



Company Report: CMOC (03993 HK)

公司报告: 洛阳钼业 (03993 HK)

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2020 Interim Results Beat Expectations, Upgrade to "Neutral"

2020年中期业绩超出预期, 上调至“中性”评级

- **The 2020 interim results of the Company were higher than market consensus and our expectations.** Total revenue of the Company surged 368.44% yoy to RMB46.74 billion, and net profit attributable to shareholders increased 24.73% yoy to RMB1.00 billion. The growth in net profit was mainly attributed to trading business.
- **Maintain metal price assumptions unchanged.** We expect metal prices to be under pressure due to the global COVID-19 outbreak. We expect molybdenum and tungsten price to decline moderately in 2020 due to weak downstream consumption demand. Copper price is expected to be badly hit by the COVID-19 pandemic around the world, but cobalt is expected to be less impacted due to robust demand from electric vehicles.
- **Maintain mining output assumptions unchanged.** In 2020, the Company plans to produce 12,000-15,000 tons of metal equivalent molybdenum concentrate, 7,000-9,000 tons of metal equivalent tungsten concentrate, 24,000-29,000 tons of mined copper from Northparke mine, 163,000-200,000 tons of mined copper and 14,000-17,000 tons of mined cobalt from Tenke mine. The production of the Company was stable in 1H20 and was in line with its production plan, so we maintain mining output assumptions unchanged.
- **Revise up TP to HK\$2.85, upgrade to "Neutral".**
- **公司 2020 年中期业绩超出市场预期一致预期和我们的估计。** 公司收入同比大增 368.44% 至人民币 467.4 亿元, 股东净利润同比增长 24.73% 至人民币 10.0 亿元。净利润的增长主要归因于贸易业务。
- **维持金属价格假设不变。** 由于全球新冠病毒的爆发, 我们预计金属价格将承压。我们预计由于下游消费需求疲弱, 钼价和钨价在 2020 年将温和下跌。铜价将受到全球新冠病毒疫情的沉重打击, 但是钴价受到的影响将较小, 主要是由于对电动车的强劲需求。
- **维持矿产品产量假设不变。** 公司计划在 2020 年生产 1.20-1.50 万吨等量金属的钼精矿, 0.7-0.9 万吨等量金属的钨精矿, Northparke 矿生产 2.4-2.9 万吨矿产铜, Tenke 矿生产 16.3-20.0 万吨矿产铜和 1.40-1.70 万吨矿产钴。公司的生产在 2020 年上半年稳定且符合其生产计划, 因此我们维持矿产品产量假设不变。
- **上调公司目标价至 2.85 港元, 上调至“中性”评级。**

Rating:

Neutral

Upgraded

评级:

中性 (上调)

6-18m TP 目标价:

HK\$2.85

Revised from 原目标价:

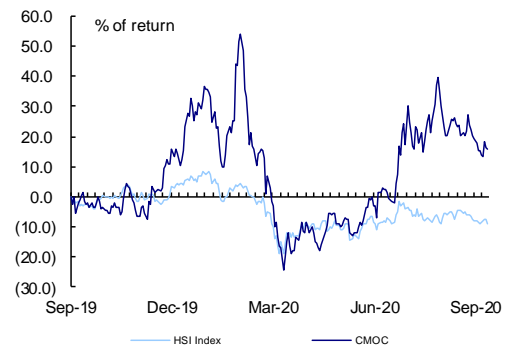
HK\$2.10

Share price 股价:

HK\$3.000

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 %	5.9	(33.9)	(31.0)
Rel. % to HS Index 相对恒指变动 %	(0.9)	(18.5)	(12.3)
Avg. Share price(HK\$) 平均股价 (港元)	2.3	2.8	2.6

Source: Bloomberg, Guotai Junan International.

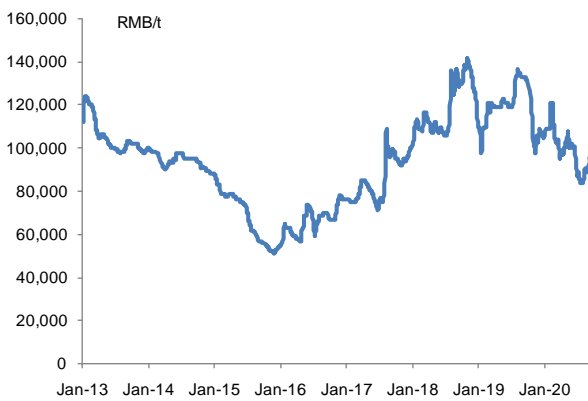
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	25,963	4,636	0.215	50.3	12.3	1.896	1.4	0.110	4.2	11.7
2019A	68,677	1,857	0.086	(60.0)	31.2	1.889	1.4	0.043	1.6	4.5
2020F	95,046	2,207	0.102	18.6	25.9	1.930	1.4	0.061	2.3	5.4
2021F	100,648	2,795	0.129	26.5	20.5	1.982	1.3	0.078	3.0	6.6
2022F	106,431	3,531	0.163	26.4	16.2	2.047	1.3	0.098	3.7	8.1

Shares in issue (m) 总股数 (m)	21,599.2	Major shareholder 大股东	Hongshang Group 24.7%
Market cap. (HK\$ m) 市值 (HK\$ m)	64,797.6	Free float (%) 自由流通比率 (%)	75.3%
3 month average vol. 3 个月平均成交股数 (*000)	43,432.6	FY20 Net gearing (%) FY20 净负债/股东资金 (%)	90.1%
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	4.130 / 2.000	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)	3.5

Source: the Company, Guotai Junan International.

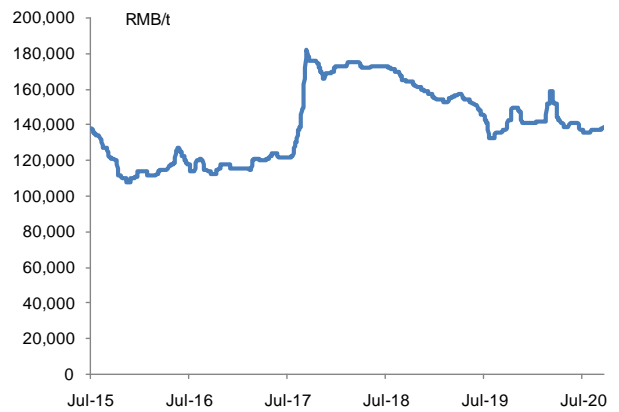
The 2020 interim results of CMOC (the "Company") were higher than market consensus and our expectations. Total revenue of the Company surged 368.44% yoy to RMB46.74 billion, and net profit attributable to shareholders increased 24.73% yoy to RMB1.00 billion. The growth in profit was mainly attributed to trading business. The significant increase in revenue was mainly attributed to the newly acquired company IXM, which is the world's third largest base metal trader and contributed revenue of RMB47.5 billion in 1H20. The output of molybdenum decreased by 3.2% yoy to 7,070 tons, the output of tungsten concentrate decreased by 9.7% yoy to 4,664 tons, the output of copper concentrate from NPM decreased by 0.2% yoy to 13,933 tons, the output of mined copper from Tenke increased by 2.8% yoy to 90,972 tons, but the output of cobalt decreased by 24.0% yoy to 6,543 tons. The mining output was generally in line with the production plan of the Company. Molybdenum price decreased by 11.71% yoy, while tungsten prices decreased by 10.95% yoy in 1H20. Copper price declined by 10.74% yoy to US\$ 5,504/t, and cobalt prices decreased by 5.03% yoy to US\$15.67/lb.

Figure-1: China Fe-Molybdenum 60% price



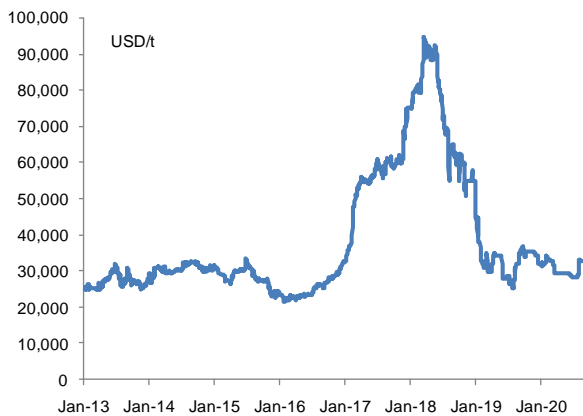
Source: Bloomberg, Guotai Junan International.

Figure-2: China Fe-Tungsten 70% price



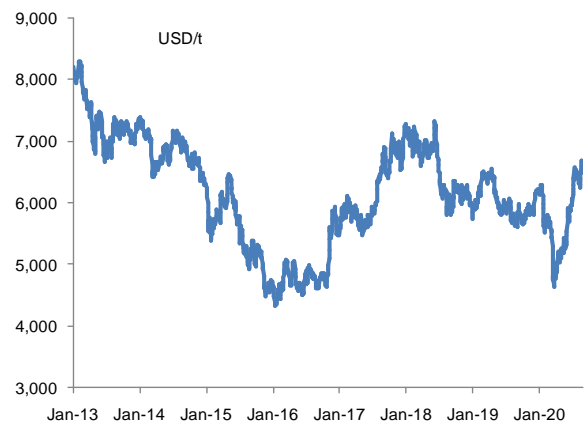
Source: Bloomberg, Guotai Junan International.

Figure-3: LME Cobalt Spot Price



Source: Bloomberg, Guotai Junan International.

Figure-4: LME Copper Price



Source: Bloomberg, Guotai Junan International.

Maintain metal price assumptions unchanged. We expect metal prices to be under pressure due to the global COVID-19 outbreak. We expect molybdenum and tungsten price to decline moderately in 2020 due to weak downstream consumption demand. Copper price is expected to be badly hit by the COVID-19 pandemic around the world, but cobalt is expected to be less impacted due to robust demand of electric vehicles. The performance of molybdenum and tungsten price in 1H20 was the same. Both molybdenum and tungsten price declined by about 10% yoy in 1H20 due to weak consumption demand. The global COVID-19 outbreak severely impacted downstream of molybdenum and tungsten. Although China's economy has gradually resumed to normal since the 2nd quarter of 2020, the COVID-19 pandemic in the U.S, Europe, Brazil and India is still growing. As a result, global economies contracted badly and are not expected to improve in 2H20 so far before the COVID-19 vaccine is invented and widely used to resolve the pandemic. We expect molybdenum and tungsten price to continue to be under pressure in 2H20. We maintain molybdenum and tungsten price assumptions unchanged and expect molybdenum and tungsten price to decline moderately in 2020 due to weak downstream consumption demand. Copper is expected to be badly hit by the COVID-19 pandemic. We expect the global supply of copper to be stable in 2020 as operations of global copper mining companies are stable. However, the COVID-19 pandemic will hurt global copper demand badly. Although the COVID-19

outbreak has been successfully contained by the Chinese government and China's demand for metal is expected to be only slightly impacted, there is no sign that the COVID-19 pandemic will be under control in the US and other places around the world in the short term. A large proportion of factories are still shut and commercial activity remains idle; global metal consumption demand will be severely hurt. We expect that copper price will be under great pressure in 2020, which is expected to drop. We expect copper price to trade between US\$4,500/t-US\$6,500/t in 2020, and the annual average copper price may be around US\$5,000/t-US\$5,500/t in 2020. We maintain copper price assumptions unchanged. The fluctuation range of cobalt price in 1H20 was relatively small in 1H20. Cobalt price retreated sharply during 2018-2019 as the market fever cooled down and speculation factors faded away. The decline in cobalt price persisted more than one year and cobalt price even dropped below the level of US\$30,000/t. We believe that cobalt price already hit bottom in 2019 and decline pressure is relatively small. The fundamentals of cobalt remain healthy. We expect the prevalence of electric vehicles in China, the US, Europe and other areas to persist, and consumption demand of cobalt to grow steadily over the next 3-5 years. We expect cobalt to be less impacted by the global COVID-19 outbreak compared to other base metals due to robust demand from electric vehicles in China and the US. We expect cobalt price to trade between US\$25,000/t-US\$45,000/t in 2020 and the annual average price to be between US\$30,000/t-US\$35,000/t. We also maintain cobalt price assumptions unchanged.

Maintain mining output assumptions unchanged. In 2020, the Company plans to produce 12,000-15,000 tons of metal equivalent molybdenum concentrate, 7,000-9,000 tons of metal equivalent tungsten concentrate, 24,000-29,000 tons of mined copper from Northparke mine, 163,000-200,000 tons of mined copper and 14,000-17,000 tons of mined cobalt from Tenke mine. The output of niobium and phosphate in Brazil is expected to be stable in 2020. The production capacity of all mines of the Company remains unchanged in 2020 as the Company does not have any expansion plans currently. The mining output target of the Company declined moderately compared to that in 2019, mainly due to changes in the global economy. The output plan of molybdenum and tungsten declined by about 10%-20%, as the Company expects downstream molybdenum and tungsten may be severely impacted by the COVID-19 pandemic. The mining output from Northparke is also expected to decrease by 10%-20%, mainly due to lower ore grade. The mining output from the Tenke mine is expected to maintain at the same level compared to that of 2019. The production of the Company was stable in 1H20 and in line with its production plan, so we maintain mining output assumptions unchanged.

Revise up the TP of the Company to HK\$2.85 and upgrade to "Neutral". The Company enjoys great advantages due to its low production costs. The successful acquisition of Congo copper-cobalt mine and Brazil niobium and phosphate mining business significantly expanded the Company's mineral resources and raised its profitability. However, the profitability of the Company is expected to be severely impacted by the COVID-19 pandemic around the world. We expect metal prices to be under pressure due to the global COVID-19 outbreak. We expect molybdenum and tungsten price to decline moderately in 2020 due to weak downstream consumption demand. We expect copper price to drop in 2020 and the annual average copper price to be around US\$5,000/t-US\$5,500/t in 2020. Although cobalt price is expected to be less impacted, it will trade at a relatively low level in 2020. We maintain metal price assumptions unchanged. In the mean time, the Company also cut down mining output target, which will further impact its net profit. The production of the Company was stable in 1H20 and in line with its production plan, so we have maintained mining output assumptions unchanged. However, the performance of trading business exceeded our expectation in 1H20 and contributed about RMB 0.3 billion profit. As a result, we have revised up our estimation of the Company. Hence, we have revised up the TP of the Company to HK\$2.85 due to higher EPS estimations and PE valuation level, which is equivalent to 24.9x FY20PE and 1.0x FY20PB; upgrade to "Neutral".

Table-1: Peers Comparison

Company	Stock Code	Currency	Price	PE (fiscal year)				PB (fiscal year)				ROE(%)
				19A	20F	21F	22F	19A	20F	21F	22F	20F
International- Listed companies												
Bhp Billiton Plc	BHP LN	GBP	1,749.20	14.1	14.0	13.1	13.5	2.4	2.3	2.3	2.1	16.7
Vale Sa-Pref	VALE3 BZ	BRL	60.97	n.a.	7.2	5.8	6.5	1.9	1.5	1.3	1.2	20.1
Rio Tinto Plc	RIO LN	GBP	4,927.50	12.8	10.2	11.3	13.2	2.6	2.4	2.2	2.1	23.3
Anglo American Plc	AAL LN	GBP	1,951.20	8.9	13.1	9.7	10.3	1.3	1.3	1.2	1.1	9.8
Freeport-Mcmoran Inc	FCX US	USD	16.78	n.a.	77.7	13.1	11.6	2.6	2.6	2.1	1.8	2.8
Southern Copper Corp	SCCO US	USD	47.05	24.5	31.1	21.7	21.8	5.3	5.1	4.8	4.5	18.1
Grupo Mexico Sab De Cv-Ser B	GMEXICOB MM	MXN	58.29	10.8	17.4	11.2	11.3	1.8	1.8	1.7	1.6	9.3
Simple Average				14.2	24.4	12.3	12.6	2.6	2.4	2.2	2.1	14.3
Weighted Average				14.1	17.4	11.9	12.6	2.5	2.4	2.2	2.1	17.3
China - Listed companies												
Western Mining Co -A	601168 CH	CNY	8.88	21.1	22.3	16.5	12.9	2.1	1.9	1.8	1.5	8.3
Tongling Nonferrous Metals-A	000630 CH	CNY	2.28	28.5	25.9	22.8	21.3	1.3	1.3	1.3	1.2	5.0
Yunnan Copper Co Ltd-A	000878 CH	CNY	13.70	34.8	35.6	24.1	19.4	2.8	2.6	2.4	2.2	7.1
Shenzhen Zhongjin Lingnan-A	000060 CH	CNY	4.37	18.2	20.0	18.8	15.3	1.4	1.6	1.5	1.5	7.2
Simple Average				25.7	26.0	20.5	17.2	1.9	1.9	1.7	1.6	6.9
Weighted Average				26.5	26.6	20.8	17.5	1.9	1.9	1.8	1.6	6.8
HK - Listed companies												
Aluminum Corp Of China Ltd-H	02600 HK	HKD	1.80	42.9	50.0	20.9	11.9	0.6	0.5	0.5	0.5	1.2
Jiangxi Copper Co Ltd-H	00358 HK	HKD	9.39	11.7	15.3	11.2	11.5	0.6	0.5	0.5	0.5	3.8
Mmg Ltd	01208 HK	HKD	2.06	n.a.	n.a.	24.5	14.8	2.1	2.2	1.9	1.9	(8.1)
China Molybdenum Co Ltd-H	03993 HK	HKD	3.00	29.4	27.3	18.6	16.9	1.4	1.4	1.3	1.2	5.2
Zijin Mining Group Co Ltd-H	02899 HK	HKD	5.57	27.3	22.4	15.3	11.4	2.7	2.3	2.1	1.9	10.4
Simple Average				27.8	28.7	18.1	13.3	1.5	1.4	1.3	1.2	2.5
Weighted Average				27.5	26.2	16.1	11.7	2.0	1.7	1.5	1.4	6.7

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	25,963	68,677	95,046	100,648	106,431	Long-term equity investment	2,523	1,033	1,064	1,096	1,129
Cost of Sales	(16,180)	(65,606)	(89,108)	(93,715)	(98,297)	PPE	25,514	26,826	34,618	35,530	36,388
Gross profit	9,783	3,071	5,938	6,933	8,134	Inventory	5,122	5,661	5,774	5,889	6,007
Selling & Distribution Expenses	(97)	(91)	(285)	(302)	(319)	Intangible assets	20,931	20,447	20,140	19,838	19,541
Administrative Expenses	(933)	(1,234)	(1,331)	(1,409)	(1,490)	Other non-current assets	7,961	8,718	8,586	8,810	9,043
Financial costs	(643)	(1,251)	(1,101)	(1,119)	(1,148)	Total Non-current Assets	62,052	62,685	70,183	71,164	72,108
Others	(1,052)	1,726	(443)	(550)	(653)	Cash & Cash Equivalents	23,241	15,648	17,108	17,110	17,029
Operating Profit	7,058	2,222	2,779	3,554	4,523	Held-for-trading financial assets	0	7,719	0	0	0
Other income	3	170	175	181	186	Trade Receivables	4,450	4,071	4,866	5,233	5,745
Other expenses	(71)	(34)	(35)	(37)	(39)	Inventory	6,616	20,731	23,762	25,162	26,608
Profit Before Tax	6,990	2,358	2,919	3,697	4,670	Other current assets	4,858	6,009	6,129	6,251	6,376
Income Tax	(1,840)	(593)	(591)	(749)	(946)	Total Current Assets	39,164	54,178	51,864	53,756	55,758
profit After Tax	5,150	1,766	2,328	2,949	3,725	Total Assets	101,216	116,862	122,047	124,920	127,866
Non-controlling Interest	(514)	91	(121)	(153)	(194)	Short-term borrowings	4,588	18,589	25,714	27,017	26,453
Shareholders' Profit / Loss	4,636	1,857	2,207	2,795	3,531	Held-for-trading financial liabilities	4,251	3,158	3,316	3,482	3,656
Basic EPS	0.215	0.086	0.102	0.129	0.163	Trade payables	4,004	4,854	5,040	4,820	4,554
						Other current liabilities	3,136	7,974	5,552	5,781	6,021
						Total Current Liabilities	15,979	34,575	39,622	41,100	40,684
						Long-term borrowings	20,197	16,279	23,762	23,149	24,479
						Bond payable	2,000	5,093	5,200	5,500	5,501
						Other non-current liabilities	13,443	11,419	11,778	12,367	12,985
						Total Non-current Liabilities	35,639	32,791	40,739	41,016	42,965
						Total Liabilities	51,618	67,367	80,362	82,116	83,650
						Total Shareholders' Equity	40,949	40,803	41,686	42,804	44,216
						Minority Interest	8,649	8,693	0	0	0
						Total Equity	49,598	49,496	41,686	42,804	44,216
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec	2018A	2019A	2020F	2021F	2022F
Sales of goods	29,243	68,677	95,046	100,648	106,431	Gross Margin	37.7%	4.5%	6.2%	6.9%	7.6%
Other operating activities	1,136	685	742	793	839	Net Margin	27.2%	3.2%	2.9%	3.5%	4.2%
Cash paid for purchase of goods	(15,897)	(65,606)	(89,108)	(93,715)	(98,297)	ROE	11.7%	4.5%	5.4%	6.6%	8.1%
Tax paid	(3,877)	(1,405)	(1,542)	(1,755)	(2,010)	ROA	4.7%	1.7%	1.8%	2.3%	2.8%
change of working capital	(1,171)	(12,430)	(3,416)	(1,729)	(1,926)	ROCE	34.3%	83.5%	115.3%	120.1%	122.1%
Cash from Operating Activities	9,435	(10,080)	1,722	4,241	5,037	Free cashflow(mn)	10,910	(13,660)	(4,301)	8,416	9,110
Investment activities	1,475	(3,580)	(6,023)	4,175	4,073	Net Gearing	7.1%	64.7%	90.1%	90.1%	89.1%
Capital expenditure	(2,807)	(3,576)	(3,598)	(3,620)	(3,642)						
Others	(1,065)	1,490	(31)	(32)	(33)						
Cash from Investing Activities	(2,397)	(5,667)	(9,652)	523	398						
Issue of stocks	0	0	0	0	0						
Net bank borrowing change	1,586	13,176	14,715	991	767						
Interest&Dividend Paid	(2,646)	(2,180)	(2,425)	(2,796)	(3,267)						
Others	(2,787)	(2,842)	(2,899)	(2,957)	(3,016)						
Cash from Financing Activities	(3,846)	8,154	9,391	(4,762)	(5,516)						
Net Changes in Cash	3,191	(7,593)	1,460	2	(81)						
Cash at Beg of Year	19,781	23,241	15,648	17,108	17,110						
Foreign exchange rate changes	268	0	0	0	0						
Cash at End of Year	23,241	15,648	17,108	17,110	17,029						

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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