



Rating
Buy

Asia
China

Resources
Metals & Mining

Company
Zijin Mining

Reuters 2899.HK Bloomberg 2899 HK Exchange HSI Ticker 2899

Date
26 October 2016

Results

Price at 26 Oct 2016 (HKD)	2.50
Price target - 12mth (HKD)	3.30
52-week range (HKD)	3.04 - 1.71
HANG SENG INDEX	23,565

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Strong fundamentals but some cost hikes; reiterating Buy

3Q earnings in line with DBe but beats consensus; Buy

Zijin released 3Q results with NPAT of RMB886mn, indicating 87% QoQ and 153% YoY growth, thanks to stronger metal prices and TCRCs, despite hikes in gold and zinc unit costs in 3Q. There was a muted impact from non-op items in 3Q due to positive changes in fair value and write-off of hedge positions. 3Q YTD bottom line was RMB1,424mn, representing c.63% of FY16 DB (i.e., in line with DB's full-year expectation as we expect little impact from hedge losses in 4Q) and c.83% of the consensus. We maintain our positive view on zinc and gold in the medium term; thus, we maintain Buy on Zijin.

Strong fundamentals but cost hike of zinc/gold; hedge position lowered

Compared with 2Q, gross profit increased 11% QoQ due to stronger metal prices and better volume in mined gold and copper, despite the unit cost hike in mined gold (+5% QoQ) and mined zinc (+26% QoQ). Please refer to Figure 2 for a detailed summary of mined segments. Meanwhile, refinery businesses' margin also improved QoQ, by 0.2ppt, 1.4ppt, and 5.4ppt in gold, copper and zinc, respectively. Hedging was the major reason for the earnings disappointment in 1H16. Now the company is more disciplined and has lowered its position to less than 10%. Thus, we believe there will be little impact 4Q16 onward.

Metal price outlook; reiterating Buy on positive fundamentals

Because of the instability in the current global economic environment, our global commodity team expects the gold price to recover to c.USD1300/oz next year, although the recent expectation of the US rate hike has caused some correction in the price. Copper will continue to be relatively weak, but zinc could outperform as the market continues to remain in deficit due to supply contraction. We base our target price of HKD3.3 for Zijin on DCF life-of-mine methodology where we assume 7.9% WACC. Zijin is currently trading at 20x PE and 1.6x PB. With c.36% upside potential, we maintain our Buy rating. Risks include higher-than-expected mined gold, copper, and zinc unit cost, and lower-than-expected metal prices.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.6	-12.9	16.8
HANG SENG INDEX	1.1	6.5	1.9

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2014A	2015A	2016E	2017E	2018E
Sales (CNYm)	58,760.5	74,303.6	80,941.1	90,835.4	98,854.4
EBITDA (CNYm)	6,819.8	6,384.9	7,870.3	10,884.0	12,504.5
Reported EPS FD(CNY)	0.11	0.08	0.11	0.19	0.22
Reported NPAT (CNYm)	2,345.1	1,655.7	2,266.4	4,114.3	4,743.5
DB EPS FD(CNY)	0.11	0.08	0.11	0.19	0.22
PER (x)	13.7	24.9	20.8	11.4	9.9
Yield (net) (%)	5.4	3.1	2.8	5.1	6.2

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² 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



Model updated: 03 October 2016

Fiscal year end 31-Dec

2014 2015 2016E 2017E 2018E

Running the numbers

Asia
China
Metals & Mining

Zijin Mining

Reuters: 2899.HK Bloomberg: 2899.HK

Buy

Price (26 Oct 16) HKD 2.50
Target Price HKD 3.30
52 Week range HKD 1.71 - 3.04
Market Cap (m) HKDm 54,530
USDm 7,030

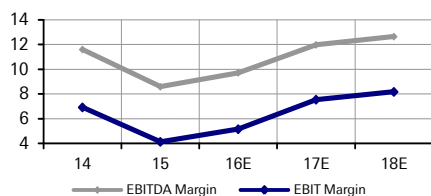
Company Profile

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.

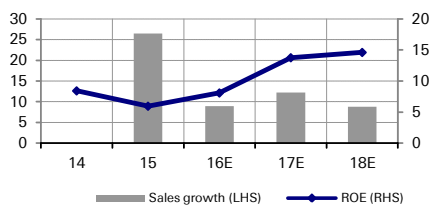
Price Performance



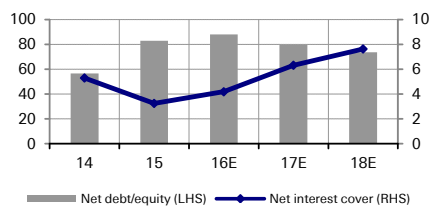
Margin Trends



Growth & Profitability



Solvency



Financial Summary

DB EPS (CNY)	0.11	0.08	0.11	0.19	0.22
Reported EPS (CNY)	0.11	0.08	0.11	0.19	0.22
DPS (CNY)	0.08	0.06	0.06	0.11	0.14
BVPS (CNY)	1.3	1.3	1.3	1.5	1.6
Weighted average shares (m)	21,573	21,558	21,543	21,543	21,543
Average market cap (CNYm)	32,034	41,279	47,643	47,643	47,643
Enterprise value (CNYm)	50,517	63,633	71,903	71,287	71,374

Valuation Metrics

P/E (DB) (x)	13.7	24.9	20.8	11.4	9.9
P/E (Reported) (x)	13.7	24.9	20.8	11.4	9.9
P/BV (x)	1.34	1.29	1.65	1.50	1.40
FCF Yield (%)	0.6	13.3	1.1	6.9	8.3
Dividend Yield (%)	5.4	3.1	2.8	5.1	6.2
EV/Sales (x)	0.9	0.9	0.9	0.8	0.7
EV/EBITDA (x)	7.4	10.0	9.1	6.5	5.7
EV/EBIT (x)	12.4	20.7	17.2	10.4	8.8

Income Statement (CNYm)

Sales revenue	58,761	74,304	80,941	90,835	98,854
Gross profit	9,790	8,795	12,632	14,881	16,854
EBITDA	6,820	6,385	7,870	10,884	12,505
Depreciation	2,749	3,309	3,692	4,025	4,418
Amortisation	0	0	0	0	0
EBIT	4,071	3,076	4,179	6,859	8,087
Net interest income/(expense)	-768	-946	-998	-1,085	-1,059
Associates/affiliates	21	-44	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	3,324	2,086	3,181	5,774	7,027
Income tax expense	689	743	795	1,444	1,757
Minorities	290	-313	119	217	527
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,345	1,656	2,266	4,114	4,743
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	2,345	1,656	2,266	4,114	4,743

Cash Flow (CNYm)

Cash flow from operations	6,321	10,269	6,802	9,441	11,168
Net Capex	-6,143	-4,794	-6,298	-6,198	-7,261
Free cash flow	177	5,476	504	3,243	3,906
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-3,034	-3,414	-1,292	-1,326	-2,407
Net inc/(dec) in borrowings	1,201	1,083	0	0	0
Other investing/financing cash flows	-2,954	-2,493	-1,837	-1,504	-1,479
Net cash flow	-4,609	652	-2,626	413	21
Change in working capital	-2,256	2,679	-273	1	420

Balance Sheet (CNYm)

Cash and other liquid assets	4,140	5,498	4,873	5,286	5,306
Tangible fixed assets	33,242	35,760	38,193	40,222	42,817
Goodwill/intangible assets	9,882	10,781	11,172	11,533	12,000
Associates/investments	6,154	8,461	9,301	9,720	10,140
Other assets	21,742	23,413	22,187	24,256	21,845
Total assets	75,160	83,914	85,726	91,017	92,107
Interest bearing debt	23,167	31,922	33,922	33,922	33,922
Other liabilities	18,324	20,063	18,782	21,067	19,294
Total liabilities	41,491	51,986	52,704	54,990	53,217
Shareholders' equity	28,059	27,537	28,511	31,300	33,636
Minorities	5,609	4,391	4,510	4,727	5,254
Total shareholders' equity	33,669	31,928	33,021	36,026	38,890
Net debt	19,028	26,424	29,050	28,637	28,616

Key Company Metrics

Sales growth (%)	nm	26.5	8.9	12.2	8.8
DB EPS growth (%)	na	-29.3	37.0	81.5	15.3
EBITDA Margin (%)	11.6	8.6	9.7	12.0	12.6
EBIT Margin (%)	6.9	4.1	5.2	7.6	8.2
Payout ratio (%)	73.6	78.1	58.5	58.5	61.7
ROE (%)	8.4	6.0	8.1	13.8	14.6
Capex/sales (%)	10.6	6.5	7.8	6.8	7.3
Capex/depreciation (x)	2.3	1.5	1.7	1.5	1.6
Net debt/equity (%)	56.5	82.8	88.0	79.5	73.6
Net interest cover (x)	5.3	3.3	4.2	6.3	7.6

Source: Company data, Deutsche Bank estimates

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Zijin 3Q results

Financial summary

Figure 1: Zijin Mining – 3Q results summary

	3Q16	2Q16	QoQ	YoY	3Q16 YTD	16FY DBe	% of DBe	16FY Cons	% of Cons
Revenue	18,401	19,492	-6%	-18%	57,291	80,941	71%	82,581	69%
GP	2,124	1,908	11%	61%	6,030	8,940	67%	7,980	76%
SG&A	(868)	(785)	11%	15%	(2,542)	(3,561)	71%	na	na
OP	1,293	557	132%	32%	2,183	4,179	52%	3,795	58%
NPAT	886	475	87%	153%	1,424	2,266	63%	1,710	83%
NPAT excl. non-op items	811	925	-12%	223%	2,243	na	na	na	na
CFO	1,678	3,190	-47%	8%	5,309	6,802	78%	na	na
GPM	12%	10%	+2ppt	+6ppt	11%	11%	+1ppt	10%	+2ppt
SG&A % of revenue	5%	4%	-	-	4%	4%	+1ppt	na	na
Effective tax rate	16%	2%	+14ppt	-23ppt	13%	25%	-9ppt	na	na
Gearing ratio	95%	84%	+11ppt	+28ppt	95%	82%	+13ppt	na	na

Source: Deutsche Bank estimates, Bloomberg Finance LP

Figure 2: Zijin operational summary

Operational matrix		3Q16	2Q16	1Q16	QoQ	3Q15	YoY	3Q16 YTD	DBe YTD as % of DBe	
Mined gold ASP	RMB/g	247	235	223	5%	211	17%	235	257	92%
Mined gold unit cost	RMB/g	154	147	140	5%	135	14%	147	144	102%
Mined gold sales volume	kg	10,238	9,960	10,382	3%	9,211	11%	30,580	42,638	72%
Mined copper ASP	RMB/t	25,136	24,845	25,697	1%	28,082	-10%	25,251	26,586	95%
Mined copper unit cost	RMB/t	16,176	15,868	15,427	2%	15,904	2%	15,819	15,579	102%
Mined copper sales volume	t	39,909	33,255	40,538	20%	41,809	-5%	113,702	151,238	75%
Mined zinc ASP	RMB/t	8,379	7,309	6,057	15%	6,000	40%	7,247	8,026	90%
Mined zinc unit cost	RMB/t	4,165	3,304	3,352	26%	2,874	45%	3,606	3,344	108%
Mined zinc sales volume	t	62,947	63,358	63,189	-1%	48,269	30%	189,494	270,000	70%
Commodity price										
Gold	RMB/g	1,334	1,258	1,182	6%	1,125	19%	1,258		
Copper	RMB/t	37,403	36,311	36,165	3%	39,913	-6%	36,626		
Zinc	RMB/t	17,884	15,503	13,972	15%	15,356	16%	15,786		

Source: Deutsche Bank estimates, company data, Bloomberg Finance LP



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Zijin Mining	2899.HK	2.50 (HKD) 26 Oct 16	6,9,14,15

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Historical recommendations and target price: Zijin Mining (2899.HK)

(as of 10/26/2016)



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

**Analyst is no longer at Deutsche Bank

1.	30/06/2015:	Hold, Target Price Change HKD2.40 James Kan	4.	29/08/2016:	Buy, Target Price Change HKD3.20 Sharon Ding
2.	29/09/2015:	Hold, Target Price Change HKD2.30 James Kan	5.	03/10/2016:	Buy, Target Price Change HKD3.30 James Kan
3.	28/02/2016:	Upgrade to Buy, Target Price Change HKD2.80 Sharon Ding			

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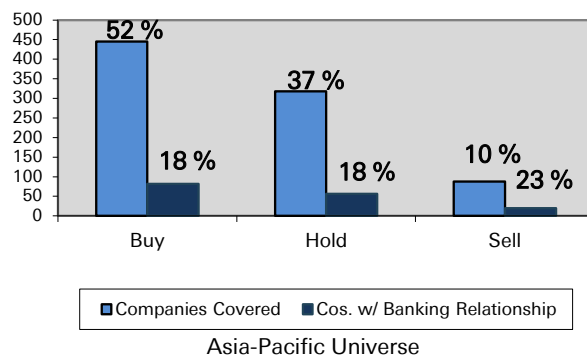
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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