

招金矿业 [1818.HK]

低成本及产量持续增加的金矿商

招金是金价上涨的主要受益者。国际金价近期持续上涨，但若以美元计算，年初至今仍下跌7%。我们目前看涨金价，预计2019年金价将较现水平高5%。由于招金有较高的经营杠杆，加上公司产量持续上升，料将成为金价上涨的受益者。假设金价从目前水平上涨5%，招金有望在2018-2020年实现35%以上的每股盈利年复合增长率。我们首次覆盖招金并予买入评级，目标价为8.5港元，潜在上升空间为20%。

投资亮点

看好金价走势：考虑到贸易战带来不确定性，加上全球黄金产量持平或下降，我们看好金价的中长期走势。我们预计，若金价上涨5%或使招金矿业的净利润增加24%（与2019年市场共识预测相比）。

黄金产量上升将推动盈利增长：招金矿业持有63%权益的山东海域金矿预计将于2020年开始投产，一旦达到满产，年产量将达到1,500万吨。以总产量的应占权益计算，该矿将使招金目前2,000万吨黄金的产量额外增加约950万吨，增加约50%。此外，预计海域金矿的现金成本约每克人民币100元，低于招金在18年上半年每克人民币146元的现金成本。因此，海域金矿除了支持公司的黄金产量外，亦有望提升招金的利润率。

估值吸引：在我们的分析中，招金矿业是中国最好的金矿商，因为它对金价有较高的敏感度，且海域金矿将为公司带来更高产量。招金的2019年市盈率为20.9倍，EV/EBITDA为13.5倍，我们的预测比市场预测高出约23%。我们假设金价从目前水平上涨5%至约人民币284元/克。到2020年，我们预计海域金矿的产量约6吨，即满产状态下的40%。我们给予招金25倍2019年目标市盈率，每股盈利预测为8.5港元。风险因素包括：（i）国际金价下跌；（ii）新水下海域金矿的开采延误和复杂化；（iii）债务增加；（iv）流通量有限。

	2016	2017	2018E	2019E	2020E
收入(百万人民币)	6,665	6,674	6,096	6,668	8,035
增长(%)	13.2%	0.1%	-8.7%	9.4%	20.5%
净利润(百万人民币)	353	644	704	966	1,356
增长(%)	14.7%	82.3%	9.4%	37.1%	40.4%
每股盈利(人民币)	0.12	0.20	0.22	0.30	0.42
增长(%)	19%	71%	7%	37%	40%
市盈率(倍)	52.5	30.7	28.6	20.9	14.9
市净率(倍)	2.0	1.9	1.8	1.7	1.6

来源: 公司年报, 中国银河国际证券研究部

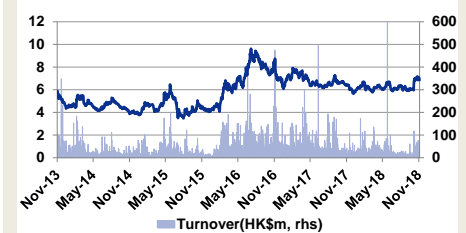
采矿行业

买入 (首次覆盖)

收盘价: 7.06 港元 (2018年11月21日)

目标价: HK\$8.5 (+20%)

股價表現



市值	28.26 亿美元
发行在外股数	32.21 亿股
自由流通量	33%
52周高位	7.18 港元
52周低位	5.51 港元
三个月日均成交额	480 万美元
主要股东:	山东招金集团 (37%)

来源: 公司, 彭博

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ZHAOJIN MINING [1818.HK]

Low-Cost Gold Miner Growing Production

Zhaojin is a major beneficiary of higher gold prices. International gold prices have recently been trending up, but in USD terms, they are still down 7% YTD. We are constructive on gold prices and see them trending up 5% from current levels into 2019. Zhaojin, with its high operating leverage and rising production figures, will be a beneficiary. Assuming a 5% increase in gold prices from current levels, Zhaojin should achieve a 35%+ EPS CAGR in 2018-20. We initiate on Zhaojin with a BUY rating, with a price target of HK\$8.5, or 20% upside.

Investment Highlights

Positive on the Gold Outlook: In light of trade war uncertainties and flat-to-declining global gold production, we are constructive on the medium- to long-term outlook on gold prices. We estimate a 5% increase in gold prices could boost Zhaojin Mining's net profit by 24% vs. 2019E consensus.

Increasing gold production to drive earnings: Zhaojin's 63%-owned Shandong Haiyu mine is expected to begin ramping up production in 2020, and should produce 15mtpa once it reaches full capacity. On an attributable basis, the mine will add ~9.5mtpa to Zhaojin's current mined gold production of 20mtpa, an increase of ~50% in tonnage. Furthermore, the Haiyu mine is expected to have cash costs of ~RMB100 per gram, lower than Zhaojin's ~RMB146 per gram cash cost in 1H18. The Haiyu mine should be accretive to Zhaojin's margin profile, in addition to bolstering the Company's gold production.

Attractive valuation: Zhaojin Mining is the best China gold play, in our analysis, given its high sensitivity to gold prices and increasing production from the Haiyu mine. Zhaojin trades at 20.9x our estimated 2019 PER, and 13.5x EV/EBITDA, with our estimate ~23% above consensus. We assume a 5% increase in gold prices from the current level to ~RMB284/gram. In 2020, we expect the Haiyu mine to produce ~6 tons, or 40% of its full capacity. We value Zhaojin at 25x 2019 PER at HK\$8.5 per share. Risk factors include: (i) a decline in international gold prices; (ii) delays and complications in the new underwater Haiyu mine; (iii) an increasing debt burden; and (iv) limited trading liquidity.

	2016	2017	2018E	2019E	2020E
Revenue (RMB Mn)	6,665	6,674	6,096	6,668	8,035
Growth (%)	13.2%	0.1%	-8.7%	9.4%	20.5%
Net Profit (RMB Mn)	353	644	704	966	1,356
Growth (%)	14.7%	82.3%	9.4%	37.1%	40.4%
EPS (RMB)	0.12	0.20	0.22	0.30	0.42
Growth (%)	19%	71%	7%	37%	40%
PER (x)	52.5	30.7	28.6	20.9	14.9
PBR (x)	2.0	1.9	1.8	1.7	1.6

Source: Company Annual Report, CGIS Research

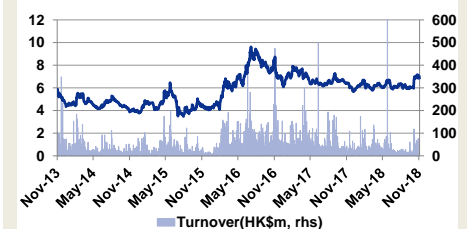
Mining Sector

Buy (Initiation)

Close: HK\$7.06 (Nov 21, 2018)

Target Price: HK\$8.5 (+20%)

Price Performance



Market Cap	US\$2,826m
Shares Outstanding	3,221m
Free Float	33%
52W High	HKD 7.18
52W Low	HKD 5.51
3M Avg. Daily T/O:	US\$4.8m
Major Shareholders:	Zhaojin Group (37%)

Sources: Company, Bloomberg

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POSITIVE ON GOLD PRICES

There is considerable debate about whether there will be a sustainable rally in gold prices. International spot gold prices have rebounded 4.4% from their 2018 low of US\$1,174, but are still down ~7% YTD. In USD, the price is still ~35% below the record high of US\$1,900 per oz reached in Sept. 2011. We have a positive outlook on gold due to the ongoing trade war dispute and uncertainty as the 10-year bull market in U.S. equities begins to subside. We believe future gold prices will be decided by a confluence of factors as follows:

MAJOR POSITIVE FACTORS

1. **Buying from Emerging Market Central Banks:** Central banks in Asia and Eastern Europe increased their purchases of gold in 2018 for the first time in five years to 450 metric tons, up from 375 tons in 2017. The last time central banks added significantly to their reserves was in 2013, when banks increased their reserves by 646 tons, the most significant increase in several decades.
2. **2019 global gold production is expected to remain flat or decline:** Although gold mining capex in the industry has increased significantly since 2013, gold production volume from mines has remained constant over the past several years. Global gold production is expected to decline in 2019.
3. **Gold as a hedge:** Investors may turn to gold as a hedge against a decline in the U.S. bull market, which has continued for nearly 10 years. In emerging markets, gold has outperformed EM currencies (including the RMB) and other commodities YTD.
4. **Gold lags behind other commodities on a five-year basis:** While gold is perceived as a store of value, in the past five years it has underperformed relative to other commodities.
5. **Potential Peak in the USD:** While the USD has appreciated YTD, a weakening stock market and weaker employment data could induce the Fed to slow or stall rate hikes. While the Federal Reserve operates independently from the White House, US President Trump has vocally expressed his desire for a weaker USD and slower rate increases.

NEGATIVE FACTORS

1. **High interest rates:** Higher interest rates make gold less attractive to hold in a high-yield environment.
2. **Cost of production coming down:** In recent years major gold producers have tightened their cost structure and are currently producing at lower cash costs.
3. **Global liquidity contraction:** In the event of an extreme financial panic, as in 2008, gold may actually decline in value as investors and banks sell gold for liquidity.

INTERNATIONAL VS. CHINA SPOT PRICES

China gold miners will be beneficiaries of the recent pick-up in gold prices. The ASPs for China gold producers are largely based on the gold price in Shanghai, which tracks the international price quite closely (Figure 1).

The exact conversion rate between the international and China spot gold prices can fluctuate due to volatility in exchange rates, but the China gold price generally tracks the international gold price within a reasonably narrow range. The Shanghai spot price on Wednesday was RMB274/g, which is less than a 1% premium to the international close of US\$1226/oz on Wednesday. Since September's bounce,

Shanghai Gold has given up some of its gains. Shanghai gold spot prices are slightly down 0.3% YTD in RMB terms, and ~6.8% in USD terms.

Figure 1: International Spot (USD/oz) vs. Shanghai Spot Gold Price (translated to USD/oz)



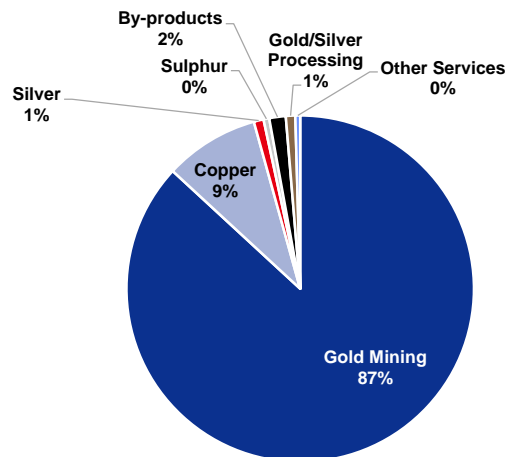
Source: Bloomberg, CGIS Research

GOLD: ZHAOJIN'S EARNINGS DRIVER

Zhaojin Mining, based in Zhaoyuan, Shandong province, is the fourth largest China gold producer. Zhaojin's mined gold (~20 tpa) accounts for ~5% of China's total gold production. Other key players are Zijin Mining (~37 tons), Shandong Gold (~35.5 tons) and Zhongjin Gold (~25 tons). Mined gold accounts for 87% of Zhaojin's revenues, but substantially all of the Company's profits.

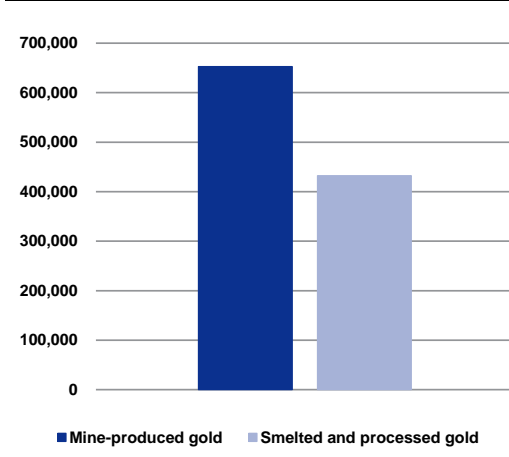
Figure 2: Zhaojin's Gold Mining & Smelting Operations

2017 Gold Mining as a Percentage of Revenue



Source: Company Reports, CGIS Research

2017 Gold Production (Troy oz)



Source: Company Reports, CGIS Research

The Company produces ~32 tons of refined gold annually, but the bulk of Zhaojin's revenue and profit comes from the approximately 20 tons of gold coming from its own mines. Its core mines, which are located in Shandong, Xinjiang, and Gansu provinces, include the Xiadian Gold Mine (grade of ~3 grams/ton) and the Zaozigou Gold Mine (grade of 4-5 grams/ton). The two mines produced over 100,000 ounces each in 2017 and are among China's top 10 gold-producing mines. The output of gold at Dayingezhuang Gold Mine, Fengning Jinlong and Yuantong Mining also all exceeded 1 ton in 2017 (~32,000 oz). In 2017, Zhaojin's average cash cost was RMB140/gram or (US\$631/oz), placing the Company in the first quartile globally from a cost perspective.

Our earnings sensitivity analysis shows that for every 10% increase in the gold price, analysts will revise up their 2019E earnings forecast by ~48% for Zhaojin Mining. This implies that the valuation of Zhaojin Mining, which currently trades at a consensus 25.7x 2019E PER would be reduced to 17.6x 2019E PER.

Figure 3: Zhaojin Sensitivity to a Change in Gold Prices

Change in Gold Price (%)	Change in PAT (RMB Mn)	2019 Consensus Impact (%)	2019 PER (x)
10%	359	46%	17.6x
5%	180	23%	20.9x
0%	0	0%	25.7x
-5%	-180	-23%	33.5x
-10%	-359	-46%	48.0x

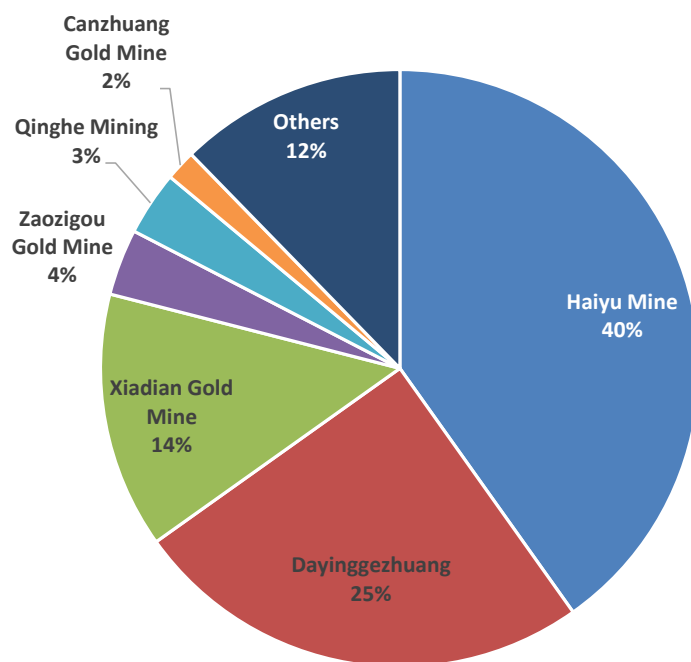
Source: Company Annual Reports, CGIS Research

ZHAOJIN'S HAIYU MINE: PRODUCTION CATALYST

As at end-Dec. 2017, Zhaojin had ~406 tons of attributable gold reserves and 27 mines. The largest mine by reserves was the Haiyu mine (~40% of total reserves), which is not yet in production.

Zhaojin purchased a 63% stake in the 17.4m oz. (~540 tons) Haiyu gold deposit in Yantai, Shandong province. According to some industry publications, the Haiyu mine is the largest gold discovery globally in the last decade. Haiyu is expected to be a low-cost gold mine for Zhaojin, with grades of ~4.4 grams per ton. The mine has added ~134 tonnes of attributable reserves to Zhaojin's overall reserves.

Figure 4: Zhaojin's Gold Mines by Reserves (2017)



Source: Company Reports, CGIS Research

Note: Ruihai Mining pertains to Zhaojin's Haiyu mine

Haiyu is expected to add another attributable ~9.5 tons per year of annual production (increasing the Company's total production by ~50%). Mine production is expected to ramp up in 2020, although Haiyu is currently in the planning and permit-application stage. Zhaojin estimates that production costs for the Haiyu mine will be ~RMB100 grams per ton, substantially lower than the Company's average cost of RMB146 grams per ton in 1H18. We believe the development and lower-cost structure of the Haiyu mine will be a further catalyst for Zhaojin's stock.

VALUATION

We have a target price of HK\$8.50, based on a 25x multiple of Zhaojin's 2019 PER. This valuation is supported by Zhaojin's growing mine production, high sensitivity to gold prices, and low (and declining) cash production costs. We think this valuation is reasonable in light of Zhaojin's earnings growth of ~28% through 2020. Furthermore, in a scenario where gold prices increase 10% from current levels, Zhaojin's 2019 PER would fall to 17.6x.

Figure 5: Gold Miners' Valuation Comparison Table

Name	Ticker	Mkt. Cap (USD Mn)*	Price (Lc)	52 Wk High	52 Wk Low	PER (x)			P/B (x)			EV/EBITDA (x)			ROE (%)	Yield (%)
						2018E	2019E	2020E	2017	2018E	2019E	2018E	2019E	2020E	2018E	2018E
H-share																
Zhaojin Mining**	1818 HK	946	7.06	7.18	5.51	28.6	20.9	14.9	1.8	1.7	1.6	16.6	13.5	11.1	5.2	1.0
Zijin Mining	2899 HK	2,095	2.86	4.37	2.49	13.2	12.4	11.6	1.7	1.5	1.4	9.2	8.5	8.2	12.1	3.5
Shandong Gold	1787 HK	775	17	18.22	13.00	28.5	21.9	18.5	1.7	1.6	1.5	12.0	11.1	10.1	6.1	0.7
MEDIAN						29.1	20.9	14.9	1.7	1.6	1.5	12.0	11.1	10.1	6.1	1.0
A-share																
Zijin Mining	601899 CH	8,587	3.53	5.55	3.21	17.5	15.0	11.8	2.3	1.9	1.8	9.1	8.3	7.7	11.8	5.1
Zhongjin Gold	600489 CH	3,716	7.47	10.38	6.36	73.2	62.3	58.8	1.9	1.9	1.9	13.1	12.6	12.3	2.2	0.5
Shandong Gold	600547 CH	5,521	26.39	34.20	21.04	39.1	31.3	25.5	3.0	2.9	2.7	12.5	11.3	10.2	6.8	0.5
MEDIAN						39.1	31.3	25.5	2.3	1.9	1.9	12.5	11.3	10.2	6.8	0.5
International																
Barrick Gold	ABX US	15,214	13.03	15.52	9.53	31.5	28.1	25.3	1.6	1.7	1.6	7.1	6.4	6.6	6.5	1.0
Newmont Mining	NEM US	17,525	32.9	42.04	29.06	27.0	24.1	21.5	1.7	1.7	1.6	8.5	7.5	7.5	5.3	1.7
Anglogold Ashanti	AU US	4,066	9.82	12.00	7.08	20.8	11.9	9.8	1.5	0.8	0.8	4.7	3.8	3.6	7.1	0.7
Kinross Gold	KGC US	3,263	2.61	4.78	2.38	26.9	28.4	20.4	0.7	0.7	0.7	4.3	4.2	4.0	3.1	0.0
Newcrest Mining	NCM AU	11,542	20.58	24.27	18.57	56.7	22.7	17.0	1.5	1.5	1.5	8.5	8.1	7.0	2.7	0.9
MEDIAN						27.0	24.1	20.4	1.5	1.5	1.5	7.1	6.4	6.6	5.3	0.9

Source: Bloomberg, CGIS Research

Note: * Mkt Cap based on local listing; ** Zhaojin figures based on CGIS forecast

ZHAOJIN'S SENSITIVITY TO GOLD PRICES

Amongst the listed Chinese gold miners, Zhaojin, Shandong Gold, and Zhongjin Gold are the most leveraged to higher gold prices. To analyse the impact of a more sustained rally in gold prices, we examined the earnings impact higher gold prices would have on gold producers, based on their gold production figures in 2017, while keeping production and other costs fixed and assuming a 25% tax rate on incremental earnings.

Figure 6: Impact on gold miners' net profit with a 5% increase in 2019 gold prices

Company	2017 Gold Mined (Tons)	Change in PAT (RMB Mn)	2019 Consensus (RMB Mn)	2019 Consensus Impact (%)
Zhaojin Mining (H) *	20.4	180	775	23%
Zijin Mining (H)	37.5	350	4,678	7%
Zhongjin Gold (A)	25.3	139	355	39%
Shandong Gold (A)	35.5	366	1,510	24%

Source: Company Filings, CGIS Research

Note: * Zhaojin figures based on CGIS forecast; all estimates exclude hedging effects

As our numbers in Figure 6 show, every 5% increase in the average 2019 gold price will result in a profit increase of RMB139m for Zhongjin Gold, RMB180m for Zhaojin Mining, and RMB366m for Shandong Gold. In percentage terms, this represents a ~39% earnings increase for Zhongjin and 23-24% increase for Zhaojin and Shandong Gold vs. consensus earnings. Zijin Mining, on the other hand, is a more diversified mining company, with exposure to copper, zinc, silver and iron ore, in addition to gold. Therefore, Zijin's earnings profile is not as sensitive to gold prices.

RISK FACTORS

Decline in International Gold Prices

Zhaojin's earnings are sensitive to changes in gold prices, so a decline in the international gold price would have a negative impact on earnings. Our model incorporates a 5% increase in the average gold price in 2019 and 2020 from the current level of RMB284 per gram. If this fails to materialise, Zhaojin's 2019 and 2020E net profit may not reach our estimates.

Delays and Budget Overruns on the Haiyu Mine

Any delays related to construction, permits, or production for Zhaojin's Haiyu mine would delay earnings growth and possibly result in a de-rating of the stock. The main deposit is some 300 meters below the seabed, under 80 meters of water. Mine construction is expected to pose no technical difficulties, and the construction requirements are those of a standard underground mine. Our assumptions call for Zhaojin to produce an additional 155,000 ounces in 2020, or 4.8 tons on an attributable basis. Based on Zhaojin's 63% stake in the Haiyu mine, this implies total production of ~7.5m tons in 2020, or 50% of Haiyu's full capacity. Zhaojin's target production is 15mtpa when it is in full production.

Debt and Interest Rate Risk

As at the end of 1H18, Zhaojin carried RMB14.5bn in gross debt against RMB2bn in cash. About RMB 5bn of Zhaojin's debt was from corporate bonds, with the remainder from bank borrowings and gold leasing. We regard Zhaojin's preferred equity as debt, making Zhaojin's outstanding net debt balance closer to RMB15bn, against 14bn in equity. Zhaojin is currently at the permit and construction stages of the Haiyu mine site, which may potentially require Zhaojin to incur greater debt. At the time of acquisition in 2015, Zhaojin estimated that the mine would require RMB4-4.5bn in capex, or RMB 2.5-2.8bn on an attributable basis. Zhaojin has been steadily investing in the mine, but has provided limited guidance on 2019/2020 capex requirements as the mine moves into production.

Limited Liquidity

Zhaojin trades ~US\$4.8m per day on the Hong Kong exchange, making the stock relatively illiquid. Approximately 60% of the company's total share base remains unlisted, and is controlled by the Shandong Zhaojin Group and Shanghai Yuyuan Tourist Mart. Within the Company's free float, the shareholders registrar is dominated by institutional names.

Figure 7: Zhaojin Shareholders

Key Shareholders	Stake
1 Shandong Zhaojin Group	36.68%
2 Shanghai Yuyuan Tourist Mart	23.70%
3 Schroders	5.57%
4 The Bank of New York Mellon	3.59%
5 Van Eck Associates Corp	3.26%
6 Blackrock	2.23%
7 Deutsche Bank	1.48%

Source: Company Annual Report, CGIS Research

FINANCIAL MODEL

P&L Observations

- 1.) We expect gold production and the cost structure to remain relatively stable until 2020, when Zhaojin's Haiyu mine begins production. Our forecast assumes a gold price of ~RMB 284/gram in 2019-2020.
- 2.) In 2016-17, finance expenses comprised roughly half of PBT. Therefore, debt and interest rate movements can impact Zhaojin's earnings.

Figure 8: Simplified Consolidated Statement of Profit and Loss

Dec. Year End (RMB Mn)	2016	2017	2018E	2019E	2020E
Sales Revenue	6,665	6,674	6,096	6,668	8,035
COGS	(3,935)	(4,039)	(3,422)	(3,516)	(4,081)
Gross profit	2,729	2,635	2,673	3,152	3,954
Selling and distribution costs	(72)	(45)	(51)	(54)	(63)
General and administrative expenses	(1,055)	(894)	(906)	(883)	(989)
Other expense	(704)	(643)	(434)	(525)	(609)
Total EBIT	899	1,053	1,282	1,690	2,294
Depreciation & Amortisation	860	896	1,122	1,267	1,306
EBITDA	1,758	1,949	2,404	2,957	3,600
Interest and Other income	360	255	304	300	306
Finance expense	(465)	(433)	(475)	(489)	(489)
Associate & JV Income	6	14	3	8	8
Pre-Tax Profit	799	888	1,115	1,509	2,119
Tax Expense	(366)	(134)	(224)	(302)	(424)
Net Profit After Tax	434	754	890	1,207	1,695
Minority Interest	80	110	186	241	339
Earnings to Equity Owners	353	644	704	966	1,356
EPS (Basic)	0.12	0.20	0.22	0.30	0.42
EPS (Diluted)	0.12	0.20	0.22	0.30	0.42
DPS	0.04	0.06	0.07	0.09	0.13
% YoY growth					
Revenue	13.2%	0.1%	-8.7%	9.4%	20.5%
Gross profit	22.3%	-3.5%	1.5%	17.9%	25.5%
EBIT	-16.9%	17.1%	21.8%	31.8%	35.7%
Net profit to common	14.7%	82.3%	9.4%	37.1%	40.4%
Margins and ratios					
Gross profit margin	41.0%	39.5%	43.9%	47.3%	49.2%
EBITDA Margin	26.4%	29.2%	39.4%	44.3%	44.8%
EBIT Margin	13.5%	15.8%	21.0%	25.3%	28.5%
Net Profit Margin	5.3%	9.6%	11.6%	14.5%	16.9%

Source: Company Annual Report, CGIS Research

Balance Sheet Observations

- 1.) Zhaojin's intangible assets are nearly the size of its PPE. The bulk of the Company's intangibles include exploration rights and assets, and mining rights and reserves. Notably, intangibles doubled in size in 2015-16, when Zhaojin assumed its 63% stake in the Haiyu mine.
- 2.) Gross debt is ~RMB14.4bn. Zhaojin has been actively refinancing its debt in 2018 with several bank loans coming due. Post-refinancing, Zhaojin has increased its exposure to corporate bonds and decreased its bank debt. Under our current capex assumptions, we expect Zhaojin to maintain stable levels of debt as the Haiyu mine begins production in 2020.

Figure 9: Simplified Consolidated Statement of Financial Position

Dec. Year End (RMB Mn)	2016	2017	2018E	2019E	2020E
Cash & Equivalents	1,438	1,847	2,933	3,329	3,263
Trade and other receivables	281	236	323	341	416
Inventories	3,631	3,565	3,781	3,740	4,645
Prepayments	514	709	760	760	760
Loan receivable	649	1,124	1,522	1,522	1,522
Others	1,098	557	299	299	299
Total current assets	7,610	8,038	9,617	9,990	10,905
PPE, net	12,974	13,630	13,971	14,499	14,988
Intangible assets	9,422	9,316	9,741	9,746	9,752
Prepaid land lease payments	709	706	680	680	680
Goodwill	876	780	780	780	780
Investment in JVs & associates	410	403	743	743	743
Other non-current assets	963	941	1,004	1,004	1,004
Total non-current assets	25,353	25,775	26,920	27,453	27,947
Total assets	32,964	33,813	36,537	37,443	38,852
Trade, notes and other payables	2,540	2,395	2,182	2,204	2,320
Bank and other borrowings	10,884	10,780	8,598	8,598	8,598
Tax payable	179	68	49	49	49
Deposits from customers	986	518	1,077	1,077	1,077
Corporate bond	1,198	0	443	443	443
Others	89	17	7	7	7
Total current liabilities	15,876	13,778	12,357	12,379	12,495
Bank & other borrowings	1,088	619	674	674	674
Corporate bonds	945	1,795	5,101	5,101	5,101
Deferred tax liabilities	397	391	384	384	384
Other long term liabilities	523	466	837	837	837
Total non-current liabilities	2,952	3,271	6,995	6,995	6,995
Total liabilities	18,828	17,049	19,352	19,375	19,491
Shareholders Fund	9,075	10,535	10,898	11,652	12,719
Minority Interest	2,913	3,564	3,696	3,937	4,276
Total S/H Equity	14,135	16,764	17,185	18,068	19,361
Total Liab & S/H Fund	32,964	33,813	36,537	37,443	38,852

Source: Company Annual Report, CGIS Research

Cash Flow Observations

- 1.) Zhaojin books financing expenses in financing cash flow. Finance costs ranged from RMB430 to 470m in 2016-17 on Zhaojin's P&L. Our FCF calculations have been adjusted to include financing costs and dividends on preferred equity.
- 2.) Management has not provided specific capex guidance for 2019, when the Haiyu mine begins production. However, the Company broadly expects spending to be in line with that of prior years. Under these assumptions, we have allocated RMB1.8bn per year in capex. Mine complications and construction overruns could increase this figure.

Figure 10: Simplified Consolidated Statement of Cash Flows

Dec. Year End (RMB Mn)	2016	2017	2018E	2019E	2020E
Profit before tax	799	888	1,115	1,509	2,119
Depreciation & Amortization	860	928	1,122	1,267	1,306
Financing Expense	465	433	475	489	489
Change in Working Cap	(664)	(220)	254	46	(864)
Tax	(340)	(234)	(256)	(302)	(424)
Other Non Cash Adjustments	743	(727)	(322)	0	0
Operating Cashflow	1,863	1,067	2,387	3,009	2,626
Acquisitions	(119)	(26)	0	0	0
Capex	(1,667)	(1,524)	(1,740)	(1,800)	(1,800)
Others	(668)	520	(367)	0	0
Investing Cashflow	(2,454)	(1,030)	(2,107)	(1,800)	(1,800)
Dividend (ordinary)	(224)	(196)	(251)	(211)	(290)
Dividend (preferred)	(113)	(113)	(113)	(113)	(113)
Interest Paid	(646)	(486)	(504)	(489)	(489)
Equity Issuance	0	1,064	0	0	0
Preferred Issuance	0	499	0	0	0
Debt Movements	704	(924)	1,618	0	0
Others	256	567	31	0	0
Financing Cashflow	(21)	412	782	(813)	(891)
FCF*	(1,349)	(562)	(337)	607	225

Source: Company Annual Report, CGIS Research

Note: * FCF net of interest paid and preferred dividend payments

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