

# First Myanmar Investment (FMI)

## Company Update

Non-rated (03/17E TP Kyat 22,300)

Close Kyat 15,500

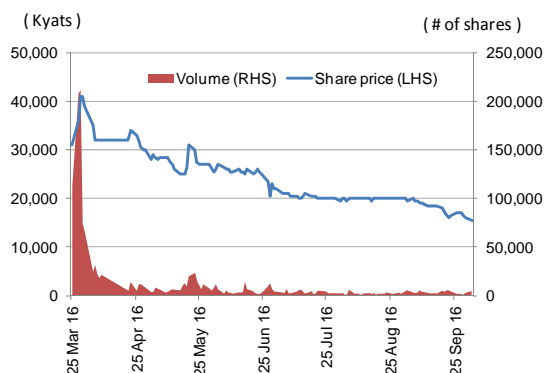
Diversified Conglomerate (Financial Services, Real Estate and Healthcare)

October 4, 2016

## Mobile banking license granted

### Share data

Paid-up Shares (mn)	23.48
Par (USD/Kyat)	0.797 / 1,000
Market cap (US\$ mn /Kyat bn)	290.0/363.94
URL	www.fmi.com.mm



### Major Shareholders (30 Sep '15)

Major Shareholders (30 Sep '15)	Holding
U Theim Wai @ Serge Pun	33.8%
Yangon Land	31.0%
U Phyo Phyu Noe	4.7%
SPA Assets Management	4.6%
Yoma Myittar Development	4.3%

### Forecast revisions pending

FMI's share price retreat of around 30% during the past three months could have resulted mainly from concern that the deteriorating real estate outlook could affect FMI's profit. Although Yoma Bank's likely better-than-expected performance could provide relief, the recovery of residential sales, its high administrative expenses (that might continue from FY03/16) and the losses in the early stage of mobile banking services are issues to be watched. Forecast revisions are pending the release of 1H16/17 results in November.

### Financial services: Long-awaited mobile banking license granted

**Digital Money Myanmar**, operator of "Wave Money", yesterday announced that it received the first non-bank-led mobile banking license from the Central Bank of Myanmar, which has been long awaited since the soft launch in November last year. Wave Money, with around 4,000 "Wave shops" countrywide now, is a mobile money transfer joint venture between Norway's Telenor, FMI and Yoma Bank (51%, 44% and 5%, respectively). We expect this affiliate to incur losses in the first 1-2 years but significantly boost fee income and the deposit base for Yoma Bank over the long term. **Yoma Bank** strengthened its capital adequacy with a series of capital increases that doubled its capital YoY to 83.9bn Kyat in Aug'16. Based on our discussions with FMI, we expect to see some upside on deposit growth and loan growth in H1 (ended 30 September), compared with 30% and 40% growth in our FY03/17 estimate and 59% and 74% growth in FY03/16. We expect profit from the bank to jump around 2x YoY, increasing to 50-60% of FMI's core profit this year.

### Real estate: industry worrisome, but less impact likely at FMI

**Residential projects:** The confidence of property buyers has not yet recovered after the establishment of the new government as we previously thought. Instead, reviews of high-rise building permits have brought a halt to construction work on some projects in Yangon, hindering the property outlook since early this year. None of the projects of FMI's affiliates have faced this trouble, but buyer sentiment has been affected in the near term. A 75% YoY fall in YSH's sales of residences in 1Q17 should signify some impact to FMI, but we expect sales to recover in 2Q17-4Q17 due mainly to increasing demand from businesses in Thilawa SEZ. In July'16, Myanmar Railways signed a lease agreement for the **Landmark Development** project after the project's JV agreement among FMI, Yoma Strategic Investment, Mitsubishi Corporation, Mitsubishi Estate and IFC was signed. Major works (including demolition of the FMI Center) are expected in late 2016 or early 2017, with completion expected in 2020.

### Financials and Valuation

FY Ended 31 Mar	03/14	03/15	03/16	03/17E	03/18E
Revenues (Kyat mn)	11,128	33,319	110,024	157,543	213,906
Net profit (Kyat mn)	12,499	74,655	9,427	16,619	35,735
Core profit (Kyat mn)	12,499	14,165	2,136	16,619	35,735
EPS (Kyat)	678.64	3,320.97	401.50	707.78	1,521.94
EPS growth (%)	n.a.	389.4%	-87.9%	76.3%	115.0%
Dividend (Kyat)	200	120	135	210	450
BV (Kyat)	4,432	7,808	7,956	8,379	9,691
FY Ended 31 Mar	03/14	03/15	03/16	03/17E	03/18E
PER (x)	16.21	3.91	97.14	21.90	10.18
EV/EBITDA (x)	112.01	1,583.96	562.41	88.65	80.94
PBV (x)	2.48	1.66	4.90	1.85	1.60
Dividend yield (%)	1.82	0.92	0.35	1.35	2.90
ROE (%)	17.8%	48.6%	4.0%	8.7%	16.8%
Net gearing (%)	Cash	327.1%	499.9%	598.1%	659.3%

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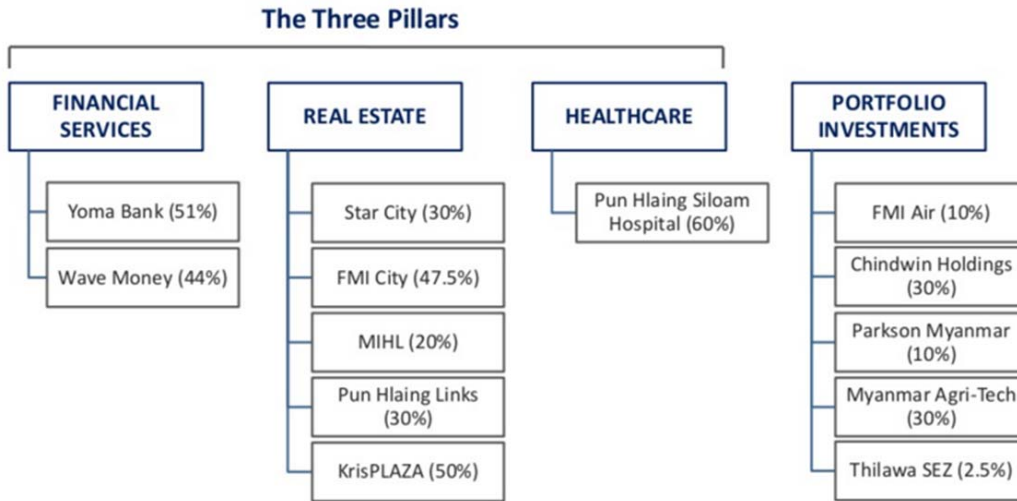
Figure 1: FMI's earnings results review

Profit and Loss (Kyats mn) FY Ended 31 March	FY14/15	FY15/16	% YoY
<b>Revenue</b>	<b>33,319</b>	<b>110,024</b>	<b>230</b>
- Financial services	18,766	95,304	408
- Healthcare services	4,123	11,922	189
- Airline services	7,265	2,342	(68)
- Rental & dividend income	3,166	455	(86)
<b>Gross profit</b>	<b>12,918</b>	<b>35,093</b>	<b>172</b>
- Financial services	8,054	30,983	285
- Healthcare services	876	4,892	458
- Airline services	1,220	(1,238)	(201)
- Rental & dividend income	2,768	455	(84)
<b>Selling &amp; Admin expenses</b>	<b>14,007</b>	<b>35,524</b>	<b>154</b>
- Financial services	6,901	25,703	272
- Healthcare services	2,207	6,084	176
- Airline services	3,039	2,126	(30)
- Others	1,860	1,611	(13)
Other incomes	0	133	n.m.
<b>Operating profit (loss)</b>	<b>(1,089)</b>	<b>(299)</b>	<b>(73)</b>
- Financial services	1,152	5,280	358
- Healthcare services	(1,331)	(1,192)	(10)
- Airline services	(1,819)	(3,364)	85
- Others	909	(1,155)	(227)
<b>EBITDA</b>	<b>516</b>	<b>3,176</b>	<b>516</b>
Interest expense	(624)	(438)	(30)
Income tax	(1,107)	(1,599)	44
Forexgain (loss)	0	0	0
Share of profit (loss) from affiliates	15,453	3,961	(74)
- Property business	10,604	3,366	(68)
- Financial services	1,704	0	n.m.
- Healthcare	3,287	0	n.m.
- Others	(143)	595	n.m.
Profits from non-operations	60,491	7,291	(88)
<b>Net profit (loss)</b>	<b>74,655</b>	<b>9,427</b>	<b>(87)</b>
<b>Core net profit (loss)</b>	<b>14,165</b>	<b>2,136</b>	<b>(85)</b>
<b>Reported EPS (Kyat)</b>	<b>3,321</b>	<b>402</b>	<b>(88)</b>
<b>Core EPS (Kyat)</b>	<b>630</b>	<b>91</b>	<b>(86)</b>
Gross margin (%)	38.8	31.9	
- Financial services	42.9	32.5	
- Healthcare services	21.3	41.0	
- Airline services	16.8	(52.8)	
EBITDA margin (%)	1.5	2.9	
Net margin (%)	224.1	8.6	
Core profit margin (%)	42.5	1.9	
Current ratio (x)	0.8	0.9	
Interest coverage (x)	0.8	7.3	
Net debt / equity (x)	2.6	3.6	
BVPS (Bt)	7,808.4	7,955.9	
ROE (%)	48.6	4.0	

Source: FMI, KT Zmico research

Figure 2: FMI’s investment structure

### FMI Overview



Source: FMI

**Note:**






KT ZMICO has two major shareholders, Krungthai Bank PLC (KTB) and Seamico Securities PLC (ZMICO). Therefore, prior to making investments in the securities of KTB and ZMICO, investors should consider the risk factors carefully.

An executive of KT ZMICO Securities is also a board member of BCP, BTC, CI, CPI, KBS, MAJOR, MK, PACE, PSL, SVH, VNG, ZMICO, SAWAD, TFG.

A management member of KT ZMICO Securities is also a board member of BTC and NFC.

KT ZMICO is a financial advisor for U, LOXLEY, ZMICO, MAKRO, CPALL, SAFARI, PACE, TPOLY, M-CHAI, TFD, SUTHA, EARTH.

KT ZMICO is a co-underwriter of RJH, BCPG, ITEL, SQ, ALLA.

Corporate Governance Report (CGR)		Source: Sec, Thai Institute of Directors Association (IOD)	
 Excellent (scores: 90 - 100)	 Satisfactory (scores: 60 – 69)		
 Very Good (scores: 80 – 89)	 Pass (scores: 50 – 59)		
 Good (scores: 70 – 79)	No Logo N/A (scores: below 50)		

**Anti-corruption Progress Indicator**  
Source: Sec, Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

- **Level 1 (Committed)** : Organization’s statement or board's resolution to work against corruption and to be in compliance with all relevant laws.
- **Level 2 (Declared)** : Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
- **Level 3 (Established)** : Public out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
- **Level 4 (Certified)** : Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
- **Level 5 (Extended)** : Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
- **Insufficient or not clearly defined policy**
- **Data not available / no policy**

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**KT ZMICO RESEARCH – RECOMMENDATION DEFINITIONS**

**STOCK RECOMMENDATIONS**

**BUY:** Expecting positive total returns of 15% or more over the next 12 months

**OUTPERFORM:** Expecting total returns between -10% to +15%; returns expected to exceed market returns over a six-month period due to specific catalysts

**UNDERPERFORM:** Expecting total returns between -10% to +15%; returns expected to be below market returns over a six-month period due to specific catalysts

**SELL:** Expecting negative total returns of 10% or more over the next 12 months

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.

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