

Zijin Mining (2899.HK)

Earnings Review: 3Q18 inline with consensus; Solid operations

BUY

2899.HK	12m Price Target: HK\$3.90	Price: HK\$2.91	Upside: 34.0%
601899.SS	12m Price Target: Rmb4.90	Price: Rmb3.55	Upside: 38.0%

Zijin reported 3Q18A NP of Rmb708mn (PRC GAAP) and EPS of Rmb0.031/sh, up 8% and 7% YoY respectively. 9M18A recurring NP was Rmb3.7bn (PRC GAAP), or 82% of full-year 2018E Bloomberg consensus and 93% of GSe for 2018 (prior revision). The result was mostly inline with consensus, but was ahead of our estimates due to lower finance costs and minorities. We revise up our net profit estimates by 3% for 2018E, 9% for 2019E and 7% for 2020E to reflect lower finance costs and MI in the results. We believe Zijin is one of the best placed players to benefit from both higher copper and gold prices, plus volume growth. We maintain Buy rating on both H and A share with revised 12-month price targets of HK\$3.9 (from HK\$3.8) and Rmb4.9 (from Rmb4.8).

Operations were mostly inline with our expectations with 9M18 gold and copper production reaching 71-75% of our full year estimates. We estimate 9M18 gold output declined by 8% yoy as Zijinshan is approaching the end of life and Porgera production was affected by an earthquake in 1H18. Copper output grew 19% yoy in 9M18 mainly driven by Kolwezi contribution. Unit ASP of mined copper was Rmb33,671/t, down 8% QoQ, mostly inline with the SHFE Copper price trend (down 11% QoQ). Unit COGS for gold and copper were both down 2% QoQ. Operating cash flow for 9M18 was at Rmb6.6bn, up 15% yoy due to lower A/R and inventory days. Net gearing increased slightly to 92% versus 89% by end of 2017 due to capex spending of around Rmb4bn in 3Q18.

With expansion of existing copper mines including Duobaoshan and Zijinshan and contribution from ramp up of Kolwezi, we expect copper output to grow from 244kt in 2018E to 304kt by 2019E and 344kt by 2020E, implying 13%-25% growth in 2019E-2020E. With

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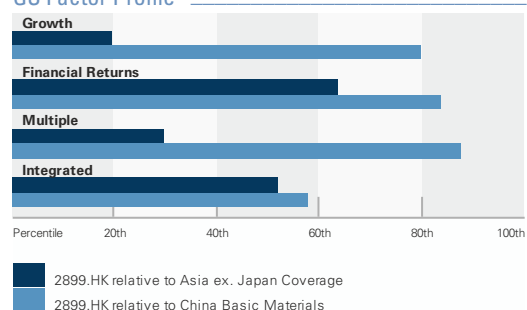
Key Data

Market cap: HK\$67.0bn / \$8.5bn
Enterprise value: HK\$83.3bn / \$10.6bn
3m ADTV: HK\$70.5mn / \$9.0mn
China
China Basic Materials
M&A Rank: 3

GS Forecast

	12/17	12/18E	12/19E	12/20E
Revenue (Rmb mn) New	94,548.6	98,654.9	104,534.4	107,741.0
Revenue (Rmb mn) Old	94,548.6	99,355.0	104,881.7	108,310.4
EBITDA (Rmb mn)	11,125.6	11,613.0	13,222.3	13,880.8
EPS (Rmb) New	0.16	0.18	0.21	0.23
EPS (Rmb) Old	0.16	0.18	0.19	0.21
P/E (X)	15.3	14.1	12.4	11.4
P/B (X)	1.6	1.6	1.5	1.4
Dividend yield (%)	3.8	3.6	4.0	4.4
CROCI (%)	34.9	21.1	21.6	22.4
	12/17	6/18	12/18E	--
EPS (Rmb)	0.09	0.11	0.07	--

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Buy

Zijin Mining (2899.HK)

Rating since Aug 27, 2018

Ratios & Valuation

	12/17	12/18E	12/19E	12/20E
P/E (X)	15.3	14.1	12.4	11.4
P/B (X)	1.6	1.6	1.5	1.4
FCF yield (%)	8.4	9.1	9.0	9.0
EV/EBITDA (X)	6.5	6.4	5.4	6.0
CROCI (%)	34.9	21.1	21.6	22.4
ROE (%)	11.2	11.7	12.5	12.7
Net debt/equity (%)	27.9	26.8	16.9	37.4
Interest cover (X)	3.0	5.6	7.1	8.4
Days inventory outst, sales	44.6	42.0	41.5	41.7
Receivable days	8.6	10.6	10.6	10.7
Days payable outstanding	21.0	21.2	23.4	23.8
DuPont ROE (%)	9.3	10.4	10.8	10.8
Turnover (X)	1.1	1.1	1.1	1.2
Leverage (X)	2.4	2.2	2.1	1.9

Growth & Margins (%)

	12/17	12/18E	12/19E	12/20E
Total revenue growth	19.9	4.3	6.0	3.1
EBITDA growth	66.4	4.4	13.9	5.0
EPS growth	83.1	17.2	13.8	8.8
DPS growth	40.3	1.7	13.8	8.8
EBIT margin	7.5	8.0	9.0	9.3
EBITDA margin	11.8	11.8	12.6	12.9
Net income margin	3.7	4.3	4.6	4.8

Price Performance



	3m	6m	12m
Absolute	0.0%	(18.9)%	4.7%
Rel. to the Hang Seng China Ent.	9.6%	(3.7)%	19.1%

Source: FactSet. Price as of 26 Oct 2018 close.

Income Statement (Rmb mn)

	12/17	12/18E	12/19E	12/20E
Total revenue	94,548.6	98,654.9	104,534.4	107,741.0
Cost of goods sold	(81,515.8)	(86,228.0)	(90,305.6)	(92,768.2)
SG&A	(3,743.0)	(3,982.6)	(4,253.8)	(4,409.3)
R&D	-	-	-	-
Other operating inc./exp.)	(2,220.9)	(560.8)	(560.8)	(560.8)
EBITDA	11,125.6	11,613.0	13,222.3	13,880.8
Depreciation & amortization	(4,056.7)	(3,729.6)	(3,808.1)	(3,878.1)
EBIT	7,068.9	7,883.5	9,414.2	10,002.7
Net interest inc./exp.)	(2,013.0)	(1,141.9)	(1,054.8)	(905.8)
Income/(loss) from associates	(29.3)	(29.8)	(30.4)	(31.1)
Pre-tax profit	4,568.0	6,715.2	8,329.0	9,065.9
Provision for taxes	(1,320.4)	(1,592.4)	(2,498.7)	(2,719.8)
Minority interest	260.2	(905.3)	(1,030.4)	(1,121.5)
Preferred dividends	-	-	-	-
Net inc. (pre-exceptionals)	3,507.7	4,217.5	4,799.9	5,224.6
Post-tax exceptionals	-	-	-	-
Net inc. (post-exceptionals)	3,507.7	4,217.5	4,799.9	5,224.6
EPS (basic, pre-exception) (Rmb)	0.16	0.18	0.21	0.23
EPS (diluted, pre-exception) (Rmb)	0.16	0.18	0.21	0.23
EPS (basic, post-exception) (Rmb)	0.16	0.18	0.21	0.23
EPS (diluted, post-exception) (Rmb)	0.16	0.18	0.21	0.23
DPS (Rmb)	0.09	0.09	0.10	0.11
Div. payout ratio (%)	57.6	50.0	50.0	50.0

Balance Sheet (Rmb mn)

	12/17	12/18E	12/19E	12/20E
Cash & cash equivalents	5,936.1	6,193.9	6,563.0	6,764.3
Accounts receivable	2,812.2	2,934.4	3,109.3	3,204.6
Inventory	11,089.8	11,613.8	12,130.1	12,459.5
Other current assets	8,836.9	8,400.3	8,454.4	8,483.9
Total current assets	28,675.0	29,142.4	30,256.7	30,912.3
Net PP&E	33,432.8	34,643.2	35,740.4	36,734.9
Net intangibles	10,367.1	9,767.1	9,201.8	8,669.2
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	16,840.4	16,840.4	16,809.9	16,778.9
Total assets	89,315.3	90,393.1	92,008.9	93,095.2
Accounts payable	4,396.3	5,625.6	5,960.8	6,143.7
Short-term debt	9,855.9	12,344.6	11,128.5	9,930.0
Other current liabilities	(74,773.8)	(79,686.1)	(80,702.1)	(81,834.4)
Total current liabilities	28,793.6	28,677.1	28,396.1	27,334.6
Long-term debt	6,599.0	4,743.3	2,918.6	14,899.5
Other long-term liabilities	16,279.8	16,279.8	16,279.8	2,500.7
Total long-term liabilities	22,878.8	21,023.1	19,198.4	17,400.1
Total liabilities	51,672.4	49,700.2	47,594.5	44,734.7
Preferred shares	-	-	-	-
Total common equity	34,999.7	37,144.4	39,835.6	42,660.2
Minority interest	2,643.1	3,548.5	4,578.8	5,700.3
Total liabilities & equity	89,315.3	90,393.1	92,008.9	93,095.2
Gross cash invested (ex cash)	44,164.9	47,896.8	48,125.5	48,802.0
Net debt, adjusted	10,518.9	10,894.1	7,484.1	18,065.2
Average capital employed	46,190.6	49,874.3	51,742.7	59,162.1
BVPS (Rmb)	1.52	1.61	1.73	1.85

Cash Flow (Rmb mn)

	12/17	12/18E	12/19E	12/20E
Net income	3,507.7	4,217.5	4,799.9	5,224.6
D&A add-back	4,056.7	3,729.6	3,808.1	3,878.1
Minority interest add-back	(260.2)	905.3	1,030.4	1,121.5
Net (inc)/dec working capital	(3,788.3)	1,201.2	475.4	(35.9)
Other operating cash flow	6,248.4	(0.0)	0.0	-
Cash flow from operations	9,764.4	10,053.5	10,113.9	10,188.3
Capital expenditures	(5,037.5)	(4,340.0)	(4,340.0)	(4,340.0)
Acquisitions	0.0	-	-	-
Divestitures	-	-	-	-
Others	1,111.7	0.0	30.4	31.1
Cash flow from investing	(5,947.6)	(4,340.0)	(4,309.6)	(4,308.9)
Dividends paid (common & pref)	(1,381.9)	(2,072.8)	(2,108.7)	(2,400.0)
Inc/(dec) in debt	586.8	(3,382.9)	(3,326.4)	(3,278.1)
Other financing cash flows	(1,879.2)	0.0	0.0	0.0
Cash flow from financing	(2,674.3)	(5,455.7)	(5,435.2)	(5,678.0)
Total cash flow	913.6	257.8	369.1	201.3
Free cash flow	4,726.9	5,713.5	5,773.9	5,848.3

Source: Company data, Goldman Sachs Research estimates.

ramp up of the Kamao mine by 2022E, we expect Zijin copper output to increase further by 41% to 487kt by 2022E, assuming no major acquisitions.

Zijin is actively looking for M&A opportunities. The company recently announced that it had won the bid to acquire a 63% interest in RTB Bor Group, with its bid of US\$350mn plus a commitment to invest another US\$1.26bn for technical upgrade, expansion or construction of its four mines and one smelter. The RTB Bor proposed transaction is still in the process of negotiation and pending formal agreement. The company has also proposed a cash purchase of all shares in Nevsun for a consideration of C\$6/share (C\$1.84bn in total), pending approval from both Chinese and Canadian government related authorities. Assuming Zijin secures both deals under the currently proposed terms, we estimate Rmb12 bn in total spending. If both deals complete, we estimate they would represent at least 268kt of additional copper output to Zijin, versus Zijin's 2017A copper output of 208kt (under our estimates). However, as the two projects are either greenfield or will need time to be upgrades, we expect there would be no major output in the next 1-2 years.

We revise up our net profit estimates by 3% for 2018E, 9% for 2019E and 7% for 2020E to reflect lower finance costs and minority interests, as reported in the results. We expect Zijin net profit to reach Rmb4,800mn in 2019E and Rmb5,225mn in 2020E, driven by higher gold/copper prices and rising output from copper (we are not building in the proposed acquisitions or any other potential acquisitions). We retain our Buy ratings on both the A/H shares. Our new 12-month target price for Zijin-H is HK\$3.9 (from HK\$3.8) and Rmb4.9 for Zijin-A (from Rmb 4.8). Our 12-month target prices are based on historical P/B vs. ROE correlation, or 2019E P/B of 2.0x/2.8x for H/A-share and ROE of 12.5%.

Key risks: 1) Gold and copper prices: FY19E earnings change 10% for every US\$100/oz change in the gold price or 4.4% for every US\$0.01/lb change in the copper price, and 2) project execution, which is key to sustaining the company's growth profile.

Exhibit 1: 3Q18A results summary - Zijin

		1Q18	2Q18	3Q18	YoY	QoQ	9M18	YoY
Net Revenue	Rmb mn	22,532	26,584	25,983	8%	-2%	75,098	23%
Cost of sales	Rmb mn	(19,353)	(23,364)	(23,219)	12%	-1%	(65,936)	25%
Gross profit	Rmb mn	3,179	3,220	2,763	-17%	-14%	9,162	11%
Other revenue	Rmb mn	38	201	137	-148%	-32%	376	n.a.
SG&A	Rmb mn	(893)	(894)	(1,115)	11%	25%	(2,902)	4%
Other operating Costs	Rmb mn	110	(379)	(650)	1324%	72%	(919)	n.a.
Operating profit	Rmb mn	2,435	2,148	1,135	-43%	-47%	5,718	2%
Finance costs	Rmb mn	(621)	(39)	(145)	-80%	269%	(805)	-58%
Share of associates	Rmb mn	(51)	23	61	351%	165%	33	11%
Non-Operating income/exp	Rmb mn	(74)	77	10	19%	-87%	14	n.a.
PBT	Rmb mn	1,689	2,209	1,061	-17%	-52%	4,959	42%
tax	Rmb mn	(304)	(408)	(339)	-20%	-17%	(1,051)	29%
Minority	Rmb mn	(300)	(243)	(13)	-93%	-95%	(556)	21%
Net Profit	Rmb mn	1,085	1,559	708	8%	-55%	3,352	51%
One offs	Rmb mn	24	(78)	(442)	44%	470%	(495)	2863%
Net Profit(recurring)	Rmb mn	1,067	1,617	1,040	17%	-36%	3,724	67%
EPS	Rmb/sh	0.047	0.068	0.031	7%	-55%	0.146	51%
EPS-recurring	Rmb/sh	0.046	0.070	0.045	17%	-36%	0.162	67%
Sales volume								
Mined gold	t	7.4	8.7	9.6	-3%	10%	25.7	-8%
Mined copper	kt	58.4	59.6	64.0	9%	7%	182.0	19%
Zinc concentrate	kt	78.1	75.0	62.6	-7%	-17%	215.7	1%
Output								
Mined gold	t	7.6	9.3	9.3	-2%	0%	26.1	-8%
Mined copper	kt	59.3	60.1	63.1	3%	5%	182.5	19%
Zinc concentrate	kt	74.4	73.9	71.1	15%	-4%	219.4	8%
Benchmark price								
Gold	US\$/oz	1,330	1,306	1,212	-5%	-7%	1,283	2%
Copper SHFE	US\$/lb	3.20	3.14	2.79	-4%	-11%	3.04	12%
Copper LME	US\$/lb	3.16	3.12	2.77	-4%	-11%	3.02	12%
ASP								
Mined gold	Rmb/g	257	251	246	-5%	-2%	251	2%
Mined copper	Rmb/t	37,344	36,493	33,671	-3%	-8%	35,773	7%
COGS								
Mined gold	Rmb/g	179	166	163	-3%	-2%	168	3%
Mined copper	Rmb/t	17,290	17,405	17,061	4%	-2%	17,061	4%
A/R days	days	12	8	9	-11%	7%	3	-22%
A/P days	days	17	17	18	-2%	9%	6	-13%
Inv days	days	52	46	50	-11%	9%	17	-21%
Operating cash flow	Rmb mn	1,327	3,654	1,639	-33%	-55%	6,620	15%
Investing cash flow	Rmb mn	(1,745)	837	(4,042)	275%	-583%	(4,951)	6%
Net debt	Rmb mn	32,324	28,769	33,062	-5%	15%	33,062	-5%
Net Gearing	%	91%	82%	92%	-9%	10%	92%	-9%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Key assumptions and financials - Zijin

Key assumptions and financials - ZIJIN		2015A	2016A	2017A	2018E	2019E	2020E
Gold	US\$/oz	1,160	1,247	1,259	1,264	1,288	1,350
CU-LME	US\$/lb	2.51	2.20	2.90	2.97	3.12	3.17
Cu-SHFE	US\$/lb	2.53	2.24	2.82	2.96	3.06	3.11
Zinc	US\$/lb	0.88	0.95	1.23	1.33	1.35	1.22
Gold-selfmine-sales	t	35.6	41.6	37.4	35.4	34.4	33.4
	mn oz	1.1	1.3	1.2	1.1	1.1	1.0
Cu-selfmine-sales	kt	151.2	151.2	208.2	244.5	304.5	344.5
Zn in conc-sales	kt	177.2	244.4	279.6	283.3	283.3	283.3
ASP - Au	US\$/oz	1,064	1,098	1,123	1,187	1,159	1,216
ASP - Cu cathode	US\$/t	2.52	2.22	2.75	2.95	3.06	3.11
Unit cash cost-Au	US\$/oz	694	750	767	841	838	847
Unit COGS-Cu	US\$/t	1.26	1.13	1.12	1.22	1.23	1.26
% gold profit	%	54%	50%	31%	35%	30%	31%
EBIT	Rmb mn	2,933	2,801	7,069	7,883	9,414	10,003
EBITDA	Rmb mn	6,025	6,686	11,126	11,613	13,222	13,881
Net Profit	Rmb mn	1,655	1,839	3,508	4,217	4,800	5,225
Net Profit-recurring	Rmb mn	1,466	2,698	4,872	4,264	4,800	5,225
EPS	Rmb/sh	0.077	0.085	0.156	0.183	0.208	0.227
EPS-recurring	Rmb/sh	0.068	0.125	0.217	0.185	0.208	0.227
BV	Rmb/sh	1.276	1.289	1.559	1.613	1.730	1.852
Operating cash flow	Rmb mn	10,269	8,602	9,764	10,054	10,114	10,188
Investing cash flow	Rmb mn	(8,693)	(8,479)	(5,948)	(4,340)	(4,310)	(4,309)
Free cash flow	Rmb mn	1,576	123	3,817	5,714	5,804	5,879
ROE	%	6.0%	6.7%	11.2%	11.7%	12.5%	12.7%
ROE-recurring	%	5.3%	9.8%	15.5%	11.8%	12.5%	12.7%
ROIC	%	3%	3%	7%	8%	9%	9%
Net debt	Rmb mn	31,311	38,685	31,213	27,572	23,876	20,397
net debt/equity	%	114%	139%	89%	74%	60%	48%
Gross profit-gold	Rmb mn	2,901	3,694	3,432	3,525	3,386	3,707
Gross profit-copper	Rmb mn	2,093	3,486	4,634	4,942	6,788	7,676
Gross profit-zinc	Rmb mn	691	1,402	3,071	2,977	3,182	2,758
Gross profit-others	Rmb mn	611	486	2,039	1,994	2,173	2,179

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Joy Zhang and Trina Chen, 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.

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GS Factor Profile

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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Quantum

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GS SUSTAIN

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Disclosures

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Joy Zhang: A-share Basic Materials, China Basic Materials. Trina Chen: A-share Basic Materials, China Basic Materials.

A-share Basic Materials: Aluminum Corp. of China (A), Angang Steel (A), Anhui Conch Cement (A), Baoshan Iron & Steel, BBMG Corp. (A), China Coal Energy (A), China Molybdenum Co. (A), Jiangxi Copper (A), Maanshan Iron & Steel (A), Yanzhou Coal Mining (A), Zijin Mining (A).

China Basic Materials: Aluminum Corp. of China (H), Angang Steel (H), Anhui Conch Cement (H), BBMG Corp. (H), China Coal Energy (H), China Hongqiao Group, China Molybdenum Co. (H), China National Building Material, China Resources Cement Holdings, Jiangxi Copper (H), Lee & Man Paper Manufacturing Ltd., Maanshan Iron & Steel (H), MMG Ltd, Nine Dragons Paper Holdings, West China Cement, Yanzhou Coal Mining (H), Zhaojin Mining Industry, Zijin Mining (H).

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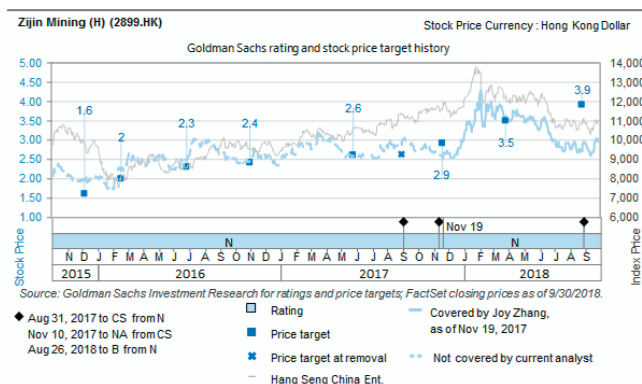
Distribution of ratings/investment banking relationships

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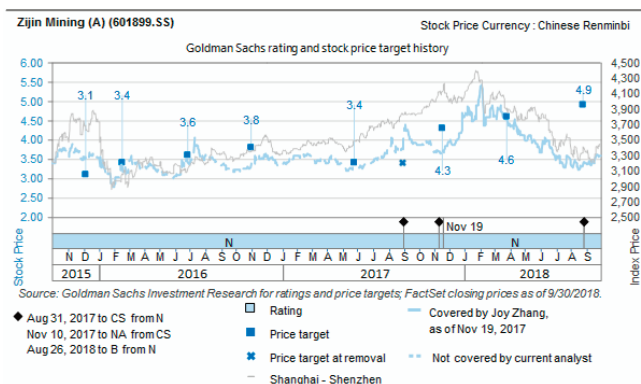
	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	35%	54%	11%	64%	57%	55%

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