



COMPANY UPDATE

Zijin Mining (H) (2899.HK)

Neutral

Equity Research

Zijin NDR takeaway: Seek volume growth to offset price headwinds

What's changed

We hosted Zijin management for a post results non-deal roadshow in Hong Kong on Mar 29.

Implications

Key takeaways:

- Management positive on gold, cautious on copper**
Positive on gold (supported by macro factors like global liquidity), while cautious on copper (competition from low-cost mine additions).
- Active in M&A, volume growth remains key strategy**
Zijin's gold/copper reserves were up by 21%/89% yoy in 2015, thanks to several major acquisitions. The company budgeted up to Rmb9bn for potential acquisitions in 2016 (actual spending may vary), and gold (then copper) is the most preferred metal. **Company strategy:** Maintain volume growth to dilute costs, expand into low cost assets.
- Greater flexibility of local government on employment issues**
Although Zijin's mined gold/copper volume was up by c.10% yoy in 2015, year-end headcount down 18% from 2014. This headcount reduction, although a part of cost control measures, did not appear to receive much pushback from the local government. However, the local government sometimes still promotes projects of high revenue but low economic value due to other reasons.

Valuation

We revise 2016E-18E earnings by -2% to +9%, based on latest production plan, cost forecasts and lower financing expenses due to lower interest rates. Our 12-month target prices based on P/B vs. ROE are unchanged for Zijin (H) at HK\$2.00 and Zijin (A) at Rmb3.40. Remain Neutral.

Key risks

Commodity prices, sales volume and cost control effectiveness.

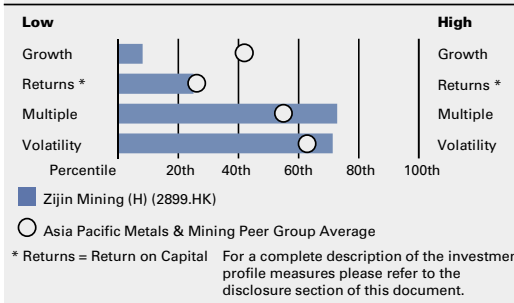
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Coverage View: Neutral

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Investment Profile



Key data	Current			
Price (HK\$)	2.38			
12 month price target (HK\$)	2.00			
601899.SS Price (Rmb)	3.25			
601899.SS 12 month price target (Rmb)	3.40			
Market cap (HK\$ mn / US\$ mn)	51,912.5 / 6,692.0			
Foreign ownership (%)	--			
	12/15	12/16E	12/17E	12/18E
EPS (Rmb) New	0.08	0.07	0.07	0.07
EPS revision (%)	0.0	(1.9)	4.5	8.6
EPS growth (%)	(29.3)	(10.6)	(0.4)	1.7
EPS (dil) (Rmb) New	0.08	0.07	0.07	0.07
P/E (X)	24.9	29.1	29.2	28.7
P/B (X)	1.5	1.5	1.4	1.3
EV/EBITDA (X)	11.1	10.6	10.0	9.6
Dividend yield (%)	0.0	0.0	0.0	0.0
ROE (%)	6.0	5.2	5.0	4.8
CROCI (%)	12.8	9.8	9.9	8.6

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	16.1	23.3	5.3
Rel. to Hang Seng China Ent. Index	30.2	30.4	43.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/29/2016 close.

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Zijin Mining (H): Summary Financials

Profit model (Rmb mn)	12/15	12/16E	12/17E	12/18E	Balance sheet (Rmb mn)	12/15	12/16E	12/17E	12/18E
Total revenue	74,303.6	75,990.6	73,838.0	77,602.7	Cash & equivalents	5,498.3	8,466.0	11,223.5	14,056.6
Cost of goods sold	(68,007.7)	(69,095.7)	(66,993.6)	(70,541.2)	Accounts receivable	3,187.2	3,259.5	3,167.2	3,328.7
SG&A	(3,312.6)	(3,387.8)	(3,291.8)	(3,459.7)	Inventory	10,951.3	11,126.5	10,788.0	11,359.3
R&D	--	--	--	--	Other current assets	2,158.1	2,207.1	2,144.6	2,253.9
Other operating profit/(expense)	(48.8)	(326.0)	(336.0)	(331.6)	Total current assets	21,794.8	25,059.1	27,323.3	30,998.4
EBITDA	6,235.4	6,733.6	7,017.7	7,297.1	Net PP&E	35,760.3	37,160.5	38,120.7	38,140.0
Depreciation & amortization	(3,301.0)	(3,552.5)	(3,801.1)	(4,026.9)	Net intangibles	10,780.7	10,070.5	9,360.3	8,650.1
EBIT	2,934.4	3,181.1	3,216.6	3,270.2	Total investments	8,081.5	9,519.1	11,019.0	12,498.2
Interest income	146.5	194.5	299.5	397.1	Other long-term assets	7,496.7	7,666.9	7,449.7	7,829.5
Interest expense	(1,092.1)	(1,298.5)	(1,332.8)	(1,447.8)	Total assets	83,914.0	89,476.1	93,273.0	98,116.2
Income/(loss) from uncons. subs.	(44.2)	0.0	0.0	0.0	Accounts payable	12,268.6	12,464.8	12,085.6	12,725.6
Others	141.7	0.0	0.0	0.0	Short-term debt	11,448.1	14,448.1	16,448.1	18,448.1
Pretax profits	2,086.2	2,077.2	2,183.4	2,219.5	Other current liabilities	7,809.7	8,617.6	9,156.2	9,694.8
Income tax	(743.5)	(519.3)	(545.8)	(554.9)	Total current liabilities	31,526.4	35,530.6	37,690.0	40,868.6
Minorities	313.0	(77.9)	(163.8)	(166.5)	Long-term debt	17,551.2	17,551.2	17,551.2	17,551.2
Net income pre-preferred dividends	1,655.7	1,480.0	1,473.8	1,498.2	Other long-term liabilities	2,908.2	2,908.2	2,908.2	2,908.2
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	20,459.4	20,459.4	20,459.4	20,459.4
Net income (pre-exceptionals)	1,655.7	1,480.0	1,473.8	1,498.2	Total liabilities	51,985.8	55,990.0	58,149.4	61,328.0
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	1,655.7	1,480.0	1,473.8	1,498.2	Total common equity	27,537.2	29,017.1	30,490.9	31,989.1
EPS (basic, pre-exception) (Rmb)	0.08	0.07	0.07	0.07	Minority interest	4,391.1	4,469.0	4,632.7	4,799.2
EPS (basic, post-exception) (Rmb)	0.08	0.07	0.07	0.07	Total liabilities & equity	83,914.0	89,476.1	93,273.0	98,116.2
EPS (diluted, post-exception) (Rmb)	0.08	0.07	0.07	0.07	BVPS (Rmb)	1.28	1.35	1.42	1.48
DPS (Rmb)	0.00	0.00	0.00	0.00					
Dividend payout ratio (%)	0.0	0.0	0.0	0.0					
Free cash flow yield (%)	11.9	5.4	6.5	5.3					
Growth & margins (%)	12/15	12/16E	12/17E	12/18E	Ratios	12/15	12/16E	12/17E	12/18E
Sales growth	26.5	2.3	(2.8)	5.1	CROCI (%)	12.8	9.8	9.9	8.6
EBITDA growth	(9.0)	8.0	4.2	4.0	ROE (%)	6.0	5.2	5.0	4.8
EBIT growth	(30.2)	8.4	1.1	1.7	ROA (%)	2.1	1.7	1.6	1.6
Net income growth	(29.4)	(10.6)	(0.4)	1.7	ROACE (%)	3.7	4.2	4.2	4.2
EPS growth	(29.3)	(10.6)	(0.4)	1.7	Inventory days	57.2	58.3	59.7	57.3
Gross margin	8.5	9.1	9.3	9.1	Receivables days	16.9	15.5	15.9	15.3
EBITDA margin	8.4	8.9	9.5	9.4	Payable days	57.1	65.3	66.9	64.2
EBIT margin	3.9	4.2	4.4	4.2	Net debt/equity (%)	73.6	70.3	64.8	59.6
					Interest cover - EBIT (X)	3.1	2.9	3.1	3.1
Cash flow statement (Rmb mn)	12/15	12/16E	12/17E	12/18E	Valuation	12/15	12/16E	12/17E	12/18E
Net income pre-preferred dividends	1,655.7	1,480.0	1,473.8	1,498.2	P/E (analyst) (X)	24.9	29.1	29.2	28.7
D&A add-back	3,301.0	3,552.5	3,801.1	4,026.9	P/B (X)	1.5	1.5	1.4	1.3
Minorities interests add-back	(313.0)	77.9	163.8	166.5	EV/EBITDA (X)	11.1	10.6	10.0	9.6
Net (inc)/dec working capital	3,159.3	(51.3)	51.6	(92.8)	EV/GCI (X)	1.1	1.0	1.0	0.9
Other operating cash flow	2,466.4	588.7	818.3	49.4	Dividend yield (%)	0.0	0.0	0.0	0.0
Cash flow from operations	10,269.4	5,647.8	6,308.6	5,648.2					
Capital expenditures	(4,858.2)	(3,103.8)	(3,207.5)	(3,103.8)					
Acquisitions	(694.6)	(851.3)	(592.5)	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(3,140.3)	(1,725.1)	(1,751.1)	(1,711.4)					
Cash flow from investments	(8,693.2)	(5,680.1)	(5,551.0)	(4,815.1)					
Dividends paid (common & pref)	(1,725.8)	0.0	0.0	0.0					
Inc/(dec) in debt	3,442.4	3,000.0	2,000.0	2,000.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	(1,989.5)	0.0	0.0	0.0					
Cash flow from financing	(273.0)	3,000.0	2,000.0	2,000.0					
Total cash flow	1,303.2	2,967.7	2,757.5	2,833.1					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Zijin operating summary

GS commodity price		2013	2014	2015	2016E	2017E	2018E	yoy			
								2015	2016E	2017E	2018E
Gold	US\$/ounce	1,413	1,266	1,160	1,095	1,000	1,050	-8%	-6%	-9%	5%
Copper	USD/t	7,328	6,863	5,510	4,397	4,000	4,000	-20%	-20%	-9%	0%
Zinc	USD/t	1,910	2,161	1,932	1,713	1,700	1,600	-11%	-11%	-1%	-6%
Gold	Rmb/g	281	251	234	242	231	246	-7%	4%	-5%	7%
Copper	Rmb/t, VAT excl.	45,287	42,276	34,564	30,284	28,760	29,200	-18%	-12%	-5%	2%
Zinc	Rmb/t, VAT excl.	11,804	13,312	12,118	11,798	12,223	11,680	-9%	-3%	4%	-4%
Production volume		2013	2014	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
Mined gold	t	32	34	37	43	43	43	10%	14%	1%	0%
Copper concentrate	kt	125	138	150	155	220	246	9%	3%	42%	12%
Zinc concentrate	kt	72	96	198	270	270	270	106%	36%	0%	0%
Production cost		2013	2014	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
Mined gold	Rmb/g	152	144	136	133	133	137	-6%	-2%	0%	3%
Copper concentrate	Rmb/t	17,908	18,467	17,504	16,979	16,979	17,488	-5%	-3%	0%	3%
Zinc concentrate	Rmb/t	3,862	3,509	3,800	3,990	4,070	4,151	8%	5%	2%	2%
Gross margin		2013	2014	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
Mining		49%	45%	39%	38%	36%	36%	-5.7ppt	-0.8ppt	-2.6ppt	-0.1ppt
Gold		43%	38%	37%	40%	37%	40%	-1ppt	3.4ppt	-2.9ppt	2.1ppt
Copper		55%	48%	40%	33%	30%	29%	-8.7ppt	-6.5ppt	-3.5ppt	-1ppt
Zinc		49%	57%	47%	39%	44%	40%	-9.8ppt	-8.6ppt	5.3ppt	-3.8ppt
Non-mining		3.1%	2.2%	1.3%	1.2%	1.3%	0.9%	-0.9ppt	0ppt	0.1ppt	-0.4ppt
Blended		18%	13%	8%	9%	9%	9%	-4.9ppt	0.6ppt	0.2ppt	-0.2ppt
Key metrics		2013	2014	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
Gross margin		18%	13%	8%	9%	9%	9%	-4.9ppt	0.6ppt	0.2ppt	-0.2ppt
Net margin		4%	4%	2%	2%	2%	2%	-1.8ppt	-0.3ppt	0ppt	-0.1ppt
ROE		8%	8%	6%	5%	5%	5%	-2.5ppt	-0.7ppt	-0.3ppt	-0.2ppt

Source: Company data, Goldman Sachs Global Investment Research.

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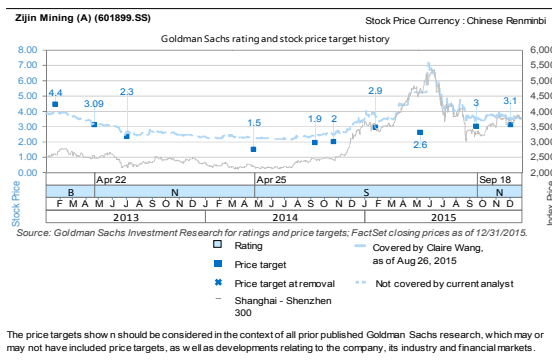
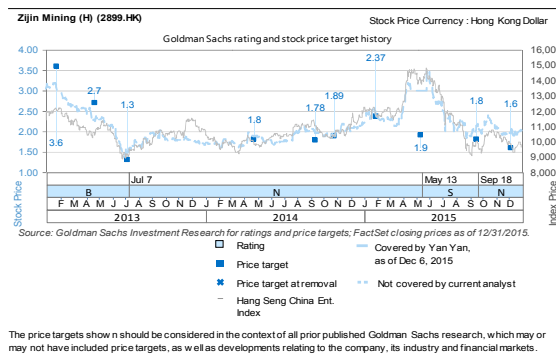
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