

## Company Report: Zhaojin Mining (01818 HK)

公司报告: 招金矿业 (01818 HK)

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## 2018 Interim Results In Line, Maintain "Neutral"

2018年中期业绩符合预期, 维持“中性”评级

- **The 2018 interim results of the Company were generally in line with market expectations and our estimation.** Total revenue of the Company decreased 5.56% yoy to RMB 2,868.6 million, net profit attributable to shareholders decreased 23.95% yoy to RMB 301.6 million.
- **Maintain metal price assumptions unchanged.** We expect gold price to remain flat in 2018 and to fluctuate at around the level of US\$ 1,250/oz. We also expect the global copper market to be more stable 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 the monetary policy of the U.S. Federal Reserve (the "Federal Reserve") remains tight.
- **Maintain mining output assumptions unchanged.** The Company plans to produce about 19.4 tons of mined gold in 2018. In the first half of 2018, the Company produced 10.1 tons of mined gold, which accounted 52.1% of its annual plan.
- **Maintain TP of the Company at HK\$ 5.90 and maintain "Neutral".**
- 公司 2018 年中期业绩基本符合市场一致预期和我们的估计。公司收入同比减少 5.56% 至人民币 28.686 亿元, 股东净利润同比减少 23.95% 至人民币 3.016 亿元。
- **维持金属价格假设不变。**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。我们预计全球铜市场将更加稳定, 年度铜均价将在 6,000-6,500 美元/吨之间波动。由于美联储的货币政策保持紧缩, 我们预计金价在 2018 年依旧承压。
- **维持矿产品产量假设不变。**公司计划 2018 年生产 19.4 吨矿产金。公司在 2018 年上半年生产了 10.1 吨矿产金, 占全年计划的 52.1%。
- **维持公司目标价在 5.90 港元, 维持“中性”评级。**

Rating:

**Neutral**  
Maintained

评级:

中性 (维持)

6-18m TP 目标价:  
Revised from 原目标价:

**HK\$5.90**  
HK\$5.90

Share price 股价:

HK\$6.020

### 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 %	(3.4)	(6.5)	(15.4)
Rel. % to HS Index 相对恒指变动 %	(4.4)	3.5	(16.3)
Avg. Share price(HK\$) 平均股价 (港元)	6.2	6.2	6.2

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 (%)
2016A	6,665	353	0.119	14.4	44.8	4.766	1.1	0.040	0.8	3.2
2017A	6,674	644	0.204	71.4	24.3	5.312	0.9	0.061	1.2	5.3
2018F	6,273	657	0.208	2.0	24.6	5.348	1.0	0.021	0.4	5.0
2019F	6,580	726	0.230	10.6	22.2	5.594	0.9	0.023	0.4	5.4
2020F	6,775	796	0.252	9.6	20.3	5.864	0.9	0.025	0.5	5.7
Shares in issue (m) 总股数 (m)				3,155.7	Major shareholder 大股东				Zhaojin Group 37.3%	
Market cap. (HK\$ m) 市值 (HK\$ m)				18,776.4	Free float (%) 自由流通比率 (%)				62.7%	
3 month average vol. 3 个月平均成交股数 ('000)				3,453.8	FY18 Net gearing (%) FY18 净负债/股东资金 (%)				83.3	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				7.330 / 5.510	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				7.2	

Source: the Company, Guotai Junan International.

**The 2018 interim results of the Company were generally in line with market expectations and our estimations.** Total revenue of the Company decreased 5.56% yoy to RMB 2,868.6 million; net profit attributable to shareholders decreased 23.95% yoy to RMB 301.6 million. The 2018 interim results of the Company were generally in line with our estimation, as the production of the Company was stable and gold prices were in line with our estimations. The output of mined gold increased by 2.92% yoy to 10.1 tons; total output of refined gold increased by 1.82% yoy to 16.6 tons. The output of copper increased by 8.30% yoy to 12,179 tons. The average gold price in the first half of 2018 decreased by 1.92% yoy to RMB 271.4/g. The average production cost of mined gold increased by 8.98% yoy to RMB 146.38/g, mainly due to increased mining costs, safety expenditure and depreciation costs. The average gross margin of the Company was down 2.62 ppts to 41.52%, mainly due to higher production costs and lower gold price.

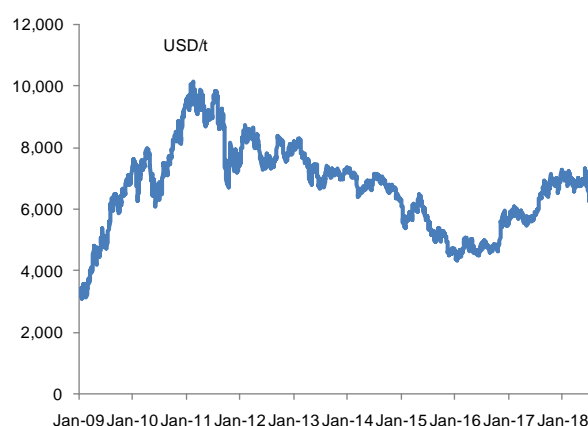
**Maintain metal price assumptions unchanged.** We expect gold price to remain flat in 2018 and to fluctuate at around the level of US\$ 1,250/oz. We also expect the global copper market to be more stable and average copper price may be around US\$ 6,000/t-US\$ 6,500/t. We expect gold price to remain under pressure in the second half 2018 as the 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 2<sup>nd</sup> 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 price to fluctuate between US\$ 1,100/oz-US\$ 1,350/oz in the 2<sup>nd</sup> half of 2018, and the annual average gold price to be around US\$ 1,250/oz. 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 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 returns. As a result, we expect the global copper market to become more stable under new supply-demand constraint conditions. We expect copper price to trade between US\$ 5,400/t-US\$ 7,200/t in 2018, and average copper price may be around US\$ 6,000/t-US\$ 6,500/t.

**Figure-1: Gold price (US\$/oz)**



Source: the Company, Guotai Junan International.

**Figure-2: Copper price (US\$/ton)**



Source: Bloomberg, Guotai Junan International.

**Maintain mining output assumptions unchanged.** The Company plans to produce about 19.4 tons of mined gold. In the first half of 2018, the Company produced 10.1 tons of mined gold, which accounted 52.1% of its annual plan. The Company plans capital expenditure of about RMB 630 million to develop 18 new projects, which is lower than previous years. The drop in gold price has seriously eroded the profitability of the mining business, hence the management of the Company has intentionally slowed down expansion speed and is paying more attention to profitability of new mines and expansion projects. As a result, only large mines with significant profit prospects will be developed, while many small projects have become idle. On the other hand, the tightening of domestic environmental protection policies also significantly slowed existing project expansion. We expect mined gold output in the Zhaoyuan District to remain at current levels and most of the growth to be contributed by mines outside Zhaoyuan. In the mean time, the management of the Company is also looking for potential acquisition opportunities

overseas and aims to acquire foreign gold projects with proper prices, which is expected to contribute most of the mining output growth in the future. The production of the Company is stable and we are confident that the Company will fulfill its output plan. Hence, we maintain mining output assumptions of the Company unchanged.

**Maintain TP of the Company at HK\$ 5.90 and maintain "Neutral".** The fundamentals of the Company remain healthy as it holds abundant gold resources and continues expanding through acquisitions and exploration, which will strongly support the output growth of mined gold in the future. The production of the Company remains stable and we expect the output of mined gold to remain stable. The Company is focusing more on profitability, which is expected to lift profitability of its gold mining business through better management. As the management of the Company pays more attention to profitability, we expect production costs to be controlled in 2018. Profitability of the mining business of the Company is expected to remain stable in 2018, as gold price and production costs of the Company are all expected to remain flat. The Company has accumulated large debt over the past 3 years to support expansion and the expansion speed is expected to slow down. The production of the Company was stable, so we maintain mining output assumptions of the Company unchanged. We also maintain metal price assumptions unchanged. Hence, we maintain net profit estimations of the Company unchanged. We believe that the fundamentals for gold mining companies have not changed much. Hence, we maintain our TP of the Company at HK\$ 5.90, which is equivalent to 23.0x FY18 PE, and maintain "Neutral".

**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	12.95	8.1	16.6	15.3	15.7	1.3	1.2	1.1	1.0	8.8
Goldcorp Inc	G CN	CAD	13.46	13.6	37.0	16.5	15.4	0.7	0.6	0.6	0.6	1.1
Newcrest Mining Ltd	NCM AU	AUD	19.35	36.3	28.5	17.0	14.9	1.5	1.4	1.3	1.2	5.5
Newmont Mining Corp	NEM US	USD	30.09	n.a.	23.0	19.5	19.0	1.5	1.5	1.4	1.3	6.7
Anglogold Ashanti Ltd	ANG SJ	ZAr	11,855.00	n.a.	13.3	9.8	9.3	1.5	0.7	0.7	0.6	8.0
Kinross Gold Corp	K CN	CAD	3.71	7.9	15.6	18.6	16.1	0.8	0.8	0.7	0.7	5.3
Gold Fields Ltd	GFI SJ	ZAr	3,548.00	n.a.	30.8	10.3	8.4	0.7	0.7	0.7	0.7	4.4
Simple Average				16.5	23.5	15.3	14.1	1.1	1.0	0.9	0.9	5.7
Weighted Average				12.1	24.2	16.7	15.9	1.3	1.1	1.1	1.0	5.9
Zijin Mining Group Co Ltd-A	601899 CH	CNY	3.40	21.3	15.4	12.9	10.1	2.2	1.8	1.6	1.4	12.6
Shandong Gold Mining Co Lt-A	600547 CH	CNY	22.35	36.6	31.0	24.7	19.7	2.5	2.3	2.1	1.9	7.4
Zhongjin Gold Corp-A	600489 CH	CNY	6.68	83.5	57.6	40.0	46.1	1.7	1.7	1.7	1.6	2.9
Simple Average				47.1	34.7	25.8	25.3	2.2	1.9	1.8	1.7	7.6
Weighted Average				36.3	27.2	21.0	19.0	2.2	1.9	1.8	1.6	9.4
Zhaojin Mining Industry - H	1818 HK	HKD	6.02	26.1	24.5	21.1	15.9	1.5	1.2	1.1	1.0	5.3
Zijin Mining Group Co Ltd-H	2899 HK	HKD	2.87	15.5	11.9	10.5	10.0	1.6	1.5	1.3	1.3	13.2
China Gold International Res	2099 HK	HKD	10.96	8.8	12.7	6.6	5.8	0.4	0.4	0.3	0.3	3.0
Lingbao Gold Co Ltd-H	3330 HK	HKD	1.94	16.2	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.
Simple Average				16.6	16.3	12.7	10.6	1.1	1.0	0.9	0.9	7.2
Weighted Average				17.1	13.9	12.1	10.7	1.5	1.4	1.2	1.2	11.2

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	6,665	6,674	6,273	6,580	6,775	PPE	12,974	13,630	13,923	14,188	14,237
COGS	(3,935)	(4,039)	(3,693)	(3,844)	(3,956)	Other long-term assets	670	649	584	526	473
Gross profit	2,729	2,635	2,581	2,736	2,819	Intangible assets	10,297	10,096	10,158	10,221	10,284
Other revenues and gains	360	255	307	281	294	Prepaid land lease payments	709	706	635	572	515
SG&A	(1,126)	(939)	(882)	(925)	(953)	Others	702	694	675	696	716
Other operating expenses	(704)	(643)	(663)	(682)	(703)	Total Non-current Assets	25,353	25,775	25,976	26,202	26,225
Operating Profit	1,259	1,307	1,343	1,409	1,458	Cash & Cash Equivalents	1,438	1,847	1,317	1,382	1,423
Finance costs	(465)	(433)	(457)	(439)	(407)	Trade receivables	795	945	871	909	936
Profit of an associate	6	14	21	32	47	Inventories	3,631	3,565	2,823	2,961	3,049
Profit Before Tax	799	888	907	1,002	1,098	Others	1,747	1,681	1,304	1,218	1,142
Income Tax	(366)	(134)	(137)	(151)	(166)	Total Current Assets	7,610	8,038	6,315	6,470	6,550
profit After Tax	434	754	770	851	932	Total Assets	32,964	33,813	32,292	32,672	32,775
Non-controlling Interest	(80)	(110)	(112)	(124)	(136)	Short-term borrowings	12,082	10,780	7,270	6,477	5,427
Shareholders' Profit / Loss	353	644	657	726	796	Gold loans	53	0	0	0	0
Basic EPS	0.119	0.204	0.208	0.230	0.252	Trade payables	2,540	2,395	2,251	2,361	2,431
						Other payables	179	68	72	75	79
						Others	1,022	534	17	18	19
						Total Current Liabilities	15,876	13,778	9,610	8,932	7,956
						Long-term borrowings	1,088	619	3,137	3,290	3,388
						Corporate bond	945	1,795	1,885	1,979	2,078
						Others	920	857	785	816	849
						Total Non-current Liabilities	2,952	3,271	5,806	6,086	6,315
						Total Liabilities	18,828	17,049	15,417	15,018	14,271
						Total Shareholders' Equity	11,222	13,200	13,133	13,725	14,378
						Minority Interest	2,913	3,564	3,742	3,929	4,126
						Total Equity	14,135	16,764	16,875	17,654	18,504
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit after tax	434	754	770	851	932	Gross Margin	41.0%	39.5%	41.1%	41.6%	41.6%
Changes in WC	(416)	(226)	676	(62)	(124)	Net Margin	5.3%	9.6%	10.5%	11.0%	11.8%
Adjust for depre.&amort.	771	788	815	835	851	ROE	3.2%	5.3%	5.0%	5.4%	5.7%
Others	45	1,117	(2,819)	352	428	ROA	1.1%	1.9%	2.0%	2.2%	2.4%
Cash from Operating Activities	834	2,433	(558)	1,976	2,088	ROCE	7.4%	6.6%	6.0%	6.1%	6.1%
Capex	(1,050)	(1,250)	(1,150)	(1,100)	(900)	Free CF(mn Rmb)	-216	1,183	-1,708	876	1,188
Others	79	83	87	91	96	Net Gearing	115.9%	92.9%	83.3%	77.2%	67.4%
Cash from Investing Activities	(971)	(1,167)	(1,063)	(1,009)	(804)						
Share issue	0	1,212	0	0	0						
Net bank borrowings	126	(1,442)	1,614	(391)	(757)						
Dividend paid	(119)	(193)	(66)	(73)	(80)						
Others	(465)	(433)	(457)	(439)	(407)						
Cash from Financing Activities	(458)	(856)	1,091	(903)	(1,243)						
Net Changes in Cash	(595)	409	(530)	65	41						
Cash at Beg of Year	2,033	1,438	1,847	1,317	1,382						
Foreign exchange rate changes	0	0	0	0	0						
Cash at End of Year	1,438	1,847	1,317	1,382	1,423						

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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