

Equity Research | China | Metals

9 January 2017

Beneficiary of rally in metal prices

- Zijin has revealed its 2017 operation plan with an aggressive expansion plan for its copper business going forward, which would bring the revenue share of non-gold increasing from 21% in FY16E to 26% in FY17E, in our estimates.
- With a diversified metal products profile, Zijin is well-poised to benefit from the rallying metal prices.
- We raised our FY17E net profit by 5.5%, but left our price target unchanged at HKD3.0, implying 18.1% potential upside.

2017 operation plan with focus on copper business expansion. Although Zijin has adjusted its product profile towards focusing on the non-gold metals business, the company's overall growth prospects remain solid, in our view. Mined-gold: Owing to a lower contribution from Zijinshan Gold Mine, mined-gold production target for 2017 has been revised down to 41 tons, or 3.5% YoY decrease. Production in mined-silver would decrease 12.3% YoY in 2017. Mined-copper: With a higher contribution from Zijinshan Copper Mine and acquisition of the Kolwezi Copper Project in the DR Congo, the company foresees production in mined-copper to grow 29% YoY in 2017. Mined-zinc and lead: Zijin plans to maintain zinc production at the current levels, going forward. Iron concentrate: Zijin plans to resume production with a target output of 2mn tons per annum.

Beneficiary of the rally in the broader metal market. We see upside potentials arising from the current gold price uptrend driven by the continuously rising inflationary pressure in the U.S. economy. Meanwhile, copper prices are set to continue to benefit from the reducing surplus this year on lower global mined supply which will lead to a deficit next year. In addition, supply disruption in zinc is likely to continue. However, we anticipate iron ore price pressure to remain an overhang in the near-term amid reducing downstream consumption growth. Based on the company's latest plan, we estimate Zijin's revenue share of non-gold increasing from 21% in FY16E to 26% in FY17E, in our estimates.

Raising estimates for FY17E and maintain BUY. Zijin is currently one of the top three mined-gold producers in China and it aims to develop to be China's largest diversified metals producers in the medium-term. We have revised up our revenue forecasts for FY16E/FY17E by 8.2%/11.5% and net profit estimate for FY17E by 5.5% on higher commodity prices assumptions. Zijin is currently trading at 1.7x FY17E PBR, which is undemanding as compared to its historical trading range. We maintain our price target unchanged at HKD3.0, representing 2.0x FY17E PBR. Reiterate BUY.

Zijin Mining (2899 HK)

Buy

(unchanged)

Price Target	HK\$3.0
(Revision)	N/A
(up/downside)	(18.1%)

EPS	2016E	2017E
revision	N/A	+5.5%

Close price	HKD2.54
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Market cap.	HKD74,200 mn
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Free float	99.9%
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52-week range	HKD1.67 – 3.10
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3-mth ave. T/O	HKD96.9 mn
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Price as of 9 January 2016

Stock rel HSI performance (%)



Analysts

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Figure 1: Zijin Mining

Income statement (RMB mn)						Cash flow statement (RMB mn)					
Year end: Dec	2013	2014	2015	2016E	2017E	Year end: Dec	2013	2014	2015	2016E	2017E
Revenue	49,772	58,761	74,304	83,57	87,490	EBIT	4,568	4,092	3,032	3,701	5,009
COGS	(41,566)	(51,720)	(68,817)	(75,795)	(78,629)	Depreciation & amortisation	2,394	2,650	3,308	3,936	3,489
Gross profit	8,206	7,040	5,486	7,361	8,861	Net interest	733	768	946	1,034	1,155
Selling expenses	(526)	(906)	(692)	(668)	(703)	Taxes paid	(973)	(689)	(743)	(667)	(964)
General and administrative	(2,166)	(2,175)	(2,621)	(2,720)	(2,862)	Changes in working capital	1,984	(367)	3,634	(1,180)	(410)
Other opex	(760)	268	717	(431)	(453)	Others	137	31	149	(2,068)	(2,311)
EBITDA	6,962	6,743	6,340	7,637	8,498	Cash flow from operations	8,842	6,486	10,325	4,756	5,970
Depreciation & Amortization	(2,394)	(2,650)	(3,308)	(3,936)	(3,489)	Capex	(8,621)	(7,540)	(5,617)	(10,000)	(6,000)
EBIT	4,568	4,092	3,032	3,701	5,009	Acquisitions	(1,424)	(2,340)	(3,039)	-	-
Interest income	507	725	521	566	585	Disposals	1,70	719	1,525	-	-
Interest expense	(1,240)	(1,493)	(1,466)	(1,600)	(1,740)	Others	395	(91)	(1,562)	-	-
JVs and associates	(187)	(136)	142	159	167	Cash flow from investing	(8,480)	(9,252)	(8,693)	(10,000)	(6,000)
Others	-	-	-	-	-	Dividends	(3,687)	(3,034)	(3,444)	(1,246)	(1,800)
Pretax profit	3,835	3,324	2,086	2,667	3,854	Issue of shares	-	-	-	-	-
Taxation	(973)	(689)	(743)	(667)	(964)	Change in debt	57	3,701	5,383	5,000	2,000
Minority interests	(736)	(290)	313	(220)	(318)	Others	1,035	1,747	(2,242)	-	-
Net profit	2,125	2,345	1,656	1,780	2,572	Cash flow from financing	(2,595)	2,414	(273)	3,754	200
Net profit (adjusted)	2,125	2,345	1,656	1,780	2,572	Change in cash	(2,232)	(352)	1,359	(1,490)	169
Basic EPS (RMB)	0.10	0.11	0.08	0.08	0.12	Free cash flow	222	(1,054)	4,707	(5,244)	(30)
Diluted EPS (RMB)	0.10	0.11	0.08	0.08	0.12						
DPS (RMB)	0.08	0.08	-	0.06	0.08						

Balance sheet (RMB mn)						Key ratios					
Year end: Dec	2013	2014	2015	2016E	2017E	Year end: Dec	2013	2014	2015	2016E	2017E
Cash	4,492	4,140	5,498	4,009	4,178	Operating ratios					
Short term investments	-	-	-	-	-	Gross margin	16.5	12.0	7.4	8.9	10.1
Accounts receivables	2,572	1,805	1,480	1,838	1,934	EBITDA margin (%)	14.0	11.5	8.5	9.2	9.7
Inventory	8,200	10,354	10,951	11,731	12,167	Effective tax rate (%)	25.4	20.7	35.6	25.0	25.0
Other current assets	2,668	3,320	3,865	4,172	4,233	Revenue growth (%)	2.8	18.1	26.5	11.9	5.2
Total current assets	17,932	19,618	21,795	21,749	22,512	Net income growth (%)	25.6	10.3	-	7.5	44.5
PP&E	19,353	25,004	29,359	35,423	37,934	EPS growth adj (%)	25.8	11.2	-	7.1	45.0
Intangible Assets	8,498	9,385	10,284	10,284	10,284	DPS growth (%)	-	0.4	-	-	45.0
Total investments	5,378	5,842	7,913	7,913	7,913	Efficiency ratios					
Other long term assets	15,737	15,311	14,563	14,563	14,563	ROE (%)	9.7	7.9	5.8	6.6	8.6
Total long term assets	48,967	55,541	62,119	68,183	70,694	Asset turnover (x)	0.7	0.8	0.9	0.9	0.9
TOTAL ASSETS	66,898	75,160	83,914	89,932	93,206	Op cash / EBIT (x)	1.9	1.6	3.4	1.3	1.2
Short term debt	2,774	4,551	5,394	7,470	8,300	Depreciation / CAPEX (x)	0.3	0.4	0.6	0.4	0.6
Accounts payables	4,594	4,011	4,443	4,655	4,828	Accounts receivable days	22.1	19.0	13.2	11.8	12.9
Other current liabilities	12,592	14,942	21,689	21,741	21,752	Accounts payable days	41.8	32.9	24.1	23.4	23.6
Total current liabilities	19,960	23,504	31,526	33,866	34,879	Leverage ratios					
Long term debt	6,998	8,339	9,251	12,176	13,346	Net gearing (%)	38.7	59.4	63.4	85.3	89.3
Deferred tax	1,449	1,723	2,908	2,908	2,908	Net debt / EBITDA (x)	1.5	2.5	2.8	3.1	3.0
Bonds payable	5,406	7,924	8,300	8,300	8,300	Interest cover (x)	6.2	5.3	3.2	3.6	4.3
Other long term liabilities	-	-	-	-	-	Current ratio (x)	0.9	0.8	0.7	0.6	0.6
Total long term liabilities	13,853	17,987	20,459	23,384	24,554	Valuation					
TOTAL LIABILITIES	33,813	41,491	51,986	57,250	59,433	PER (x)	23.3	21.0	29.6	27.6	19.0
Shareholders' funds	27,612	28,059	27,537	28,071	28,843	EV/EBITDA (x)	12.3	13.6	15.4	13.6	12.5
Minority interests	5,473	5,609	4,391	4,611	4,930	PBR (x)	1.5	1.5	1.5	1.8	1.7
TOTAL LIAB AND EQUITY	66,898	75,160	83,914	89,932	93,206	Dividend yield (%)	3.5	3.5	-	2.5	3.7
Net cash / (debt)	(10,686)	(16,675)	(17,447)	(23,937)	(25,768)						

Source: Company data, Bloomberg, CSCI Research estimates



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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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