

March 20, 2015

Zijin Mining Group

2014 Result No Major Surprise

Industry View

Attractive

Stock Rating

Overweight

Quick Comment: Zijin reported 2014 net profit of Rmb2,346mn or Rmb0.11/shr, +10% YoY. Implied 4Q14 profit was Rmb0.017/sh. This is in line with the preliminary result the company announced on February 16. Zijin declared a final dividend of Rmb0.08/share, representing a 74% payout and a 4.5% dividend yield for H share (A share: 2.1%).

2014 results details:

- **Sales volume:** Sales volumes for most products werer generally in line with our estimates. Refined gold sales volume climbed 62% YoY, more than expected, while mined zinc missed the company's previous target by 40%, (See Exhibit 1.)
- **ASP:** Except for mined and refined zinc, ASP for all other products declined YoY. Mined gold and copper ASPs fell 13% and 9% YoY, respectively. However, revenue still rose 18% YoY due to refined gold volume growth. Revenue was in line with our estimate at Rmb58,761mn.
- **Cost:** Zijin reduced unit costs for almost all products, especially precious metals, where mined and refined gold unit costs fell 18% and 10%, respectively. Mine copper unit cost was up 3% YoY.
- **Gross profit margin:** Due to an increase low-margin refined gold volume, the gross margin dropped 4.5% to 12%.
- **Capex:** Management guided for Rmb2.2bn capex in 2015 (excluding US\$180mn to be spent on Congo gold and copper mine project) and another Rmb10bn on future M&A (management mentioned the amount has uncertainty). These expenditures will be financed by internal cash flow, bank loans, medium-term notes, etc.
- **2015 production guidance:** Management targets a 7-8% growth in mined gold, copper and iron ore, and more than double production volume of 2015e mined zinc. 2015 mined gold production guidance of 36t is 1.1% higher than we expected. Mined copper volume guidance of 150kt is 25% below our forecast. Zinc volume guidance of 210kt is 5% higher than our previous forecast.

Results briefing: March 23, 10:15. Island Shangri-La

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Zijin Mining Group (2899.HK , 2899 HK)**China Materials / China****Stock Rating****Overweight****Industry View****Attractive**

Shr price, close (Mar 20, 2015)

HK\$2.19

52-Week Range

HK\$2.65-1.59

Sh out, dil, curr (mn)

5,896

Mkt cap, curr (mn)

Rmb72,010

EV, curr (mn)

Rmb95,838

Avg daily trading value (mn)

HK\$62

Fiscal Year Ending	12/13	12/14e	12/15e	12/16e
ModelWare EPS (Rmb)	0.10	0.12	0.20	0.20
Prior ModelWare EPS (Rmb)	-	-	-	-
Consensus EPS (Rmb)\$	0.11	0.11	0.12	0.13
Revenue, net (Rmb mn)	49,052	54,838	55,423	57,252
EBITDA (Rmb mn)	8,018	7,209	10,453	11,025
ModelWare net inc (Rmb mn)	2,125	2,685	4,352	4,321
P/E	13.2	14.2	8.6	8.7
P/BV	1.0	1.3	1.1	1.0
RNOA (%)	8.7	7.3	9.9	9.3
ROE (%)	7.5	9.7	14.4	12.5
EV/EBITDA	8.5	12.7	9.5	8.8
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)	(4.4)	(10.8)	0.7	6.3
Leverage (EOP) (%)	37.0	45.7	36.8	24.5

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
 \$ = Consensus data is provided by Thomson Reuters Estimates
 e = Morgan Stanley Research estimates

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Exhibit 1: Zijin 2014 Result Snapshot

(Rmb million)	2014	MSe	diff %	YoY
Operation data				
Mined gold ASP	232	251	-8%	-5%
Mined copper ASP (Rmb/t)	35,804	37,886	-5%	-6%
Sales volume				
Mine-produced gold (kg)	33,776	34,000	-1%	5%
Refinery gold (kg)	125,093	106,788	17%	62%
Mine-produced Silver(Kg)	171,617	163,771	5%	9%
Mine-produced copper (t)	136,838	140,000	-2%	9%
Refined copper (t)	235,150	220,000	7%	13%
Mine produced zinc (t)	96,416	160,000	-40%	28%
Refinery zinc (t)	207,303	200,000	4%	14%
Iron ore (t)	2,800,000	3,108,667	-10%	7%
Financial data				
Revenue	58,761	58,752	0%	18%
Gross profit	7,040	9,389	-25%	-14%
-- Gross margin	12%	16%	-4.0 ppt	-4.5 ppt
EBITDA	6,716	8,856	-24%	-2%
-- EBITDA margin	11%	15%	-3.6 ppt	-2.3 ppt
EBIT	4,071	4,842	-16%	-9%
-- EBIT margin	7%	8%	-1.3 ppt	-2.0 ppt
Net income	2,346	2,346	0%	10%
-- Net margin	4%	4%	0.0 ppt	-0.3 ppt
EPS (Rmb)	0.11	0.12	-13%	11%

Source: Company data, Morgan Stanley Research

Exhibit 2: Zijin 4Q14 Operating Data by Product

	Unit	ASP			Unit cost		
		2014	2013	YoY	2014	2013	YoY
Mine-produced gold	Rmb/g	232	266	-13%	144	152	-6%
Refinery gold	Rmb/g	249	274	-9%	248	275	-10%
Mine-produced Silver	Rmb/g	3.99	na	na	1.62	1.76	-8%
Mine-produced copper	Rmb/t	35,804	39,422	-9%	18,467	17,908	3%
Refined copper	Rmb/t	41,872	45,155	-7%	41,391	45,861	-10%
Mine produced zinc	Rmb/t	8,146	7,570	8%	3,509	3,862	-9%
Refinery zinc	Rmb/t	13,612	12,881	6%	12,971	12,519	4%
Iron concentrates	Rmb/t	535	631	-15%	189	213	-11%

Source: Company data, Morgan Stanley Research

Exhibit 3: 2015 Production Guidance

	Unit	Production volume		
		2015 Target	2014 actual	YoY
Mine-produced gold	kg	36,000	33,727	7%
Mine-produced copper	t	150,000	138,462	8%
Mine produced zinc	t	210,000	96,261	118%
Iron concentrates	mmt	3.00	2.80	7%

Source: Company data, Morgan Stanley Research

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Zijin Mining Group.

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(as of February 28, 2015)

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TOTAL	3,330		789		

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Zijin Mining Group (2899.HK) - As of 3/20/15 in HKD
Industry : China Materials



Price Target History: 1/17/12 : 4.58; 6/28/12 : 4; 10/4/12 : 4.6; 1/24/13 : 4.2; 4/17/13 : 3.1; 6/25/13 : 2.8; 10/7/13 : 2; 1/22/14 : 1.3; 2/13/14 : 1.45; 7/8/14 : 1.5; 10/8/14 : 1.8; 1/20/15 : 3.1

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/20/2015)
Lam CFA, John		
Lee & Man Paper Manufacturing (2314.HK)	U (07/01/2014)	HK\$3.72
Nine Dragons Paper (2689.HK)	U (07/01/2014)	HK\$5.05
Zhang, Rachel L		
Aluminum Corp. of China Ltd. (601600.SS)	E (12/16/2014)	Rmb6.34
Aluminum Corp. of China Ltd. (2600.HK)	O (12/16/2014)	HK\$3.61
Angang Steel Company Limited (0347.HK)	O (11/28/2013)	HK\$5.26
Angang Steel Company Limited (000898.SZ)	O (08/30/2014)	Rmb6.03
Baoshan Iron & Steel (600019.SS)	O (03/31/2014)	Rmb6.84
Chinalco Mining Corp International (3668.HK)	E (06/18/2014)	HK\$0.88
G-Resources (1051.HK)	E (10/07/2013)	HK\$0.23
Jiangxi Copper (0358.HK)	E (10/08/2014)	HK\$13.36
Jiangxi Copper (600362.SS)	E (10/08/2014)	Rmb19.63
Jilin Jien Nickel Industry (600432.SS)	E (12/19/2014)	Rmb16.20
Maanshan Iron & Steel (0323.HK)	O (12/16/2014)	HK\$2.06
Maanshan Iron & Steel (600808.SS)	E (12/16/2014)	Rmb3.97
Zhaojin Mining Industry (1818.HK)	O (01/20/2015)	HK\$4.29
Zijin Mining Group (601899.SS)	E (01/20/2015)	Rmb3.88
Zijin Mining Group (2899.HK)	O (01/20/2015)	HK\$2.19

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