

Equity Research | China | Metals

25 August 2017

Solid long-term growth prospects in tact

- Zijin's 2Q17 results were dragged by higher gold production cost (due to lower average ore grade), but we believe the gold margin would recover in 2H17.
- In product mix, Zijin has boosted its copper exposure with EBIT contribution extending to 39% in FY17E (versus 29% in FY16), according to our estimates.
- We maintain our price target of HKD3.4, based on 1.75x FY17E PBR versus our estimated FY17E ROE of 10.6%. Reiterate Buy.

Robust copper margin improvement in 1H17. Zijin's revenue decreased 3.5% YoY in the interim period, mainly due to lower refinery gold production. Overall GPM widened to 14.59% (from 11.05% in 1H16), with the mined copper margin increasing to 49.53% (from 38.27% in 1H16), whereas the mined gold GPM has slipped to 32.35% (from 37.36% in 1H16). Meanwhile, 1H17 operating cashflow has decreased 8.9% YoY, primarily due to higher receivables. Net gearing ratio has reduced from 106% to 81% as of end-Jun.

Strong pipeline of overseas new projects. Based on the company's development plan, Zijin will focus on four overseas gold projects, namely the 47.5%-owned Porgera Gold Mine in PNG, Norton Gold Fields, Zeravshan Gold Company in Tajikistan and the Taldybulak-Levoberezhny Gold Mine located in Kazakhstan; and also three overseas copper projects, namely the 72%-owned Kolwezi Copper Mine in DR Congo, 43.5%-owned Kamo a Copper project, and Phase II expansion of Duobaoshan Copper mine. Based on the company's plan, capex for the Kolwezi project will be mainly funded by the proceeds raised in the non-public issuance of A shares in early June of this year. In product mix, we estimate the EBIT contribution of copper would reach 39% in FY17E, up from 29% in FY16.

We remain optimistic on Zijin's long-term growth prospects, on the back of: (1) the high probability of further expansion in its metals reserves, including Au/Cu and Zn, based on the current progress of its exploration and development works, (2) discovery of 400kt of new copper resources in DR Congo (12% of Zijin's total), with an average grading of over 6%, versus the industry average of only 0.6% in China. The Duobaoshan copper mine in China together with the copper projects overseas will contribute to the overall capacity expansion this year, mitigating the overall impact from the depletion of gold assets at its Zijinshan Gold Mine, and (3) we foresee upside in the prices of gold, copper and zinc to exceeding our assumptions of USD1,240/oz, USD2.7/lb and USD2,800/ton for this year respectively. According to our sensitivity analysis, for every 1% increase in the unit selling price of metals, our FY17E net profit estimate will be respectively adjusted upwards by 12%, 5% or 3% accordingly.

Reiterate Buy with price target maintained at HKD3.4, based on 1.75x FY17E PBR. Zijin is currently trading at 1.5x FY17E PBR, which is in line with global peers' average of 1.5x, its ROE of 10.6% is superior when compared to global peers' average of 5.4%. Our price target represents 19.2% upside potential, thus, maintain Buy.

Zijin Mining (2899 HK)

Buy

(unchanged)

Price Target	HK\$3.40
(Revision)	(N/A)
(upside)	(19.7%)

EPS	2017E	2018E
revision	(N/A)	(N/A)

Close price	HKD2.84
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Market cap.	HKD92,560 mn
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Free float	26.6%
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52-week range	HKD3.18 – 2.32
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3-mth ave. T/O	HKD100.2 mn
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Price as of 24 August 2017

Stock rel HSI performance (%)



Duncan Chan

(CE No.: ALH659)

duncanchan@csci.hk +852 3465 5654

Figure 1: 1H17 results highlight

	1H16	2H16	1H17	% YoY	% HoH
Unit: Rmb mn					
Revenue	38,890	39,961	37,524	-3.5%	-6.1%
Gross profit	3,886	4,275	4,906	26.2%	14.8%
GPM	10.0%	10.7%	13.1%	-	-
SG&A	-1,654	-1,835	-1,875	13.4%	2.2%
% of revenue	-4.3%	-4.6%	-5.0%	-	-
EBIT	1,018	1,842	3,111	205.5%	69.0%
EBIT margin	2.6%	4.6%	8.3%	-	-
Net profit	538	1,302	1,505	179.6%	15.7%
Net margin	1.4%	3.3%	4.0%	-	-

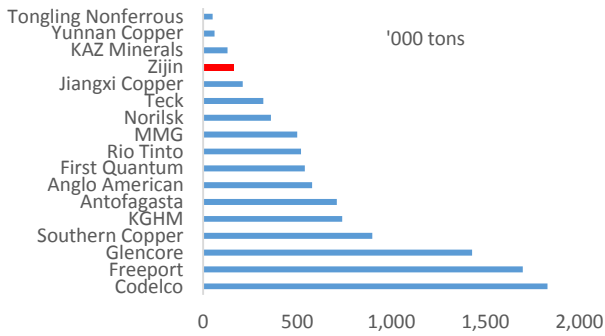
Source: Company

Figure 2: 1H17 segment highlight

	Gold bullion	Processed gold	Gold concentrates	Copper cathodes	Refinery copper	Copper concentrates	Other concentrates	Zinc bullion	Others	Total
Unit: RMB mn										
Revenue										
1H17	1,310	14,202	1,516	335	6,881	2,561	2,545	1,922	6,250	37,524
1H16	957	21,420	2,284	369	4,977	1,513	1,621	1,205	4,544	38,890
% YoY	36.8%	-33.7%	-33.6%	-9.2%	38.3%	69.3%	57.0%	59.6%	37.5%	-3.5%
EBITDA										
1H17	1,021	200	694	114	452	1,306	1,826	254	116	5,983
1H16	899	275	674	114	376	591	664	214	601	4,408
% YoY	13.5%	-27.5%	2.9%	0.6%	20.3%	121.1%	174.9%	18.9%	-80.7%	35.7%
Revenue split										
1H17	3.5%	37.8%	4.0%	0.9%	18.3%	6.8%	6.8%	5.1%	16.7%	100.0%
1H16	2.5%	55.1%	5.9%	0.9%	12.8%	3.9%	4.2%	3.1%	11.7%	100.0%
EBITDA split										
1H17	17.1%	3.3%	11.6%	1.9%	7.5%	21.8%	30.5%	4.2%	1.9%	100.0%
1H16	20.4%	6.2%	15.3%	2.6%	8.5%	13.4%	15.1%	4.8%	13.6%	100.0%

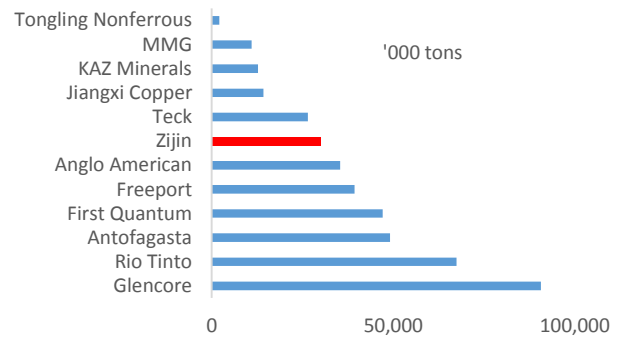
Source: Company

Figure 3: Major copper companies production, 2016



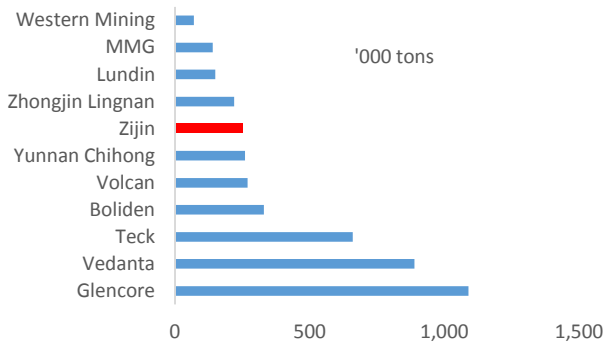
Source: Company

Figure 4: Major copper companies R&R, 2016



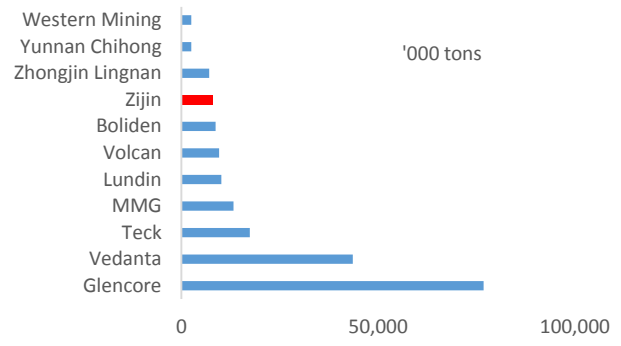
Source: Company

Figure 5: Major zinc companies production, 2016



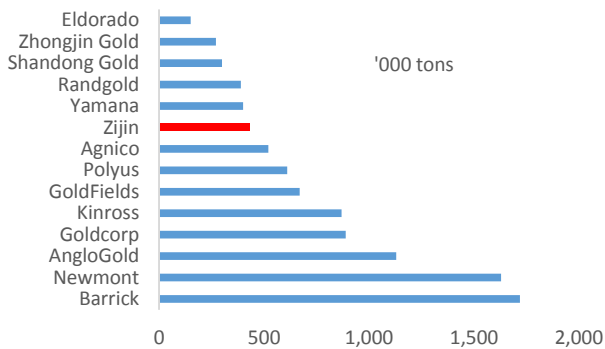
Source: Company

Figure 6: Major zinc companies R&R, 2016



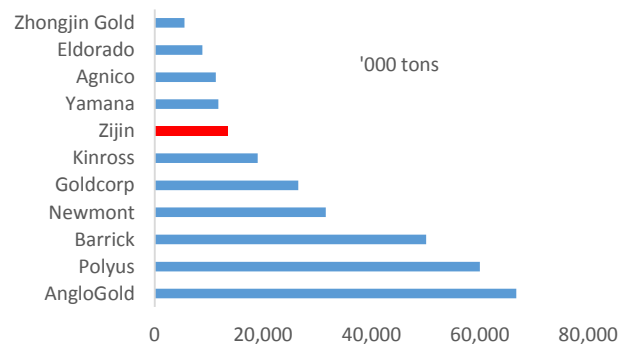
Source: Company

Figure 7: Major gold companies production, 2016



Source: Company

Figure 8: Major gold companies R&R, 2016



Source: Company

Income statement (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	74,304	78,851	86,453	86,729	87,271
COGS	(68,817)	(70,690)	(76,357)	(75,671)	(75,545)
Gross profit	5,486	8,161	10,096	11,058	11,726
Selling expenses	(692)	(667)	(778)	(780)	(785)
General and administrative	(2,621)	(2,822)	(2,972)	(2,981)	(3,000)
Other opex	717	(1,778)	(440)	(442)	(444)
Operating profit	2,890	2,893	5,906	6,855	7,496
Net interest expense	(946)	(582)	(1,278)	(1,291)	(1,379)
JVs and associates	142	(186)	(204)	(204)	(206)
Pretax profit	2,086	2,126	4,424	5,359	5,912
Taxation	(743)	(439)	(1,106)	(1,340)	(1,478)
Minority interests	313	63	300	363	401
Net profit	1,656	1,840	3,618	4,382	4,834
Net profit (normalised)	1656	1840	3618	4382	4834
EBIT	3,345	2,860	6,002	7,014	7,691
Depreciation & Amortization	(3,308)	(4,117)	(4,589)	(5,065)	(5,489)
EBITDA	6,653	6,977	10,591	12,078	13,180
Basic EPS (RMB)	0.08	0.09	0.16	0.19	0.21
Diluted EPS (RMB)	0.08	0.09	0.16	0.19	0.21
DPS (RMB)	0.06	-	0.08	0.10	0.10

Balance sheet (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	5,498	5,023	8,473	7,422	4,923
Short term investments	-	-	-	-	-
Accounts receivables	1,480	1,873	1,838	1,844	1,856
Inventory	10,951	12,003	12,395	12,281	12,260
Other current assets	3,865	5,242	5,362	5,365	5,371
Total current assets	21,795	24,140	28,068	26,913	24,409
PP&E	29,359	32,531	37,942	41,877	45,388
Intangible Assets	10,284	10,257	10,257	10,257	10,257
Total investments	7,913	8,986	8,986	8,986	8,986
Other long term assets	14,563	13,304	13,304	13,304	13,304
Total long term assets	62,119	65,077	70,489	74,424	77,935
TOTAL ASSETS	83,914	89,218	98,557	101,337	102,344
Short term debt	5,394	12,350	14,394	15,075	14,394
Accounts payables	4,443	4,727	4,952	4,906	4,898
Other current liabilities	21,689	16,775	16,783	16,781	16,781
Total current liabilities	31,526	33,852	36,129	36,763	36,072
Long term debt	9,251	5,775	6,731	7,050	6,731
Deferred tax	2,908	2,203	2,203	2,203	2,203
Bonds payable	8,300	16,270	16,270	16,270	16,270
Other long term liabilities	-	-	-	-	-
Total long term liabilities	20,459	24,249	25,205	25,524	25,205
TOTAL LIABILITIES	51,986	58,101	61,334	62,287	61,278
Shareholders' funds	27,537	27,762	34,168	36,360	38,777
Minority Interests	4,391	3,354	3,054	2,691	2,290
TOTAL LIAB AND EQUITY	83,914	89,218	98,557	101,337	102,344
Net cash / (debt)	(17,447)	(29,373)	(28,923)	(30,974)	(32,473)

Source: Company, Bloomberg, CSCI Research estimates

Cash flow statement (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	3,345	2,860	6,002	7,014	7,691
Depreciation & amortisation	3,308	4,117	4,589	5,065	5,489
Net interest	946	582	1,278	1,291	1,379
Taxes paid	(743)	(439)	(1,106)	(1,340)	(1,478)
Changes in working capital	3,731	391	(244)	57	(5)
Others	(317)	1,000	(2,856)	(2,946)	(3,358)
Cash flow from operations	10,269	8,511	7,662	9,141	9,918
Capex	(5,617)	(6,059)	(10,000)	(9,000)	(9,000)
Acquisitions	(3,039)	(188)	-	-	-
Disposals	1,525	543	-	-	-
Others	(1,562)	(108)	-	-	-
Cash flow from investing	(8,693)	(8,479)	(10,000)	(9,000)	(9,000)
Dividends	(3,414)	(2,865)	(1,809)	(2,191)	(2,417)
Issue of shares	-	-	4,597	-	-
Change in debt	3,442	3,900	3,000	1,000	(1,000)
Others	(302)	(1,543)	-	-	-
Cash flow from financing	(273)	(508)	5,788	(1,191)	(3,417)
Change in cash	1,303	(476)	3,450	(1,051)	(2,499)
Free cash flow	4,652	2,452	(2,338)	141	918

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	7.4	10.3	11.7	12.8	13.4
EBITDA margin (%)	9.0	8.8	12.3	13.9	15.1
Effective tax rate (%)	35.6	20.6	25.0	25.0	25.0
Revenue growth (%)	-	6.1	9.6	0.3	0.6
Net income growth (%)	-	11.1	96.6	21.1	10.3
EPS growth adj (%)	-	11.2	90.1	17.2	10.3
DPS growth (%)	-	-	-	17.2	10.3
Efficiency ratios					
ROE (%)	6.0	6.6	10.6	12.1	12.5
ROCE (%)	5.5	5.2	9.5	10.6	11.3
Asset turnover (x)	0.9	0.9	0.9	0.9	0.9
Op cash / EBIT (x)	3.6	2.9	1.3	1.3	1.3
Depreciation / CAPEX (x)	0.6	0.7	0.5	0.6	0.6
Accounts receivable days	13.2	11.6	11.4	11.6	11.5
Accounts payable days	24.1	25.2	24.7	25.4	25.3
Leverage ratios					
Net gearing (%)	63.4	105.8	84.6	85.2	83.7
Net debt / EBITDA (x)	2.6	4.2	2.7	2.6	2.5
Interest cover (x)	3.1	5.0	4.6	5.3	5.4
Current ratio (x)	0.7	0.7	0.8	0.7	0.7
Valuation					
PER (x)	31.6	28.4	14.9	12.7	11.5
EV/EBITDA (x)	16.9	17.8	12.0	11.0	10.2
PBR (x)	1.6	1.9	1.5	1.4	1.4
Dividend yield (%)	2.5	-	3.3	3.9	4.3



Research

LIU Taisheng, Steven
TMT
(852) 3465 5652
stevenliu@csci.hk

SO Lai Shan, Jennifer
Consumer
(852) 3465 5781
jenniferso@csci.hk

CHAN Ka Yeung, Duncan
Commodity
(852) 3465 5654
duncanchan@csci.hk

TIAN Yang
Automotive
(852) 3465 5775
tianyong@csci.hk

SUN Lingxiao, Roger
Industrials
(852) 3465 5785
rogersun@csci.hk

ZHU Kexin
Renewable energy
(852) 3465 5653
zhukexin@csci.hk

YAO Xue, Snowy
snowyyao@csci.hk
+852 3465 5675

SHEN Xiangfei, Thomas
(852) 3465 8689
thomasshen@csci.hk

XU Qiwen
(852) 3465 8690
xuqiwen@csci.hk

Institutional Sales & Trading

XIANG Xinrong, Ron
(852) 3465 5633
ronxiang@csci.hk

HO Wen Hao, Jack
(852) 3465 5685
jackho@csci.hk

WANG Zhuo, Gary
(852) 3465 8655
wangzhuo@csci.hk

HO Hung Wei
(852) 3465 5687
hohungwei@csci.hk

LEE Ying Ju, Rose
(852) 3465 5707
roselee@csci.hk

LI Jiageng, Mike
(852) 3465 5636
mikeli@csci.hk

XIA Tian
(852) 3465 5670
xiatian@csci.hk

XU Xiaowei, Vincent
(852) 3465 5795
vincentxu@csci.hk

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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China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852)21809495

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