



Rating  
**Buy**

Asia  
China

Resources  
Metals & Mining

Company  
**Zijin Mining**

Reuters 2899.HK    Bloomberg 2899 HK    Exchange HSI    Ticker 2899

Date  
29 August 2016

Forecast Change

Price at 26 Aug 2016 (HKD)	2.74
Price target - 12mth (HKD)	3.20
52-week range (HKD)	3.04 - 1.71
HANG SENG INDEX	22,910

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## Results missed on non-ops; fundamentals intact; Buy at HKD3.2

### Results missed on hedging/leasing but better performance in gold and zinc

After almost breaking even in 1Q, Zijin's 1H16 NPAT of RMB538mn, representing a c.60% YoY decline, continued to miss our and consensus estimates because of additional losses from gold leasing in 2Q16. On the other hand, gross profit increased 15% YoY thanks to 27%/55% YoY increases in gross profits from the mined gold and mined zinc segments. We maintain Buy on the positive gold and zinc outlook.

### Improving performance from mined gold/zinc and smelting businesses

Despite the lackluster earnings, Zijin's gross margin improved 1.3ppt YoY, thanks to a 4% YoY increase in ASP and the 20% YoY increase in sales volume from its mined gold segment. Additionally, the mined zinc segment outperformed because of the 86% YoY increase in sales volume as well as the 21% YoY decrease in unit cost. However, the mined copper segment suffered a 36% YoY decrease in gross profit given copper price weakness, despite the lower unit cost. Detailed numbers are shown in Figure 2. Apart from those, smelting businesses performed well across the board, with 1% GPM (+0.8ppt YoY) for gold, 5% (+3ppt YoY) for copper and 9% (+4.5ppt YoY) for zinc.

### Net gearing reaches new high as low-cost financing increases

Net gearing increased to 84% after the company took on additional short-term bonds, but effective interest rates have decreased from c.4.5% in 2015 to 3.9% in 1H16 as the average rate on these new bonds is less than 3%. Additionally, the company secured RMB5bn and RMB3bn of corporate bonds in March and July with coupon rates of 3.37% and 3.45% respectively. We believe the current low interest rate environment indicates that Zijin will be able to refinance expiring debts at a lower rate and maintain a lower effective interest rate in the future.

### Maintaining Buy at HKD3.2; risks

We increase our TP to HKD3.2 for Zijin and maintain our Buy rating after factoring in the lower cost of debt and 1H16 results into our DCF life-of-mine valuation. According to our global commodity analyst Grant Sporre, while gold looks relatively expensive on a short-term basis and faces headwinds given rising expectations of a Fed hike, we believe there is momentum left in prices as the global economy faces a low interest rate environment. Downside risks include lower volumes and higher-than-expected unit cost of mined products.

### Key changes

Price target	2.80 to 3.20	↑	14.3%
Sales (FYE)	84,070 to 80,866	↓	-3.8%
Net profit (FYE)	2,287.3 to 2,238.9	↓	-2.1%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.5	21.8	48.9
HANG SENG INDEX	3.5	12.3	8.7

Source: Deutsche Bank

### Forecasts And Ratios

Year End Dec 31	2014A	2015A	2016E	2017E	2018E
EBITDA (CNYm)	6,819.8	6,384.9	7,832.2	10,518.5	11,525.8
Reported NPAT (CNYm)	2,345.1	1,655.7	2,238.9	3,850.7	4,072.8
DB EPS FD(CNY)	0.11	0.08	0.10	0.18	0.19
% Change	0.0%	0.0%	-2.1%	10.9%	-
Yield (net) (%)	5.4	3.1	2.6	4.4	5.0

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close





# Zijin results summary

## Financial and operational summary

Figure 1: Zijin – 1H16 results table

	1H16	1H15	YoY	2H15	HoH	16FY DBE	% of DBE	16FY Cons	% of Cons
Revenue	38,890	38,832	0%	35,471	10%	84,070	46%	81,488	48%
GP	3,906	3,402	15%	2,084	87%	8,058	48%	7,833	50%
SG&A	(1,674)	(1,563)	7%	(1,749)	-4%	(3,531)	47%	(3,851)	43%
OP	1,057	2,341	-55%	735	44%	4,327	24%	3,982	27%
non-op items	(1,182)	509	na	208	-669%	na	na	na	na
PBT	617	1,907	-68%	179	244%	3,190	19%	na	na
NPAT	538	1,341	-60%	315	71%	2,273	24%	2,172	25%
NPAT excl. non-ops	564	1,322	-57%	543	4%	na	na	na	na
CFO	3,632	3,851	-6%	10,269	-65%	6,163	59%	na	na
GPM	10%	9%	+1.3ppt	6%	+4.2ppt	10%	+0.5ppt	10%	+0.4ppt
SG&A % of revenue	4%	4%	+0.3ppt	5%	-0.6ppt	4%	+0.1ppt	5%	-0.4ppt
Effective tax rate	7%	26%	na	138%	na	25%	na	na	na
Gearing ratio	84%	54%	+30.4ppt	77%	+7.1ppt	83%	na	na	na
AR days	6	9	na	8	na	na	na	na	na
AP days	23	23	na	25	na	na	na	na	na
Inventory turnover days	54	52	na	57	na	na	na	na	na

Source: Deutsche Bank, Bloomberg Finance LP

Figure 2: Zijin – operational table

		1H16	1H15	YoY	2H15	HoH	16FY DBE	% of DBE
Mined gold ASP	RMB/g	229	220	4%	210	9%	245	93%
Mined gold unit cost	RMB/g	143	139	3%	132	8%	140	103%
Mined gold sales volume	kg	20,342	16,979	20%	18,654	9%	43,119	47%
Mined copper ASP	RMB/t	25,313	30,918	-18%	27,102	-7%	26,490	96%
Mined copper unit cost	RMB/t	15,626	16,368	-5%	18,691	-16%	15,754	99%
Mined copper sales volume	t	73,793	77,239	-4%	73,922	0%	155,368	47%
Mined zinc ASP	RMB/t	6,684	8,272	-19%	6,511	3%	6,883	97%
Mined zinc unit cost	RMB/t	3,328	4,239	-21%	3,527	-6%	3,420	97%
Mined zinc sales volume	t	126,547	67,928	86%	109,302	16%	270,000	47%
<b>Commodity price</b>								
Gold	RMB/g	258	241	7%	230	12%		
Copper (incl. VAT)	RMB/t	36,238	43,232	-16%	38,433	-6%		
Zinc (incl. VAT)	RMB/t	14,738	16,711	-12%	14,588	1%		

Source: Deutsche Bank, Bloomberg Finance LP



# Valuation

## Forecast changes

Figure 3: Zijin – Changes in estimates

RMB m	2016E			2017E			2018E		
	New	Old	Change%	New	Old	Change%	New	Old	Change%
Revenue	80,866	84,070	-3.8%	90,136	88,928	1.4%	95,265	94,504	0.8%
EBIT	4,141	4,327	-4.3%	6,494	6,022	7.8%	7,108	7,185	-1.1%
NP	2,239	2,273	-1.5%	3,851	3,437	12.0%	4,073	4,087	-0.3%

Source: Deutsche Bank estimates

Figure 4: Zijin – Deutsche Bank estimates vs. consensus

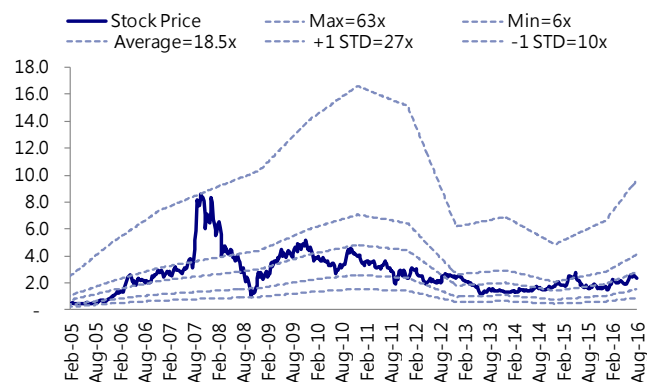
RMB m	2016E			2017E			2018E		
	DB estimates	Consensus	DBe/Cons	DB estimates	Consensus	DBe/Cons	DB estimates	Consensus	DBe/Cons
Revenue	80,866	81,488	99%	90,136	88,188	102%	95,265	92,630	103%
EBIT	4,141	3,922	106%	6,494	5,187	125%	7,108	6,434	110%
NP	2,239	2,172	103%	3,851	2,945	131%	4,073	3,591	113%

Source: Deutsche Bank estimates, Bloomberg Finance LP

## Valuation – maintaining Buy; new TP of HKD3.2

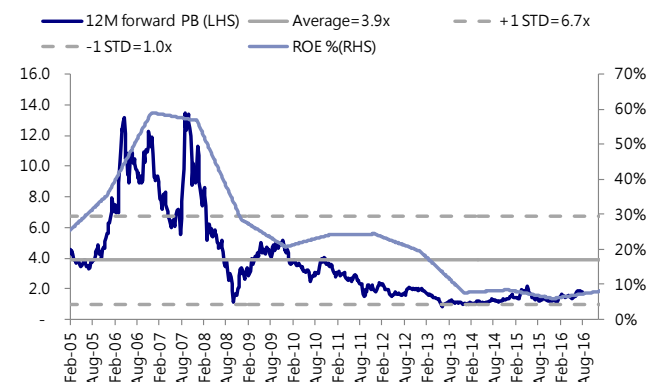
Our target price of HKD3.2 is based on a life-of-mine DCF method with an 8.7% WACC. Zijin is currently trading at 23x/13x 2016/17DBe EPS and 1.8/1.6x 2016/17DBe BVPS. With 17% upside, we re-iterate Buy on Zijin.

Figure 5: Zijin 12mth forward P/E band



Source: Deutsche Bank, Bloomberg Finance LP

Figure 6: Zijin 12mth forward P/B band



Source: Deutsche Bank, Bloomberg Finance LP

## Risks

Downside risks include lower volumes, lower commodity prices, and higher-than-expected unit cost of mined products.



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Zijin Mining	2899.HK	2.74 (HKD) 26 Aug 16	6,9,14,15

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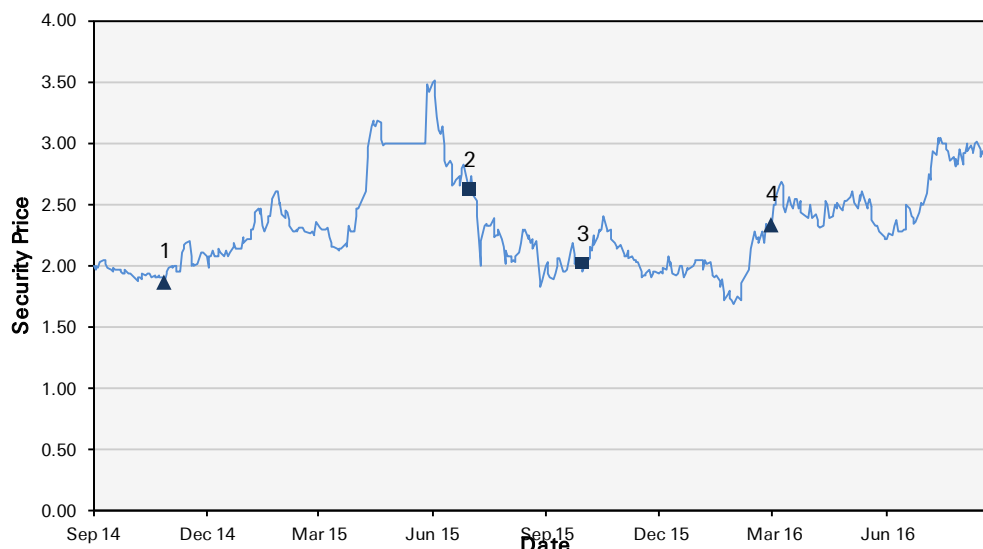
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Historical recommendations and target price: Zijin Mining (2899.HK)

(as of 8/26/2016)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

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1. 28/10/2014:	Upgrade to Hold, Target Price Change HKD2.10 James Kan	3. 29/09/2015:	Hold, Target Price Change HKD2.30 James Kan
2. 30/06/2015:	Hold, Target Price Change HKD2.40 James Kan	4. 28/02/2016:	Upgrade to Buy, Target Price Change HKD2.80 Sharon Ding

Equity rating key

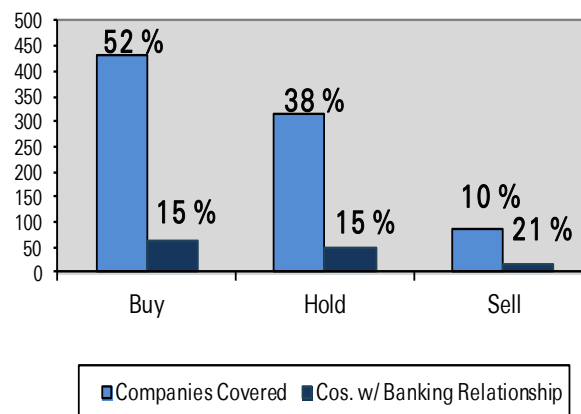
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Asia-Pacific Universe



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