



Company Report: CMOC (03993 HK)

公司报告: 洛阳铝业 (03993 HK)

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Production Costs are Expected to Rise, Downgrade to “Neutral”

生产成本预计将上升, 下调至“中性”评级

- The 2014 annual results of the Company were 5.7% higher than our estimation, but 3.5% lower than market consensus. Total revenue increased by 20.3% yoy to RMB 6.66 billion, while net profit attributed to shareholders increased by 55.4% yoy to RMB 1.82 billion.
- The Company plans to produce 16,323 and 8,720 tons of mined molybdenum and tungsten, and the Northparke mine plans to produce 41,614 tons of mined copper in 2015. The output of mined molybdenum and tungsten of the Company is only expected to increase by 0.3% and 7.4%, respectively, comparing to that of 2014.
- We expect molybdenum and tungsten prices to remain low in 2015 due to excessive supply and moderate demand growth, we also expect copper to continue to decline due to global supply glut.
- The production costs of molybdenum and copper of the Company are expected to rise in 2015, but the production costs of tungsten are expected to decline slightly. The Company estimates that the cash production costs of molybdenum is expected to increase by 11.8% yoy to RMB 63,358/t and the cash costs of mined copper are expected to increase by 41.0% yoy to USD 0.79/lb.
- Revise down TP to HK\$ 5.30, and downgrade to “Neutral”.
- 公司 2014 年业绩比我们的估计高 5.7%, 但比市场一致预期低 3.5%。公司收入同比增长 20.3% 至人民币 66.6 亿元, 股东净利同比增长 55.4% 至人民币 18.2 亿元。
- 公司计划 2015 年生产 16,323 吨矿产钼和 8,720 吨钨, Northparke 矿计划生产 41,614 吨矿产铜。公司钼和钨的产量与 2014 年同期相比预计分别同比增长 0.3% 和 7.4%。
- 我们预计由于供应充足和需求仅有温和增长, 钼价和钨价在 2015 年将维持在低位。我们也预计铜价由于供应过剩将会继续下跌。
- 公司钼和铜的生产成本在 2015 年预计将会上升, 但钨的生产成本预计将会小幅下降。公司预计钼的现金生产成本将会上涨 11.8% 至人民币 63,358 元/吨, 矿铜的现金生产成本预计将会上涨 41.0% 至 0.79 美元/磅。
- 下调公司目标价至 5.30 港元, 下调至“中性”评级。

Rating:

Neutral

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

HK\$5.30

Revised from 原目标价:

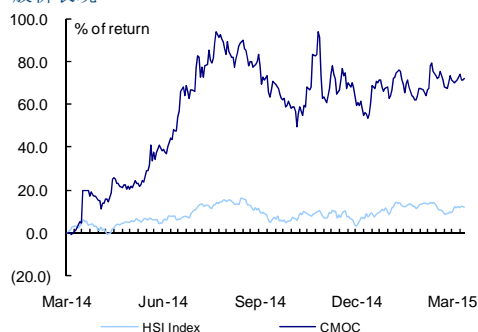
HK\$5.97

Share price 股价:

HK\$4.970

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 %	(3.9)	10.2	64.7
Rel. % to HS index 相对恒指变动 %	(2.3)	5.5	52.7
Avg. share price(HK\$) 平均股价 (港元)	5.0	4.9	4.6

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	5,536	1,174	0.231	11.8	15.2	2.399	1.5	0.069	2.0	9.3
FY14A	6,662	1,824	0.359	55.4	9.9	2.883	1.2	0.180	5.1	13.0
FY15F	6,722	1,332	0.262	(27.0)	13.5	3.263	1.1	0.118	3.3	8.3
FY16F	6,948	1,333	0.263	0.0	13.5	3.644	1.0	0.118	3.3	7.4
FY17F	7,169	1,364	0.269	2.3	13.2	4.034	0.9	0.121	3.4	6.8

Shares in issue (m) 总股数 (m)	5,076.2	Major shareholder 大股东	Hongshang Group 36.0%
Market cap. (HK\$ m) 市值 (HK\$ m)	25,330.2	Free float (%) 自由流通比率 (%)	29.8
3 month average vol. 3 个月平均成交股数 ('000)	8,379.4	FY15 Net gearing (%) FY15 净负债/股东资金 (%)	9.6%
52 Weeks high/low (HK\$) 52 周高/低	5.790 / 2.990	FY15 Est. NAV (HK\$) FY15 每股估值 (港元)	6.9

Source: The Company, Guotai Junan International.

The 2014 annual results of the Company were 5.7% higher than our estimation, but 3.5% lower than market consensus. Total revenue increased by 20.3% yoy to RMB 6.66 billion, while net profit attributed to shareholders' increased by 55.4% yoy to RMB 1.82 billion. The significant profit increase was mainly attributed to profit contributed by the Northparke Mine and the disposal of gold mining assets of the Company. At the same time, the Company manages to control the production costs of mining products and offset the negative impact of metal prices decline. The gross margin of molybdenum, tungsten and copper only declined slightly in 2014. The Company produced 16,270 and 8,122 tons of equivalent MO and WO₃. However, metal prices were under pressure in 2014 due to excessive supply and weak demand. The average prices of molybdenum, tungsten and copper declined by 11.68%, 16.52% and 7.27% yoy, respectively in 2014. The Company sold its gold mining assets in 2014 and significantly reduced the production of lead.

The Company plans to produce 16,323 and 8,720 tons of mined molybdenum and tungsten, and the Northparke mine plans to produce 41,614 tons of mined copper in 2015. The output of mined molybdenum and tungsten of the Company is only expected to increase by 0.3% and 7.4%, respectively, comparing to that of 2014. Both of the output of molybdenum and tungsten concentrate is contributed by the Sandaozhuang Molybdenum Mine and the Company does not have expansion plans, hence the output is expected to remain at the same level. The output increase of tungsten is mainly attributed to the rise of recovery rate. The ore processing facility has reached its full capacity since 2012 and the tungsten recovery has reached 75.6% in 2013, which left little room for further improvement. The output of mined copper from the Northparke mine is expected to decline by 4.6% comparing to that of 2014. The Northparke mine is on production for several years, and needs necessary capital expenditure to maintain its output level. We believe the 2015 output target of the Company is reasonable and expect the Company to fulfill the output target.

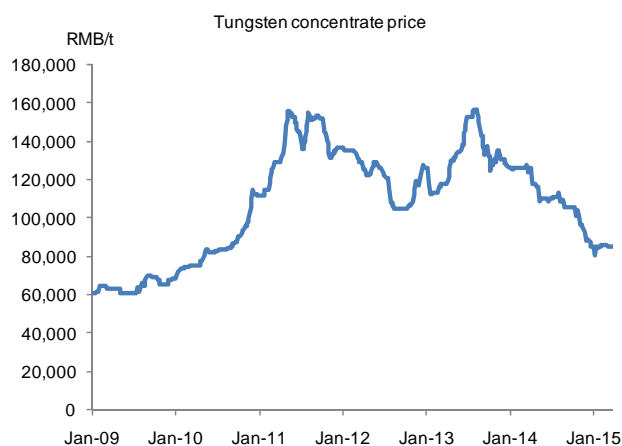
We expect molybdenum and tungsten prices to remain low in 2015 due to excessive supply and moderate demand growth, we also expect copper to continue to decline due to global supply glut. Global molybdenum market was under heavy pressure due to excessive supply while downstream consumption demand from steel industry was weak. Although small molybdenum mines were gradually forced to shut down as molybdenum prices dropped below their production costs, but the market still faces abundant supply as several new large mines commence production. We expect global molybdenum to remain in surplus in 2015, but the drop of molybdenum prices is expected to be limited as current prices are already low enough. We also expect tungsten prices to remain low in 2015 as consumption demand is only expected to grow moderately while supply is ample. We still expect copper prices to be under pressure due to ample supply. Global copper supply is expected to increase significantly in the next 3 years due to newly constructed mines and expansion projects, and outpaced the growth speed of consumption demand. The economic growth rate of China, which is the largest consumer of copper, is expected to slow down in 2015. We expect copper market to remain in surplus and continue to weigh on copper prices.

Figure 1 China Molybdenum concentrate prices



Source: Bloomberg, Guotai Junan International.

Figure 2 China Tungsten concentrate prices



Source: Bloomberg, Guotai Junan International.

The production costs of molybdenum and copper of the Company are expected to rise in 2015, but the production costs of tungsten are expected to decline slightly. The Company estimates that the average cash production costs of molybdenum concentrate is expected to increase by 11.8% yoy to RMB 63,358/t. The rise of production is mainly attributed to the decline of ore grade as the Company has to deal with low-grade ore accumulate in the past few years. The average cash production costs of mined copper of Northparke mine are expected to increase by 41.0% yoy to USD 0.79/lb. The significant rise of production costs are mainly attributed to higher waste strip rate and more auxiliary expenses. Besides, the Company also has spend more capital expenditure to maintain the output. However, the average cash production costs of tungsten are expected to decline by 9.8% yoy due to expanded output scale.

Revise down TP to HK\$ 5.30, and downgrade to “Neutral”. The fundamentals of the Company are healthy, the Company enjoys great advantages due to its low production costs. Although metal prices are all expected to still under pressure due to excessive supply, we expect the Company to maintain considerable gross margin of mining business. The production of the Company is stable and the output of mining products of the Company is expected to increase. The Company has sold its gold assets and reduces the output of refined lead, we believe the disposal of domestic gold assets and the halt of lead production are positive to lift profitability of the Company. However, the production costs of molybdenum and copper are expected to increase significantly in 2015 due to ore decline and more auxiliary expenses. Hence, we revise down TP to HK\$5.30, which is equivalent to 16.0x FY15 PE, and downgrade to “Neutral”.

Table 1 CMOC's Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)
				13A	14F	15F	16F	13A	14F	15F	16F	14F
International- Listed companies												
Bhp Billiton Plc	BLT LN	Gbp	1,542.50	11.5	9.6	14.7	15.3	1.8	1.8	1.5	1.5	18.5
Vale Sa-Pref	VALE5 BZ	BRL	16.42	732.7	88.7	16.6	10.1	0.6	0.6	0.6	0.5	0.6
Rio Tinto Plc	RIO LN	Gbp	2,877.00	22.7	13.4	12.8	10.7	1.9	1.8	1.6	1.5	14.2
Anglo American Plc	AAL LN	Gbp	1,076.50	n.a.	n.a.	12.5	8.8	0.8	0.8	0.7	0.7	(8.7)
Freeport-Mcmoran Inc	FCX US	USD	19.50	7.4	n.a.	22.6	8.3	1.0	1.1	1.1	1.0	(6.7)
Southern Copper Corp	SCCO US	USD	29.41	15.3	18.3	19.5	14.7	4.4	4.1	3.6	3.2	23.5
Grupo Mexico Sab De Cv-Ser B	GMEXICOB MM	MXN	45.29	15.4	14.8	14.2	11.8	2.8	2.4	2.2	1.9	18.5
Teck Resources Ltd-Cls B	TCK/B CN	CAD	18.01	10.8	28.6	15.9	10.9	0.6	0.6	0.6	0.5	1.9
Simple Average				116.5	28.9	16.1	11.3	1.7	1.6	1.5	1.4	7.7
Weighted Average				83.4	20.4	15.1	12.5	1.8	1.7	1.5	1.5	12.4
China - Listed companies												
Western Mining Co -A	601168 CH	CNY	10.12	67.5	n.a.	n.a.	n.a.	2.1	n.a.	n.a.	n.a.	n.a.
Tongling Nonferrous Metals-A	000630 CH	CNY	16.93	42.3	56.4	47.7	38.9	2.2	1.5	1.4	1.3	3.7
Yunnan Copper Industry Co-A	000878 CH	CNY	15.30	n.a.	n.a.	n.a.	n.a.	4.0	n.a.	n.a.	n.a.	n.a.
Shenzhen Zhongjin Lingnan-A	000060 CH	CNY	12.67	63.4	55.8	44.8	28.3	4.4	4.0	3.7	4.0	n.a.
Simple Average				57.7	56.1	46.2	33.6	3.2	2.7	2.6	2.7	3.7
Weighted Average				56.5	56.1	46.3	34.0	3.1	2.6	2.5	2.6	3.7
HK - Listed companies												
Aluminum Corp Of China Ltd-H	2600 HK	HKD	3.70	41.9	n.a.	n.a.	137.0	0.9	1.4	1.3	1.3	(44.7)
Jiangxi Copper Co Ltd-H	358 HK	HKD	13.28	10.2	12.6	14.5	13.0	0.8	0.8	0.8	0.7	6.4
Xinjiang Xinxin Mining Ind-H	3833 HK	HKD	1.35	n.a.	30.6	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.
China Molybdenum Co Ltd-H	3993 HK	HKD	4.99	17.2	11.0	15.2	14.3	1.6	1.4	1.2	1.1	13.6
Hunan Nonferrous Metals-H	2626 HK	HKD	4.18	59.6	n.a.	n.a.	n.a.	3.0	n.a.	n.a.	n.a.	n.a.
Simple Average				32.2	18.1	14.8	54.8	1.3	1.2	1.1	1.0	(8.2)
Weighted Average				26.8	12.2	14.8	61.6	1.2	1.2	1.1	1.1	(11.3)

Source: Bloomberg, 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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