	3.3%	0.17
GHC	Gan Khiits	10	-26.7%	-94.5%	413.3	0.4	0.9	0.6%	6.01
HSR	Khasu Mandal	10	-67.0%	45.7%	69.6	0.2	2.7	1.0%	2.24
MIB	Moninjbar	10	-21.2%	-59.9%	131.2	1.7	1.5	1.8%	0.41
MMX	Makh Impex	10	122.5%	-171.2%	14.5	0.6	0.9	-132.1%	(102.64)
MSR	Mongol Shir	10	-16.7%	-81.0%	(183.1)	8.0	6.1	-0.5%	0.12
TAH	Takhi-Co	10	-5.8%	-1.9%	31.2	4.5	8.5	15.3%	0.01
UBH	Ulaanbaatar Carpet	10	0.0%	-136.0%	174.4	0.4	2.2	0.4%	1.06
UYN	Mongol Savkhi	10	18.8%	763.5%	244.1	2.1	11.7	0.9%	0.04
	Median		16.4%	12.2%	20.1	1.0	1.5	11.6%	0.38

Proprietary Screen

We would characterize this group of stocks as the best of both worlds, where we combine Growth and Value criteria and score them in a proprietary model. An equal weighted basket of these names can be had for a median P/E and P/B of 15.3x & 1.01x, respectively, while growing revenues 26.2% and EPS by 74%, year on year.

Table 3. Proprietary Screen

Ticker	Company name	Total points	Revenue Growth YOY	EPS Growth YOY	P/E	P/B	P/S	ROE	Debt to Equity
MIE	Material Impex	15	86.4%	397.0%	5.7	0.7	0.6	73.1%	3.2
GOV	Gobi	14	15.4%	208.1%	6.5	0.5	8.0	15.1%	8.0
GTL	Gutal	14	49.8%	251.2%	13.5	1.7	5.3	14.2%	0.1
RMC	Remicon	14	56.8%	48.1%	5.5	0.9	8.0	27.0%	0.5
SUL	Gazar Suljmel	13	48.7%	88.0%	3.8	1.4	8.0	65.4%	0.6
CHR	Uvs Chatsargana	12	5.0%	116.6%	201.2	4.5	10.7	12.9%	4.4
HHS	Khuvsgul Khuns	12	22.0%	61.1%	24.8	0.3	0.2	3.4%	2.2
ADL	Aduunchuluun	11	32.7%	59.5%	0.6	0.1	0.1	23.3%	0.1
SHG	Sharyn Gol	11	30.7%	344.4%	45.9	2.1	6.2	5.2%	0.0
APU	APU	10	27.7%	16.8%	11.2	1.5	0.9	30.6%	1.0
BDS	BDSec	10	17.3%	3.4%	25.3	3.8	6.4	16.1%	0.0
BUK	Ulaanbaatar BUK	10	200.0%	2256.5%	11.6	1.4	1.6	92.7%	4.1
HBO	HBOil	10	67.1%	4065.6%	42.9	1.0	5.1	3.3%	0.4
UYN	Mongol Savkhi	10	18.8%	763.5%	244.1	2.1	11.7	0.9%	0.0
ZOO	Zoos Goyol	10	12.1%	16.8%	20.1	2.1	3.4	11.6%	0.1
AAR	Autozam	9	-37.8%	61.2%	4.8	0.3	0.7	7.4%	0.2
BNG	Bayangol Hotel	9	9.7%	13.0%	4.5	0.6	2.0	16.1%	0.2
JTB	Genco Tour Bureau	9	21.6%	-5.7%	34.7	0.9	3.0	2.8%	0.0
ORD	Orkhon Dalai	9	64.6%	115.5%	17.1	1.0	2.0	12.4%	0.6
TUS	Tushig Uul	9	24.5%	-51.1%	29.1	0.3	1.4	1.6%	0.6
	Median		26.1%	74.6%	15.3	1.0	1.8	13.5%	0.45

Available Float, Small and Getting Smaller

Table 4 is a list showing share concentration, which represents the shares held by the Government (if any) and those who own 5% or more of shares outstanding, (which are typically management and/or insiders). As you can see, there are several stocks where share concentration exceeds 90%, with the lowest being 63% for the companies we screened. Since 2008, 47 MSE listed companies have gone private, 30 have been delisted and 136 are in danger of being delisted. This compares with only 7 IPO's over the same time period. If stock prices remain under pressure, we may see many more companies go private, especially those with already high share concentration and low debt. Given the lengthy regulatory process currently involved with IPO's, it is unlikely there will be any meaningful supply of new shares to offset the dwindling availability of current shares.

Table 4. Share concentration

No	Ticker	Company name	Business	Shares outstanding	Share concentration
1	BUK	Ulaanbaatar BUK	Trading	1,128,275	97.0%
2	MCH	Telecom Mongolia	Fixed line telecom.	25,870,276	94.7%
3	SUU	Suu	Milk production	344,000	93.8%
4	TEE	Darkhan Teever	Transportation	163,349	92.0%
5	APU	APU	Beverage	74,287,700	91.9%
6	UBH	Ulaanbaatar Carpet	Carpet	404,829	91.9%
7	AAR	Autozam	Construction	139,105	90.9%
8	DAZ	Dornod Auto Zam	Road construction	74,922	90.8%
9	DES	Dornod Khudaldaa	Trading and equipments	73,969	90.4%
10	GHC	Gan Khiits	Iron products	242,464	89.4%
11	JGV	Juulchin Gobi	Tourism	74,169	89.4%
12	SHG	Sharyn Gol	Thermal coal producing	10,231,389	88.7%
13	ADL	Aduunchuluun	Coal mining	3,151,304	88.6%
14	TAV	Tav	Transportation	114,737	88.4%
15	ULN	Ulaanbaatar Hotel	Hotel	335,297	86.0%
16	KEK	Mongol Keramik	Ceramic products	318,879	85.2%
17	MIE	Material Impex	Logistics and trading	1,368,206	85.2%
18	MSR	Mongol Shir	Skin manufacturing	275,360	85.0%
19	SIL	Silikat	Lime stone	46,334,602	85.0%
20	TUS	Tushig Uul	Construction	434,577	85.0%

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No	Ticker	Company name	Business	Shares outstanding	Share concentration
21	GTL	Gutal	Shoe producing	1,618,684	84.2%
22	GOV	Gobi	Cashmere	7,801,125	84.1%
23	HRM	Hermes Center	Real estate and renting	78,543,001	84.0%
24	MVO	Mongol Shevro	Shevro	920,279	83.1%
25	MOG	Mongeo	Geology	52,560	82.5%
26	HHS	Khuvsgul Khuns	Food related products	263,820	80.4%
27	TAH	Takhi-Co	Clothes	1,189,983	79.3%
28	ETR	E-Trans Logistics	Logistics	46,200,000	78.6%
29	BNG	Bayangol Hotel	Hotel	423,065	77.3%
30	ATR	Atar-Urgoo	Bread and pastry	174,136	75.5%
31	CHR	Uvs Chatsargana	Food related products	713,499	74.8%
32	DHU	Darkhan Khuns	Food related products	377,775	74.7%
33	ORD	Orkhon Dalai	Agriculture	242,181	74.0%
34	MIB	Moninjbar	Engineering	15,869,233	72.1%
35	NEH	Darkhkan Nekhii	Clothes producing	1,105,479	71.7%
36	TCK	Talkh Chikher	Food	1,023,703	71.3%
37	UND	Undarga Umnugobi	Construction	94,775	70.7%
38	MMX	Makh Impex	Meat related products	3,800,721	69.2%
39	BDS	BDSec	Financial service	11,000,000	68.5%
40	HBO	HBOil	Oil refinery	9,234,268	68.0%
41	RMC	Remicon	Concrete manufacturing	78,679,464	67.1%
42	SUL	Gazar Suljmel	Knitting	65,362	66.5%
43	HSR	Khasu Mandal	Trading and service	311,856	66.1%
44	JTB	Genco Tour Bureau	Tourism	100,000,000	65.1%
45	ZOO	Zoos Goyol	Jewelry	3,754,944	64.6%
46	UYN	Mongol Savkhi	Clothes producing	2,475,343	63.1%

In Summary

While this process yielded some compelling names based purely on numbers, we consider this quantitative approach just one tool in unlocking value in MSE stocks. As the largest and most experienced firm in Mongolia, we suggest investors talk to their BDSec broker about specific ideas before investing. The qualitative aspect of these companies may in fact be more important than the quantitative, so be sure to have both bases covered before investing.

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