

March 16, 2017 02:02 AM GMT

Zhaojin Mining Industry

Research Tactical Idea

✔ Stock Rating
Overweight

👁 Industry View
Attractive

🎯 Price Target
HK\$8.24

We believe the share price will rise in absolute terms over the next 15 days.

The Fed hiked rates at its March FOMC meeting in-line with market expectations. We see rate hikes expectations have been priced in. Morgan Stanley's US economics team expects three rate hikes in 2017, followed by four in 2018. While our forecasts are for relatively flattish gold prices in USD terms, Chinese gold miners should benefit from RMB depreciation. With gold ASP up 5% in RMB terms, we look for Zhaojin's net profit to grow 27% YoY this year.

We estimate that there is about a 60% to 70% (or "likely") probability for the scenario.

Estimated probabilities are illustrative and assigned subjectively based on our assessment of the likelihood of the scenario.

MORGAN STANLEY ASIA LIMITED+

Sara Chan
EQUITY ANALYST
Sara.Chan@morganstanley.com +852 2848-5292

Rachel L Zhang
EQUITY ANALYST
Rachel.Zhang@morganstanley.com +852 2239-1520

Han Fu
EQUITY ANALYST
Han.Fu@morganstanley.com +852 2239-7555

Lindsay Hu
EQUITY ANALYST
Lindsay.Hu@morganstanley.com +852 2239-7810



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Zhaojin Mining Industry (1818.HK, 1818 HK)

Greater China Materials / China

Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$8.24
Up/downside to price target (%)	14
Shr price, close (Mar 15, 2017)	HK\$7.25
52-Week Range	HK\$10.02-5.61
Sh out, dil, curr (mn)	2,966
Mkt cap, curr (mn)	US\$2,769
EV, curr (mn)	US\$4,625
Avg daily trading value (mn)	US\$9.1

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Valuation Methodology and Risks

1818.HK

Our price target is our base case scenario value, derived using Morgan Stanley's residual income model, in which we discount our base-case earnings estimates through 2022, and then normalizes them by our cost of equity of 8.5%. We calculate our cost of equity assumption on a risk-free rate of 0%, a market risk premium of 7.2%, and a beta of 1.1. We assume long-term ROE of 12.0% and a steady-state revenue growth rate of 5% p.a.

Downside risks:

1. Falling gold price on US dollar strength;
2. execution risk in new projects;
3. increased borrowings lead to higher finance costs and weigh on near-term earnings.

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(as of February 28, 2017)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1148	35%	286	43%	25%	551	36%
Equal-weight/Hold	1418	43%	297	45%	21%	699	46%
Not-Rated/Hold	61	2%	8	1%	13%	8	1%
Underweight/Sell	638	20%	76	11%	12%	269	18%
TOTAL	3,265		667			1527	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Stock Price, Price Target and Rating History (See Rating Definitions)

Zhaojin Mining Industry (1818.HK) - As of 3/15/17 in HKD
Industry : Greater China Materials



Stock Rating History: 3/1/14 : E/A; 1/20/15 : O/A; 4/17/15 : O/C; 1/15/16 : O/A

Price Target History: 1/22/14 : 5.7; 4/8/14 : 5.5; 7/8/14 : 5.6; 10/8/14 : 5.2; 12/16/14 : 4.5; 1/20/15 : 5.6; 4/17/15 : 4.7; 6/1/15 : 8; 9/30/15 : 6.5; 12/16/15 : 5.6; 3/16/16 : 6.6; 6/28/16 : 9.25; 12/13/16 : 9.34; 3/14/17 : 8.24

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Greater China Materials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/15/2017)
Han Fu		
Tianqi Lithium Industries Inc. (002466.SZ)	O (12/19/2015)	Rmb39.27
Lindsay Hu		
China Molybdenum (3993.HK)	O (11/03/2016)	HK\$2.83
China Molybdenum (603993.SS)	U (11/03/2016)	Rmb4.95
Rachel L Zhang		
Aluminum Corp. of China Ltd. (601600.SS)	E (03/14/2017)	Rmb4.91
Aluminum Corp. of China Ltd. (2600.HK)	O (03/14/2017)	HK\$3.94
Angang Steel Company Limited (0347.HK)	O (11/28/2013)	HK\$6.07
Angang Steel Company Limited (000898.SZ)	O (01/16/2016)	Rmb6.03
Baoshan Iron & Steel (600019.SS)	O (01/16/2016)	Rmb6.88
China Steel Corp. (2002.TW)	U (04/17/2015)	NT\$25.60
Jiangxi Copper (0358.HK)	E (10/08/2014)	HK\$13.02
Jiangxi Copper (600362.SS)	U (04/17/2015)	Rmb18.98
Lee & Man Paper Manufacturing (2314.HK)	O (07/20/2015)	HK\$6.13
Maanshan Iron & Steel (600808.SS)	O (03/14/2017)	Rmb3.49
Maanshan Iron & Steel (0323.HK)	O (01/16/2016)	HK\$3.09
Nine Dragons Paper (2689.HK)	O (04/13/2016)	HK\$8.56
Shandong Nanshan Aluminium Co. (600219.SS)	O (09/29/2015)	Rmb3.37
Sara Chan		
Shandong Gold Mining Co. Ltd (600547.SS)	E (03/16/2016)	Rmb36.19
Zhaojin Mining Industry (1818.HK)	O (01/20/2015)	HK\$7.25
Zhongjin Gold Corp. Ltd. (600489.SS)	E (03/14/2017)	Rmb12.11
Zijin Mining Group (601899.SS)	U (05/19/2016)	Rmb3.46
Zijin Mining Group (2899.HK)	E (12/13/2016)	HK\$2.95

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* Historical prices are not split adjusted.