



Company Report: Zhaojin Mining (01818 HK)

公司报告: 招金矿业 (01818 HK)

Kevin Guo 郭勇
(86755) 2397 6671
kevin.guo@gtjas.com
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Gold Price Will Continue to Rise, Upgrade to "Buy"

金价将会继续上涨, 上调至“买入”评级

- The 2019 annual results of the Company was lower than market expectations and our estimations, mainly due to the decrease in mining output and the rise in production costs. Total revenue of the Company decreased 11.8% yoy to RMB 6,329.9 million; net profit attributable to shareholders increased 1.1% yoy to RMB 479.3 million.
- We expect gold price to benefit from loose monetary policy and investor demand for safe haven assets. However, copper price is expected to be badly hit by the coronavirus pandemic outbreak around the world. We expect the annual average gold price to be around US\$1,550/oz-US\$1,650/oz in 2020. We expect global metal consumption demand to contract and the average annual copper price to trade between US\$5,000/t-US\$5,500/t.
- We expect the Company to produce about 20 tons of mined gold in 2020. We expect the production of the Company to be stable and mining output to remain at the current level in the next few years.
- Revise up TP to HK\$11.95, upgrade to "Buy".
- 公司 2019 年年度业绩差于市场一致预期和我们的估计, 主要是由于矿产品产量减少以及生产成本上升。公司收入同比减少 11.8% 至人民币 63.299 亿元, 股东净利同比增加 1.1% 至人民币 4.793 亿元。
- 我们预计金价将受益于宽松的货币政策和投资者对避险资产的需求。但是铜价预计将受到新冠病毒疫情在全球爆发的沉重打击。我们预计 2020 年黄金年度均价在 1,550-1,650 美元/盎司左右。我们预计全球金属消费需求将萎缩, 年度铜均价在 5,000-5,500 美元/吨。
- 我们预计公司在 2020 年生产 20 吨左右的矿产金。我们预计公司的生产稳定, 矿产品产量将在未来几年维持在目前的水平。
- 上调公司目标价至 11.95 港元, 上调至“买入”评级。

Rating:

Buy
Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

HK\$11.95

Revised from 原目标价:

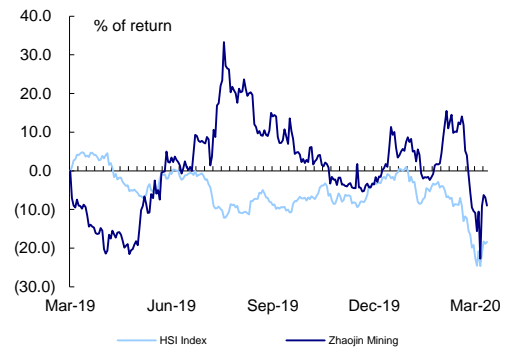
HK\$9.50

Share price 股价:

HK\$7.700

Stock performance

股价表现



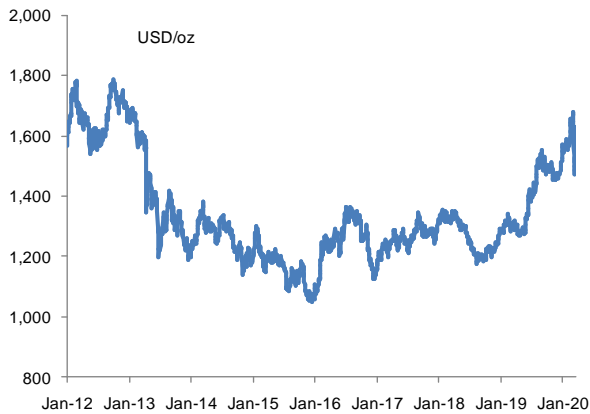
Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(20.5)	(9.2)	(9.8)
Rel. % to HS Index 相对恒指变动 %	(8.2)	7.6	8.4
Avg. Share price(HK\$) 平均股价 (港元)	8.4	8.7	8.6

Source: Bloomberg, Guotai Junan International.

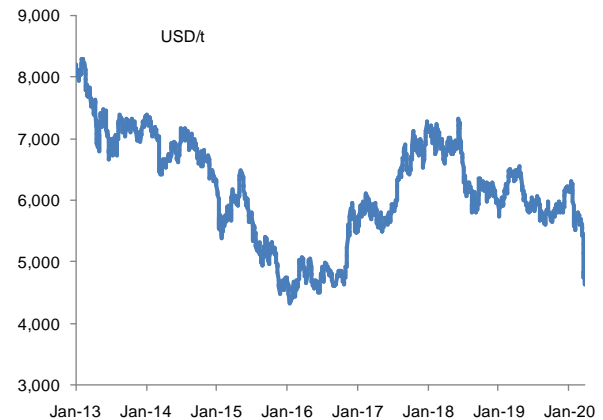
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	7,177	474	0.147	(27.9)	46.0	5.219	1.3	0.040	0.6	3.6
2019A	6,330	479	0.149	1.4	46.2	5.390	1.3	0.041	0.6	3.5
2020F	7,292	858	0.266	78.5	25.8	5.390	1.3	0.027	0.4	6.2
2021F	7,750	1,083	0.336	26.3	20.4	5.686	1.2	0.034	0.5	7.6
2022F	7,912	1,182	0.367	9.2	18.7	6.047	1.1	0.037	0.5	7.9
Shares in issue (m) 总股数 (m)				3,221.4	Major shareholder 大股东				Zhaojin Group 37.3%	
Market cap. (HK\$ m) 市值 (HK\$ m)				24,804.8	Free float (%) 自由流通比率 (%)					62.7%
3 month average vol. 3 个月平均成交股数 ('000)				11,923.6	FY20 Net gearing (%) FY20 净负债/股东资金 (%)					100.2
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				11.360 / 6.500	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)					12.8

Source: the Company, Guotai Junan International.

The 2019 annual results of Zhaojin Mining (the "Company") were lower than market expectations and our estimations, mainly due to the decrease in mining output and the rise in production costs. Total revenue of the Company decreased 11.8% yoy to RMB6,329.9 million; net profit attributable to shareholders increased 1.1% yoy to RMB 479.3 million. The output of mined gold decreased by 5.1% yoy to 19.8 tons, total output of gold decreased by 4.3% yoy to 32.7 tons. The output of copper decreased by 32.2% yoy to 11,142 tons. Gold price continued to rise in 2019 and the average gold price rose by 9.7% yoy to US\$1,392.6/oz. The annual average domestic gold price was up 13.4% yoy to RMB 307.9/g. The average production costs of mined gold continued to rise 2019, mainly due to increased mining costs and depreciation costs. Gross margin in 2019 was up 1.59 pts to 36.18%, mainly due to higher gold price.

Figure-1: Gold price


Source: Bloomberg, Guotai Junan International.

Figure-2: Copper price


Source: Bloomberg, Guotai Junan International.

We expect gold price to benefit from loose monetary policy and investor demand for safe haven assets and the annual average gold price to be around US\$1,550/oz-US\$1,650/oz in 2020. However, copper price is expected to be badly hit by the coronavirus pandemic outbreak around the world. We expect global copper consumption demand to contract and the average annual copper price to trade between US\$5,000/t-US\$5,500/t. We expect gold price to benefit greatly from the outbreak of the coronavirus and to rise in 2020. As the spread of the coronavirus accelerated in America, the U.S. Federal Reserve (the "Federal Reserve") cut interest rate two times in March, which exceeded the expectations of most investors. Additionally, the Federal Reserve also advised quantitative easing ("QE") plans, which will release US\$700 billion in liquidity to the market. Although gold price declined at the beginning of the coronavirus outbreak with other assets as investors rushed for cash, it retrieved all the loss after the Federal Reserve released the QE plan. Besides, investor demand for safe haven assets will also support gold price. We expect gold price to continue to rise in 2020 and the annual average gold price to be around US\$1,550/oz-US\$1,650/oz. However, copper prices are expected to be badly hit by the coronavirus pandemic outbreak around the world. We expect global supply of copper to be stable in 2020 as the operation of global copper mining companies are stable. However, the coronavirus pandemic outbreak around the world will hurt global copper demand badly. Although the coronavirus outbreak has been successfully contained by the Chinese government and China's demand of metal is expected to be only slightly impacted, there are no signs that the coronavirus pandemic will be under control in Europe and America in the short term. As more and more factories are shut down and commercial activity idles, global metal consumption demand will be severely hurt. We expect that copper price will be under great pressure in 2020 and is expected to drop. We expect copper price to trade between US\$4,500/t-US\$6,500/t in 2020, and the annual average copper price may be around US\$5,000/t-US\$5,500/t in 2020.

We expect the Company to produce about 20 tons of mined gold in 2020. We expect the production of the Company to be stable and mining output to be maintained at the current level in the next few years. The Company plans to spend about RMB818 million on the construction and improving of gold mines in 2020, and continue to focus on the 10 main projects. The management of the Company has intentionally slowed down expansion speed and is paying more attention to profitability of new mines and expansion projects since 2017. 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 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 at proper prices, which is

expected to contribute the most mining output growth in the future. The Company is sticking to its strategy unchanged in 2020 and we expect the output of the Company to remain at the current level.

Revise up the TP of the Company to HK\$11.95 and upgrade to "Buy". The fundamentals of the Company remain healthy as it holds abundant gold resources and continues expanding through acquisitions and exploration, which will strongly support 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 at the current level of about 20 tons. 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 will pay more attention to profitability, we expect production costs to be controlled in the long term. We expect gold price to benefit greatly from the outbreak of the coronavirus and to rise in 2020. We expect gold price to continue to rise in 2020 and the annual average gold price to be around US\$1,550/oz-US\$1,650/oz. We revise up our TP of the Company to HK\$11.95 due to higher EPS estimation, which is equivalent to 40.0x FY20 PE and 2.0x FY20 PB, and upgrade to "Buy".

Table-1: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)
				18A	19F	20F	21F	18A	19F	20F	21F	19F
Barrick Gold Corp	ABX CN	CAD	27.55	n.a.	42.7	26.0	24.8	3.1	1.9	1.6	1.5	9.5
Newcrest Mining Ltd	NCM AU	AUD	24.70	72.8	22.4	17.1	15.7	1.9	1.7	1.4	1.3	7.6
Newmont Mining Corp	NEM US	USD	48.28	75.4	37.7	24.1	20.7	2.4	1.7	1.7	1.6	5.3
Anglogold Ashanti Ltd	ANG SJ	ZAr	35,105.00	82.8	30.1	9.8	9.0	3.8	n.a.	2.4	1.9	7.4
Kinross Gold Corp	K CN	CAD	6.55	n.a.	16.1	10.3	11.3	1.3	1.3	1.0	0.9	7.8
Gold Fields Ltd	GFI SJ	ZAr	10,372.00	n.a.	25.9	12.1	9.2	2.3	2.1	1.6	1.4	6.9
Simple Average				77.0	29.2	16.6	15.1	2.5	1.7	1.6	1.5	7.4
Weighted Average				63.9	35.3	21.5	19.5	2.6	1.6	1.7	1.5	7.3
Zijin Mining Group Co Ltd-A	601899 CH	CNY	3.79	21.1	21.2	21.1	14.8	2.2	2.0	1.8	1.7	9.9
Shandong Gold Mining Co Lt-A	600547 CH	CNY	35.16	78.1	64.4	40.5	32.2	3.3	4.5	4.1	3.8	7.3
Zhongjin Gold Corp-A	600489 CH	CNY	8.36	139.3	114.5	65.3	48.0	2.1	2.1	2.0	1.9	2.1
Simple Average				79.5	66.7	42.3	31.7	2.5	2.9	2.7	2.5	6.4
Weighted Average				62.8	53.3	35.8	27.2	2.7	3.1	2.9	2.7	7.7
Zhaojin Mining Industry - H	1818 HK	HKD	7.70	43.3	34.8	23.8	21.3	2.0	1.6	1.6	1.5	5.2
Zijin Mining Group Co Ltd-H	2899 HK	HKD	2.86	13.4	14.6	14.8	10.9	1.4	1.4	1.3	1.2	10.0
China Gold International Res	2099 HK	HKD	4.12	n.a.	n.a.	n.a.	n.a.	0.1	n.a.	n.a.	n.a.	n.a.
Shandong Gold Mining Ltd-H	1787 HK	HKD	19.10	35.8	34.8	21.2	20.5	1.6	2.1	2.0	1.8	6.9
Simple Average				30.8	28.1	19.9	17.6	1.3	1.7	1.6	1.5	7.4
Weighted Average				27.0	26.1	18.7	16.5	1.6	1.7	1.6	1.5	8.0

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	7,177	6,330	7,292	7,750	7,912
COGS	(4,695)	(4,040)	(4,564)	(4,721)	(4,848)
Gross profit	2,482	2,290	2,729	3,029	3,065
Other revenues and gains	440	498	469	483	476
SG&A	(997)	(1,011)	(1,094)	(1,162)	(1,108)
Other operating expenses	(711)	(470)	(461)	(452)	(443)
Operating Profit	1,214	1,306	1,643	1,898	1,990
Finance costs	(481)	(662)	(715)	(686)	(660)
Profit of an associate	24	(48)	53	42	38
Profit Before Tax	757	596	981	1,254	1,368
Income Tax	(180)	(157)	(196)	(263)	(287)
profit After Tax	576	438	784	991	1,081
Non-controlling Interest	(102)	41	73	93	101
Shareholders' Profit / Loss	474	479	858	1,083	1,182
Basic EPS	0.147	0.149	0.266	0.336	0.367

Cash Flow Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Profit after tax	576	438	784	991	1,081
Changes in WC	(604)	(138)	212	(236)	(267)
Adjust for depre.&amort.	815	841	851	857	865
Others	(843)	(980)	386	820	1,049
Cash from Operating Activities	(56)	162	2,234	2,432	2,727
Capex	(1,250)	(1,000)	(960)	(980)	(1,180)
Others	87	91	96	101	106
Cash from Investing Activities	(1,163)	(909)	(864)	(879)	(1,074)
Share issue	0	0	0	0	0
Net bank borrowings	1,124	3,905	(1,890)	(854)	(831)
Dividend paid	(129)	(131)	(86)	(108)	(118)
Others	(481)	(662)	(715)	(686)	(660)
Cash from Financing Activities	515	3,112	(2,690)	(1,648)	(1,609)
Net Changes in Cash	(704)	2,365	(1,321)	(95)	44
Cash at Beg of Year	1,847	1,143	3,508	2,188	2,092
Foreign exchange rate changes	0	0	0	0	0
Cash at End of Year	1,143	3,508	2,188	2,092	2,136

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
PPE	14,221	14,989	14,291	14,414	14,729
Other long-term assets	590	496	447	402	362
Intangible assets	10,093	10,270	10,331	10,393	10,456
Prepaid land lease payments	684	0	0	0	0
Others	1,071	1,330	1,312	1,305	1,307
Total Non-current Assets	26,901	28,254	26,381	26,514	26,853
Cash & Cash Equivalents	1,143	3,508	2,188	2,092	2,136
Trade receivables	803	734	876	926	947
Inventories	4,191	4,310	3,792	4,030	4,114
Others	2,849	3,444	2,933	2,727	2,546
Total Current Assets	8,986	11,997	9,788	9,775	9,744
Total Assets	35,887	40,252	36,170	36,289	36,597
Short-term borrowings	8,366	8,895	5,574	4,129	2,754
Gold loans	0	0	0	0	0
Trade payables	2,232	2,139	1,969	2,015	1,978
Other payables	65	108	114	119	125
Others	1,142	1,393	10	11	11
Total Current Liabilities	11,804	12,535	7,666	6,274	4,868
Long-term borrowings	237	388	875	930	949
Corporate bond	6,099	9,170	9,629	10,110	10,616
Others	941	754	635	660	685
Total Non-current Liabilities	7,276	10,354	11,139	11,700	12,250
Total Liabilities	19,080	22,889	18,805	17,973	17,118
Total Shareholders' Equity	13,298	13,950	13,780	14,552	15,527
Minority Interest	3,509	3,413	3,584	3,763	3,951
Total Equity	16,808	17,363	17,364	18,316	19,479

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
Gross Margin	34.6%	36.2%	37.4%	39.1%	38.7%
Net Margin	6.6%	7.6%	11.8%	14.0%	14.9%
ROE	3.6%	3.5%	6.2%	7.6%	7.9%
ROA	1.3%	1.2%	2.4%	3.0%	3.2%
ROCE	5.1%	4.5%	5.9%	6.5%	6.4%
Free CF(mn Rmb)	-1,306	-838	1,274	1,452	1,547
Net Gearing	102.3%	109.7%	100.2%	92.3%	81.0%

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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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk