

HONG KONG

2899 HK Outperform

Price (at 08:09, 19 Oct 2016 GMT) HK\$2.40

Valuation HK\$ 3.57
- DCF (WACC 8.5%, beta 1.0, ERP 7.0%, RFR 3.0%)

12-month target HK\$ 3.57

Upside/Downside % +48.8

12-month TSR % +50.5

Volatility Index High

GICS sector Materials

Market cap HK\$m 51,704

Market cap US\$m 6,663

Free float % 52

30-day avg turnover US\$m 7.3

Number shares on issue m 21,543

Investment fundamentals

Year end 31 Dec		2015A	2016E	2017E	2018E
Revenue	m	73,494	78,368	87,734	88,521
EBIT	m	2,890	2,921	6,417	5,049
EBIT growth	%	-31.6	1.1	119.7	-21.3
Reported profit	m	1,656	1,175	3,437	2,602
Adjusted profit	m	1,656	1,175	3,437	2,602
EPS rep	Rmb	0.07	0.05	0.15	0.11
EPS rep growth	%	-29.4	-29.1	192.6	-24.3
EPS adj	Rmb	0.07	0.05	0.15	0.11
EPS adj growth	%	-29.4	-29.1	192.6	-24.3
PER rep	x	29.1	41.0	14.0	18.5
PER adj	x	29.1	41.0	14.0	18.5
Total DPS	Rmb	0.00	0.02	0.04	0.03
Total div yield	%	0.0	0.7	2.1	1.6
ROA	%	3.6	3.4	6.8	5.0
ROE	%	6.0	4.2	10.7	7.1
EV/EBITDA	x	29.2	28.9	13.1	16.7
Net debt/equity	%	98.0	109.9	79.7	79.1
P/BV	x	1.8	1.7	1.4	1.3

*EPS assumes the A-share issuance goes through

2899 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, October 2016
(all figures in Rmb unless noted, TP in HKD)

Analyst(s)

Coria Chow

+852 3922 1181

coria.chow@macquarie.com

Eric Zong

+852 3922 4749

eric.zong@macquarie.com

26 October 2016

Macquarie Capital Limited

Zijin Mining

Starting to shine in 3Q16

Event

- Zijin Mining reported 9M16 net profit of Rmb1.42bn. We believe this is a strong set of results, with 3Q16 earnings recovering 87% QoQ to Rmb886mn, driven by improving cost control. 9M16 gross profit of Rmb6.6bn is in line and 80% of our FY16 estimate of Rmb8.2bn. Net profit beat our estimate of Rmb1.1bn, with a lower-than-expected hedging loss (we forecast an Rmb1.7bn full-year hedging loss vs Rmb1.03bn for 9M16) as well as lower-than-expected interest expense. Reiterate OP.

Impact

- We note that gross margin continued to improve for 9M16, driven by an ASP increase for key commodities, and cost cutting strengthened. In particular, gross margins for mined gold and zinc for 9M16 improved 93/35bps YoY to 37%/50%. Cost cutting for copper also continued, and this helped to partly offset the ASP decline.
- A common concern for Zijin has been the hedging loss for 1H16. However, we note the hedging loss stopped increasing, with the gold price stabilizing at around US\$1,300/t (compared with a 23% rise throughout 1H16). Also, the 9M16 hedging loss of Rmb1.03bn only achieved 61% of our 2016 estimate of Rmb1.7bn. Therefore, we believe this should not be as much of a concern going forward.

Earnings and target price revision

- No changes.

Price catalyst

- 12-month price target: HK\$3.57 based on a DCF methodology.
- Catalyst: 2016 full-year result, gold price supported by low real interest rate.

Action and recommendation

- Zinc is among our most preferred commodities, with an [increasing shortage](#) globally. Our Global Commodities team estimates that globally there will be a 448kt shortage in 2016, increasing to 518kt in 2017. While supply continues to fall (as reflected by the falling treatment charges), zinc demand is stable, with global galvanized steel output growing steadily (+2%YoY in 1H16).
- We stress that Zijin is the fastest-growing emerging zinc player in China (2013–2015 output CAGR of 66%), and we forecast continued growth in zinc output in 2016/17E/18E of 21%/12%/9%YoY.
- While providing exposure as a zinc miner, we believe Zijin should continue to enjoy earnings protection from macro uncertainties with its gold exposure. We estimate 12t of incremental gold output from Porgera and the technical upgrade of three other existing operations, which should be more than enough to offset the reserve depletion from Zijinshan (9.2t mine output in 2015). Therefore, Zijin remains our top pick in the China metal space with **both fundamental catalysts (gold exposure, continual improvement in cost control) as well as macro protection (from its gold exposure)**.

Fig 1 Zijin Mining – 3Q16 saw significant QoQ earnings improvement

	3Q16	2Q16	QoQ% change	9M16	2016	As a % of 2016
Revenue	18,401	19,493	-5.6%	57,291	78,368	73.1%
COGS	16,082	17,399	-7.6%	50,676	70,162	72.2%
Gross profit	2,320	2,094	10.8%	6,616	8,207	80.6%
Gross margin	12.6%	10.7%		11.5%	10.5%	
Loss from FV change/ (Investment income)	-144	451	N/A	1,032	1,679.2	61.4%
Interest expense	273	162	68.0%	712	1,075.0	66.3%
Net profit	886	475	86.7%	1,424	1,175	121.3%

Source: Company data, Macquarie Research, October 2016

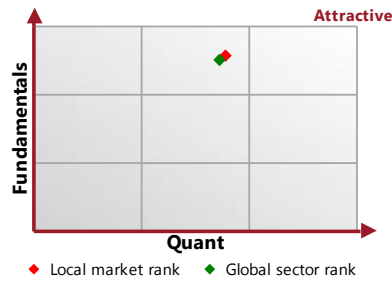
Macquarie Quant View

The quant model currently holds a marginally positive view on Zijin Mining. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

650/1523

Global rank in
Materials

% of BUY recommendations 64% (7/11)
Number of Price Target downgrades 1
Number of Price Target upgrades 3

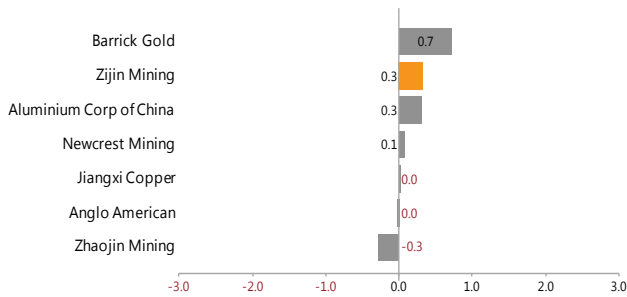


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Hong Kong) and Global sector (Materials)

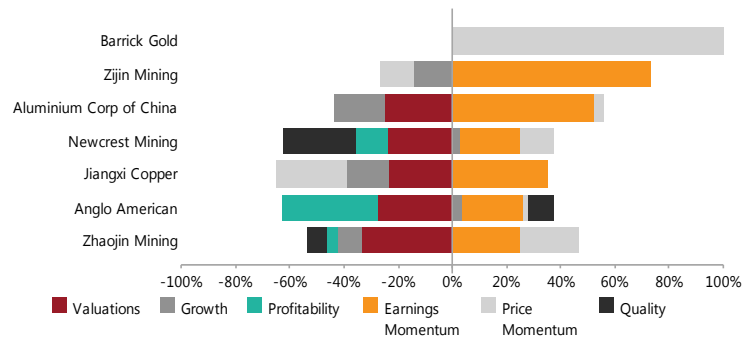
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



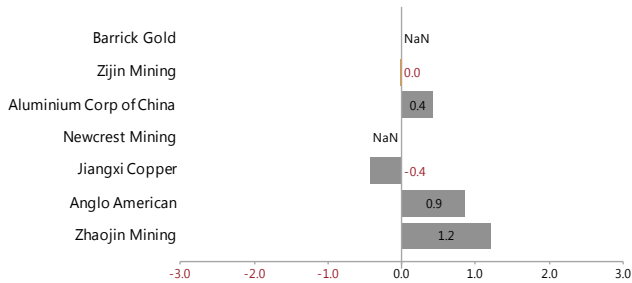
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



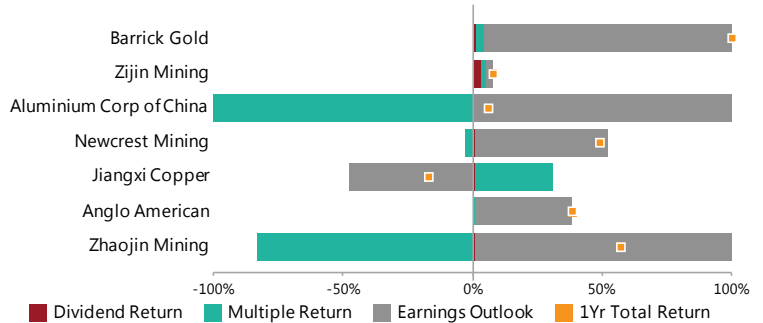
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



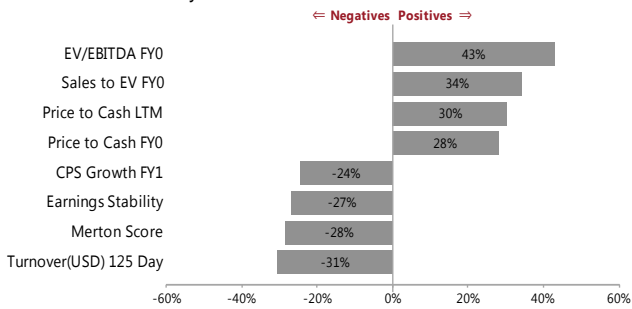
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



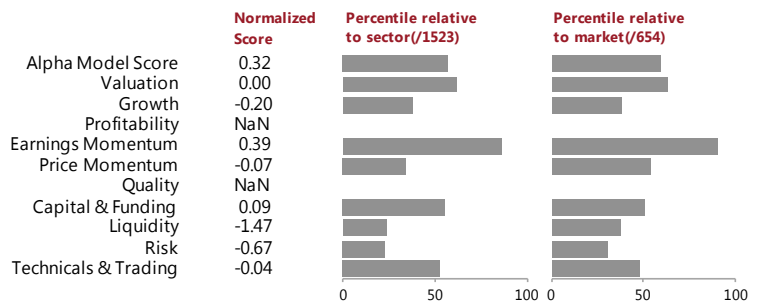
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Zijin Mining (2899 HK, Outperform, Target Price: HK\$3.57)

Interim Results					Profit & Loss						
	1H/16A	2H/16E	1H/17E	2H/17E		2015A	2016E	2017E	2018E		
Revenue	m	38,500	39,868	42,112	45,622	Revenue	m	73,494	78,368	87,734	88,521
Gross Profit	m	3,906	4,300	4,864	5,269	Gross Profit	m	5,486	8,207	10,132	8,801
Cost of Goods Sold		34,594	35,568	37,249	40,353	Cost of Goods Sold		68,008	70,162	77,602	79,720
EBITDA	m	1,051	1,870	3,080	3,337	EBITDA	m	2,890	2,921	6,417	5,049
Depreciation	m	0	0	0	0	Depreciation	m	0	0	0	0
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	1,051	1,870	3,080	3,337	EBIT	m	2,890	2,921	6,417	5,049
Net Interest Income	m	-440	-635	-538	-583	Net Interest Income	m	-946	-1,075	-1,122	-1,024
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	6	-64	-31	-34	Other Pre-Tax Income	m	142	-58	-65	-66
Pre-Tax Profit	m	617	1,171	2,511	2,720	Pre-Tax Profit	m	2,086	1,788	5,230	3,959
Tax Expense	m	-40	-428	-657	-712	Tax Expense	m	-743	-468	-1,369	-1,036
Net Profit	m	577	743	1,854	2,008	Net Profit	m	1,343	1,320	3,862	2,923
Minority Interests	m	-38	-107	-204	-221	Minority Interests	m	313	-145	-425	-322
Reported Earnings	m	538	636	1,650	1,787	Reported Earnings	m	1,656	1,175	3,437	2,602
Adjusted Earnings	m	538	636	1,650	1,787	Adjusted Earnings	m	1,656	1,175	3,437	2,602
EPS (rep)	fen	2.3	2.8	7.1	7.7	EPS (rep)	fen	7.2	5.1	14.9	11.3
EPS (adj)	fen	2.3	2.8	7.1	7.7	EPS (adj)	fen	7.2	5.1	14.9	11.3
EPS Growth yoy (adj)	%	-59.9	102.3	206.4	180.9	EPS Growth (adj)	%	-29.4	-29.1	192.6	-24.3
						PE (rep)	x	29.1	41.0	14.0	18.5
						PE (adj)	x	29.1	41.0	14.0	18.5
EBITDA Margin	%	2.7	4.7	7.3	7.3	Total DPS	fen	0.0	1.5	4.5	3.4
EBIT Margin	%	2.7	4.7	7.3	7.3	Total Div Yield	%	0.0	0.7	2.1	1.6
Earnings Split	%	45.8	54.2	48.0	52.0	Basic Shares Outstanding	m	23,125	23,125	23,125	23,125
Revenue Growth	%	0.2	13.7	9.4	14.4	Diluted Shares Outstanding	m	23,125	23,125	23,125	23,125
EBIT Growth	%	-55.2	244.6	193.1	78.5						
Profit and Loss Ratios					Cashflow Analysis						
		2015A	2016E	2017E	2018E		2015A	2016E	2017E	2018E	
Revenue Growth	%	26.9	6.6	12.0	0.9	EBITDA	m	2,890	2,921	6,417	5,049
EBITDA Growth	%	-31.6	1.1	119.7	-21.3	Tax Paid	m	-743	-743	-468	-1,369
EBIT Growth	%	-31.6	1.1	119.7	-21.3	Chgs in Working Cap	m	3,943	-402	-823	165
Gross Profit Margin	%	7.5	10.5	11.5	9.9	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	3.9	3.7	7.3	5.7	Other	m	4,179	3,443	3,780	4,165
EBIT Margin	%	3.9	3.7	7.3	5.7	Operating Cashflow	m	10,269	5,219	8,906	8,010
Net Profit Margin	%	2.3	1.5	3.9	2.9	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	30.0	30.0	30.0	Capex	m	-4,794	-8,501	-8,201	-7,201
EV/EBITDA	x	29.2	28.9	13.1	16.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	29.2	28.9	13.1	16.7	Other	m	-3,900	-75	236	363
Balance Sheet Ratios					Investing Cashflow						
ROE	%	6.0	4.2	10.7	7.1	Dividend (Ordinary)	m	0	0	-328	-1,031
ROA	%	3.6	3.4	6.8	5.0	Equity Raised	m	0	0	0	0
ROIC	%	3.1	3.4	6.9	5.1	Debt Movements	m	3,442	4,627	-1,027	679
Net Debt/Equity	%	98.0	109.9	79.7	79.1	Other	m	-3,715	-1,520	3,239	-1,595
Interest Cover	x	3.1	2.7	5.7	4.9	Financing Cashflow	m	-273	3,107	1,885	-1,947
Price/Book	x	1.8	1.7	1.4	1.3	Net Chg in Cash/Debt	m	1,334	-209	2,825	-775
Book Value per Share		1.2	1.2	1.5	1.6	Free Cashflow	m	5,476	-3,283	704	808
					Balance Sheet						
						2015A	2016E	2017E	2018E		
					Cash	m	5,498	5,247	8,072	7,296	
					Receivables	m	1,129	1,949	2,182	2,201	
					Inventories	m	10,951	10,437	11,685	11,789	
					Investments	m	1,520	1,843	1,843	1,843	
					Fixed Assets	m	35,520	39,470	43,050	45,475	
					Intangibles	m	497	497	497	497	
					Other Assets	m	28,798	30,911	32,400	33,196	
					Total Assets	m	83,914	90,354	99,728	102,298	
					Payables	m	5,845	6,031	6,673	6,855	
					Short Term Debt	m	19,238	19,465	17,038	17,117	
					Long Term Debt	m	17,551	21,951	23,351	23,951	
					Provisions	m	0	0	0	0	
					Other Liabilities	m	9,351	9,987	12,116	11,682	
					Total Liabilities	m	51,986	57,435	59,178	59,605	
					Shareholders' Funds	m	27,537	28,384	35,589	37,411	
					Minority Interests	m	4,391	4,536	4,961	5,283	
					Other	m	0	0	0	0	
					Total S/H Equity	m	31,928	32,920	40,550	42,693	
					Total Liab & S/H Funds	m	83,914	90,354	99,728	102,298	

All figures in Rmb unless noted.
Source: Company data, Macquarie Research, October 2016

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for US coverage by MCUSA, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for US coverage by MCUSA, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for US coverage by MCUSA, 8.00% of stocks followed are investment banking clients)

2899 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, October 2016

12-month target price methodology

2899 HK: HK\$3.57 based on a DCF methodology

Company-specific disclosures:

2899 HK: Macquarie Capital Limited makes a market in the securities of Zijin Mining Group Co., Ltd - H Shares.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
26-Sep-2016	2899 HK	Outperform	HK\$3.57
25-Mar-2016	2899 HK	Neutral	HK\$2.60
13-May-2015	2899 HK	Neutral	HK\$2.90
02-Jan-2015	2899 HK	Neutral	HK\$2.30
24-Sep-2014	2899 HK	Neutral	HK\$1.85
20-Aug-2014	2899 HK	Underperform	HK\$1.56
16-May-2014	2899 HK	Underperform	HK\$1.45

Target price risk disclosures:

2899 HK: With both domestic and overseas operations, Zijin is exposed to the changes in regulatory environment that the company has operations on. Changes in macro environment, such as forex and global economic growth can also impact on the company's profitability. The company's mining and smelting operations can also be impacted by natural disasters.

Analyst certification:

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The Analysts responsible for preparing this report receive compensation from Macquarie that is based upon various factors including Macquarie Group Ltd total revenues, a portion of which are generated by Macquarie Group's Investment Banking activities.

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Jake Lynch (Asia – Head)	(852) 3922 3583
David Gibson (Japan – Head)	(813) 3512 7880
Conrad Werner (ASEAN – Head)	(65) 6601 0182

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Zhixuan Lin (China)	(8621) 2412 9006
Leo Lin (China)	(852) 3922 1098
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Jeffrey Ohlweiler (Taiwan)	(8862) 2734 7512
Inderjeetsingh Bhatia (India)	(9122) 6720 4087
Jayden Vantarakis (Indonesia)	(6221) 2598 8310
Anand Pathmakanthan (Malaysia)	(603) 2059 8833
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