

COMPANY / INDUSTRY NEWS

SPECIAL SITUATION – ZIJIN MINING [2899.HK]: DEEPLY UNDERVALUED VERSUS ITS PEERS

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(The original idea for this note is from Liu Wen Ping, metals sector analyst of China Galaxy Securities for the A-share market.)

Basic Information about Zijin's reserves. On an attributable basis, Zijin's retained resource reserves include 1,261 tonnes of gold, 23.46m tonnes of copper, 9.93m tonnes of zinc and lead, and 1,110 tonnes of silver. This implies that Zijin is equivalent to the aggregation of 1.62x the resources controlled by Shandong Gold (600547.CH), 2.26x the resources owned by Jiangxi Copper (600362.CH; 0358.HK) and 1.16x the resources owned by Zhongjin Lingnan (000060.CH).

In terms of production volume in 2015, Zijin produced 37.1 tonnes of mine-produced gold, 0.15m tonnes of mine-produced copper, 0.27m tonnes of mine-produced zinc/lead, and other metals equivalent to 30,000 tonnes of copper. This means Zijin is equivalent to the aggregation of 1.36x the production of Shandong Gold, 0.71x the production of Jiangxi Copper and 0.83x the production of Zhongjin Lingnan.

Profit breakdown in 1H16. Gold, copper and zinc/lead accounted for 45.1%, 23.7% and 13.7% of Zijin's total gross profit, respectively.

Significantly underperforming compared with its peers. On a year-to-date basis, Shandong Gold has surged 105%. Also, Jiangxi Copper-A has jumped 43%. Meanwhile, Zhongjin Lingnan was up 1.9%, and Zijin-A (601899.CH) recorded only a 9.4% gain in the same period (Figure 1). We believe the underperformance is attributable to two main factors: (i) its net profit dropped 60% YoY in 1H16, partly because of hedging activities; and (2) it is not a pure play, as it includes gold, copper, zinc/lead and silver.

Figure 1: Zijin-A as a laggard



Sources: Capital IQ, CGIS Research

Zijin is trading at the low end of the relative market cap ratio. If we divide the market cap of Zijin-A by the aggregate market cap of Shandong Gold, Jiangxi Copper-A and Zhongjin Lingnan, the latest ratio is 0.44x, the lowest level in the past seven years (Figure 2). The average level is 0.6x, while the high end is 0.88x. Therefore, it is very likely that Zijin-A is undervalued on a relative basis. Given the close correlation between Zijin-A and Zijin-H (2899.HK), we believe investors should also pay attention to Zijin-H (Figure 3).

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Figure 2: Market cap of Zijin-A/market cap of Shandong Gold + Jiangxi Copper-A + Zhongjin Lingnan



Source: CGS Research

Figure 3: Close correlation between the share prices of Zijin-A and Zijin-H



Source: Bloomberg

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