



Company Report: Zhaojin Mining (01818 HK)

公司报告: 招金矿业 (01818 HK)

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Gold Prices Remain Low, Maintain "Neutral"

金价保持在低位, 维持“中性”评级

- **The 2014 annual results of the Company were lower than market consensus and our estimation.** Total revenue declined by 11.63% yoy to RMB 5.61 billion, while net profit attributable to shareholders dropped by 38.0% yoy to RMB 455.4 million.
- **We expect gold prices to continue to decline and to remain low in 2015 due to possible rate hike and strong U.S. dollar.** We expect gold to be traded between USD 1,100-1,350/oz in 2015 and the average gold price to be around USD 1,200/oz.
- **The output of the Company's mined gold is expected to increase by 5.17% to 17.7 tons in 2015.** The drop of gold prices seriously eroded the profitability of the mining business of the Company, hence the management of the Company intentionally slowed down the expansion speed and pays more attention to profitability of new mines and expansion projects.
- **Revise down TP to HK\$ 4.23 and maintain "Neutral".**
- 公司 2014 年业绩低于市场一致预期和我们的估计。公司收入同比下降 11.63% 至人民币 56.1 亿元, 股东净利同比下降 38.0% 至人民币 4.554 亿元。
- 我们预计由于美联储可能加息以及美元走强, 金价在 2015 年将会继续下跌。我们预计金价在 2015 年将会在 1,100-1350 美元/盎司之间波动, 平均价格在 1,200 美元/盎司左右。
- 公司 2015 年矿产产量预计将增长 5.17% 至 17.7 吨。金价下跌严重侵蚀了公司采矿业务的盈利能力, 因此公司管理层有意放慢了扩张的速度并更加关注新矿山和扩建项目的盈利能力。
- 下调公司目标价至 4.23 港元并维持“中性”评级。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$4.23

Revised from 原目标价:

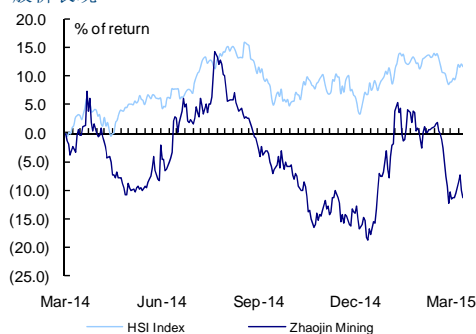
HK\$4.71

Share price 股价:

HK\$4.110

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(11.8)	9.3	(13.7)
Rel. % to HS index 相对恒指变动 %	(10.4)	4.8	(25.3)
Avg. share price(HK\$) 平均股价 (港元)	4.4	4.4	4.4

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
FY13A	6,344	734	0.248	(61.8)	12.3	3.143	1.0	0.099	3.2	8.7
FY14A	5,606	455	0.154	(38.0)	20.1	3.287	0.9	0.050	1.6	5.3
FY15F	6,193	431	0.145	(5.4)	21.3	3.359	0.9	0.015	0.5	4.9
FY16F	6,687	530	0.179	22.9	17.3	3.509	0.9	0.018	0.6	5.9
FY17F	7,211	667	0.225	26.0	13.7	3.690	0.8	0.022	0.7	7.1

Shares in issue (m) 总股数 (m)	2,965.8	Major shareholder 大股东	Zhaojin Group 37.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	11,980.1	Free float (%) 自由流通比率 (%)	29.4
3 month average vol. 3 个月平均成交股数 ('000)	6,234.6	FY15 Net gearing (%) FY15 净负债/股东资金 (%)	126.7
52 Weeks high/low (HK\$) 52 周高/低	5.300 / 3.690	FY15 Est. NAV (HK\$) FY15 每股估值 (港元)	6.7

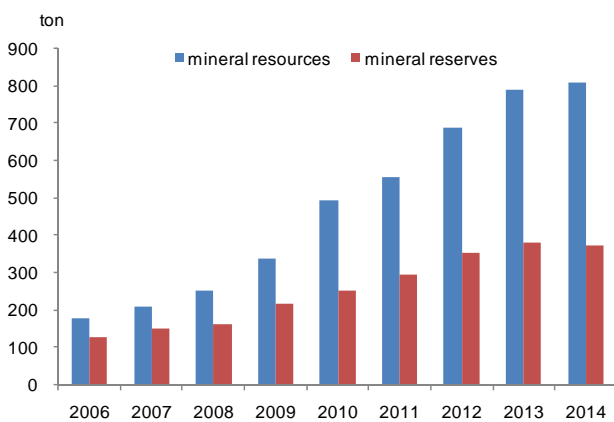
Source: The Company, Guotai Junan International.

The 2014 annual results of the Company were lower than market consensus and our estimation. Total revenue declined by 11.63% yoy to RMB 5.61 billion, while net profit attributable to shareholders' dropped by 38.0% yoy to RMB 455.4 million. The production of the Company was stable and the output of mined gold of the Company increased by 11.32% yoy to 16.8 tons. Mined gold output contributed by mines in Zhaoyuan Area increased by 0.12% yoy to 9.21 tons, but the output contributed mines outside Zhaoyuan Area increased by 28.71% yoy to 7.62 tons and they are expected to contribute most of the output growth in the future. However, gold prices were still under pressure and continued to decline in 2014, the average domestic gold prices declined by 10.93% yoy to RMB 249.12 yuan/g. The Company managed to control the production costs and continue to leads in the industry.

We expect gold prices to decline slightly and to remain low in 2015. We expect gold prices to continue to decline in 2015 due to possible rate hike and strong U.S. dollar, but the falling range is expected to contract. As the recovery of U.S. economy gains momentum and the job market continue to improve, the Federal Reserve is getting closer to raise interest rates for the first time since 2006, damping the appeal gold. On the other hand, dollar climbed to the highest in almost 12 years against a basket of six currencies on speculation that the Federal Reserve is getting closer to raising interest rates, while the European Central Bank purchases debt. Additionally, the drop of commodity prices also leads to the depreciation of "commodity currencies", such as Canadian dollar and Australia dollar, which further push forward U.S. dollar. Besides, more and more investors abandon gold assets and turn to other assets such as equity and bonds, as gold asset only offer earnings through the rise of prices. Global ETF backed by gold dropped significantly in the past two years and is expected to continue to decline in 2015. As a result, we expect gold prices to continue to decline in 2015, but we also expect the falling range of gold prices to contract after the significant drop in the past two years. We expect gold prices to be traded between USD 1,100-1350/oz in 2015, and the average gold prices to be around USD 1,200/oz.

The output of the Company's mined gold is expected to increase by 5.17% to 17.7 tons in 2015. The Company plans to produce 17.7 tons of mined gold in 2015, which only increase by 5.17% comparing to that of 2014. Total output of smelted gold is expected to decline by 0.18% yoy to 32.6 tons. The drop of gold prices seriously eroded the profitability of the mining business of the Company, hence the management of the Company intentionally slow down the expansion speed and pay more attention to profitability of new mines and expansion projects. The Company plans a capital expenditure of about RMB 880 million, which is much lower than the past two years. Hence, only large mines with significant profit prospect will be developed while many small projects are idled. We expect mined gold output in Zhaoyuan District to remain at current level and most of the growth is contributed by mines outside Zhaoyuan District. According to the Company, they will focus on developing gold mines in Gansu Province and resolving various challenges emerges on the production.

Figure 1 Gold resource and reserve of the Company



Source: The Company, Guotai Junan International.

Figure 2 Gold prices (US\$/oz)



Source: Bloomberg, Guotai Junan International.

Revise down TP to HK\$ 4.23, and maintain "Neutral". The fundamentals of Company remain healthy as it holds abundant gold resource and keeps expanding it through acquisition and exploration, which will strongly support the output growth of mined gold in the future. The production of the Company remains stable and we expect the output of mined gold to maintain

steady growth. However, the profitability of the Company was seriously eroded by the plunge of gold prices and we expect gold prices to continue to decline in 2015. Generally, we expect total net profit of the Company to continue to decline in 2015. Besides, the Company accumulated large debt in the past two years to support expansion and the expansion speed is expected to slow down. However, we expect the worst time of gold has past. We expect gold prices only decline slightly in 2015 and resume growth since 2016. We are still optimistic about the future growth of the Company. Hence, we revise down TP of Zhaojin Mining to HK\$ 4.23, which is equivalent to 23.0x FY15 PE and 18.7 FY16 PE, and maintain "Neutral".

Table 1 Zhaojin's Peer Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)
				13A	14F	15F	16F	13A	14F	15F	16F	14F
Barrick Gold Corp	ABX CN	CAD	14.27	n.a.	17.4	18.6	13.4	1.2	1.0	1.1	1.1	5.0
Goldcorp Inc	G CN	CAD	24.50	n.a.	29.1	28.2	21.1	1.0	0.8	0.9	0.9	2.7
Newcrest Mining Ltd	NCM AU	AUD	13.75	n.a.	24.1	25.2	15.5	1.1	1.2	1.3	1.2	4.6
Newmont Mining Corp	NEM US	USD	23.14	n.a.	23.4	19.3	18.4	1.1	1.1	1.1	1.0	4.7
Anglogold Ashanti Ltd	ANG SJ	ZAr	12,039.00	n.a.	14.7	13.9	11.4	1.5	1.5	1.3	1.3	7.0
Kinross Gold Corp	K CN	CAD	3.20	n.a.	19.6	53.3	28.8	0.6	0.5	0.6	0.6	2.3
Gold Fields Ltd	GFI SJ	ZAr	5,349.00	n.a.	37.5	24.8	20.1	1.0	1.0	1.0	1.0	2.4
Simple Average					23.7	26.2	18.4	1.1	1.0	1.0	1.0	4.1
Weighted Average					23.7	24.0	17.7	1.1	1.0	1.1	1.0	4.1
Zijin Mining Group Co Ltd-A	601899 CH	CNY	4.40	44.0	37.9	33.8	31.2	3.5	3.3	3.1	2.9	8.1
Shandong Gold Mining Co Lt-A	600547 CH	CNY	28.08	35.5	53.8	50.8	41.2	4.7	4.3	4.0	3.7	9.3
Zhongjin Gold Corp-A	600489 CH	CNY	12.99	86.6	64.3	56.0	59.9	3.8	3.7	5.4	18.4	6.1
Simple Average				55.4	52.0	46.9	44.1	4.0	3.7	4.2	8.3	7.8
Weighted Average				52.1	48.3	43.5	40.6	3.9	3.6	3.9	6.9	7.9
Zhaojin Mining Industry - H	1818 HK	HKD	4.11	13.0	16.1	17.3	16.7	1.1	1.1	1.1	1.0	6.7
Zijin Mining Group Co Ltd-H	2899 HK	HKD	2.32	18.4	16.1	15.9	14.3	1.4	1.3	1.3	1.3	8.3
China Gold International Res	2099 HK	HKD	9.18	8.5	6.2	3.7	2.5	0.3	0.3	0.3	0.3	5.2
Lingbao Gold Co Ltd-H	3330 HK	HKD	1.25	n.a.	59.5	17.6	9.0	0.5	0.5	0.4	0.4	0.8
Simple Average				13.3	24.5	13.6	10.6	0.8	0.8	0.8	0.7	5.3
Weighted Average				17.4	16.2	15.7	14.2	1.4	1.3	1.3	1.2	8.0

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end Dec 31st (RMB m)	FY13A	FY14A	FY15E	FY16E	FY17E	Year end Dec 31st (RMB m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	6,344	5,606	6,193	6,687	7,211	PPE	9,476	11,145	12,047	12,474	12,876
COGS	(4,104)	(3,434)	(4,059)	(4,309)	(4,551)	Other long-term assets	2,121	2,840	2,272	2,044	1,840
Gross profit	2,240	2,172	2,134	2,378	2,659	Intangible assets	4,874	5,301	5,407	5,515	5,626
Other revenues and gains	157	260	208	234	221	Prepaid land lease payments	321	327	294	265	238
SG&A	(918)	(1,027)	(960)	(1,103)	(1,190)	Others	1,643	944	919	943	969
Other operating expenses	(164)	(234)	(215)	(198)	(182)	Non-current assets	18,435	20,557	20,939	21,241	21,548
Profit from operation	1,315	1,172	1,168	1,311	1,509	Cash & cash equivalents	1,036	1,255	1,115	1,137	1,190
Finance costs	(342)	(514)	(583)	(586)	(584)	Trade receivables	1,164	912	973	1,012	1,013
Profit of an associate	21	26	55	60	65	Inventories	2,504	3,172	2,168	2,341	2,524
Profit before tax	994	683	639	786	990	Others	234	504	25	26	27
Income tax	(226)	(176)	(160)	(196)	(247)	Current assets	4,938	5,843	4,280	4,515	4,754
Profit from continuing operation	767	507	479	589	742	Long-term borrowings	1,117	2,174	1,239	1,337	1,442
Net profit	767	507	479	589	742	Corporate bond	1,192	2,690	2,825	2,966	3,114
Minority interests	(33)	(51)	(49)	(60)	(75)	Others	1,019	1,051	1,020	1,059	1,100
Net profit attributable to shareholders'	734	455	431	530	667	Non-current liabilities	3,327	5,915	5,083	5,363	5,657
EPS	0.248	0.154	0.145	0.179	0.225	Short-term borrowings	6,825	4,716	4,116	3,973	3,713
DPS	0.099	0.050	0.015	0.018	0.022	Gold loans	0	1,575	1,338	1,138	967
Cash Flow Statement						Trade payables	2,152	2,020	1,858	2,006	2,163
Year end Dec 31st (RMB m)	FY13A	FY14A	FY15E	FY16E	FY17E	Other payables	126	147	154	162	170
Profit after tax	767	507	479	589	742	Others	45	25	26	27	28
Changes in WC	(723)	(541)	790	(56)	(198)	Current liabilities	10,723	10,735	10,172	9,986	9,701
Adjust for depre. & amort.	497	564	747	723	748	Minority interests	897	1,083	1,137	1,194	1,254
Others	450	(884)	1,840	480	571	Shareholder's equity	8,426	8,667	8,826	9,214	9,690
Cash flows from operating	992	(354)	3,856	1,737	1,864	Financial Ratios					
Capex	(3,963)	(2,593)	(1,300)	(1,150)	(1,150)	Year end Dec 31st	FY13A	FY14A	FY15E	FY16E	FY17E
Others	68	72	75	79	83	Gross Margin	35.3%	38.8%	34.5%	35.6%	36.9%
Cash flows from investing	(3,895)	(2,521)	(1,225)	(1,071)	(1,067)	Net Margin	11.6%	8.1%	7.0%	7.9%	9.3%
Net bank borrowings	3,226	3,757	(2,145)	(5)	(93)	ROE	8.7%	5.3%	4.9%	5.9%	7.1%
Dividend paid	(294)	(148)	(43)	(53)	(67)	ROA	3.1%	1.7%	1.7%	2.1%	2.5%
Others	(342)	(514)	(583)	(586)	(584)	ROCE	10.6%	7.6%	8.1%	8.7%	9.5%
Cash flows from financing	2,590	3,095	(2,772)	(644)	(744)	Free CF(mn Rmb)	(2,971)	(2,947)	2,556	587	714
Net change in cash	(313)	219	(140)	22	53	Net Gearing	114.9%	142.2%	126.7%	121.5%	113.3%
Cash at beginning of year	1,349	1,036	1,255	1,115	1,137						
Cash at end of year	1,036	1,255	1,115	1,137	1,190						

Source: The Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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