



Rating
Buy

Asia
China

Resources
Metals & Mining

Company
Zijin Mining

Reuters	Bloomberg	Exchange	Ticker
2899.HK	2899 HK	HSI	2899

Date
27 August 2018

Results

Price at 24 Aug 2018 (HKD)	2.70
Price target - 12mth (HKD)	4.20
52-week range (HKD)	4.29 - 2.50
HANG SENG INDEX	27,672

Decent 1H thanks to copper volume growth; Buy

Strong 1H thanks to successful Kolwezi ramp-up

Zijin published 1H18 results with NPAT of RMB2.5b, achieving 56%/54% of DB/consensus whole year estimate, mainly thanks to the successful Kolwezi ramp-up after its commissioning in June 2017. Zijin's mined copper output was 118kt in the first half of the year, already reaching 48% of the company's 2018 guidance, and larger volume in 2H is expected as Kolwezi reaches full capacity of 50-60ktpa. Mined gold production decreased 11% YoY, mainly due to disruption (earthquake) at Porgera, Zijin's major gold asset. The assets of Porgera were not damaged but operation was partly suspended since late Feb. We, however, do not expect it to have significant impact on the company's bottom line as the operation was covered by insurance, and the mine has received first interim compensation of USD25m in May. We also noticed that mined zinc production cost increased 24% in 2Q QoQ. The company will hold an analyst briefing on Monday, and we await further info from the company on the change.

Positive outlook on copper market; expect limited impact from potential "super profit tax"

We maintain our positive view on the copper market with contracting global supply growth and stable demand increase, especially given tight scrap supply in China helping to boost refined copper consumption. We expect Zijin to be a beneficiary from growing volume in the coming years, and estimate 70kt and 115kt incremental mined copper output in 2019 and 2020, indicating 29% and 37% YoY increases, respectively. The growth should mainly come from Duobaoshan Phase II in 2019, as well as Kolwezi improvement and Kamo'a in 2020. While Zijin is subject to the same higher copper royalty as other mining companies according to DRC's new mining code which came into effect this June, we expect Zijin to suffer no significant impact on profits from the "super profit tax," because the price assumptions in Kolwezi's and Kamo'a's feasibility reports are at relatively high level of c.\$3/lb.

Valuation and risks

Our target price of HKD4.2 for Zijin (H) is based on a life-of-mine DCF methodology, 7.9% WACC (implying risk-free rate of 3.9%, market risk premium of 5.6% and beta of 1.2). The H share trades at 12x/10x 2018/19 DBE EPS vs. over 25% EPS growth in these two years; we maintain Buy on Zijin (H). Risks include lower gold, copper, and zinc prices, higher production costs, and tax hike in DRC.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-6.9	-22.6	-4.9
HANG SENG INDEX	-3.5	-10.0	0.6

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	12.5
Net debt/equity (%)	72.2
Book value/share (CNY)	1.63
Price/book (x)	1.5
Net interest cover (x)	7.5
Operating profit margin (%)	8.8

Source: Deutsche Bank

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Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	78,851.1	94,548.6	95,651.0	100,709.2	110,711.5
EBITDA (CNYm)	6,731.2	10,937.6	12,592.9	14,595.1	17,933.5
EBIT(CNYm)	2,615	6,610	8,375	9,862	12,669
Reported EPS FD(CNY)	0.09	0.16	0.20	0.25	0.32
Reported NPAT (CNYm)	1,839.8	3,507.7	4,526.4	5,672.2	7,302.1
DB EPS growth (%)	-	83.0	25.7	25.3	28.7
DB EPS FD(CNY)	0.09	0.16	0.20	0.25	0.32
PER (x)	24.8	15.3	12.0	9.6	7.5
EV/EBITDA (x)	11.8	7.0	5.9	5.3	4.2
DPS (net) (CNY)	0.06	0.09	0.13	0.16	0.21
Yield (net) (%)	2.8	3.8	5.3	6.7	8.9

Source: Deutsche Bank estimates, company data

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Figure 1: Zijin 1H18 results summary

		1H18	1H17	YoY	2Q18	1Q18	QoQ	Prev. DBe	% of DBe	Cons	% of Cons
Revenue		49,814	37,524	33%	26,950	22,864	18%	95,651	52%	96,025	52%
GP		6,399	4,906	30%	3,220	3,179	1%	12,305	52%	13,040	49%
SG&A		(1,918)	(1,875)	2%	(1,025)	(893)	15%	(3,730)	51%	(4,655)	41%
OP		4,469	3,352	33%	2,108	2,361	-11%	8,375	53%	8,385	53%
PBT		3,781	2,151	76%	2,091	1,689	24%	7,254	52%	6,413	59%
NPAT		2,526	1,505	68%	1,441	1,085	33%	4,526	56%	4,691	54%
<i>GPM</i>		13%	13%		12%	14%		13%		14%	
<i>SG&A % of revenue</i>		4%	5%		4%	4%		4%		5%	
<i>Effective tax rate</i>		19%	18%		20%	18%		20%			
<i>Gearing ratio</i>		76%	93%		76%	79%		67%			
Operational matrix		1H18	1H17	YoY	2Q18	1Q18	QoQ	Prev. DBe	% of DBe		
Mined gold ASP (excl. VAT)	RMB/g	254	240	6%	251	257	-2%	246	103%		
Mined gold unit cost	RMB/g	172	162	6%	166	179	-7%	175	98%		
Mined gold sales volume	kg	16,117	18,092	-11%	8,689	7,428	17%	37,707	43%		
Mined copper ASP (excl. VAT)	RMB/t	36,914	32,558	13%	36,493	37,344	-2%	38,260	96%		
Mined copper unit cost	RMB/t	17,405	16,431	6%	17,517	17,290	1%	17,502	99%		
Mined copper sales volume	t	117,968	93,898	26%	59,573	58,395	2%	244,891	48%		
Mined zinc ASP (excl. VAT)	RMB/t	15,914	13,058	22%	15,623	16,196	-4%	13,206	121%		
Mined zinc unit cost	RMB/t	4,997	5,197	-4%	5,548	4,464	24%	4,596	109%		
Mined zinc sales volume	t	153,601	145,374	6%	75,541	78,060	-3%	275,000	56%		
Commodity price											
Gold	USD/oz	1,318	1,241	6%	1,306	1,330	-2%				
Gold (Shanghai)	RMB/g	271	277	-2%	269	273	-1%				
Changjiang copper cash (incl VAT)	RMB/t	51,942	46,528	12%	51,519	52,365	-2%				
Changjiang zinc cash (incl VAT)	RMB/t	25,443	22,946	11%	24,652	26,233	-6%				

Source: Deutsche Bank, company info, Bloomberg Finance LP

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Model updated: 26 August 2018

Running the numbers

Asia

China

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Reuters: 2899.HK

Bloomberg: 2899 HK

Buy

Price (24 Aug 18) HKD 2.70

Target Price HKD 4.20

52 Week range HKD 2.50 - 4.29

Market cap (m) HKDm 58,892
USDm 7,502.6

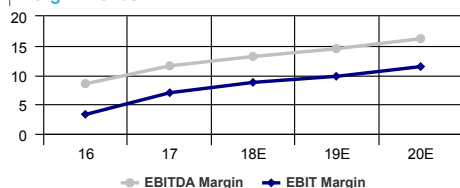
Company Profile

Zijin Mining is a mining conglomerate in the PRC and also has foot print around the globe. It is engaged primarily in the exploration, mining and sale of gold, copper, zinc and other non-ferrous metals. As of 2017, the company owns resources of 1.3kt gold, 31.5mt copper, and 7.8mt zinc in equity interest terms.

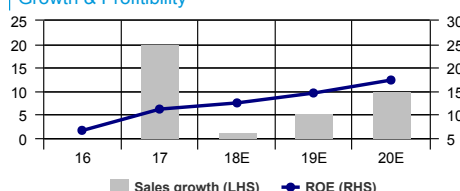
Price Performance



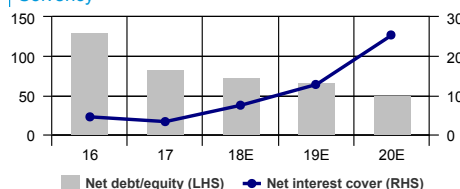
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	0.09	0.16	0.20	0.25	0.32
Reported EPS (CNY)	0.09	0.16	0.20	0.25	0.32
DPS (CNY)	0.06	0.09	0.13	0.16	0.21
BVPS (CNY)	1.3	1.5	1.6	1.7	1.9
Weighted average shares (m)	21,541	22,443	23,031	23,031	23,031
Average market cap (CNYm)	45,642	53,508	51,644	51,644	51,644
Enterprise value (CNYm)	79,437	77,063	74,873	77,092	74,609

Valuation Metrics

	2016	2017	2018E	2019E	2020E
P/E (DB) (x)	24.8	15.3	12.0	9.6	7.5
P/E (Reported) (x)	24.8	15.3	12.0	9.6	7.5
P/BV (x)	1.66	1.68	1.46	1.36	1.24
FCF Yield (%)	7.4	9.0	8.8	5.6	16.6
Dividend Yield (%)	2.8	3.8	5.3	6.7	8.9
EV/Sales (x)	1.0	0.8	0.8	0.8	0.7
EV/EBITDA (x)	11.8	7.0	5.9	5.3	4.2
EV/EBIT (x)	30.4	11.7	8.9	7.8	5.9

Income Statement (CNYm)

	2016	2017	2018E	2019E	2020E
Sales revenue	78,851	94,549	95,651	100,709	110,711
Gross profit	12,277	16,152	16,523	18,422	22,030
EBITDA	6,731	10,938	12,593	14,595	17,933
Depreciation	4,116	4,327	4,218	4,733	5,265
Amortisation	0	0	0	0	0
EBIT	2,615	6,610	8,375	9,862	12,669
Net interest income/(expense)	-582	-2,013	-1,121	-772	-499
Associates/affiliates	92	-29	0	0	0
Exceptionals/extraordinary	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	2,126	4,568	7,254	9,090	12,170
Income tax expense	439	1,320	1,451	1,818	2,434
Minorities	-153	-260	1,277	1,600	2,434
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,840	3,508	4,526	5,672	7,302
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	1,840	3,508	4,526	5,672	7,302

Cash Flow (CNYm)

	2016	2017	2018E	2019E	2020E
Cash flow from operations	8,602	9,764	11,419	12,903	15,502
Net Capex	-5,238	-4,942	-6,623	-9,848	-6,450
Free cash flow	3,363	4,823	4,796	3,055	9,052
Equity raised/(bought back)	0	4,621	0	0	0
Dividends paid	-1,292	-1,292	-2,073	-2,902	-3,636
Net inc/(dec) in borrowings	-7,849	-708	0	0	0
Other investing/financing cash flows	-3,393	102	-1,540	-1,192	-918
Net cash flow	-9,171	7,545	1,182	-1,039	4,498
Change in working capital	-2,196	-2,486	276	126	2

Balance Sheet (CNYm)

	2016	2017	2018E	2019E	2020E
Cash and other liquid assets	5,023	5,936	7,118	6,080	10,578
Tangible fixed assets	36,710	33,433	35,565	40,014	41,034
Goodwill/intangible assets	10,721	10,367	10,653	11,332	11,511
Associates/investments	10,237	10,129	10,549	10,969	11,388
Other assets	26,528	29,450	29,784	29,757	30,076
Total assets	89,218	89,315	93,670	98,152	104,587
Interest bearing debt	45,701	36,977	36,977	36,977	36,977
Other liabilities	12,400	14,695	15,319	15,431	15,766
Total liabilities	58,101	51,672	52,296	52,409	52,743
Shareholders' equity	27,762	35,000	37,453	40,224	43,890
Minorities	3,354	2,643	3,920	5,520	7,954
Total shareholders' equity	31,117	37,643	41,373	45,744	51,844
Net debt	40,678	31,041	29,859	30,898	26,400

Key Company Metrics

	2016	2017	2018E	2019E	2020E
Sales growth (%)	nm	19.9	1.2	5.3	9.9
DB EPS growth (%)	na	83.0	25.7	25.3	28.7
EBITDA Margin (%)	8.5	11.6	13.2	14.5	16.2
EBIT Margin (%)	3.3	7.0	8.8	9.8	11.4
Payout ratio (%)	70.2	57.6	64.1	64.1	66.7
ROE (%)	6.7	11.2	12.5	14.6	17.4
Capex/sales (%)	7.0	5.3	6.9	9.8	5.8
Capex/depreciation (x)	1.3	1.2	1.6	2.1	1.2
Net debt/equity (%)	130.7	82.5	72.2	67.5	50.9
Net interest cover (x)	4.5	3.3	7.5	12.8	25.4

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Zijin Mining	2899.HK	2.70 (HKD) 24 Aug 2018	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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

(as of 08/24/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	08/29/2016	Buy, Target Price Change HKD 3.20	Sharon Ding
2.	10/03/2016	Buy, Target Price Change HKD 3.30	James Kan
3.	03/16/2017	Buy, Target Price Change HKD 3.70	Sharon Ding
4.	03/28/2017	Buy, Target Price Change HKD 3.60	Sharon Ding
5.	04/25/2018	Buy, Target Price Change HKD 4.20	Sharon Ding

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Equity Rating Key

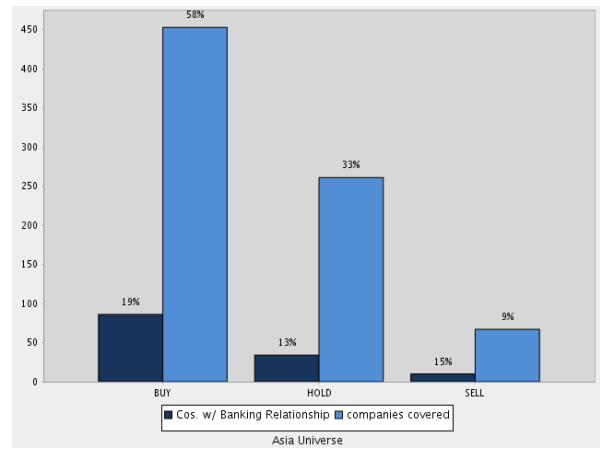
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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