



Company Report: Zijin Mining (02899 HK)

公司报告: 紫金矿业 (02899 HK)

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Mining Output Will Grow Steadily, Maintain "Accumulate"

矿产品产量将稳定增长, 维持“收集”评级

- The 2018 annual results of Zijin Mining were lower than market consensus and our estimation, mainly due to asset impairment. Total revenue of the Company increased 12.1% yoy to RMB 105.99 billion and net profit attributable to shareholders increased 16.7% yoy to RMB 4.09 billion.
- We expect the global copper market to be stable in 2019 and the average annual copper price to trade between US\$ 6,100/t-US\$ 6,700/t. We expect gold price to remain flat in 2019 and fluctuate around the level of US\$ 1,250/oz. We expect zinc price to remain flat in 2019.
- In 2019, the Company plans to produce 40.0 tons of mined gold, 0.35 million tons of mined copper, about 0.38 million tons of mined zinc, 275 million tons of mined silver and 2.5 million tons of iron ore. The increase in mining output is mainly attributed to the mines acquired by the Company in 2018 and the expanded production capacity of existing mines.
- Revise up TP to HK\$ 3.65, and maintain "Accumulate".
- 公司 2018 年年度业绩差于市场一致预期和我们的估计, 主要是由于资产减值。公司收入同比增长 12.1% 至人民币 1,059.9 亿元, 股东净利润同比增长 16.7% 至人民币 40.9 亿元。
- 我们预计全球铜市场在 2019 年将保持平稳, 年度铜均价将在 6,100-6,700 美元/吨之间。我们预计金价在 2019 年将基本持平并在 1,250 美元/盎司的水平附近波动。我们预计 2019 年锌价将基本持平。
- 在 2019 年, 公司计划生产 40 吨矿产金, 35 万吨矿产铜, 38 万吨矿产锌, 275 万吨矿产银和 250 万吨铁矿石。矿产品产量的增长主要归因于公司在 2018 年收购的矿山以及现有矿山产能的扩大。
- 上调公司目标价至 3.65 港元, 维持“收集”评级。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$3.65

Revised from 原目标价:

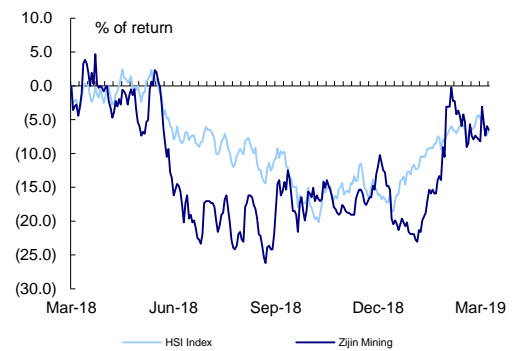
HK\$3.32

Share price 股价:

HK\$3.280

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 %	0.00	0.00	0.00
Rel. % to HS Index 相对恒指变动 %			
Avg. share price (HK\$) 平均股价 (港元)			

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	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2017A	94,549	3,508	0.152	78.8	21.6	1.520	2.2	0.090	2.7	11.2
2018A	105,994	4,094	0.178	17.1	18.4	1.757	1.9	0.100	3.0	10.9
2019F	111,392	5,707	0.248	39.3	13.2	1.893	1.7	0.112	3.4	13.6
2020F	115,639	6,336	0.275	10.9	11.9	2.044	1.6	0.124	3.8	14.0
2021F	119,624	7,022	0.305	10.9	10.8	2.212	1.5	0.137	4.2	14.3
Shares in issue (m) 总股数 (m)				23,031.2	Major shareholder 大股东				Xinhang Investment 26.3%	
Market cap. (HK\$ m) 市值 (HK\$ m)				75,542.3	Free float (%) 自由流通比率 (%)					73.7%
3 month average vol. 3 个月平均成交股数 ('000)				28,263.1	FY19 Net gearing (%) FY19 净负债/股东资金 (%)					93.4
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				3.850 / 2.570	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)					5.9

Source: the Company, Guotai Junan International.

The 2018 annual results of Zijin Mining (the "Company") were 4.5% and 23.3% lower than market consensus and our estimation, respectively, mainly due to asset impairment. Total revenue of the Company increased 12.1% yoy to RMB 105.99 billion and net profit attributable to shareholders increased 16.7% yoy to RMB 4.09 billion. The Company recorded asset impairment of RMB 1.50 billion in 2018. The increase in net profit was mainly attributed to the increase in output of mined copper and reduced foreign exchange loss. The output of mined gold decreased by 2.6% yoy to 36.50 tons; the output of mined copper increased by 19.5% yoy to 248,577 tons; the output of mined zinc increased by 3.0% yoy to 278,038 tons. The ASP of mined gold increased 1.08% yoy to RMB 252.06/g, the ASP of mined copper increased by 2.75% yoy to RMB 35,353/ton, and the ASP of mined zinc decreased 2.48% yoy to RMB 14,186/ton. The gross margin of mining business was 46.31% in 2018, which was down 0.93 ppts due to the rise in production costs. The average production cost of mined gold increased 5.03% yoy to RMB 173.0/g, and the average production cost of mined copper increased 4.13% yoy to RMB 17,649/t. The average production cost of mined zinc increased 1.63% yoy to RMB 4,917/t.

Figure-1: Gold price


Source: Bloomberg, Guotai Junan International.

Figure-2: Copper price


Source: Bloomberg, Guotai Junan International.

We expect the global copper market to be stable in 2019 and the average annual copper price to trade between US\$ 6,100/t-US\$ 6,700/t. We expect gold price to remain flat in 2019 and fluctuate around the level of US\$ 1,250/oz. We expect zinc price to remain flat in 2019. We expect the global copper market to remain at a normal level in 2019 just like in 2018, after a significant surge in 2010-2013 and deep dive in 2014-2016. As China's economy enters into the "new normal" era, 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 returns. As a result, we expect the global copper market to become more stable under new supply-demand constraint conditions. Copper mines are expected to enjoy comfortable profitability under the new copper price level. We expect copper price to trade between US\$ 5,400/t-US\$ 7,200/t in 2019, and average copper price may be around US\$ 6,100/t-US\$ 6,700/t. The monetary policy of the U.S. Federal Reserve (the "Federal Reserve") is expected to come to a turning point in 2019. Although the Federal Reserve will continue to raise interest rate and cut its balance sheet, the pace will slow down greatly. The Federal Reserve is widely expected to raise interest rate twice in 2019, compared to 4 times in 2018. It is also expected that the balance sheet cut process of the Federal Reserve may be slowed in 2019. Although monetary policy of the U.S. Federal Reserve is still tight, pressure weighing on gold price in 2019 is expected to be less compared to that in 2018. However, the U.S. dollar is still expected to appreciate and market investors still lack interest in gold assets. We expect gold price to remain under pressure in 2019 as the monetary policy of the Federal Reserve remains tight. The performance of the U.S. economy has been much better than its western developed counterparts, but its prospects are facing more uncertainties. The chairman of the Federal Reserve indicated that the interest rate in the U.S. is closing to the neutral range, which means that a turning point is closing and there may not be more tightening. On the other hand, investor preference for gold assets remains stagnant as global financial markets are generally stable. We believe that the fundamentals of gold will not change much in 2019 and that gold price will remain flat. We expect gold price to fluctuate between US\$ 1,100/oz-US\$ 1,350/oz in 2019, and the annual average gold price to be around US\$ 1,250/oz. Zinc price fluctuated violently in the past two years due to market speculation on tight supply. We expect such speculation to reduce greatly after a large-range retreat in zinc price took place in 2018. We believe global zinc supply-demand will reach a new balance and expect zinc price to trade at around the level of USD 2,800/t in 2019.

In 2019, the Company plans to produce 40.0 tons of mined gold, 0.35 million tons of mined copper, about 0.38 million tons of mined zinc, 275 tons of mined silver and 2.5 million tons of iron ore. The increase in mining output is mainly attributed to the mines acquired by the Company in 2018 and the expanded production capacity of existing mines. The Company acquired Nevsun and RTB Bor Group in 2018, which added Bisha zinc polymetallic, Timok copper-gold mine and Bor copper mine into its mining assets portfolio. Among them, Bisha zinc polymetallic mine and Bor copper mine are mines under production. The Bor mine is expected to contribute about 48,000 tons of mined copper and the Bisha zinc polymetallic is expected to contribute about 138,000 tons of mined zinc and 19,000 tons of mined copper in 2019. The expanding projects of Duobaoshan Copper Mine and Kolwezi Copper Project in DR Congo were completed in 2018, so they will also contribute more mining output. The output from Kolwezi Copper Project is expected to increase 22,000 tons to 75,000 and the output from Duobaoshan is expected to increase 25,000 tons to 65,000 tons in 2019. Hence, the Company expects to produce 350,000 tons of mined copper in 2019, which is an increase of 41.1% compared to that of 2018. The output growth of mined zinc is mainly attributed to Bisha zinc polymetallic mine, while the output of other zinc mines is expected to maintain at current level. The Company expects to produce 380,000 tons of mined zinc in 2019, which will grow by 36.7%. The output of mined gold is also expected to grow in 2019 as the production level of Porgera Gold Mine resumes to normal level. The production level of the Porgera Gold Mine was impacted by an earthquake which took place in the first half of 2018 and only contributed 6.8 tons of mined gold. The Company expects it will contribute 8.6 tons of mined gold in 2018. Besides, mined gold contributed by other gold mines is also expected to increase in 2019. The Company has acquired several world-class mines over the past few years, and the exploration and construction of these mines will bring a bright future to the Company.

Revise up TP to HK\$ 3.65 and maintain "Accumulate". Zijin Mining is a leading integrated mining company which produces gold, copper, zinc and other metals. The mining businesses of the Company are expected to continue expanding as new mines commence production. We believe that the acquisition of overseas mining assets is positive for the future development of the Company as it significantly expands mineral resources of the Company and contributes more mining output. We also believe that the timing of the acquisitions is right for the Company as the purchase costs of mining assets are relatively low. The output of mined copper and zinc are all expected to increase significantly in 2019 due to aggressive acquisition and capacity expansion of existing mines of the Company. We expect metal price to fluctuate at current level, which will offer comfortable profitability of mining business to the Company. The fundamentals of the Company are healthy and the profitability of Company is very competitive due to its high-quality mining assets. We expect net profit of the Company to increase in 2019 due to output growth of mined copper and zinc. We revise up TP of the Company to HK\$ 3.65, which is equivalent to 12.5x FY19 PE, and maintain "Accumulate".

Table-1: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)
				17A	18F	19F	20F	17A	18F	19F	20F	18F
Barrick Gold Corp	ABX CN	CAD	19.42	12.2	41.2	36.7	31.9	1.9	1.9	2.4	2.3	6.1
Goldcorp Inc	G CN	CAD	15.20	15.4	245.2	37.2	24.8	0.7	0.7	0.9	0.9	(0.5)
Newcrest Mining Ltd	NCM AU	AUD	25.72	48.2	37.9	25.2	20.2	2.0	1.9	1.8	1.7	5.5
Newmont Mining Corp	NEM US	USD	35.56	n.a.	30.2	29.0	27.2	1.8	1.8	1.8	1.6	5.3
Anglogold Ashanti Ltd	ANG SJ	ZAr	20,716.00	n.a.	29.6	16.1	14.8	2.6	2.3	2.0	1.7	7.6
Kinross Gold Corp	K CN	CAD	4.83	10.3	45.6	29.3	24.2	1.0	1.0	1.0	1.0	1.6
Gold Fields Ltd	GFI SJ	ZAr	5,758.00	n.a.	46.9	22.8	15.6	1.2	1.2	1.2	1.1	3.1
Simple Average				21.5	68.1	28.0	22.7	1.6	1.5	1.6	1.5	4.1
Weighted Average				15.5	62.2	30.6	25.6	1.7	1.7	1.8	1.7	4.7
Zijin Mining Group Co Ltd-A	601899 CH	CNY	3.47	21.7	17.8	15.6	13.1	2.3	1.9	1.7	1.6	11.5
Shandong Gold Mining Co Lt-A	600547 CH	CNY	32.42	54.0	60.3	41.9	36.6	3.7	3.6	3.2	3.1	6.0
Zhongjin Gold Corp-A	600489 CH	CNY	8.79	109.9	109.9	71.5	57.8	2.3	2.2	2.2	2.1	2.3
Simple Average				61.9	62.6	43.0	35.8	2.7	2.6	2.4	2.2	6.6
Weighted Average				49.6	50.3	35.5	30.0	2.8	2.6	2.4	2.2	7.8
Zhaojin Mining Industry - H	1818 HK	HKD	8.54	37.0	39.0	32.3	25.1	2.2	1.6	1.5	1.5	4.7
Zijin Mining Group Co Ltd-H	2899 HK	HKD	3.28	17.8	15.5	14.0	13.1	1.8	1.7	1.5	1.4	12.2
China Gold International Res	2099 HK	HKD	9.89	8.0	8.4	4.8	4.3	0.3	0.3	0.3	0.3	3.9
Shandong Gold Mining Ltd-H	1787 HK	HKD	20.30	29.3	30.8	22.8	19.2	1.9	1.9	1.8	1.5	6.1
Simple Average				23.0	23.4	18.5	15.4	1.6	1.4	1.3	1.2	6.7
Weighted Average				24.8	24.6	19.8	17.0	1.9	1.7	1.6	1.4	8.6

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	94,549	105,994	111,392	115,639	119,624	Net PPE	33,433	39,500	47,038	53,510	60,385
COGS	(81,372)	(92,651)	(95,084)	(98,159)	(100,883)	Net intangibles	9,904	22,510	21,835	21,180	21,471
Gross profit	13,177	13,343	16,308	17,480	18,741	Others	17,304	18,035	18,672	19,115	19,569
SG&A	(3,743)	(4,127)	(4,289)	(4,452)	(4,606)	Total Non-current Assets	60,640	82,431	87,545	93,804	101,425
Other income and expenses	(2,438)	(1,865)	(1,679)	(1,712)	(1,746)	Cash & Cash Equivalents	5,936	10,090	6,906	7,170	7,417
Operating Profit	6,995	7,351	10,341	11,316	12,389	Trade receivables	3,965	2,515	2,643	2,744	2,839
Finance costs	(2,013)	(1,254)	(1,310)	(1,309)	(1,395)	Inventories	11,090	12,670	13,315	13,823	14,299
Others	(414)	33	(189)	(190)	(115)	Others	7,684	5,174	5,691	6,260	6,886
Profit Before Tax	4,568	6,130	8,842	9,817	10,879	Total Current Assets	28,675	30,449	28,566	29,997	31,441
Income Tax	(1,320)	(1,448)	(2,088)	(2,318)	(2,569)	Total Assets	89,315	112,879	116,101	123,801	132,865
profit After Tax	3,248	4,683	6,754	7,499	8,310	Short-term borrowings	16,770	25,566	22,815	24,322	26,723
Non-controlling Interest	260	(589)	(1,047)	(1,162)	(1,288)	Trade payables	9,880	11,311	11,887	12,340	12,765
Shareholders' Profit / Loss	3,508	4,094	5,707	6,336	7,022	Others	2,143	346	380	418	460
Basic EPS	0.152	0.178	0.248	0.275	0.305	Total Current Liabilities	28,794	37,223	35,083	37,080	39,949
						Long-term borrowings	6,599	12,918	13,576	14,093	14,579
						Bond payable	13,779	8,879	9,767	10,744	11,819
						Others	2,501	6,585	6,717	6,851	6,988
						Total Non-current Liabilities	22,879	28,382	30,060	31,689	33,386
						Total Liabilities	51,672	65,606	65,143	68,769	73,335
						Total Shareholders' Equity	35,000	40,455	43,594	47,079	50,941
						Minority Interest	2,643	6,818	7,364	7,953	8,589
						Total Equity	37,643	47,274	50,958	55,032	59,531
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Net income	3,508	4,094	5,707	6,336	7,022	Gross Margin	13.9%	12.6%	14.6%	15.1%	15.7%
Changes in WC	(620)	1,301	(197)	(155)	(146)	Net Margin	3.7%	3.9%	5.1%	5.5%	5.9%
Adjust for depre.&amort.	2,363	2,507	2,963	3,528	4,013	ROE	11.2%	10.9%	13.6%	14.0%	14.3%
Others	7,134	1,077	(3,033)	2,850	2,079	ROA	3.9%	4.0%	5.0%	5.3%	5.5%
Cash from Operating Activities	12,384	8,979	5,439	12,559	12,968	ROCE	10.9%	9.8%	12.5%	12.8%	13.2%
Capex	(5,591)	(11,640)	(10,800)	(10,300)	(11,188)	Free CF(mn Rmb)	6,793	-2,661	-5,361	2,259	1,780
Others	165	157	149	141	134	Net Gearing	99.5%	98.8%	93.4%	92.6%	93.3%
Cash from Investing Activities	(5,426)	(11,483)	(10,651)	(10,159)	(11,054)						
Share issue	4,600	0	8,000	0	0						
Net bank borrowings	(6,559)	10,215	(2,093)	2,024	2,887						
Dividend paid	(2,073)	(2,303)	(2,568)	(2,851)	(3,160)						
Others	(2,013)	(1,254)	(1,310)	(1,309)	(1,395)						
Cash from Financing Activities	(6,045)	6,658	2,028	(2,137)	(1,667)						
Net Changes in Cash	914	4,154	(3,184)	263	247						
Cash at Beg of Year	5,023	5,936	10,090	6,906	7,170						
Foreign exchange rate changes	0	0	0	0	0						
Cash at End of Year	5,936	10,090	6,906	7,170	7,417						

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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