# Morgan Stanley | RESEARCH

March 16, 2017 02:02 AM GMT



# **Zhaojin Mining Industry**

# Research Tactical Idea

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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.

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#### Zhaojin Mining Industry (1818.HK, 1818 HK)

Greater China Materials / China

Stock Rating Industry View	Overweight 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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	COVERAGE U	NIVERSE	INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING	COUNT	% OF	COUNT	% OF	% OF	COUNT	% OF
CATEGORY		TOTAL		TOTAL IBC	RATING		TOTAL
				CATEGORY			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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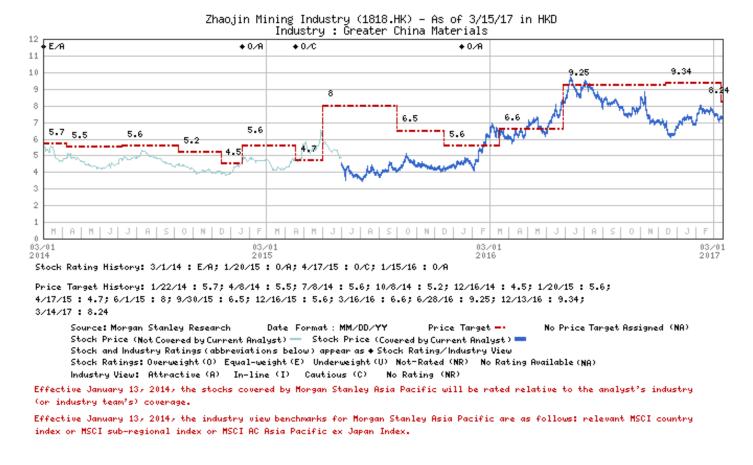
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Stock Price, Price Target and Rating History (See Rating Definitions)





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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) China Molybdenum (603993.SS)	O (11/03/2016) U (11/03/2016)	HK\$2.83 Rmb4.95
Rachel L Zhang		
Auminum Corp. of China Ltd. (601600.SS) Auminum Corp. of China Ltd. (2600.HK) Angang Steel Company Limited (0347.HK) Angang Steel Company Limited (000898.SZ) Baoshan Iron & Steel (600019.SS) China Steel Corp. (2002.TW) Jiangxi Copper (0358.HK) Jiangxi Copper (600362.SS) Lee & Man Paper Manufacturing (2314.HK) Maanshan Iron & Steel (600808.SS) Maanshan Iron & Steel (0323.HK) Nine Dragons Paper (2689.HK) Shandong Nanshan Auminium Co. (600219.SS)	E (03/14/2017) O (03/14/2017) O (11/28/2013) O (01/16/2016) O (01/16/2016) U (04/17/2015) E (10/08/2014) U (04/17/2015) O (07/20/2015) O (03/14/2017) O (01/16/2016) O (04/13/2016) O (09/29/2015)	Rmb4.91 HK\$3.94 HK\$6.07 Rmb6.03 Rmb6.88 NT\$25.60 HK\$13.02 Rmb18.98 HK\$6.13 Rmb3.49 HK\$3.09 HK\$3.37
Sara Chan  Shandong Gold Mning Co. Ltd (600547.SS) Zhaojin Mning Industry (1818.HK) Zhongjin Gold Corp. Ltd. (600489.SS) Zijin Mning Group (601899.SS) Zijin Mning Group (2899.HK)	E (03/16/2016) O (01/20/2015) E (03/14/2017) U (05/19/2016) E (12/13/2016)	Rmb36.19 HK\$7.25 Rmb12.11 Rmb3.46 HK\$2.95

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