



Rating  
**Buy**

Asia  
China

Resources  
Metals & Mining

Company  
**Zijin Mining**

Reuters 2899.HK    Bloomberg 2899 HK    Exchange HSI    Ticker 2899

Date  
3 May 2016

## Results

Price at 2 May 2016 (HKD)	2.57
Price target - 12mth (HKD)	2.80
52-week range (HKD)	3.49 - 1.71
HANG SENG INDEX	21,067

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# 1Q results missed on hedging; maintain Buy on positive gold outlook

## 1Q missed on hedging and higher financing cost; maintaining Buy

Zijin released its 1Q results, with NPAT of RMB64m (85%YoY decline) only accounting for c.3% of both 2016 DBE and consensus, mainly due to RMB700m+ losses in its hedging and gold leasing business and, to a lesser extent, higher financing costs (+60% YoY). However, its gross margin was c.10% in the first quarter, slightly ahead of DBE and consensus of 9% in 2016, due to its well-controlled unit cost. With our positive view on gold and the company's well-controlled unit cost, we maintain our Buy rating.

## Operation data on track; A-share placement made up by corporate bonds

Zijin's mined gold and copper unit cost was RMB140/g and RMB15,427/t in the first quarter, representing 4% and 14% yoy declines, respectively. As a result, its gross margin reached c.10%, which was 1ppt higher than 2016 DBE and consensus. With the recent metal prices recovery, especially the gold price, which almost reached USD1,300/oz, we expect Zijin's GM continue to improve in coming quarters. On the other hand, Zijin decided to cancel its A-share placement with a proposed size of RMB8-9bn. It issued RMB5bn in corporate bonds in March 2016 instead, with a three-year rate of 2.99% and a five-year rate of 3.37%.

## Maintaining Buy on positive gold outlook and cost control; risks

Our Global Commodity team forecasts average copper prices of USD4,619/t and USD4,725/t and average gold prices of USD1,183/oz and USD1,231/oz in 2016 and 2017, respectively. Our sensitivity analysis indicates that a 9% change in the gold price (i.e., gold price at USD1,300/oz) will translate into a 22% change in earnings in 2016. Our target price of HKD2.8 is based on a life-of-mine DCF, with 9.2% WACC. Zijin is currently trading at 20x/13x 2016/17E EPS and 1.5x/1.4x 2016/17E BVPS. Risks: lower-than-expected gold and copper prices.

## Forecasts And Ratios

Year End Dec 31	2014A	2015A	2016E	2017E
Sales (CNYm)	58,760.5	74,303.6	84,070.4	88,928.0
EBITDA (CNYm)	6,819.8	6,384.9	8,019.0	10,037.7
EBIT(CNYm)	4,071	3,076	4,327	6,022
Reported EPS FD(CNY)	0.11	0.08	0.11	0.16
Reported NPAT (CNYm)	2,345.1	1,655.7	2,287.3	3,470.9
DB EPS growth (%)	29.3	-29.3	38.2	51.7
DB EPS FD(CNY)	0.11	0.08	0.11	0.16
OLD DB EPS FD(CNY)	0.11	0.08	0.10	0.14
% Change	0.0%	0.0%	2.1%	17.7%
PER (x)	13.7	24.9	20.2	13.3
EV/EBITDA (x)	7.4	10.0	8.7	6.8
DPS (net) (CNY)	0.08	0.00	0.04	0.06
Yield (net) (%)	5.4	0.0	1.9	2.9

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

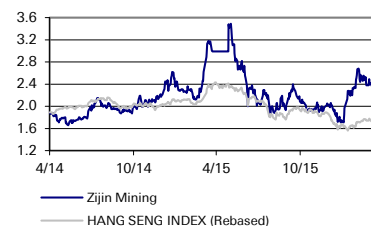
<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

## Key changes

Sales (FYE)	83,392 to 84,070	↑	0.8%
Op prof margin (FYE)	4.5 to 5.1	↑	13.4%
Net profit (FYE)	2,384.6 to 2,287.3	↓	-4.1%

Source: Deutsche Bank

## Price/price relative



Performance (%)	1m	3m	12m
Absolute	8.0	46.9	-14.0
HANG SENG INDEX	3.4	7.0	-25.8

Source: Deutsche Bank

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Model updated: 03 May 2016

Fiscal year end 31-Dec

2013 2014 2015 2016E 2017E

Running the numbers

Asia

China

Metals & Mining

Zijin Mining

Reuters: 2899.HK

Bloomberg: 2899 HK

Buy

Price (2 May 16) HKD 2.57

Target Price HKD 2.80

52 Week range HKD 1.71 - 3.49

Market Cap (m) HKDm 56,057  
USDm 7,226

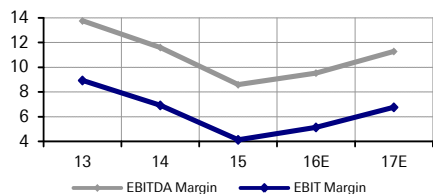
Company Profile

Zijin Mining is a mining conglomerate in the PRC. It is engaged primarily in the exploration, mining and sale of gold and other non-ferrous metals. The company is one of the largest and most efficient mine-produced gold producers in the PRC.

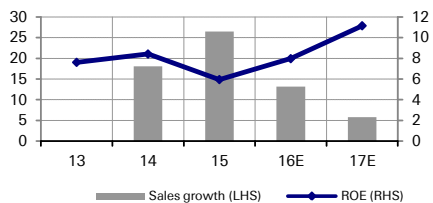
Price Performance



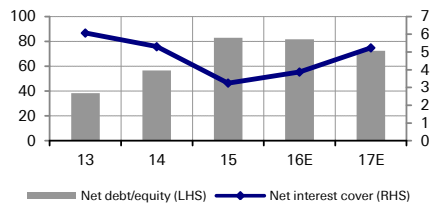
Margin Trends



Growth & Profitability



Solvency



Financial Summary

DB EPS (CNY)	0.08	0.11	0.08	0.11	0.16
Reported EPS (CNY)	0.10	0.11	0.08	0.11	0.16
DPS (CNY)	0.08	0.08	0.00	0.04	0.06
BVPS (CNY)	1.3	1.3	1.3	1.4	1.5
Weighted average shares (m)	21,812	21,573	21,558	21,543	21,543
Average market cap (CNYm)	36,491	32,034	41,279	46,851	46,851
Enterprise value (CNYm)	48,751	50,517	63,633	70,121	68,666

Valuation Metrics

P/E (DB) (x)	19.9	13.7	24.9	20.2	13.3
P/E (Reported) (x)	17.2	13.7	24.9	20.2	13.3
P/BV (x)	1.04	1.34	1.29	1.55	1.43
FCF Yield (%)	0.9	0.6	13.3	0.7	7.9
Dividend Yield (%)	4.7	5.4	0.0	1.9	2.9
EV/Sales (x)	1.0	0.9	0.9	0.8	0.8
EV/EBITDA (x)	7.1	7.4	10.0	8.7	6.8
EV/EBIT (x)	11.0	12.4	20.7	16.2	11.4

Income Statement (CNYm)

Sales revenue	49,772	58,761	74,304	84,070	88,928
Gross profit	10,601	9,790	8,795	11,750	13,684
EBITDA	6,846	6,820	6,385	8,019	10,038
Depreciation	2,395	2,749	3,309	3,692	4,016
Amortisation	0	0	0	0	0
EBIT	4,451	4,071	3,076	4,327	6,022
Net interest income/(expense)	-733	-768	-946	-1,117	-1,150
Associates/affiliates	117	21	-44	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	3,835	3,324	2,086	3,210	4,871
Income tax expense	973	689	743	803	1,218
Minorities	736	290	-313	120	183
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,126	2,345	1,656	2,287	3,471
DB adjustments (including dilution)	-291	0	0	0	0
DB Net profit	1,834	2,345	1,656	2,287	3,471

Cash Flow (CNYm)

Cash flow from operations	8,842	6,321	10,269	6,619	9,560
Net Capex	-8,519	-6,143	-4,794	-6,298	-5,899
Free cash flow	324	177	5,476	321	3,661
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-3,687	-3,034	-3,414	0	-873
Net inc/(dec) in borrowings	484	1,201	1,083	0	0
Other investing/financing cash flows	150	-2,954	-2,493	-1,956	-1,570
Net cash flow	-2,729	-4,609	652	-1,635	1,218
Change in working capital	2,765	-2,256	2,679	-597	740

Balance Sheet (CNYm)

Cash and other liquid assets	4,492	4,140	5,498	5,863	7,081
Tangible fixed assets	29,529	33,242	35,760	38,193	39,974
Goodwill/intangible assets	8,995	9,882	10,781	11,172	11,492
Associates/investments	5,854	6,154	8,461	9,301	9,720
Other assets	18,029	21,742	23,413	23,439	22,754
Total assets	66,898	75,160	83,914	87,967	91,020
Interest bearing debt	17,133	23,167	31,922	33,922	33,922
Other liabilities	16,680	18,324	20,063	19,709	19,982
Total liabilities	33,813	41,491	51,986	53,631	53,904
Shareholders' equity	27,612	28,059	27,537	29,824	32,422
Minorities	5,473	5,609	4,391	4,511	4,694
Total shareholders' equity	33,085	33,669	31,928	34,336	37,116
Net debt	12,641	19,028	26,424	28,059	26,842

Key Company Metrics

Sales growth (%)	nm	18.1	26.5	13.1	5.8
DB EPS growth (%)	na	29.3	-29.3	38.2	51.7
EBITDA Margin (%)	13.8	11.6	8.6	9.5	11.3
EBIT Margin (%)	8.9	6.9	4.1	5.1	6.8
Payout ratio (%)	81.5	73.6	0.0	38.2	38.2
ROE (%)	7.6	8.4	6.0	8.0	11.2
Capex/sales (%)	17.3	10.6	6.5	7.5	6.6
Capex/depreciation (x)	3.6	2.3	1.5	1.7	1.5
Net debt/equity (%)	38.2	56.5	82.8	81.7	72.3
Net interest cover (x)	6.1	5.3	3.3	3.9	5.2

Source: Company data, Deutsche Bank estimates

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# Results summary

Figure 1: Zijin Mining 1Q16 financial summary

	1Q16	4Q15	QoQ	1Q15	YoY	16FY DBE	% of DBE	16FY Cons	% of Cons
Revenue	19,398	13,106	48%	15,896	22%	83,392	23%	77,716	25%
GP	1,998	765	161%	1,361	47%	7,186	28%	7,371	27%
SG&A	(889)	(991)	-10%	(811)	10%	(3,502)	25%	(3,800)	23%
OP	333	(247)	-235%	890	-63%	3,784	9%	3,571	9%
non-op items	(721)	74	na	219	-430%	na	na	na	na
PBT	111	(260)	-143%	606	-82%	2,890	4%	na	na
NPAT	64	(36)	-275%	415	-85%	2,385	3%	1,982	3%
NPAT excl. non-op items	596	(92)	-748%	269	122%	na	na	na	na
CFO	442	4,871	-91%	1,393	-68%	6,163	7%	na	na
GPM	10%	6%	+4.5ppt	9%	+1.7ppt	9%	+1.7ppt	9%	+0.8ppt
SG&A % of revenue	5%	8%	-3.0ppt	5%	-0.5ppt	4%	na	5%	na
Effective tax rate	26%	-29%	na	33%	na	25%	na	na	na
Gearing ratio	80%	77%	+3.0ppt	55%	+25.0ppt	na	na	na	na

Source: Deutsche Bank estimates, Bloomberg Finance LP

Figure 2: Zijin Mining 1Q16 operational summary

	Unit	1Q16	QoQ	YoY	4Q15	3Q15	1Q15	FY16 DBE	% of DBE
Mined gold ASP	RMB/g	223	7%	-1%	209	211	225	245	91%
Mined gold unit cost	RMB/g	140	8%	-4%	130	135	145	133	105%
Mined gold sales volume	kg	10,382	10%	37%	9,443	9,211	7,590	43,119	24%
Mined copper ASP	RMB/t	25,697	-1%	-15%	25,827	28,082	30,241	26,490	97%
Mined copper unit cost	RMB/t	15,427	-31%	-14%	22,320	15,904	17,991	16,629	93%
Mined copper sales volume	t	40,538	26%	17%	32,113	41,809	34,551	155,368	26%
Mined zinc ASP	RMB/t	6,057	-12%	-26%	6,916	6,000	8,219	6,883	88%
Mined zinc unit cost	RMB/t	3,352	-17%	-20%	4,044	2,874	4,194	3,800	88%
Mined zinc sales volume	t	63,189	4%	98%	61,033	48,269	31,978	270,000	23%
Commodity price									
Gold	RMB/g	250	9%	2%	229	230	244		
Copper	RMB/t	36,165	-2%	-15%	36,954	39,913	42,391		
Zinc	RMB/t	13,972	1%	-16%	13,820	15,356	16,616		

Source: Deutsche Bank estimates, Bloomberg Finance LP \*Copper and Zinc prices based on Changjiang spot price (VAT incl.)



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Zijin Mining	2899.HK	2.56 (HKD) 29 Apr 16	14,15

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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Historical recommendations and target price: Zijin Mining (2899.HK)  
(as of 4/29/2016)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	28/10/2014:	Upgrade to Hold, Target Price Change HKD2.10	3.	29/09/2015:	Hold, Target Price Change HKD2.30
2.	30/06/2015:	Hold, Target Price Change HKD2.40	4.	28/02/2016:	Upgrade to Buy, Target Price Change HKD2.80

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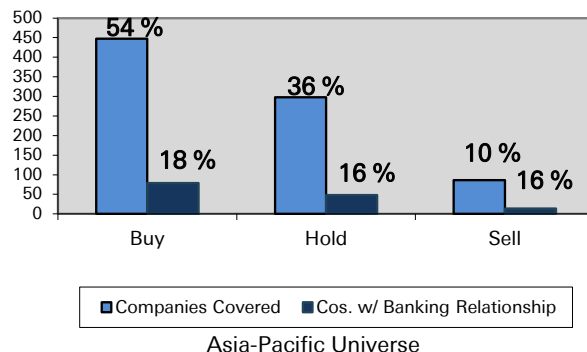
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