

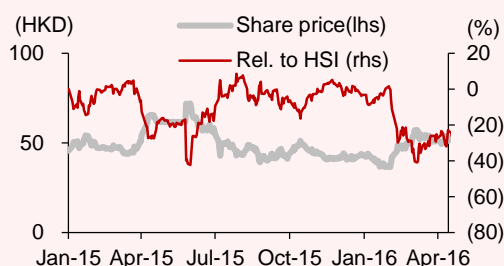
2899 HK

Initiate
Hold

Zijin Mining

Publication date	29 August 2016
Price 26 Aug close (HKD)	2.74
Target price (HKD)	2.8
Up-/down-side (%)	2
Mkt cap (USDmn)	7,610
6m avg daily val (USDmn)	13
Free float (%)	26.30
52wk price range (HKD)	1.91-4.09
BVPS (HKD)	1.5
Sector	Non-ferrous

Share performance



Financials

Dec year-end	FY15	FY16E	FY17E
Revenue (HKDmn)	74,304	84,340	92,874
yoy%	27	14	10
Net profit (HKDmn)	1,656	1,535	3,185
yoy%	(29)	(7)	108
EPS (diluted, HKD)	0.08	0.07	0.15
PE (x)	30	33	16
Dividend yield (%)	-	(2.7)	(5.6)

Source: Company data, Huatai HK Research estimates

Company profile

Zijin Mining is a multi-metal producer mainly focused on gold and copper mining. In 2015, it was China's largest gold miner, second-largest copper miner and third-largest zinc miner. Through aggressive and inexpensive mine asset acquisitions, Zijin has strengthened its resources advantage, and positions itself in the lower part of global cost curve.

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Growing gold and copper mining giant with global presence, initiate at Hold with TP of HKD2.8

We initiate coverage of Zijin Mining (Zijin) at Hold with a DCF-based target price of HKD2.8. In the short term, recent buoyant US data will cap share-price upside, in our view, post the run-up prompted by the UK's vote to leave the EU. Further out, support for the gold price should come from prolonged suppression of global yields and growing risk-off sentiment. Given a lackluster copper price outlook, and rich valuation, we expect Zijin shares to range trade at the current level.

Limited near-term catalysts, positive on the medium term

We initiate coverage of Zijin at Hold with a target price of HKD2.8, based on a DCF valuation (WACC, 9.5%; terminal growth rate, 2%). We think near-term price upside momentum will likely be capped by recent buoyant US data and short-term risks being largely factored in. However, we are positive on the gold price in the medium term as a result of growing risk-off sentiment. Our Hold rating is underpinned by a lackluster copper price outlook on strong supply growth during 2016-2017, and rich valuation.

Gold price to take a break after strong run this year

Global economic uncertainty should support the gold price in the medium term. However, we remain cautious in the short term, on limited near-term upside momentum, after the sharp price rebound following the Brexit vote and recent strong US activity data. The coming release of US economic data should be the key driver for gold price, which we forecast as averaging USD1,300/oz in 2016 and USD1,365/oz in 2017.

Strong 2016-2017 supply growth tarnishes copper outlook

We believe the strong volume growth of copper concentrate globally during 2016-2017 is still the dominant determinant of copper price. Key indicators such as concentrate treatment and refining charges (TC/RC) suggest concentrate supply in the spot market is ample. We see copper price weakness ahead, and assume average prices of USD4,664/tonne for 2016 and USD4,804/tonne for 2017.

Overseas expansion bodes well for long-term growth

Zijin has beefed up its reserves via accelerated expansion overseas, where it has made several large yet inexpensive acquisitions. In 2015, its gold reserves rose by 21% yoy and those of copper by 89% yoy. A healthy debt level and the upcoming A-share private placement should further alleviate its debt burden and fuel the next growth spurt.

Contents

Investment summary.....	3
Key charts and tables.....	4
Valuation: TP of HKD2.8, Hold	6
Financials.....	9
Sensitivity analysis.....	10
A growing multi-metals giant with global presence.....	11
Focus on upstream mining business.....	12
Active acquisitions boosting Zijin's reserves bank	13
Experienced management team ensures low cost acquisition.....	13
Copper to offset Zijinshan gold depletion	14
Strong projects pipeline ensures attractive volume growth outlook.....	15
Already a low-cost producer, expect further cost cuts.....	16
Gold: safest investment in chaotic times	17
Gold price's bull-run year to date mainly prompted by two factors	17
Recent buoyant US data creates short-term pressure on gold	20
Copper: price to soften on deteriorating fundamentals.....	21
Demand: China bull has passed	21
Copper supply: growth rate to peak in 2016-2017	22
Risks to our view.....	26

Investment summary

We initiate coverage of Zijin Mining (Zijin) with a Hold rating and a target price of HKD2.8. We derive our target price using DCF valuation (WACC of 9.5%, and terminal growth rate of 2%). The prices of gold and copper are the two most important earnings growth drivers at Zijin. We look for a divergent picture for gold and copper price during 2016-2017, when we expect the gold price to stay buoyant despite limited room for upside in the near term. However, we are cautious on the copper price, mainly on expected strong growth of copper concentrate supply during the same period. We view the stock as fairly valued, and initiate coverage of Zijin with a Hold rating.

Gold has been one of the best performing metals year to date, on a subdued hawkish tone from the US Fed and Brexit impact. However, we expect to see limited upside potential in the near term as: 1) we believe the current gold price has largely factored in short-term risks related to Brexit; and 2) recent brightening US activity data lifts the uncertainty over interest rate hikes. Meanwhile, the US economy is likely to remain the world's strongest, which should support the US dollar in the medium term.

The softening of our China Copper Consumption Index (CCI) from 22% in May to 17% in June suggests a slowdown in demand recovery. Activity at major end-users — including power, property and electronics producers' — started to slow down in May. For the next two years, copper demand will remain sluggish, in our view, on aluminum substitution in the power sector and a slowdown at major end-users. On the supply side, we expect copper concentrate supply growth to remain strong during 2016-2017 and start to slow down in 2018. For refined metals, we expect China refined copper production to grow by 6% yoy in 2016 on high TC/RCs and initiation of new smelting/refining projects.

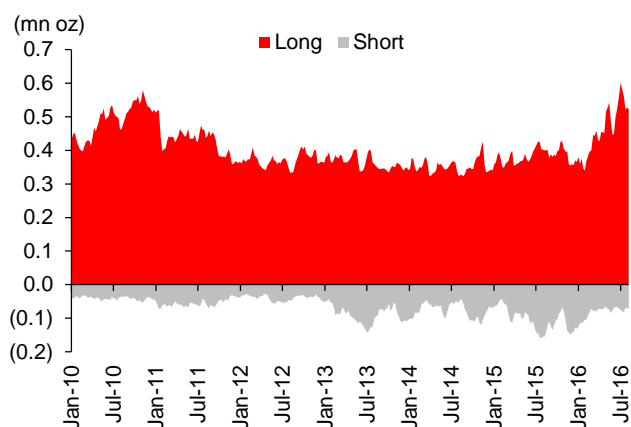
Zijin is China's largest gold miner, second-largest copper miner and third-largest zinc and lead producer by annual production volume in 2015. It has been focusing on high-margin upstream mining business and has developed an extensive portfolio of gold, copper, lead and zinc. As of the end of 2015, it owns reserves of 1,261 tonnes of gold and 23mn tonnes of copper, both of which rank top in China.

Through active acquisition, mainly overseas, Zijin is strengthening its resource competitiveness. In 2015, it acquired a 50% share of Porgera Gold Mine from the top gold miner globally, Barrick, and announced M&A deals for the Kolwezi Copper Mine and Kamoia Mine, both in Congo. Meanwhile, thanks to an experienced M&A team, Zijin has completed these deals at a much lower acquisition cost than comparable global cases. Its continued superior profitability has wrought a debt level that is healthy compared to global peers, and an upcoming private placement (around RMB5bn) should further diminish debt. A low debt level will help fuel the Zijin's future expansion, in our view.

In the light of its quality mine assets and advanced mining technology, Zijin has positioned itself in the lower part of the global cost curve for both gold and copper mining. In 2015, its production cost for mined gold was RMB136/g, down 5.8% yoy, while that for mined copper was RMB17,504/tonne, down 3% yoy; for 2016, we anticipate further drops of 8% yoy for gold to RMB125/g, and 5% yoy for copper to RMB16,629/tonne.

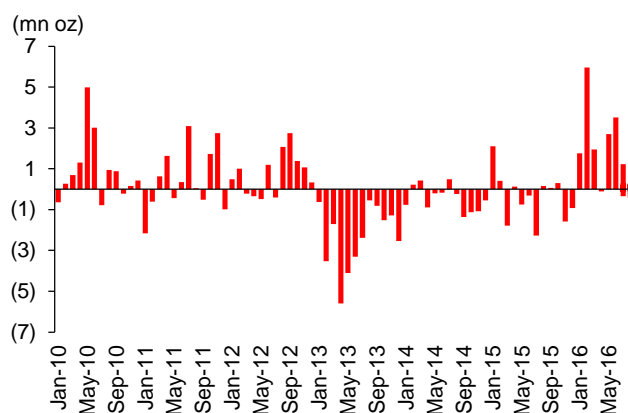
Key charts and tables

Fig.1. Gold's Comex position: long vs short



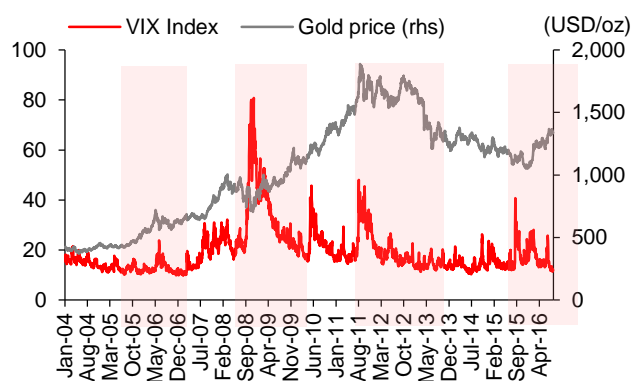
Source: Bloomberg, Huatai HK Research estimates

Fig.2. Gold ETF holding inched up



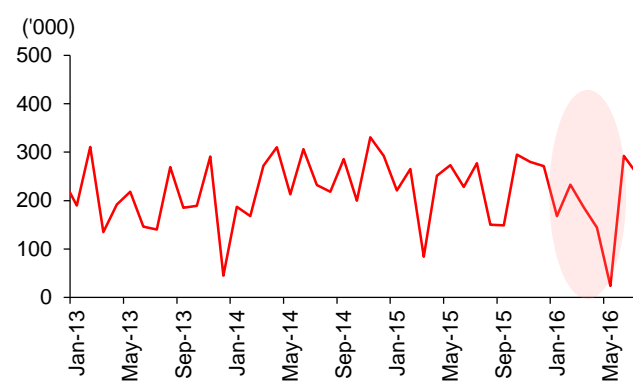
Source: Bloomberg, Huatai HK Research estimates

Fig.3. Gold price vs VIX



Source: Bloomberg, Huatai HK Research estimates

Fig.4. Recent brightening of US payrolls data



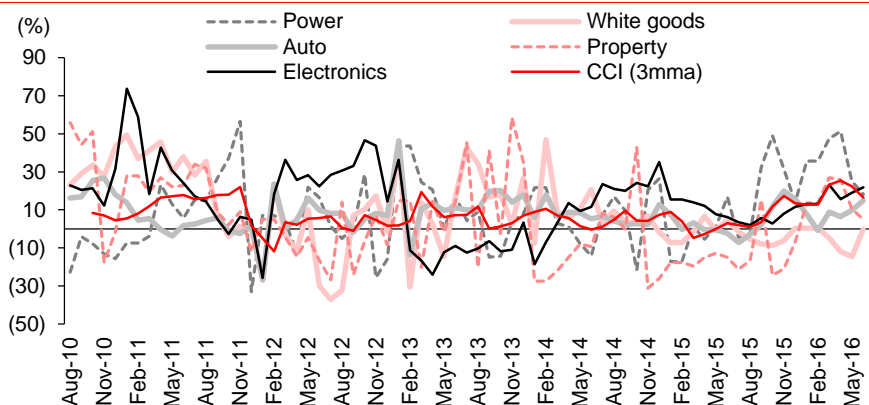
Source: Bloomberg, Huatai HK Research estimates

Fig.5. China copper demand forecast

Key drivers & weightings	2009	2010	2011	2012	2013	2014	2015	2016E	2017E
(yoY%)									
Power (grid investment) - 47%	35	(12)	7	(1)	6	6	7	3	2
White goods (air-con production) - 15%	5	31	26	(8)	11	8	(2)	(8)	3
Auto (sales) - 10%	45	32	3	4	14	7	5	5	4
Property (completion) - 9%	14	41	17	(7)	13	(11)	(14)	6	5
Electronics (semiconductor production) - 8%	16	30	22	24	(9)	13	8	6	6
Others (IP) - 11%	11	14	10	10	8	6	6	6	5
Copper Consumption Index	25	10	12	1	7	5	3	2	3
Copper apparent consumption	38	5	9	10	13	10	9	2	2

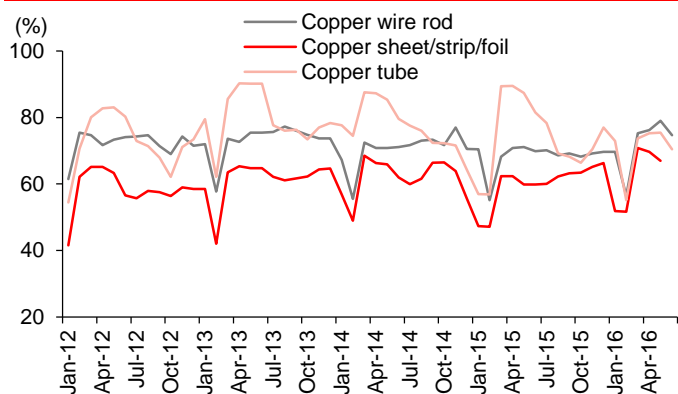
Source: CEIC, Huatai HK Research estimates

Fig.6. China Copper Consumption Index



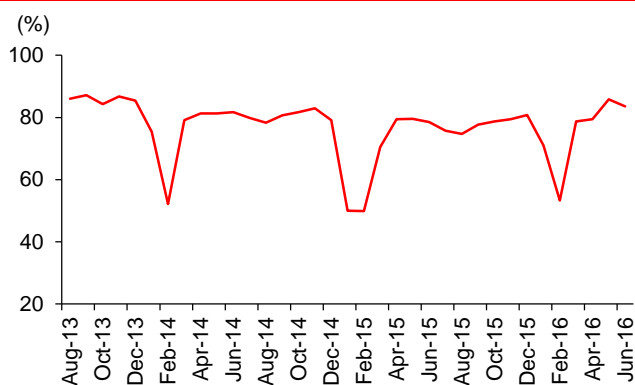
Source: CEIC, Huatai HK Research estimates

Fig.7. Copper semi utilization rate



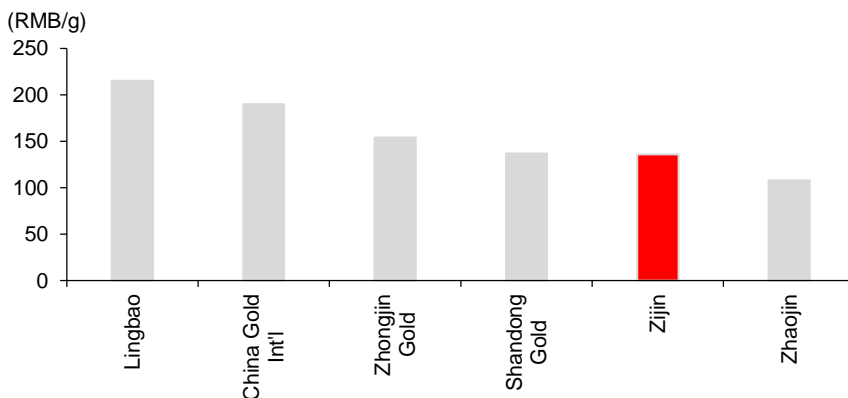
Source: Huatai HK Research estimates

Fig.8. Copper wire and cable producers utilization rate



Source: Huatai HK Research estimates

Fig.9. Gold production cost comparison for Chinese miners (2015)



Source: Company data, Huatai HK Research estimates

Valuation: TP of HKD2.8, Hold

We derive our target price of HKD2.8 for Zijin Mining based on a DCF valuation methodology, and expect the share price to range trade near the current level. Zijin is trading at 1.6x 2016E PB and 23.4x 2016E PE versus historical averages of 3.0x PB and 19.3x PE. The PB multiple for 2016E is lower than the average for global gold producers (2.0x) and the same as that for global copper producers (1.6x). We apply a WACC of 9.5%, a terminal growth rate of 2% and 1.5x P/NPV. Our P/NPV assumption reflects our positive — but not super bullish — estimate for gold price for the rest of the year. After a 41% ytd rise in stock price, we see limited room for upside over the next six months.

Fig.10. Zijin: DCF valuation

(RMBmn)	2016E	2017E	2018E	2019E	2020E
EBIT	4,042	5,895	7,228	7,777	8,188
Tax	(744)	(1,165)	(1,464)	(1,575)	(1,656)
Capex	(6,500)	(6,500)	(5,000)	(5,000)	(5,000)
Depreciation	2,758	3,110	3,494	3,878	4,261
Change of working capital	(451)	(765)	(1,300)	(367)	(699)
FCF	(895)	575	2,958	4,713	5,095
Discounted factor	1	0.91	0.83	0.76	0.7
Discounted FCF	(895)	523	2,455	3,562	3,508

Source: Huatai HK Research estimates

Fig.11. Zijin: key valuation assumptions

Total EV	82,702
Net debt	26,863
Minority interests	4,589
Equity value	51,250
No. of shares	21,543
Target price (RMB)	2.55
RMB/HKD	1.17
Target price (HKD)	2.8
PE at end-2016	35.8
PE at end-2017	17.3
Risk-free rate (%)	2.75
Beta	0.93
Tax rate (%)	25
Debt-to-equity ratio (%)	20
Leveraged Beta	1.07
Risk premium (%)	8
Cost of equity (%)	11.3

Source: Huatai HK Research estimates

Fig.12. Gold: valuation comparison

Stock name	Ticker	Market cap (USDmn)	PE (x)			PB (x)			EV EBITDA (x)		
			2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E
H shares											
Zijin Mining-H	2899 HK	7,666	29.7	33.3	16.0	1.6	1.5	1.5	16.7	10.7	8.2
Zhaojin Ming-H	1818 HK	3,221	73.7	37.2	28.9	2.5	2.0	1.9	19.8	15.1	13.3
China Gold International	2099 HK	785	(165.7)	99.0	49.5	0.6	0.5	0.5	4.3	n.a.	n.a.
Lingbao Gold	3330 HK	177	(2.5)	n.a.	n.a.	1.0	n.a.	n.a.	16.3	n.a.	n.a.
Weighted average			28.2	38.8	21.8	1.8	1.6	1.5	17.4	11.2	9.1
A shares											
Zijin Mining A	601899 CH	10,889	42.1	30.6	25.0	2.6	2.3	2.1	19.4	13.6	11.2
Zhongjin Gold	600489 CH	6,869	442.3	136.8	76.3	3.9	4.1	3.9	38.1	21.9	19.2
Shandong Gold	600547 CH	8,991	102.7	67.3	54.2	6.1	5.3	5.4	27.7	25.1	22.8
Chifeng Gold	600988 CH	1,996	54.9	33.0	29.6	6.2	4.5	3.9	28.6	19.2	16.2
Hunan Gold	002155 CH	2,205	433.0	118.1	83.8	4.3	4.2	4.0	61.6	41.9	34.4
Weighted average			177.2	68.8	47.1	4.0	3.6	3.5	28.0	19.9	17.2
Global											
Barrick Gold	ABX US	21,300	(7.5)	26.8	18.7	2.9	2.7	2.4	(59.8)	7.9	7.0
Agnico Eagle	AEM US	11,759	276.2	80.1	47.1	2.8	2.6	2.5	16.6	14.1	11.7
Centerra	CG CN	1,417	29.3	10.5	10.4	0.9	1.3	1.1	3.7	2.3	2.0
Eldorado	EGO US	2,558	(32.5)	47.0	24.3	0.7	0.7	0.7	(1.9)	12.3	10.4
Goldcorp	GG US	13,704	(3.2)	49.7	25.1	1.0	1.0	1.0	(4.8)	10.1	8.1
Kinross Gold	KGC US	5,401	(5.0)	43.4	20.9	1.3	1.2	1.1	41.2	5.1	4.4
Newmont Mining	NEM US	21,309	93.4	22.9	21.2	1.9	1.8	1.6	11.5	8.5	8.3
New Gold	NGD US	2,626	(26.9)	71.1	36.1	1.2	1.2	1.2	13.0	9.9	8.1
Weighted average			61.1	40.5	25.4	2.0	1.9	1.8	(8.0)	9.3	8.1

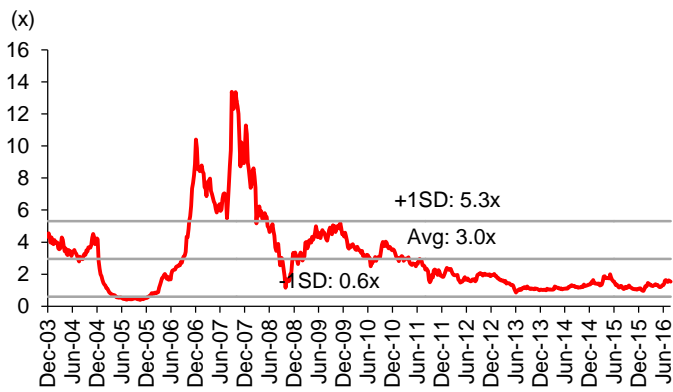
Source: Huatai HK Research estimates

Fig.13. Copper: valuation comparison

Stock name	Ticker	Market cap (USDmn)	PE (x)			PB (x)			EV EBITDA (x)		
			2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E
H shares											
Jiangxi Copper-H	358 HK	4,054	39.2	39.1	21.3	0.6	0.6	0.5	8.3	11.7	8.7
Zijin Ming-H	2899 HK	7,666	29.7	33.3	16.0	1.6	1.5	1.5	16.7	10.7	8.2
Weighted average			32.8	29.1	18.5	1.4	1.2	1.2	11.0	11.1	8.8
A shares											
Jiangxi Copper-A	600362 CH	7,575	72.9	60.8	53.0	1.1	1.1	1.1	13.8	16.3	14.9
Zijin Ming-A	601899 CH	10,889	42.1	30.6	25.0	2.6	2.3	2.1	19.4	13.6	11.2
Tongling	000630 CH	3,758	(37.4)	873.3	124.8	1.8	1.8	1.8	57.7	48.2	48.2
Non-ferrous											
Weighted average			39.2	182.8	49.1	1.9	1.7	1.6	22.2	19.2	17.6
Global											
BHP Billiton	BHP AU	111,137	(13.3)	77.8	33.5	1.6	1.5	1.5	4.9	9.9	8.6
Southern Copper	SCCO US	20,124	28.0	24.7	23.1	3.6	3.5	3.1	12.2	11.8	10.9
OZ Minerals	OZL AU	2,003	15.5	21.4	18.2	0.9	0.9	0.8	3.1	3.8	3.6
HudBay Minerals	HBM CN	1,729	(5.2)	143.5	28.3	1.0	1.0	1.0	14.3	7.4	6.4
Lundin Mining	LUN CN	4,644	(15.7)	(126.5)	102.4	1.5	1.5	1.5	8.2	10.4	9.5
Aurubis	NDA GR	2,383	18.0	15.3	11.8	1.2	1.2	1.1	4.6	6.5	5.4
Anglo American	AAL LN	12,614	(2.2)	12.3	14.7	0.8	0.7	0.7	6.0	6.2	6.2
Grupo Mexico	GMEXICOB MM	19,875	19.5	15.7	15.0	1.9	1.9	1.8	8.1	8.1	7.4
Freeport-McMoran	FCX US	14,730	(1.0)	23.7	10.1	3.7	2.1	1.7	9.7	7.7	6.3
Weighted average			(2.9)	48.0	26.8	1.8	1.6	1.5	6.4	9.0	7.9

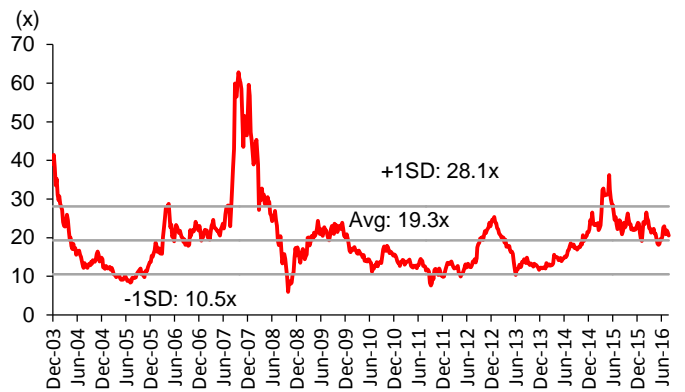
Source: Huatai HK Research estimates

Fig.14. Zijin Mining: PB bands



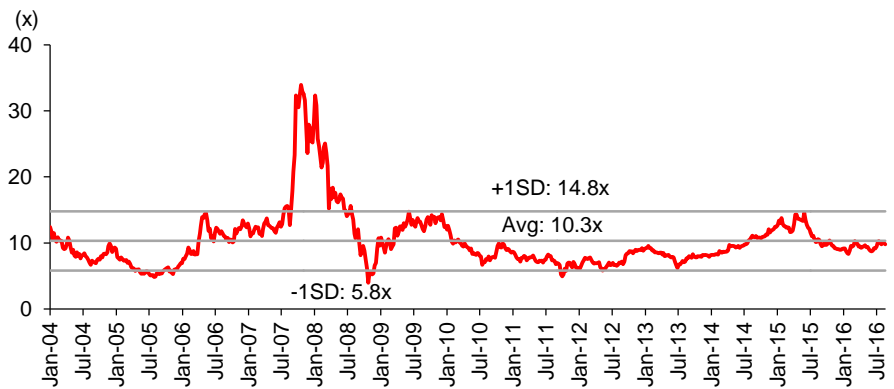
Source: Bloomberg, Huatai HK Research estimates

Fig.15. Zijin Mining: PE bands



Source: Bloomberg, Huatai HK Research estimates

Fig.16. Zijin Mining: EV EBITDA bands



Source: Bloomberg, Huatai HK Research estimates

Financials

We expect Zijin's top line to increase by 13.4% yoy to RMB82.3bn in 2016E, driven mainly by volume growth of both gold and copper. We estimate that in 2016E, Zijin's gold production will increase by 10% yoy to 41 tonnes, and its copper production by 3% yoy to 156 kilotonnes. However, we expect the company's net profit for 2016 to drop by 20% yoy to RMB1.3bn, mainly dragged down by investment loss and a lower average copper price in 2016 compared with 2015.

Zijin recorded a RMB428mn investment loss in 1Q16, mainly because part of its gold volume is hedged at a low gold price (relative to the year-to-date average). We believe this negative impact continued into 2Q16, mainly due to the difficulty in rapidly adjusting a large hedging position and a stronger gold price than last year.

Fig.17. Key assumptions

	2010	2011	2012	2013	2014	2015	2016E	2017E
Production (tonnes)								
Mined gold	29	29	32	32	34	37	41	46
Mined copper	87,839	85,469	104,603	125,060	138,462	150,307	155,519	190,752
Mined zinc	185,098	187,616	147,963	181,312	204,223	218,782	282,425	289,425
ASP								
Gold (RMB/g)								
Mined gold	255	317	327	266	232	215	248	267
Base metals (RMB/tonne)								
Mined copper	43,622	49,466	42,003	39,422	35,804	29,052	25,566	27,100
Mined zinc	9,108	8,923	7,782	7,570	8,146	7,186	8,120	8,770
Unit cost								
Gold (RMB/g)								
Mined gold	74	86	121	152	144	136	125	125
Base metal (RMB/tonne)								
Mined copper	12,527	13,319	14,511	17,908	18,467	17,504	16,629	16,629
Mined zinc	3,196	2,758	2,697	3,862	3,509	3,800	3,800	3,800
Income statement								
	2010	2011	2012	2013	2014	2015	2016E	2017E
Revenue	28,540	39,764	48,415	49,772	58,761	74,304	84,340	92,874
COGS	(18,690)	(27,919)	(36,916)	(41,566)	(51,720)	(68,817)	(76,407)	(82,760)
Gross profit	9,849	11,845	11,499	8,206	7,040	5,486	7,933	10,114
Other income	100	135	221	223	237	419	440	462
Selling and distribution costs	(469)	(433)	(597)	(526)	(906)	(692)	(675)	(743)
Administrative expense	(1,362)	(1,609)	(1,874)	(2,166)	(2,175)	(2,621)	(2,783)	(3,065)
Other operating costs	(804)	(726)	(528)	(1,184)	(877)	(874)	(874)	(874)
Operating profit	7,315	9,211	8,720	4,554	3,320	1,719	4,042	5,895
Finance costs	(191)	(496)	(804)	(733)	(768)	(946)	(1,065)	(1,235)
Investment income	208	562	640	14	773	1,313	(500)	0
Profit before tax	7,332	9,276	8,556	3,835	3,324	2,086	2,477	4,660
Income tax	(1,576)	(2,366)	(2,403)	(973)	(689)	(743)	(744)	(1,165)
Minority interests	(928)	(1,198)	(942)	(736)	(290)	313	(198)	(310)
Net profit	4,828	5,713	5,211	2,125	2,345	1,656	1,535	3,185
Key ratios (%)								
Gross margin	34.5	29.8	23.8	16.5	12.0	7.4	9.4	10.9
EBIT margin	25.6	23.2	18.0	9.1	5.6	2.3	4.8	6.3
Net profit margin	16.9	14.4	10.8	4.3	4.0	2.2	1.8	3.4

Source: Huatai HK Research estimates

Fig.18. Huatai estimates vs market consensus

(RMBmn)	2016E	2017E
Revenue		
Huatai estimate	84,340	92,874
Bloomberg consensus	82,476	88,188
Difference (%)	2.15	5.35
Net profit		
Huatai estimate	1,535	3,185
Bloomberg consensus	2,945	3,591
Difference (%)	(47.8)	(11.3)

Source: Bloomberg, Huatai HK Research estimates

Sensitivity analysis

Zijin has developed a balanced business in gold, copper, zinc, lead and other metals. Given the larger contribution to overall earnings from the gold and copper businesses, Zijin's stock price is more sensitive to the prices of these two commodities. Our sensitivity analysis suggests that a 5% increase in gold price would result in a 17% increase in Zijin's net profit, while a 5% rise in copper price would push up its total net profit by 10%.

Fig.19. Zijin: sensitivity analysis

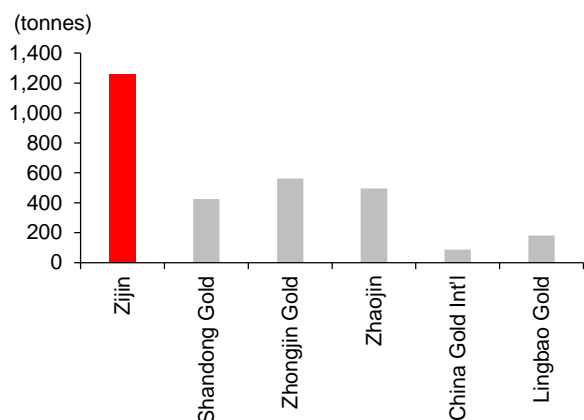
Case: gold	Net profit	EPS	PE	PB	ROE
Price change	(RMBmn)	(RMB)	(x)	(x)	(%)
Down by 10%	872	0.04	40	1.1	2.7
Down by 5%	1,098	0.05	42	1.4	3.4
Base case	1,324	0.06	43	1.7	4.7
Up by 5%	1,550	0.07	44	2.1	5.1
Up by 10%	1,776	0.08	44	2.4	5.5
Case: copper					
Price change					
Down by 10%	1,065	0.05	45	1.5	3.3
Down by 5%	1,194	0.06	44	1.6	3.6
Base case	1,324	0.06	43	1.7	4.7
Up by 5%	1,453	0.07	42	1.9	5.1
Up by 10%	1,583	0.07	42	2.0	5.5

Source: Huatai HK Research estimates

A growing multi-metals giant with global presence

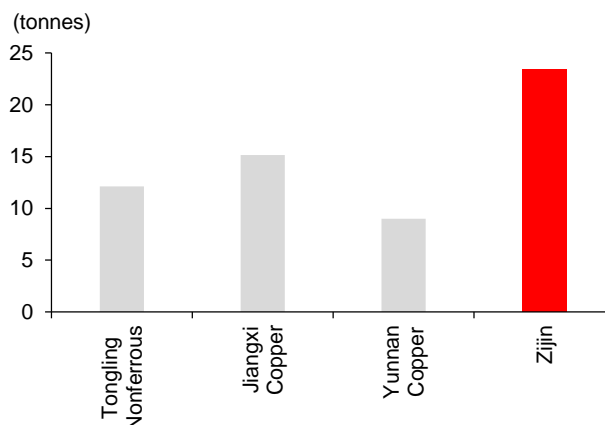
Zijin is the largest gold miner, second-largest copper miner and the third-largest zinc and lead miner in China by mined metal volume in 2015. Through active acquisition as well as exploration at existing mines, Zijin has been steadily increasing its mining reserves. By the end of 2015, its reserves amounted to: gold, 1,261 tonnes; copper, 23.5mn tonnes; silver, 1,110 tonnes; molybdenum, 575 kilotonnes; zinc, 8.4mn tonnes; and lead, 1.54mn tonnes. Zijin's gold reserves are the largest of any China mining company and rank eighth globally, while its copper reserves are almost double those of Jiangxi Copper. By the end of 2015, Zijin was the Chinese company with the largest copper reserves.

Fig.20. Zijin's gold reserve vs peers



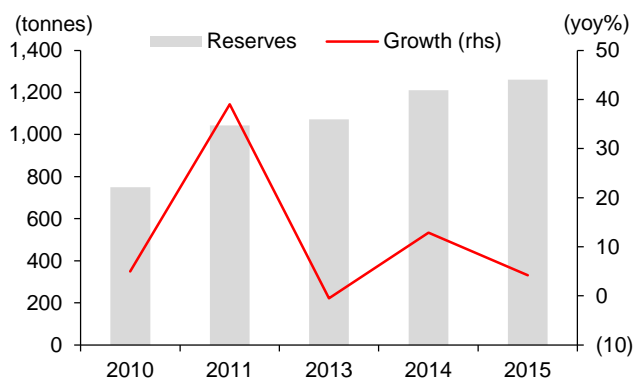
Source: Company data, Huatai HK Research estimates

Fig.21. Zijin's copper reserve vs peers



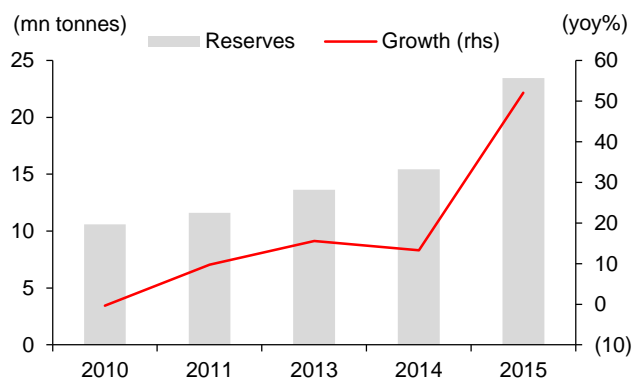
Source: Company data, Huatai HK Research estimates

Fig.22. Zijin's gold reserves



Source: Company data, Huatai HK Research estimates

Fig.23. Zijin's copper reserves

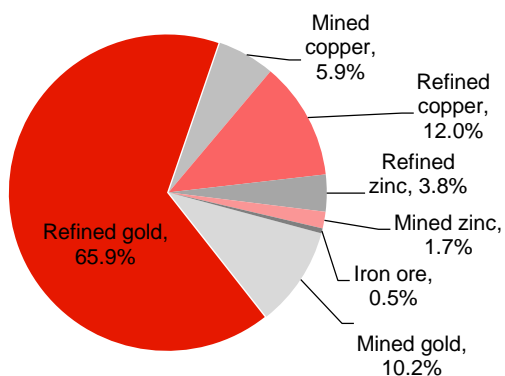


Source: Company data, Huatai HK Research estimates

Focus on upstream mining business

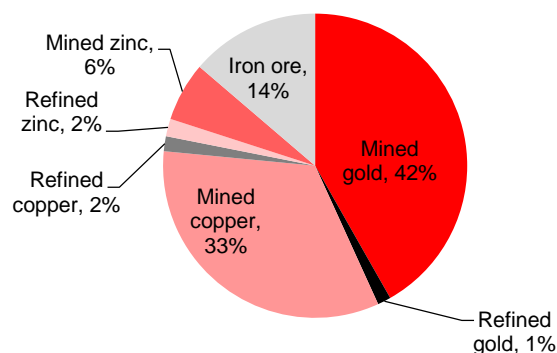
Zijin's focus is on the upstream mining business, where it has developed an extensive portfolio of gold, copper, lead and zinc operations. In 2015, it produced 37.2 tonnes of mined gold, the highest level among Chinese gold miners, while mined copper production amounted to 150 kilotonnes, or 8.6% of China's total production that year. Higher gross margin is enjoyed by the mining sector compared to the metal smelting sector. In 2015, the gross margins of Zijin's mined gold and copper were 37%/40%, while those of refined gold and copper were 0.2%/-2.2%, respectively.

Fig.24. Zijin's revenue breakdown by sector



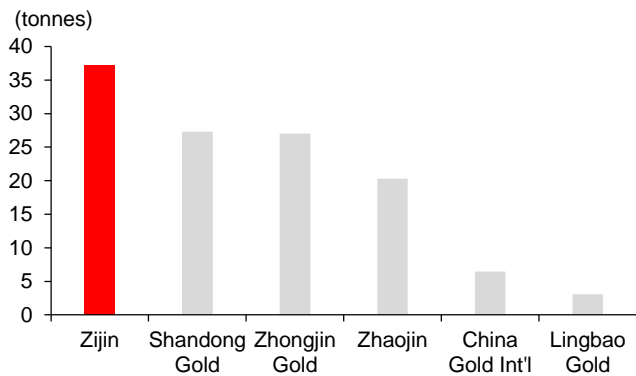
Source: Company data, Huatai HK Research estimates

Fig.25. Zijin's net profit breakdown by sector



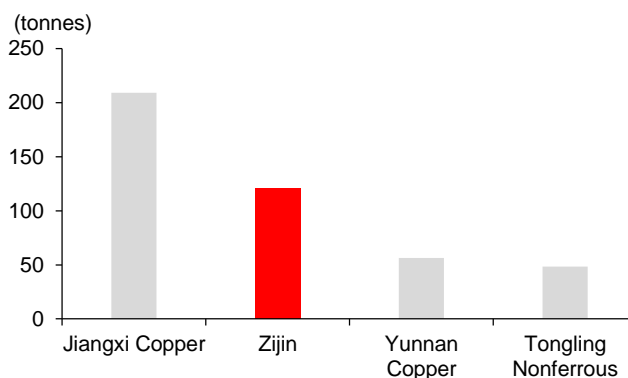
Source: Company data, Huatai HK Research estimates

Fig.26. Zijin: mined gold production vs peers



Source: Company data, Huatai HK Research estimates

Fig.27. Zijin: mined copper production vs peers



Source: Company data, Huatai HK Research estimates

Active acquisitions boosting Zijin's reserves bank

Zijin has bolstered its already rich resources in gold and copper through acquisition. It is experienced in mining M&As and has executed several lucrative deals at home and abroad since 2011. In 2015, Zijin acquired Kolwezi Copper Mine, and signed a strategic cooperation agreement with the world's largest gold miner, Barrick, acquiring 50% of the Porgera Gold Mine (previously, it was wholly owned by Barrick); in December 2015, Zijin finalized the purchase of world-class copper mine Kamao for USD412mn cash.

After these intensive asset acquisitions, Zijin surpassed Jiangxi Copper to become the largest copper-reserve owner in China, although its Kamao and Kolwezi Mines are still under construction and unlikely to start producing concentrates for several years. As of the end of 2015, Zijin ranks as China's top gold miner (1,261 tonnes of gold reserves), followed by Zhongjin Gold (561 tonnes) and Zhaojin Gold (496 tonnes).

Experienced management team ensures low cost acquisition

Zijin has pushed through several successful M&A deals at home and abroad since 2011. During 2015, after copper and gold prices had tumbled, its experienced M&A team seized the opportunity to purchase several high quality mine assets at attractive valuations, when commodity prices were sluggish. In May 2015, Zijin announced M&A deals for Kolwezi Copper Mine (Congo), Porgera Gold Mine (Papua New Guinea) with Barrick, and Kamao Copper Mine (Congo).

Below we tabulate acquisition cases comparable to the Porgera Mine and the Kamao Mine. Among the global comparable cases, unit acquisition cost for Kamao is USD44.5/oz, significantly lower than the projects-under-planning average of USD129/tonne. Porgera is an operating mine, and while its unit acquisition cost (USD147.2/oz) is higher than those in the initial phase, it is much lower than that for Osisko, which is also an operating mine. We believe Zijin will continue its overseas acquisition strategy, and that its experienced M&A team will create intangible competitiveness over peers.

Fig.28. Porgera: comparable acquisitions

Acquired project	Price (USDmn)	Stake acquired (%)	Announcement Date	Phase	Au content (mn oz)	Grade (g/t)	Unit Cost (USD/oz)
Osisko, Canada	344.47	100	Apr-14	Operating	11.1	1.05	310
Porgera, Papua New Guinea	29.80	50	May-15	Operating	4.1	3.68	147
Orbis, Burkina Faso	15.16	100	Jan-14	Planning	1.2	3.40	126
Papillon, Mali	56.67	100	Jun-14	Planning	4.8	2.39	119

Note: Since the Porgera project is an operating mine, its unit acquisition cost is higher than those in their initial phase, though it is much lower than Osisko (operating).
 Source: Company data, Huatai HK Research estimates

Fig.29. Kamo: comparable acquisitions

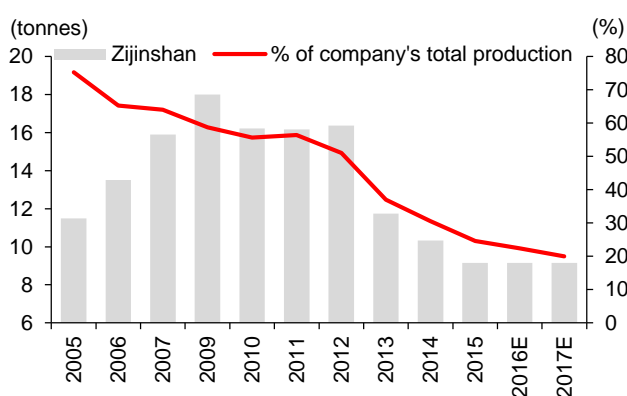
Acquired project	Price (USDmn)	Stake acquired (%)	Announcement Date	Au content (mn oz)	Grade (g/t)	Unit cost (USD/oz)
Mina Justa, Peru	50.50	70	Apr-12	2.6	0.79	278
Kolwezi, Congo	7.79	51	Nov-14	0.7	4.39	208
Las Bambas, Peru	195.36	100	Apr-14	10.4	0.80	189
Rosemont, US	51.40	80	Jul-14	4.4	0.41	146
Augusta, US	41.13	84	Feb-14	4.1	0.44	120
Curis, US	7.84	82	Sep-14	1.3	0.30	74
Kamo, Congo	41.20	47	May-15	19.7	2.67	45
Lumina Copper, Argentina	37.35	94	Jun-14	12.4	0.57	32

Source: Company data, Huatai HK Research estimates

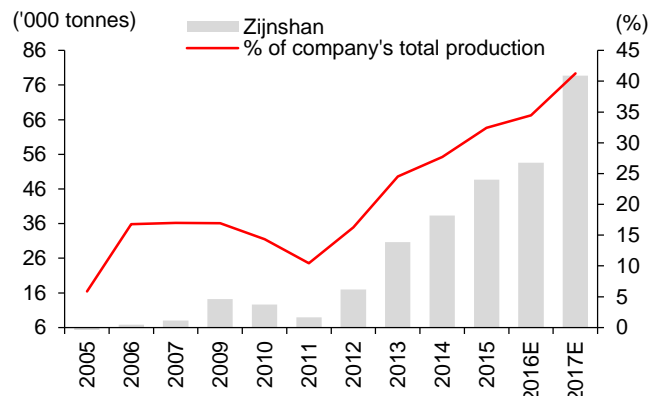
Copper to offset Zijinshan gold depletion

Zijinshan — Zijin's flagship mine — was widely acknowledged for its abundant gold and copper reserves and low mining cost. However, more than 20 years' exploitation has largely depleted the high grade and easily mined gold reserves. In 2015, the mine's gold production was 9.2 tonnes (25% of Zijin's mined gold output), down from 16 tonnes in 2010 (56% of output). We estimate the mine has fewer than seven years' gold mining left.

In response to declining gold output from the mine, the company has shifted its target for Zijinshan mining to copper. In 2015, the mine contributed 48.7 kilotonnes of mined copper to the company, and guidance is for 80 kilotonnes a year by the end of 2018. In 2015, the mine's gross margin for mined copper was 42%, with 40% for mined gold. We expect copper volume growth at Zijinshan to greatly offset the decline in gold output.

Fig.30. Zijinshan mined gold vs total gold production

Source: Company data, Huatai HK Research estimates

Fig.31. Zijinshan mined copper vs total copper production

Source: Company data, Huatai HK Research estimates

Strong projects pipeline ensures attractive volume growth outlook

Zijin has been actively engaging in asset acquisitions and capacity expansion in recent years, and has several large-scale mines under construction, spanning the metals gold, copper, zinc and lead. According to Zijin's 13th FYP, by the end of 2020 the company's mining operations will achieve annual output of 90 tonnes of gold, 500 kilotonnes of copper, and for zinc and lead combined, 390 kilotonnes, representing growth of 142%, 233%, and 75%, respectively, from the 2015 production level.

In terms of gold projects, Zijin's major projects include the Kyrgyzstan Zuoan gold project, the Zeravshan-LLC-ZGC (ZGC) joint venture gold mine upgrade project and the Gansu Liba gold project. The Porgera mine purchased from Barrick in 2015 contributed 2.7 tonnes of mined gold output to Zijin in 2015, and from 2016 this contribution will increase to 6.5-7 tonnes. Overall, we expect Zijin's mined gold output to increase by 3.8/4.9/3.9 tonnes to 40.9/45.8/49.6 tonnes over 2016-2018, respectively.

Fig.32. Zijin's major gold projects

Project	Location	Designed capacity	Timeline	Status
Liba Gold Project	Gansu Province	5tpa of mined gold	na	Feasibility study in progress
Zuoan Gold Project	Kyrgyzstan	3.7tpa of mined gold	2016	On line in 2016, trial run started July 2015
ZGC Technical Improvement Project	Tajikistan	3.5tpa of mined gold	na	Jilao 10,000tpd processing plant completed

Source: Company data, Huatai HK Research estimate

Zijin has been rapidly developing its copper business as well. Major copper projects under construction include the Kolwezi copper project in Congo and Zijinshan's 40 kilotonnes per day copper processing plant. Infrastructure construction for the Kolwezi project is finished and production is slated for 1H17. Management appears determined to develop the Zijinshan copper business, and we expect copper production at the site to reach 80 kilotonnes per annum by the end of 2018. Regarding the Kamoia Copper Mine purchased by Zijin in 2015, we do not factor in any output contribution from it before 2018, given it is still at an early stage of development. Overall, we expect Zijin's mined gold production to increase by 5,212/35,233/2,034 tonnes to 155.5/190.8/192.8 kilotonnes in 2016-2018, respectively.

Fig.33. Zijin's major copper projects

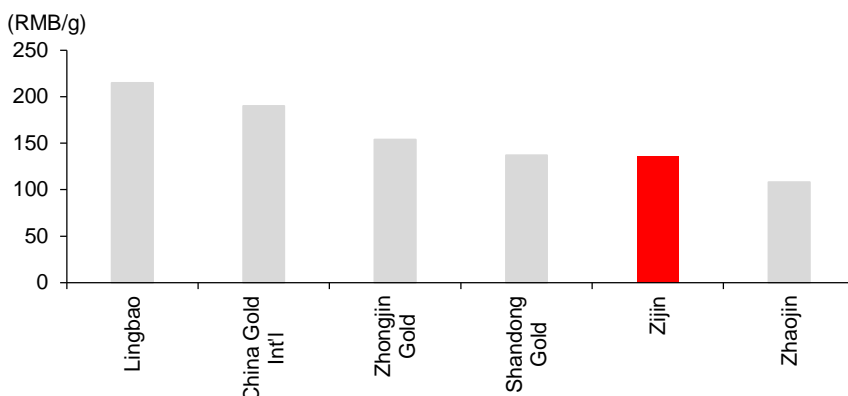
Project	Location	Designed capacity	Timeline	Status
Kolwezi Copper Project	Congo	50ktpa of mined copper	2017	Site construction partially completed; production slated to begin in 1H17
40,000tpd Copper Processing Plant	Fujian Province	30ktpa of mined copper	2016	Site construction partially completed; production to begin in August 2016

Source: Company data, Huatai HK Research estimates

Already a low-cost producer, expect further cost cuts

Zijin is one of the lowest-cost gold and copper miners in the world, and gains absolute cost competitiveness from its quality resources. In 2015, the company’s mined gold production cost was RMB136/g, down 5.8% yoy; its mined copper production cost was RMB17,504/tonne, down 3% yoy.

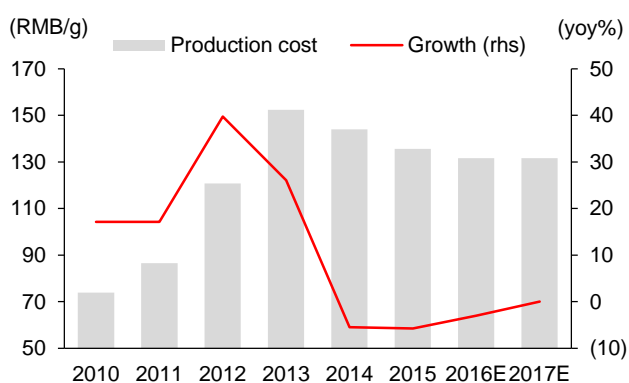
Fig.34. Gold production cost comparison between Chinese miners (2015)



Source: Company data, Huatai HK Research estimates

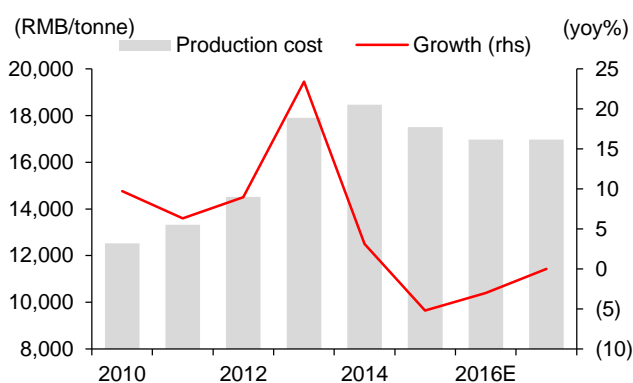
Resource depletion at Zijin’s flagship Zijinshan gold and copper mine has led to a significant rise in the company’s overall production costs since 2010. Management has been trimming costs since 2013, through purchases of quality assets, staff downsizing, recovery ratio enhancement, and aggressive expense controls. We estimate that unit production cost for Zijin’s mined gold and mined copper will drop by 8%/5% yoy to RMB125/g and RMB16,629/tonne in 2016, respectively.

Fig.35. Zijin gold production cost



Source: Company data, Huatai HK Research estimates

Fig.36. Zijin copper production cost



Source: Company data, Huatai HK Research estimates

Gold: safest investment in chaotic times

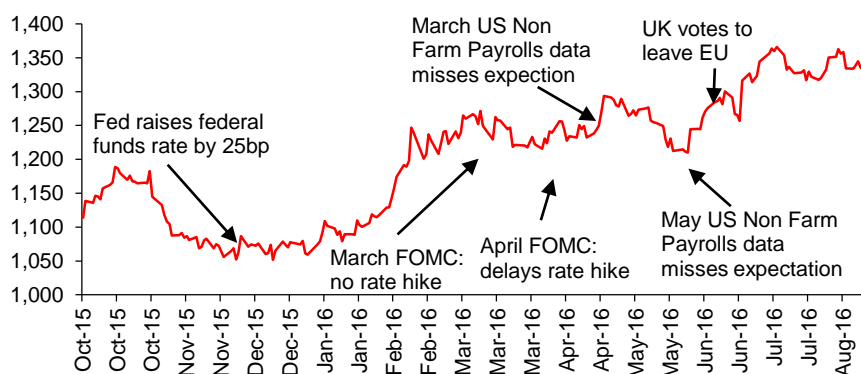
We are bullish on the prospects for the gold price over the next 1-2 years, for four reasons: 1) negative interest rates and growing expectation that global yields will remain suppressed for a long time; 2) uncertainty over US economic recovery and dovish tones from the US Fed lower market expectation of hikes in the US interest rate; 3) geographical and political risks promote safe haven buying; and 4) the UK vote to leave the EU adds uncertainty to the global economy and stimulates risk-off sentiment.

However, we remain cautious on the gold-price outlook for the rest of the year, mainly due to both concerns of a lack of upside momentum after the sharp rebound that followed the UK referendum, and recent strong US non-farm payrolls data. We believe the current price has factored in the Brexit vote while strong US data may attract short positions, leaving the gold price with limited incentive to rise rapidly in the short term. We expect Comex to increase to USD1,300/1,365/tonne in 2016/17, respectively

Gold price's bull-run year to date mainly prompted by two factors

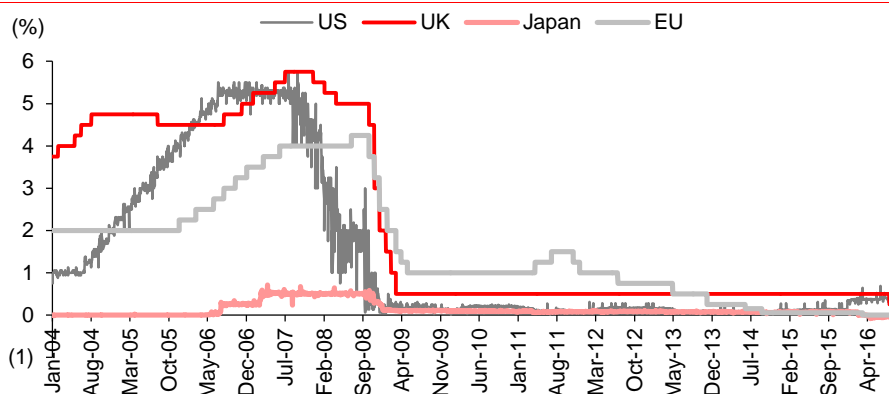
The gold price has been strong since last December, when the US Fed announced a 25bp rise in the federal reserve rate, the first rise in six years. The hike has eased investor concerns over US interest rate movements in the short term, reflected by the increase in gold net long positions and ETF holdings. Entering 1Q16, US economic data underperformed market expectation after the rate hike, and the US Fed turned dovish again under a combination of unstable US economic recovery and uncertainty in major global economies. In tandem with the geographical and political risks that have arisen during the year, risk-off sentiment has spread in the global market.

Fig.37. Gold price rebounded since beginning of the year



Source: Bloomberg, Huatai HK Research estimates

Fig.38. Global yields remain low: interest rate of major economies

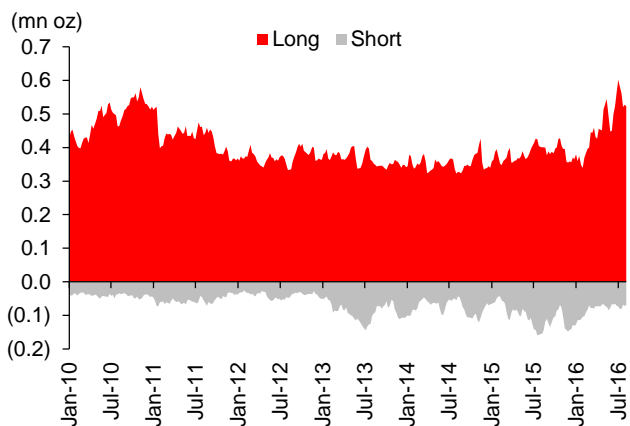


Source: Bloomberg, Huatai HK Research estimates

The return of capital to gold

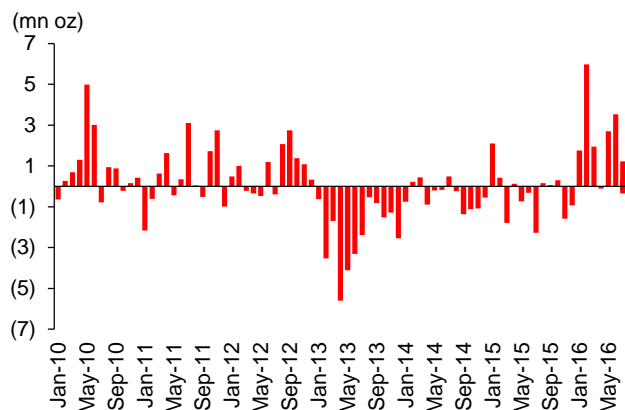
The market's optimistic gold price outlook has been returning speculative capital to gold since December 2015: global ETF open interest has risen for six consecutive months while the Commodity Exchange of New York (Comex) gold net long position has been rising rapidly following the US Fed's interest rate hike in December 2015.

Fig.39. Gold's Comex long position against short



Source: Bloomberg, Huatai HK Research estimates

Fig.40. Gold ETFs holding inched up



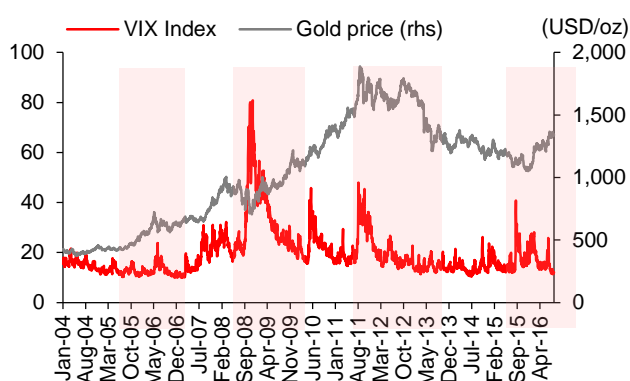
Source: Bloomberg, Huatai HK Research estimates

Shift in risk appetite: risk off

Within the commodity matrix, gold has the strongest financial feature and is classified as a safe-haven asset. As such, the market’s risk preference plays a vital role in gold price. We use the VIX index as an indicator of the market’s risk sentiment. Note how gold price shows a high correlation with the VIX index; we highlight three typical historical risk-off periods characterized by the bottoming out of the VIX index, and simultaneous rebounds of gold and the US dollar (safe haven assets).

We expect that over the next 1-2 years, risk-off sentiment will dominate the global market, given concerns over three factors: 1) Brexit; 2) US interest-rate hike uncertainty; and 3) China’s economic reforms. Falling risk appetite under a risk-off environment should trigger a rebalancing of asset allocation towards safe haven assets from risky assets.

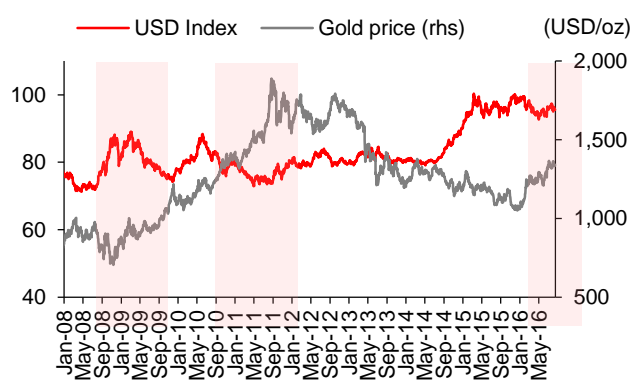
Fig.41. Gold price vs VIX



Note: the shaded areas are typical risk-off periods

Source: Bloomberg, Huatai HK Research estimates

Fig.42. Gold price vs USD index

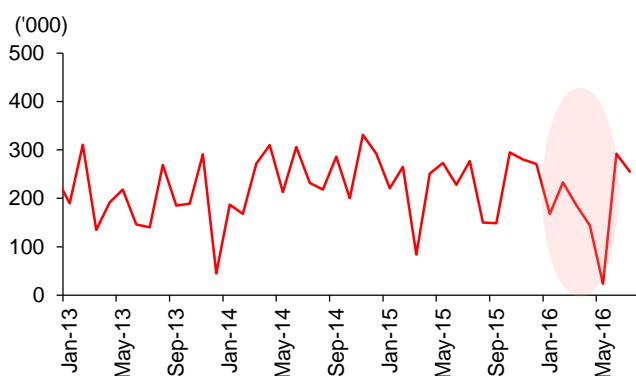


Source: Bloomberg, Huatai HK Research estimates

Recent buoyant US data creates short-term pressure on gold

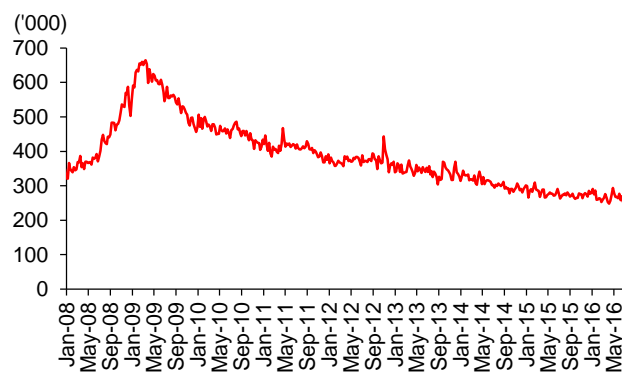
The US's July employment data surprised the market on the upside. Non-farm payrolls added 255,000 jobs, beating the consensus expectation of 180,000 but slightly lower than the June figure of 292,000. Unemployment remained at the June level (4.9%), while labor participation rate and employment rate both increased by 0.1pp mom to 62.8% and 59.7%, respectively. Average hourly wages inched up US¢8 to USD25.69, up 2.6% yoy. In our view, the recent turnaround from the job growth slowdown in January-May is insufficient to convince investors a solid economic recovery is under way in the US, but the decent US activity data should dampen gold's upside momentum in the short term.

Fig.43. Recent brightening of US payrolls data



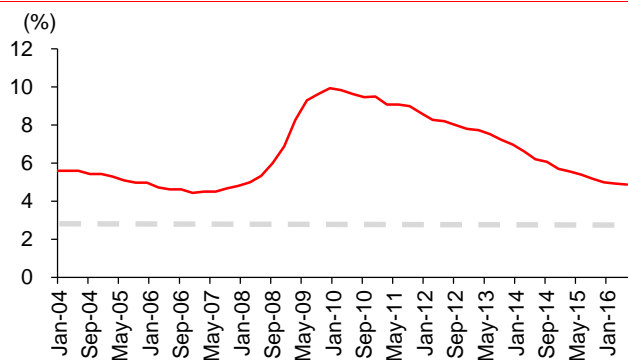
Source: Bloomberg, Huatai HK Research estimates

Fig.44. US jobless claims continue to drop



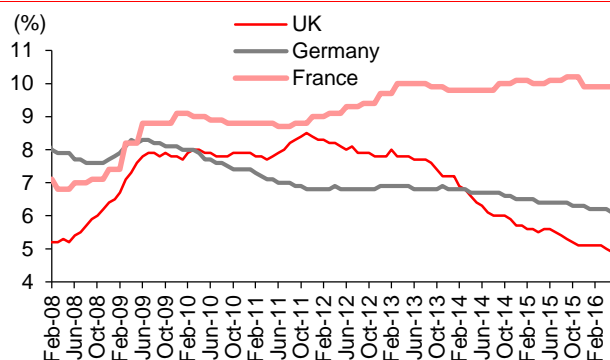
Source: Bloomberg, Huatai HK Research estimates

Fig.45. US unemployment rate close to 2007 level



Source: Bloomberg, Huatai HK Research estimates

Fig.46. Unemployment rate in other major economies



Source: Bloomberg, Huatai HK Research estimates

Copper: price to soften on deteriorating fundamentals

The mismatch between supply growth and demand growth has placed the copper market in surplus territory since 2015. We expect continuing deterioration of copper fundamentals in 2016-2017, on: 1) inevitable concentrate/crude/refined capacity additions; 2) subdued copper demand driven by a slowdown at end-users; and 3) aluminum substitution impacting the biggest downstream sector: power. Based on our assumption of weak fundamentals, we expect the copper price on the Shanghai Futures Exchange (SHFE) to fall mildly to RMB36,491/37,586/tonne in 2016/17, respectively.

Demand: China bull has passed

China accounts for 40% of world total copper demand and its copper consumption has been slowing along with its decelerating economy. We expect China's copper demand to continuously slow down during the next few years due to two major factors: 1) a slowdown in demand from downstream users; and 2) substitution of copper with aluminum in the power sector.

The power sector is the largest end-user of copper in China, accounting for over 40% of total copper demand. However, recent power investments are skewing to aluminum-intensive projects such as ultra-high-voltage (UHV) power lines and rural grid upgrade projects. Aluminum substitution by the biggest downstream user creates significant downside risk for copper demand. We expect 2% yoy overall demand growth for copper in 2016, with year-on-year demand by sector as follows: power (3%), white goods (-8%), automobile (6%), and property (5%).

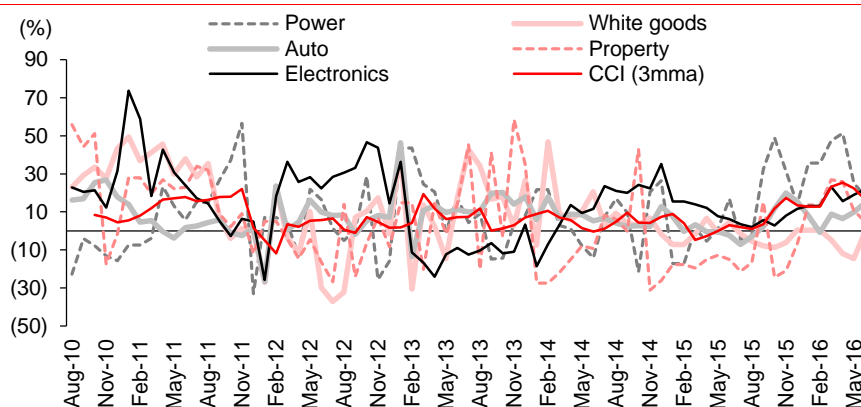
Fig.47. China copper demand forecast

Key drivers & weightings	2009	2010	2011	2012	2013	2014	2015	2016E	2017E
(yoy%)									
Power (grid investment) - 47%	35	(12)	7	(1)	6	6	7	3	2
White goods (air-con production) - 15%	5	31	26	(8)	11	8	(2)	(8)	3
Auto (sales) - 10%	45	32	3	4	14	7	5	5	4
Property (completion) - 9%	14	41	17	(7)	13	(11)	(14)	6	5
Electronics (semicon production) - 8%	16	30	22	24	(9)	13	8	6	6
Others (industrial profit) - 11%	11	14	10	10	8	6	6	6	5
Copper Consumption Index	25	10	12	1	7	5	3	2	3
Copper apparent consumption	38	5	9	10	13	10	9	2	

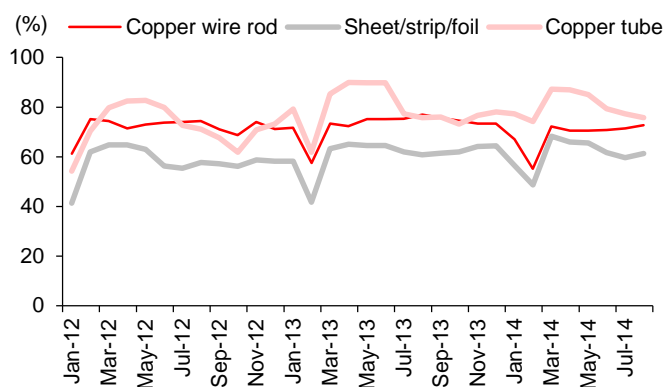
Source: CEIC, Huatai HK Research estimates

Signs that short-term demand is softening

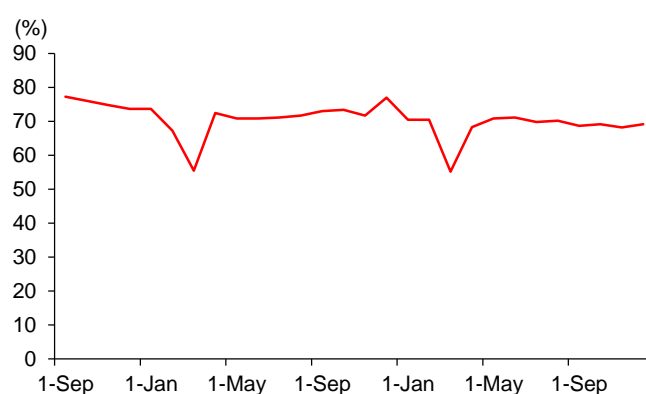
Signs of a slowdown in demand growth have been appearing since May 2016, following a stronger-than-expected demand recovery in 4M16. Our China Copper Consumption Index (CCI) was at 22% in May and softened to 17% in June. The power and property sectors have been the key contributors to this year's recovery and started to slow down from May; meanwhile, the white goods sector has underperformed, dragged down by historically high inventory. However, we've seen production pick-ups in the white goods sector with the arrival of the traditional peak season. Looking ahead, we expect air-conditioner production to slow down along with the passing of summer.

Fig.48. China Copper Consumption Index

Source: CEIC, Huatai HK Research estimates

Fig.49. Copper semi utilization rate

Source: Huatai HK Research estimates

Fig.50. Copper wire and cable producers utilization rate

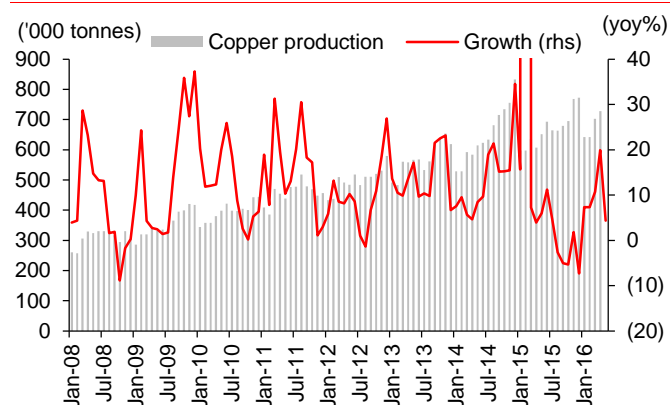
Source: Huatai HK Research estimates

Copper supply: growth rate to peak in 2016-2017

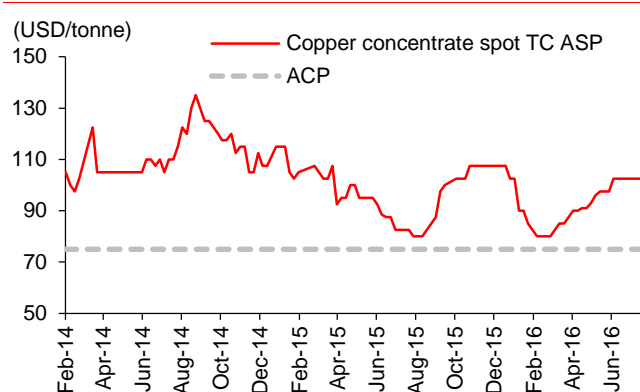
No supply discipline, decent margin stimulates production

In December 2015, China's ten largest copper producers agreed to cut 2016 production by 350,000 tonnes in aggregate, following an appeal by the China Non-ferrous Metals Industry Association (CNIA), according to a 1 December 2015 *Metal Bulletin* report. However, few participants seem to have followed through on the commitment. According to the National Bureau of Statistics (NBS), China's refined copper production totaled 4.1mn tonnes from January to June, up by 7.6% yoy.

In 2016, long-term treatment charges and refining charges (TC/RCs) for processing concentrates were settled at TC of USD97.5/tonne and RC of US¢9.75/lb, down 5.3% yoy each. Despite the drop, the USD97.5/tonne level is still quite high compared to the historical average, indicating a loosening concentrate supply in 2016. Spot TC/RCs for clean concentrate rebounded to reach USD102.5/tonne at end-July. We estimate average refining cost for copper smelters may be USD70-75/tonne, which means at the current TC/RC level, smelters are profitable and have less incentive to stop or reduce production. We expect China refined copper production to grow by 6% yoy this year.

Fig.51. Supply reform: little impact on copper production

Source: NBS

Fig.52. Spot TC/RC vs smelters' breakeven ACP

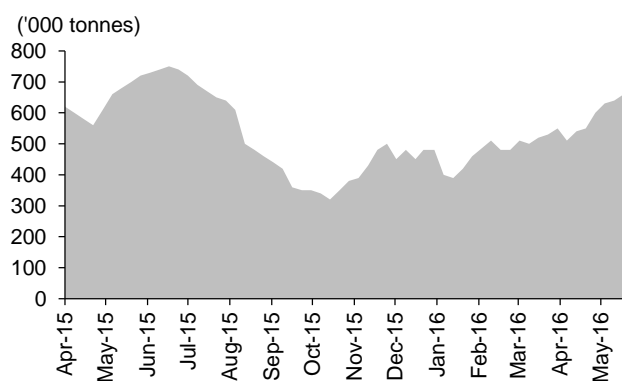
Note: ACP – average cost of production

Source: Wind, Huatai HK Research estimates

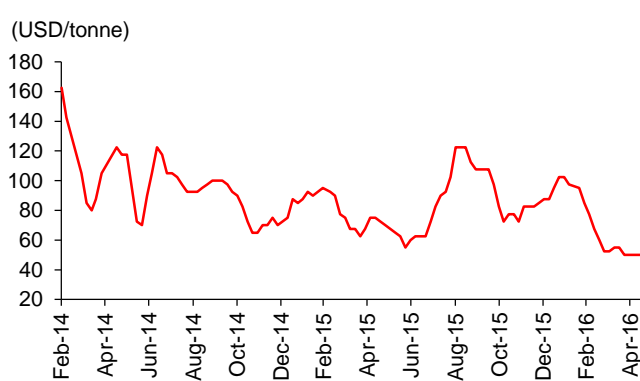
Expect imports to soften in 2H16, bonded warehouse inventory to remain high

China's imports of unwrought copper and copper products totaled 2.3mn tonnes from January to May, up by 22.1% yoy. We believe the robust imports were not purely driven by demand recovery. The expectation for renminbi depreciation and a favorable import arbitrage window promoted strong copper imports ahead of demand recovery in the first four months of this year, in our view.

Entering 2H16, we expect copper imports to soften. We notice that China bonded warehouse copper inventory accumulation has been accelerating, climbing above the 600,000-tonne high level. At the same time, the bonded warehouse premium keeps heading south, indicating a severe lack of import momentum. With the still-closed import arbitrage window, high domestic inventory and arrival of the traditional off-season, traders have little incentive to import, and we believe 2H16 copper imports face downside risk.

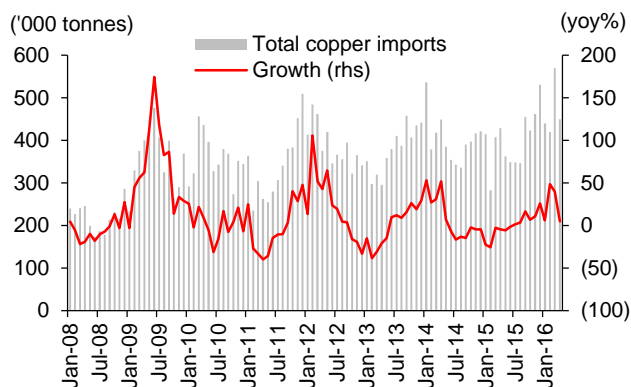
Fig.53. China bonded warehouse inventory

Source: Myyouse, Huatai HK Research estimates

Fig.54. Yangshan Port premium

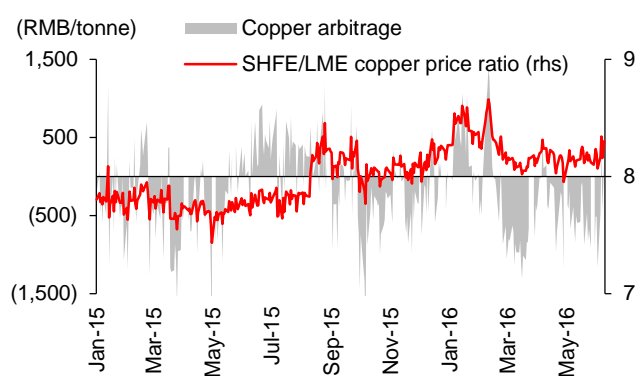
Source: Wind, Huatai HK Research estimates

Fig.55. China copper imports



Source: China Customs

Fig.56. LME vs SHFE arbitrage window

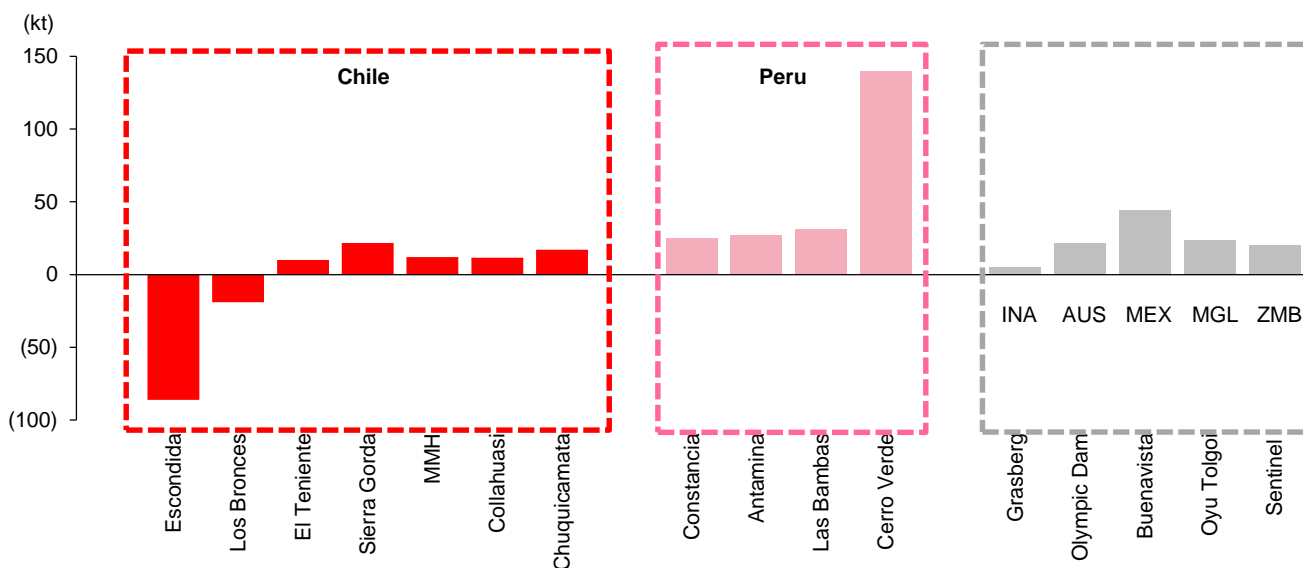


Source: Wind, Huatai HK Research estimates

Mine production to peak in 2016-2017

Global copper mine production in 1Q16 is growing ahead of expectation on the fast ramp-up of large-scale greenfield projects while supply disruptions are modest. Total concentrate production reached 1,570 kilotonnes by the end of 1Q16, up 11.9% yoy. The increase is mainly from the Las Bambas, Cerro Verde and Constancia mines. Media reported that China’s largest copper smelter, Jiangxi Copper, and BHP Billiton have agreed on 2H16 TC/RCs of USD100/tonne and US¢10/lb, both up 2.6% hoh (source: *Asian Metals*, 6 June). The increased TC/RCs indicate sufficient concentrate supply which is in line with the data on total mine production.

Fig.57. Major copper mines: production yoy volume change (1Q16)



Note: INA- Indonesia, AUS - Australia, MEX – Mexico, MGL - Mongolia, ZMB - Zambia
Source: Company data, Huatai HK Research estimates

Copper mine projects that commenced construction during the copper bull period (2009-2012) have been entering the market. We expect mine capacity addition to peak during 2016-2017, then slow down from 2018 on a lack of new projects and the end of new-project ramp-ups. In 2016, ex China copper mine capacity additions will amount to around 931,000 tonnes per annum while China will probably add 75,000 tonnes per annum capacity (Xiongkun Copper Mine, 60,000 tonnes; Shaxi Copper Mine, 15,000 tonnes), according to China metal industry data provider Antaika.

Fig.58. Global copper mine projects (2016)

(ktpd)	Project	New	Online	Existing			
Company	location	Project	capacity	date	Product	Type	capacity
CMC	China	Las Bambas	400	2016	Copper concentrate	Greenfield	0
Freeport-McMoran & Compania	Peru	Cerro Verde II	260	2016	Copper concentrate	Expansion	240
Nevada Copper	US	Pumpkin Hollow	134	2016	Copper concentrate	Greenfield	0
NFC Africa & ZCCM	Zambia	Chambishi	62	2016	Copper concentrate	Expansion	33
Rex Minerals Ltd	Australia	Hillside	75	2016	Copper concentrate	Greenfield	0
Nat'l Iranian Copper Ind Co.	Iran	Sungun	73	2016	Hydrometallurgical Cu	Greenfield	0
Wanbao Mining	Burma	Monywa	100	2016	Hydrometallurgical Cu	Greenfield	0

Source: Company data, Huatai HK Research estimates

China copper smelting and refining capacity addition to slow in 2016

As the smelting and refining center of the world, in 2015 China added 680 kilotonnes of copper smelting capacity and 630 kilotonnes of refining capacity, bringing total annual capacity to 6.2mn tonnes for smelting and 10.6mn tonnes for refining (end-2015). We believe China's copper smelting and refining capacity addition peaked in 2015, and that it will be much lower in 2016, with 250 kilotonnes each for smelting and refining. In 2015, China's refined copper production rose by 6.9% yoy to 7.4mn tonnes on sharp capacity addition, and we expect 2016 refined production to hike by 6% yoy to 7.8mn tonnes.

Fig.59. China major copper smelting and refining projects (2015-2017)

('000 tpa)	2015	2016	2017	Project type & notes
Crude copper capacity	6,180	6,430	6,730	
Dongying Fangyuan	200	0	0	Expansion
Heding Copper	100	0	0	Renovation and expansion
Zijin Copper	80	0	0	Upgrade
Minmetals Copper (Hunan) Company	0	100	0	Greenfield 200ktpa project, first phase on line in May 2016
West Mining Qinghai Copper	0	0	100	Greenfield
Guangxi Nanguo Copper	0	150	0	Greenfield, environmental assessment approval received in July 2013
Zhongyuan Gold Smelter	200	0	0	Greenfield, completed in May 2015
Jiangxi Ruichang West Mining Copper	0	0	200	Greenfield, flash furnace smelting method adopted
Hunchun Zijin Mining Company	100	0	0	Trial run started in October 2015
Total	680	250	300	
Refined copper capacity	10,590	10,840	11,240	
West Mining Qinghai Copper	-	-	100	Greenfield
Dongying Fangyuan	150	-	-	Expansion
Heding Copper	100	-	-	Second phase
Zijin Copper	80	-	-	Upgrade
Minmetals Copper (Hunan) Company	-	100	-	New-build 200ktpa project, first phase estimated to be on line in 2016
Guangxi Nanguo Copper	-	150	-	New build, environmental assessment approval received in July 2013
Zhongyuan Gold Smelter	200	-	-	New build
Jiangxi Ruichang West Mining Copper	-	-	200	New build
Hunchun Zijin Mining Company	100	-	-	Trial run started in Oct 2015
Zhangjiagang Union Copper	-	-	100	
Total	630	250	400	

Source: Company data, Huatai HK Research estimates

Risks to our view

Upside risks: 1) weaker-than-expected US activity data postponing US interest rate hikes by the US Fed; 2) unexpected political or geographical risks stimulating safe-haven buying; and 3) supply disruptions at major copper mines.

Downside risks: 1) brightening US data triggering interest-rate hikes by the US Fed; 2) a more severe economic slowdown than expected in China, dampening copper demand; and 3) copper supply growth beating market expectation.

Full financials

Income statement

YE 31 Dec (RMBmn)	FY13	FY14	FY15	FY16E	FY17E
Revenue	49,772	58,761	74,304	84,340	92,874
Cost of goods sold	(41,566)	(51,720)	(68,817)	(76,407)	(82,760)
Gross Profit	8,206	7,040	5,486	7,933	10,114
Selling and distrib cost	(526)	(906)	(692)	(675)	(743)
Admin expenses	(2,166)	(2,175)	(2,621)	(2,783)	(3,065)
Other expenses	(960)	(640)	(455)	(434)	(412)
Operating profit	4,554	3,320	1,719	4,042	5,895
Financial cost-net	(733)	(768)	(946)	(1,065)	(1,235)
Share of P&L of an associate	14	773	1,313	(500)	-
Profit before tax	3,835	3,324	2,086	2,477	4,660
Tax expense	(973)	(689)	(743)	(744)	(1,165)
Minority interest	(736)	(290)	313	(198)	(310)
Net profit	2,125	2,345	1,656	1,535	3,185
D&A	2,045	2,193	3,007	3,372	3,716
Ebitda	6,599	5,513	4,726	7,414	9,611
EPS (RMB, basic)	0.10	0.11	0.08	0.07	0.15

Balance sheet

YE 31 Dec (RMBmn)	FY13	FY14	FY15	FY16E	FY17E
Fixed assets	29,340	32,968	35,520	39,262	42,652
Intangible assets	7,315	8,042	8,632	8,498	8,372
Other non-current assets	12,312	14,531	17,967	18,375	18,785
Total non-current assets	48,967	55,541	62,119	66,135	69,808
Inventories	8,200	10,354	10,951	11,372	12,703
Acc & bill receivables	4,013	3,683	3,187	3,963	3,694
Cash & cash equivalents	4,492	4,140	5,498	5,636	6,889
Other current assets	1,227	1,442	2,158	2,158	2,158
Total current assets	17,932	19,618	21,795	23,129	25,444
Total assets	66,898	75,160	83,914	89,264	95,252
Tax payables	1,015	656	699	734	770
Accounts payables	8,046	8,352	12,575	13,285	13,546
Short-term loans	4,152	5,899	11,448	13,448	15,448
Other liabilities	6,747	8,598	6,805	6,805	6,805
Total current liabilities	19,960	23,504	31,526	34,272	36,569
Int't-bearing bank borrowings	6,998	8,339	9,251	10,751	12,251
Other long term liabs	6,855	3,998	4,309	4,309	4,309
Total non-current liabilities	13,853	17,987	20,459	21,959	23,459
Equity	2,170	2,157	2,154	2,154	2,154
Reserves	25,442	25,902	25,383	26,289	28,171
Shareholder equity	27,612	28,059	27,537	28,444	30,325
Minority interests	5,473	5,609	4,391	4,589	4,899
Total equity	33,085	33,669	31,928	33,033	35,224

Valuation

YE 31 Dec (x)	FY13A	FY14A	FY15	FY16E	FY17E
PE	24.1	21.7	29.7	33.3	16.0
PB	1.5	1.5	1.6	1.5	1.5
EV Ebitda	10.9	14.0	16.7	10.7	8.2
Dividend yield (%)	(7.4)	(7.4)	-	(2.7)	(5.6)
FCF yield (%)	2.1	(0.4)	2.6	(1.5)	1.0

Cash flow statement

YE 31 Dec (RMBmn)	FY13	FY14	FY15E	FY16E	FY17E
Profit Before Tax	3,835	3,324	2,086	2,477	4,660
D&A	2,045	2,193	3,007	3,372	3,716
Finance costs	(733)	(768)	(946)	(1,065)	(1,235)
Changes in working cap	2,829	(1,877)	4,164	(451)	(765)
Tax	(973)	(689)	(743)	(744)	(1,165)
Other	1,841	4,137	2,701	2,130	2,469
Operating cash flow	8,842	6,321	10,269	5,719	7,681
Capital expenditure	(7,204)	(6,478)	(7,053)	(7,114)	(7,115)
Other invest't activ's	(1,276)	(2,774)	(1,640)	(274)	(275)
Investing cash flow	(8,480)	(9,252)	(8,693)	(7,388)	(7,390)
Increase in debt	(2,440)	3,088	6,461	3,500	3,500
Increase in equity	-	-	-	-	-
Dividends paid	(1,732)	(1,726)	-	(628)	(1,304)
Other financing activ's	1,577	1,052	(6,734)	(1,065)	(1,235)
Financing cash flow	(2,595)	2,414	(273)	1,807	962
Changes in cash	(2,232)	(517)	1,303	138	1,252
Cash at start of year	7,473	4,492	4,140	5,498	5,636
Effect of forex rate changes, net	(749)	165	55	-	-
Year-end cash	4,492	4,140	5,498	5,636	6,889

Performance

YE 31 Dec (x)	FY13	FY14	FY15	FY16E	FY17E
Growth (%)					
Revenue	2.8	18.1	26.5	13.5	10.1
Gross profit	(28.6)	(14.2)	(22.1)	44.6	27.5
Operating profit	(47.8)	(27.1)	(48.2)	135.1	45.8
Net profit	(59.2)	10.3	(29.4)	(7.3)	107.6
EPS	0.10	0.11	0.08	0.07	0.15
Profitability ratios (%)					
Gross profit margin	16.5	12.0	7.4	9.4	10.9
Operating profit margin	9.1	5.6	2.3	4.8	6.3
Net profit margin	4.3	4.0	2.2	1.8	3.4
ROE	6.4	7.0	5.0	4.7	9.3
ROA	3.2	3.3	2.1	1.8	3.5
Solvency					
Debt/total capital (%)	50.5	55.2	62.0	63.0	63.0
Gearing ratio	24.1	36.0	55.2	65.3	68.6
Current ratio	0.90	0.83	0.69	0.67	0.70
Quick ratio	0.49	0.39	0.34	0.34	0.35
Operating capability (days)					
Total assets turnover ratio (x)	0.7	0.8	0.9	0.9	1.0
Receivable	29	23	15	17	14
Payable	70	58	66	63	59
Inventory	71	72	57	54	55
Cash conversion cycle	30	37	7	8	11
Index per share (RMB)					
EPS	0.10	0.11	0.08	0.07	0.15
Book value per share	1.52	1.56	1.48	1.53	1.64

Source: Company data, Huatai HK Research estimates

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