



Company Report: Jiangxi Copper (00358 HK)

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公司报告: 江西铜业 (00358 HK)

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2017 Annual Results Missed Expectations, Maintain "Neutral"

2017年年度业绩差于预期, 维持“中性”评级

- The 2017 annual results of the Company was 28.9% and 33.3% lower than market consensus and our estimation, respectively. Total revenue of the Company increased 1.35% yoy to RMB 205.05 billion and net profit attributable to shareholders increased 104.57% yoy to RMB 1.60 billion.
- We expect the global copper market to be more stable in 2018 and the average annual copper price to trade between US\$ 6,000/t-US\$ 6,500/t. We expect gold price to remain flat in 2018 and to fluctuate around the level of US\$ 1,250/oz. We expect the global copper market to remain at a normal level in 2018 after a significant surge in 2010-2013 and deep dive in 2014-2016.
- In 2018, the Company plans to produce 1.42 million tons of refined copper, 0.21 million tons of mined copper and 25.6 tons of gold. According to the production plan of the Company, the output of major mining products in 2018 will generally remain at the same level comparing to that of 2017.
- Revise down TP to HK\$ 11.73 but maintain "Neutral".
- 公司 2017 年年度业绩比市场一致预期和我们的估计分别低 28.9% 和 33.3%。公司收入同比增加 1.35% 至人民币 2,050.5 亿元, 股东净利同比增长 104.57% 至人民币 16.0 亿元。
- 我们预计全球铜市场在 2018 年将更加稳定, 年度铜均价将在 6,000-6,500 美元/吨之间波动。我们预计金价在 2018 年将基本持平并在 1,250 美元/盎司的水平附近波动。在经历了 2010-2013 年的显著上涨和 2014-2016 年的深度回调之后, 我们预计 2018 年全球铜市场将保持在一个正常的水平。
- 公司计划在 2018 年生产 142 万吨电解铜, 21 万吨矿产铜和 25.6 吨黄金。根据公司的生产计划, 2018 年主要矿产品产量水平将与 2017 年基本持平。
- 下调公司目标价至 11.73 港元, 但维持“中性”评级。

Rating:

Neutral
Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$11.73

Revised from 原目标价:

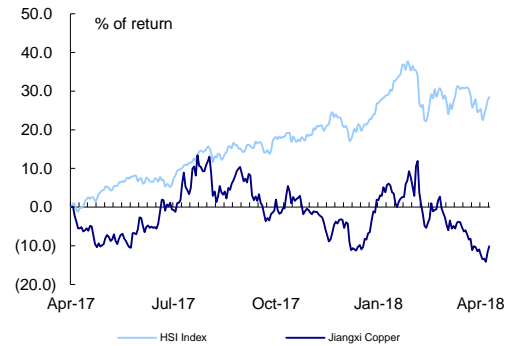
HK\$13.32

Share price 股价:

HK\$11.300

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(4.9)	(15.3)	(11.4)
Rel. % to HSI Index 相对恒指变动 %	(4.6)	(14.6)	(39.7)
Avg. Share price(HK\$) 平均股价 (港元)	11.4	12.3	12.4

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	201,728	841	0.243	22.1	41.6	13.457	0.8	0.150	1.5	1.8
2017A	204,234	1,650	0.476	95.9	19.2	13.727	0.7	0.200	2.2	3.5
2018F	211,376	2,531	0.731	53.6	12.5	14.239	0.6	0.219	2.4	5.2
2019F	221,945	2,907	0.839	14.8	10.9	14.826	0.6	0.252	2.8	5.8
2020F	233,042	3,149	0.909	8.3	10.1	15.463	0.6	0.273	3.0	6.0
Shares in issue (m) 总股数 (m)			3,462.7		Major shareholder 大股东		Jiangxi Copper Group 40.5%			
Market cap. (HK\$ m) 市值 (HK\$ m)			39,128.5		Free float (%) 自由流通比率 (%)		59.5%			
3 month average vol. 3 个月平均成交股数 ('000)			13,787.4		FY18 Net gearing (%) FY18 净负债/股东资金 (%)		22.3			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			14.540 / 10.680		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		19.8			

Source: the Company, Guotai Junan International.

The 2017 annual results of the Company was 28.9% and 33.3% lower than market consensus and our estimation, respectively. Total revenue of the Company increased 1.35% yoy to RMB 205.05 billion, and net profit attributable to shareholders increased 104.57% yoy to RMB 1.60 billion. The surge in net profit was mainly attributed to a rebound in copper price. The average copper price in 2017 was about 27.0% higher than that in the same period last year. The Company generally fulfilled its output targets; the output of mined copper remain flat at about 209,600 tons, the output of refined copper increased by 13.22% yoy to 1.37 million tons, the output of gold also remain flat at 25.58 tons, the output of silver decreased by 4.53% to 484 tons, and the output of sulfur acid was flat at 3.57 million tons.

Figure-1: Gold prices



Source: Bloomberg, Guotai Junan International.

Figure-2: Copper prices



Source: Bloomberg, Guotai Junan International.

We expect the global copper market to be more stable in 2018 and the average annual copper price to trade between US\$ 6,000/t-US\$ 6,500/t. We expect gold price to remain flat in 2018 and to fluctuate at around the level of US\$ 1,250/oz. We expect the global copper market to remain at a normal level in 2018 after a significant surge in 2010-2013 and deep dive in 2014-2016. As China's economy enters into the "new normal", global copper consumption demand is not expected to record such huge growth as seen during the last decade. On the supply side, miners confront a more stable market and expect reasonable return. As a result, we expect the global copper market to become more stable under new supply-demand constraint conditions. We expect copper prices to trade between US\$ 5,400/t-US\$ 7,200/t in 2018, and the average copper price may be around US\$ 6,000/t-US\$ 6,500/t. We expect gold prices to remain under pressure in 2018 as monetary policy of the U.S. Federal Reserve ("the Federal Reserve") remains tight. The performance of the U.S. economy has been much better than its western developed counterparts, and the improvement in the U.S. job market has also been sustained. The Federal Reserve believes that inflation is expected to stabilize at around 2% in the medium term, and the economy is backing gradual hikes of interest rates. The Federal Reserve raised interest rates 3 times in 2017 and is widely expected to keep the same pace in 2018. Additionally, the Federal Reserve also started to cut its balance sheet in the 2nd half of the year in 2017 and will continue to do so in 2018, which will further weigh on the price of gold. On the other hand, investor preference for gold assets will remain stagnant as global financial markets are generally stable. Hence, we expect the price of gold to remain under pressure in 2018. We expect gold prices to fluctuate between US\$ 1,100/oz-US\$ 1,350/oz in 2018, and the annual average gold price to be around US\$ 1,250/oz.

In 2018, the Company plans to produce 1.42 million tons of refined copper, 0.21 million tons of mined copper and 25.6 tons of gold. According to the production plan of the Company, the output of major mining products will generally remain the same comparing to that of 2017. Generally speaking, the output of mined copper, which contributes most of the profit to the Company, remained stable over the past several years as mining capacity of the Company remained unchanged. Jiangxi Copper only acquired a partial stake in two copper mines with other companies in the past few years, and both of them are under construction and will take some time before production can start. On the other hand, the expansion project of domestic mines have almost all been completed. We expect the mining output of the Company to remain unchanged over the next few years. The output of copper cathodes increased by 13.2% yoy in 2017 and is expected to grow slightly in 2018. The output of copper semi-fabricators is expected to remain at the same level in 2018. However, they are not expected to contribute much profit due to low gross margin of smelting and semi-fabricating businesses. The output of silver is expected to decline by 26.9% yoy in 2018 mainly due to reduced silver contained in procured materials.

Table-1: Output of main products of Jiangxi Copper

	unit	2013	2014	2015	2016	2017	2018F	yoy
Copper cathode	ton	1,120,000	1,200,000	1,250,000	1,211,000	1,370,000	1,420,000	3.6%
Mined copper	ton	208,800	210,000	209,000	209,900	209,600	206,800	-1.3%
Copper semi-fabricators	ton	831,200	860,000	950,000	950,000	1,140,000	1,100,000	-3.5%
Gold	ton	25.4	26.0	26.0	26.4	25.9	25.0	-3.5%
Silver	ton	718	567	570	507	484	354	-26.9%
Sulfuric acid	ton	2,980,000	3,010,000	3,070,000	3,501,000	3,570,000	3,710,000	3.9%

Source: the Company, Guotai Junan International.

Revise down TP to HK\$ 11.73, and maintain "Neutral". The output of mining products of the Company is expected to remain the same as that of previous years and the growth prospect of the Company is expected to be limited in the next few years due to lackluster growth of mining products. The fundamentals of the Company remain healthy and the change in profitability mainly came from the fluctuation of metal prices. The mining outputs of the Company are expected to generally remain at the same level, but copper prices are expected to stay at relatively high levels in 2018. However, we expect gold prices to remain under pressure as the monetary policy of the U.S. Federal Reserve remains tight. We expect net profit of the Company to increase in 2018 as asset impairment loss will reduce significantly in 2018. Jiangxi Copper is the largest copper producer in China and we believe that the Company will benefit greatly from the rebound in copper price. However, we believe current PE valuation of copper mining companies are relatively high and may retreat if copper price goes down. Hence, we revise down the TP to HK\$ 11.73, which is equivalent to 13.0x FY18 PE and 0.7x FY18 PB, and maintain "Neutral".

Table-2: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)
				17A	18F	19F	20F	17A	18F	19F	20F	20F
Bhp Billiton Plc	BLT LN	GBp	1,446.20	16.6	12.0	13.6	14.5	1.7	1.8	1.8	1.7	14.2
Vale Sa-Pref	VALE5 BZ	BRL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.2
Rio Tinto Plc	RIO LN	GBp	3,711.00	9.7	10.8	11.7	11.6	2.0	2.0	1.9	1.7	18.2
Anglo American Plc	AAL LN	GBp	1,679.80	8.7	9.2	11.3	10.8	1.3	1.2	1.2	1.1	14.0
Grupo Mexico Sab De Cv-Ser B	GMEXICOB MM	MXN	63.82	16.5	11.9	11.1	13.2	2.1	2.0	1.8	1.7	17.8
Simple Average				12.9	11.0	11.9	12.5	1.8	1.8	1.6	1.5	15.9
Weighted Average				10.5	8.9	9.9	10.3	1.4	1.5	1.4	1.3	15.8
Freeport-Mcmoran Inc	FCX US	USD	18.20	14.6	8.3	13.2	10.3	3.3	2.3	2.0	1.8	29.9
Southern Copper Corp	SCCO US	USD	56.18	59.8	21.3	19.6	18.9	7.1	5.1	4.4	4.1	27.6
Antofagasta Plc	ANTO LN	GBp	956.20	16.2	15.7	15.1	15.2	1.7	1.7	1.7	1.6	10.2
Sociedad Minera Cerro Verde	CVERDEC1 PE	USD	29.00	n.a.	9.8	9.7	n.a.	n.a.	n.a.	n.a.	n.a.	18.3
Kazakhmys Plc	KAZ LN	GBp	898.60	11.6	8.3	8.2	7.9	5.5	3.3	2.4	1.9	43.8
Kghm Polska Miedz Sa	KGH PW	PLN	92.34	11.8	6.0	6.0	5.5	1.0	0.9	0.8	0.7	15.8
Vedanta Resources Plc	VED LN	GBp	731.80	n.a.	13.7	8.8	6.9	(6.2)	24.0	2.2	(53.3)	n.a.
Simple Average				22.8	11.9	11.5	10.8	2.1	6.2	2.2	(7.2)	24.3
Weighted Average				31.0	14.7	14.9	13.0	4.1	3.7	2.7	1.0	24.6
Jiangxi Copper Co Ltd-A	600362 CH	CNY	17.35	n.a.	20.4	16.8	15.1	n.a.	1.2	1.1	1.0	6.3
Western Mining Co -A	601168 CH	CNY	7.11	n.a.	22.9	17.8	28.4	n.a.	1.5	1.5	n.a.	6.1
Tongling Nonferrous Metals-A	000630 CH	CNY	2.63	n.a.	18.5	15.7	n.a.	n.a.	1.7	1.5	n.a.	n.a.
Yunnan Copper Industry Co-A	000878 CH	CNY	11.47	n.a.	23.1	18.7	n.a.	n.a.	2.2	2.0	n.a.	12.5
Shenzhen Zhongjin Lingnan-A	000060 CH	CNY	9.65	21.0	17.5	16.1	14.5	n.a.	2.1	1.9	1.7	11.8
Simple Average				21.0	20.5	17.0	19.3	n.a.	1.7	1.6	1.4	9.1
Weighted Average				3.6	20.2	16.8	11.7	0.0	1.6	1.5	0.7	6.6
China Zhongwang Holdings Ltd	1333 HK	HKD	4.72	6.3	6.3	5.7	5.0	0.7	0.8	0.7	0.7	10.2
Jiangxi Copper Co Ltd-H	358 HK	HKD	11.30	n.a.	11.0	9.6	8.7	n.a.	0.6	0.6	0.6	5.7
Xinjiang Xinxin Mining Ind-H	3833 HK	HKD	1.06	n.a.	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.
China Molybdenum Co Ltd-H	3993 HK	HKD	5.95	36.8	21.6	20.8	18.6	2.8	2.3	2.2	2.3	11.6
China Hongqiao Group Ltd	1378 HK	HKD	9.40	11.7	6.1	4.7	5.1	1.2	1.0	0.8	0.8	17.6
Simple Average				24.2	12.9	10.2	9.4	1.3	1.2	1.1	1.1	11.3
Weighted Average				24.5	16.1	15.0	13.7	1.9	1.6	1.5	1.6	11.8

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	201,728	204,234	211,376	221,945	233,042
Cost of Sales	(195,164)	(195,798)	(202,556)	(212,684)	(223,318)
Gross Profit	6,564	8,436	8,820	9,261	9,724
SG&A	(3,461)	(4,710)	(3,941)	(3,815)	(3,868)
Operating Profit	3,103	3,726	4,879	5,446	5,856
Finance Cost	(969)	(855)	(811)	(849)	(884)
Others	(51)	33	(100)	(39)	(35)
Profit Before Tax	2,084	2,904	3,969	4,558	4,937
Income Tax	(1,089)	(1,146)	(1,270)	(1,458)	(1,580)
profit After Tax	995	1,759	2,699	3,099	3,357
Non-controlling Interest	(154)	(109)	(167)	(192)	(208)
Shareholders' Profit / Loss	841	1,650	2,531	2,907	3,149
Basic EPS	0.243	0.476	0.731	0.839	0.909

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Net Income	841	1,650	2,531	2,907	3,149
Working Capital Change	(6,872)	(7,897)	2,895	(1,532)	(1,387)
Dep.&Amortization	1,507	1,564	1,670	1,784	1,902
Others	1,490	1,828	313	490	660
Cash from Operating Activities	(3,035)	(2,856)	7,409	3,648	4,323
CAPEX	(2,000)	(2,500)	(2,700)	(2,850)	(2,900)
Others	(53)	(57)	(62)	(67)	(72)
Cash from Investing Activities	(2,053)	(2,557)	(2,762)	(2,917)	(2,972)
New Bank Loans	(1,868)	9,064	(2,871)	1,519	1,033
Dividend Paid	(519)	(693)	(759)	(872)	(945)
Interest Paid	(969)	(855)	(811)	(849)	(884)
Cash from Financing Activities	(3,357)	7,517	(4,441)	(203)	(796)
Net Changes in Cash	(8,445)	2,103	206	528	555
Cash at Beg of Year	16,705	8,260	10,363	10,569	11,097
Foreign exchange rate changes	0	0	0	0	0
Cash at End of Year	8,260	10,363	10,569	11,097	11,652

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
PPE	20,935	21,980	23,296	24,512	25,540
Long-term equity investment	3,006	3,178	3,273	3,371	3,472
Intangible assets	1,218	1,182	1,300	1,430	1,573
Others	5,432	5,258	5,521	5,797	6,087
Total Non-current Assets	30,590	31,598	33,390	35,111	36,673
Cash & Cash Equivalents	8,260	10,363	10,569	11,097	11,652
Trade receivables	22,936	22,661	23,251	24,414	25,635
Inventory	15,412	19,997	16,910	17,756	18,643
Other	10,185	12,849	12,978	13,107	13,238
Total Current Assets	56,794	65,871	63,708	66,374	69,168
Total Assets	87,384	97,469	97,098	101,485	105,841
Short-term Loans	14,956	23,739	18,714	20,137	21,032
Trade payables	17,140	13,553	13,951	14,426	15,148
Others	5,243	8,639	8,812	8,988	9,168
Total Current Liabilities	37,339	45,931	41,477	43,551	45,347
Long-term Loans	228	9	211	222	233
Bond payable	0	500	2,451	2,537	2,663
Others	994	1,046	1,037	1,025	1,036
Total Non-current Liabilities	1,222	1,555	3,699	3,784	3,932
Total Liabilities	38,561	47,485	45,176	47,335	49,279
Total Shareholders' Equity	46,598	47,532	49,304	51,339	53,543
Minority Interest	2,225	2,451	2,618	2,810	3,019
Total Equity	48,823	49,983	51,923	54,150	56,562

Financial Ratios					
Yr end Dec 31st	2016A	2017A	2018F	2019F	2020F
Gross Margin	3.3%	4.1%	4.2%	4.2%	4.2%
Net Margin	0.4%	0.8%	1.2%	1.3%	1.4%
ROE	1.8%	3.5%	5.2%	5.8%	6.0%
ROA	0.9%	1.8%	2.6%	2.9%	3.0%
ROCE	6.1%	7.3%	8.6%	9.3%	9.6%
Free CF(mn Rmb)	-5,035	-5,356	4,709	798	1,423
Net Gearing	15.0%	29.5%	22.3%	23.4%	23.4%

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	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	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	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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