

UBS Investment Research

Zhaojin Mining Industry

Better Q4, attractive valuation

■ Net profit rose 2.5xQoQ despite gold price falling 7%

Zhaojin reported 9M13 net profit of Rmb503m (Rmb0.17). If we exclude to Rmb86m impairment loss on inventory, we estimate 9M13 net profit of Rmb574m (EPS Rmb0.19), achieving 47% of our previous 2013 estimate and consensus of Rmb1.22bn (EPS Rmb0.41). We stress this is a strong set of result with gold price down 7% QoQ to US\$1,320/oz. We expect better Q4 earnings as current gold price of US\$1,355/oz is 2% higher than Q3, and physical demand remains strong.

■ Lower output to reflect guidance, effective cost control

We lowered our 2013E output forecast by 4% to 15.1t (484koz) to reflect Zhaojin's strategy of cutting high-cost output. Although we raised our 2013-15E unit cost by 3-5% to factor in smaller economies of scale, we stress Zhaojin has good cost control with 2009-12 CAGR of 9% versus 11-27% for peers. With the latest output and cost forecasts, we lower 2013/14/15E EPS by 17%/9%/15% to Rmb0.34/0.32/0.26.

■ Attractive risk reward

Zhaojin's share price is down 15% from June versus 4% decline in gold price and 2% decline in HSCEI. The stock is currently trading at 2014E PE of 15.6x PE, 21% lower than historical average of 19.8x. We believe the current valuation represents attractive risk reward with 14% 2013-15E output CAGR at low cost of US\$709-720/oz.

■ Valuation: TP of HK\$7.22, maintain Buy

We lower our TP by 5% to HK\$7.22. Our TP represents target 2014E P/NAV multiple of 2.34x (same as previous TP).

Highlights (Rmbm)	12/11	12/12	12/13E	12/14E	12/15E
Revenues	5,741.11	7,602.96	6,843.48	6,897.09	6,889.40
EBIT (UBS)	2,365.24	2,857.21	1,739.21	1,757.37	1,578.03
Net Income (UBS)	1,661.58	1,923.52	1,005.24	946.09	767.77
EPS (UBS, Rmb)	0.57	0.66	0.34	0.32	0.26
Net DPS (UBS, Rmb)	0.21	0.24	0.11	0.10	0.08
Profitability & Valuation	5-yr hist av.	12/12	12/13E	12/14E	12/15E
EBIT margin %	38.3	37.6	25.4	25.5	22.9
ROIC (EBIT) %	26.4	25.3	11.4	9.7	7.7
EV/EBITDA (core) x	11.8	10.1	9.8	10.3	11.5
PE (UBS) x	20.5	14.9	14.7	15.6	19.3
Net dividend yield %	2.0	2.5	2.2	2.0	1.7

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of HK\$6.35 on 29 Oct 2013 21:26 EDT

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Global Equity Research

China

Mining

12-month rating **Buy**
Unchanged

12m price target **HK\$7.22/US\$0.93**
Prior: HK\$7.62/US\$0.98

Price **HK\$6.35/US\$0.82**

RIC: 1818.HK BBG: 1818 HK

29 October 2013

Trading data (local/US\$)

52-wk range	HK\$13.70-4.57/US\$1.77-0.59
Market cap.	HK\$18.8bn/US\$2.43bn
Shares o/s	2,966m (ORD)
Free float	94%
Avg. daily volume ('000)	10,937
Avg. daily value (m)	HK\$72.8

Balance sheet data 12/13E

Shareholders' equity	Rmb8.70bn
P/BV (UBS)	1.7x
Net Cash (debt)	(Rmb7.28bn)

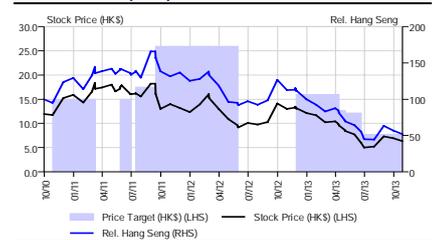
Forecast returns

Forecast price appreciation	+13.7%
Forecast dividend yield	2.0%
Forecast stock return	+15.7%
Market return assumption	9.5%
Forecast excess return	+6.2%

EPS (UBS, Rmb)

	12/13E		Cons.	12/12 Actual
	From	To		
H1	0.22	0.10	-	0.17
H2E	0.19	0.24	-	0.49
12/13E	0.41	0.34	0.41	
12/14E	0.35	0.32	0.35	

Performance (HK\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9.

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Investment summary

We lowered Zhaojin's TP by 5% to HK\$7.22. Zhaojin reported Q313 EPS of Rmb0.07, only declining 13% vs Q1 and while gold price declined 19% over the period. We believe Q313 result means Zhaojin is increasing sales QoQ. We expect Q4 earnings to further improve as the current gold price of US\$1,355/oz is 2% higher than Q3, and physical demand remains strong. Our key changes are:

Expect Q4 earnings to improve

■ **Lower output to reflect flexible production:** We lower our output for Zhaojin by 4%/1.7%/1.5% to 484/558/624koz for 2013/14/15E. This is to reflect the strategy of reducing high cost output. With our gold price forecasts of US\$1,440/1,325/1,200 for 2013/14/15E, we believe Zhaojin's strategy can allow the company to adjust production mix in response to market conditions. The company is still targeting at >10%YoY output growth in the medium term, we expect this to be achieved by organic growth and acquisitions. We currently forecast output CAGR of 14% for 2013-15E.

Flexible production strategy, low cost player

■ **Cost leader as the major advantage:** We note Zhaojin's unit cost is one of the lowest among peers, and its cost growth is also one of the slowest. In a modest gold price environment, we stress effective cost control will be the key to profitability. However, to reflect smaller economies of scale with lower output growth, we raised our unit cost estimates 3-5% for 2013-15E. We stress the +9%YoY 2013 cost growth is achievable with the stable PPI in China YTD.

■ **Attractive valuation, maintain Buy:** With the updated output and cost forecasts, we lowered our 2013/14/15E earnings by 17%/9%/15% to Rmb0.34/0.32/0.26. We also lower our TP by 5% to HK\$7.22 as we roll over to 2014. Zhaojin's share price is down 15% from June versus 4% decline in gold price and 2% decline in HSCEI. Trading at 15.6x 2014E PE, 21% lower than historical average of 19.8x, we believe the current valuation is attractive. We maintain Buy rating on the stock.

Lower TP to HK\$7.22, maintain Buy on attractive valuation

Q313 earnings: significant improvement QoQ

Zhaojin Mining reported 9M13 net profit of Rmb503m (EPS Rmb0.17). However, if we exclude Rmb86m impairment loss of inventory, we estimate 9M13 net profit of Rmb574m (EPS Rmb0.19), achieving 47% of our 2013 old estimate and consensus of Rmb1.22bn (EPS Rmb0.41). The 9M recurring profit represents 54% of our new estimate.

Strong Q3 with EPS only declined 13% from Q1 versus 19% drop in price

We stress this is a strong set of results, as Zhaojin managed to improve Q3 earnings with more sales. Despite Q3 gold price declining 7% from Q2 and 19% from Q1, we note Q313 EPS rose 2.5xQoQ, and only declining 13% from Q113. This shows Zhaojin has reviewed its strategy of keeping inventory for higher gold prices.

We also note operating cash flow continues to improve, from Rmb-196m in Q1 to positive in Q2. Q3 operating cash flow further rose 12%QoQ to Rmb261m.

Table 1: Zhaojin – quarterly operating cash flow

	Unit	Q113	Q213	QoQ % chg	Q313	QoQ % chg
Operating cash flow	Rmb m	(195.9)	233.0	N/A	260.9	12.0%

Source: Company data

Table 2: Zhaojin – quarterly earnings

		Q113	Q213	QoQ % change	Q313	QoQ % change
Revenue	Rmb m	1,164	1,207	3.7%	1,288	6.7%
COGS	Rmb m	485	844	73.9%	487	-42.3%
Gross profit	Rmb m	679	363	-46.5%	801	120.5%
Gross margin	%	58.3%	30.1%	-28.2%	62.2%	32.1%
Net profit	Rmb m	234	33	-86.0%	236	619.9%
EPS	Rmb	0.08	0.02	-75.0%	0.07	250.0%

Source: UBS estimates

Stronger earnings in Q413

To reflect the latest management guidance and market situation, we lowered our earnings by 17%/9%/15% to Rmb1.01bn/ 946m/ 768m (EPS Rmb0.34/0.32/0.26) for 2013/14/15E. However, we expect significant improvement in Q4 earnings with price support from physical demand, and US macro uncertainties.

Lower earnings by 17%/9%/15% to
Rmb1.01bn/ 946m/ 768m

Table 3: Zhaojin – key financial forecasts

	Unit	2013E old	2013E new	% change	2014E old	2014E new	% change	2015E old	2015E new	% change
Revenue	Rmb m	7,034	6,843	-2.7%	7,034	6,897	-1.9%	7,034	6,889	-2.1%
COGS	Rmb m	4,129	4,124	-0.1%	4,277	4,295	0.4%	4,381	4,467	2.0%
Gross profit	Rmb m	2,905	2,719	-6.4%	2,757	2,602	-5.6%	2,653	2,422	-8.7%
Gross margin	%	41.3%	39.7%	-1.6%	39.2%	37.7%	-1.5%	37.7%	35.2%	-2.6%
Net profit	Rmb m	1,218	1,005	-17.4%	1,045	946	-9.4%	901	768	-14.8%
EPS	Rmb	0.41	0.34	-17.4%	0.35	0.32	-9.4%	0.30	0.26	-14.8%

Source: UBS estimates

Table 4: Zhaojin – change in key operating forecasts

	Unit	2013E old	2013E new	% change	2014E old	2014E new	% change	2015E old	2015E new	% change
Output	t	15,664	15,064	-3.8%	17,650	17,350	-1.7%	19,700	19,400	-1.5%
	koz	503.6	484.3	-3.8%	567.5	557.8	-1.7%	633.4	623.7	-1.5%
Cost	Rmb/g	130.9	134.9	3.0%	132.1	135.6	2.6%	130.4	136.9	5.0%
	US\$/oz	687.8	708.6	3.0%	694.1	712.1	2.6%	684.9	719.4	5.0%
Gold price	US\$/oz	1,440	1,440	0.0%	1,325	1,325	0.0%	1,200	1,200	0.0%

Source: UBS estimates

Modest gold price outlook

Our global team maintains the gold price forecasts at US\$1,440/ 1,325/ 1,200/oz for 2013/14/15E. With current gold price of US\$1,353/oz and YTD average of US\$1,444/oz, our global team expects medium-term downward pressure for gold with macro uncertainties, and possible QE-tapering. However, physical gold demand and US debt ceiling concern will continue to provide support to gold price.

Output still growing more than 10%YoY

Management has guided to temporarily shut down high cost mines which has limited profitability at current gold price. They also indicated the output impacted to be about 19koz. Therefore, we lower our 2013E output by 4% to 15.1t (484koz). We are positive on the strategy as this reflects Zhaojin's production flexibility in response to market conditions.

For 2014, we only lower our output by 1.7% at 17.4t (558koz) as we expect the gold price to average US\$1,325/oz and all Zhaojin's mines are profitable at this price. For 2015E, we lower our output by 1.5% to 19.4t (624koz) as we expect Zhaojin to temporarily shut production with lower gold price YoY (-9% to US\$1,200/oz). However, the impact of the cut should be smaller than 2013E as we expect greater economies of scale in 2015.

Company management has also guided to maintain output growth of more than 10% YoY through acquisition and organic output growth. We currently forecast +15%/+12% YoY output growth to 558/624koz for 2014/15E, driven by non Zhaoyuan mines.

Cost leadership to sustain

We raised our unit cost estimates by 3-5% for 2013-15E to reflect smaller economies of scale. With China's Producer's Price Index for non-ferrous mining industry largely stable YTD, we stress our current cost estimate of +9% YoY for 2013 cost is achievable. For 2014-15E, we expect the strong output growth from non-Zhaoyuan to unit cost and this can relieve the cost pressure from the Shandong headquarter operations.

Also, we stress Zhaojin is a low cost producer. Its cost control is one of the most effective among competitors. In 2009-2012, Zhaojin's unit cost only grew at CAGR of 9.2%, significantly lower than 11% for Shandong Gold, 15% for Zhongjin Gold, and 27% for Zijin.

Table 5: Historical unit cost of major gold producers in China

	Unit	2009	2010	2011	2012	2009-2012 CAGR
Shandong Gold	Rmb/g	105	116	134	145	11.4%
Zhongjin Gold	Rmb/g	125	130	141	188	14.6%
Zhaojin	Rmb/g	95	113	124	124	9.2%
Zijin	Rmb/g	59	67	86	121	26.6%

Source: Company data, UBS estimates

Output growth of +15%/+12%YoY to 558/624koz for 2014/15E

Unit cost CAGR of 9.2% compared to 11-27% for peers

Valuation: new TP of HK\$7.22

We lower our TP by 5% to HK\$7.22. This reflects:

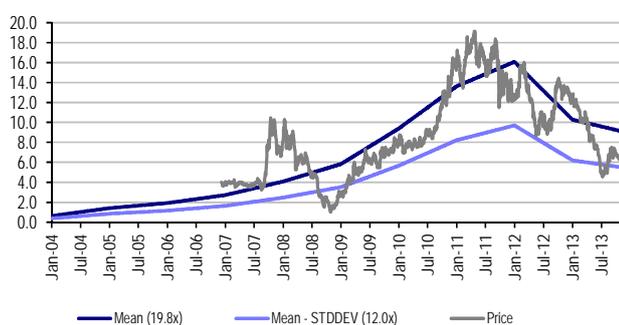
- **Lower earnings:** we lowered our 2013/14/15E EPS by 17%/9%/15% to Rmb0.34/ 0.32/0.26 for 2013/14/15E to reflect lower output and higher cost
- **Roll over to 2014:** we now roll over our TP to 2014 and derive 2014E NAV of Rmb3.84/share. (compared to previous NAV of Rmb3.90/share).
- **Higher capex:** we had assumed Rmb3.2/2.7/2.0bn capex for 2013/14/15E. We raise our realized capex by 9%/19%/40% to Rmb3.5/3.2/2.8bn. As Zhaojin aims to maintain output growth of more than 10% YoY medium term, we believe they may speed up M&A in modest gold price environment

Our NAV based target price represents 17.7x 14E PE compared to historical 19.8x (since 2006 listing).

Attractive valuation, maintain Buy

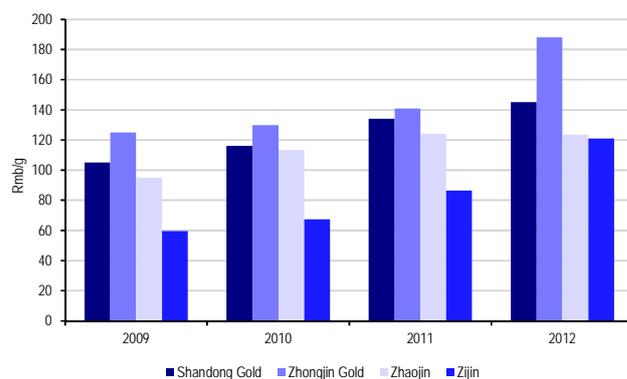
We maintain Buy rating. Zhaojin's share price is down 15% from June to now versus 4% decline in gold price and 2% decline in HSCEI. The stock is currently trading at 2014E PE of 15.6x PE, 21% lower than historical average of 19.8x. We believe the current valuation represents attractive risk reward with 14% 2013-15E output CAGR at low cost of about US\$720/oz over the period.

Chart 1: Zhaojin – 12 month forward PE band



Source: UBS estimates

Chart 2: Unit cost of major gold producers in China



Source: Company data, UBS estimates

Upside/ downside scenario

Upside scenario: implied valuation of HK\$8.90/share. In this scenario, we assume gold price to recover 5% YoY in 2014-15E to US\$1,512/1,588/oz. This compares to US\$1,325/ 1,200/oz in our base case. This scenario reflects physical demand continues to provide support of gold price, and increasing uncertainties regarding US policy has resulted in strong demand for gold.

Downside scenario: valuation of HK\$6.22/share. In this scenario, we assume gold price to stay at the YTD lowest level of US\$1,200/oz for the rest of 2013E (implying 2013E average of US\$1,403/oz). We then assume gold price to further decline to average US\$1,200/oz in 2014E, US\$1,150/oz in 2015. This scenario reflects better-than-expected economic recovery globally, undermining the appetite for safe-haven assets like gold. We also assume Zhaojin to face de-rating to trade at 2.1x P/NAV

Zhaojin Mining Industry

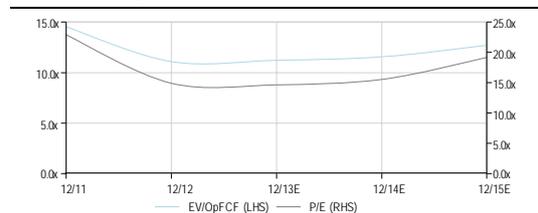
Income statement (Rmbm)	12/08	12/09	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	% ch
Revenues	2,152.73	2,796.99	4,097.80	5,741.11	7,602.96	6,843.48	-10.0	6,897.09	0.8	6,889.40	-0.1
Operating expenses (ex depn)	(1,240.57)	(1,595.87)	(2,096.55)	(3,005.49)	(4,415.73)	(4,547.96)	3.0	(4,476.38)	-1.6	(4,555.06)	1.8
EBITDA (UBS)	952.43	1,288.21	2,110.68	2,845.47	3,295.94	2,295.52	-30.4	2,420.71	5.5	2,334.33	-3.6
Depreciation	(248.10)	(233.87)	(384.12)	(480.23)	(438.73)	(556.31)	26.8	(663.34)	19.2	(756.30)	14.0
Operating income (EBIT, UBS)	704.33	1,054.34	1,726.56	2,365.24	2,857.21	1,739.21	-39.1	1,757.37	1.0	1,578.03	-10.2
Other income & associates	2.67	(27.95)	3.96	6.94	10.17	5.80	-42.9	6.84	17.9	8.38	22.5
Net interest	1.14	(11.04)	(78.63)	(85.66)	(202.80)	(318.78)	57.2	(421.90)	32.3	(497.10)	17.8
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	708.14	1,015.36	1,651.90	2,286.52	2,664.58	1,426.23	-46.5	1,342.31	-5.9	1,089.31	-18.8
Tax	(170.02)	(264.04)	(409.74)	(563.78)	(617.76)	(356.56)	-42.3	(335.58)	-5.9	(272.33)	-18.8
Profit after tax	538.12	751.32	1,242.16	1,722.73	2,046.82	1,069.67	-47.7	1,006.73	-5.9	816.98	-18.8
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	(4.22)	2.69	(40.43)	(61.16)	(123.30)	(64.44)	-47.7	(60.64)	-5.9	(49.21)	-18.8
Net income (local GAAP)	533.91	754.01	1,201.73	1,661.58	1,923.52	1,005.24	-47.7	946.09	-5.9	767.77	-18.8
Net Income (UBS)	533.91	754.01	1,201.73	1,661.58	1,923.52	1,005.24	-47.7	946.09	-5.9	767.77	-18.8
Tax rate (%)	24.01	26.00	24.80	24.66	23.18	25.00	7.8	25.00	0.0	25.00	0.0
Pre-abnormal tax rate (%)	24.10	26.04	24.86	24.73	23.27	25.10	7.9	25.13	0.1	25.19	0.3
Per share (Rmb)	12/08	12/09	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	% ch
EPS (local GAAP)	0.18	0.26	0.41	0.57	0.66	0.34	-48.6	0.32	-5.9	0.26	-18.8
EPS (UBS)	0.18	0.26	0.41	0.57	0.66	0.34	-48.6	0.32	-5.9	0.26	-18.8
Net DPS	0.10	0.11	0.15	0.21	0.24	0.11	-55.5	0.10	-5.9	0.08	-18.8
Cash EPS	0.27	0.34	0.54	0.73	0.81	0.53	-34.9	0.54	3.1	0.51	-5.3
BVPS	1.39	2.08	2.37	2.26	2.83	2.93	3.5	3.14	7.2	3.30	5.0
Balance sheet (Rmbm)	12/08	12/09	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	% ch
Net tangible fixed assets	2,147.93	2,763.46	3,691.08	4,926.70	7,373.43	9,944.94	34.9	12,121.51	21.9	13,817.21	14.0
Net intangible fixed assets	1,846.86	2,364.51	2,932.93	3,178.08	4,557.50	4,942.06	8.4	5,314.53	7.5	5,674.91	6.8
Net working capital (incl. other assets)	571.78	229.18	861.87	1,497.48	2,853.51	2,967.84	4.0	3,005.66	1.3	3,127.13	4.0
Other liabilities	(404.33)	(477.36)	(558.80)	(733.59)	(1,025.86)	(1,025.86)	0.0	(1,025.86)	0.0	(1,025.86)	0.0
Operating invested capital	4,162.24	4,879.80	6,927.07	8,868.67	13,758.57	16,828.98	22.3	19,415.85	15.4	21,593.38	11.2
Investments	36.65	37.98	38.74	42.22	45.83	51.63	12.7	58.47	13.2	66.85	14.3
Total capital employed	4,198.89	4,917.78	6,965.81	8,910.89	13,804.40	16,880.61	22.3	19,474.32	15.4	21,660.24	11.2
Shareholders' equity	4,055.38	6,063.08	6,918.62	6,583.66	8,404.01	8,697.44	3.5	9,321.85	7.2	9,786.88	5.0
Minority interests	353.29	399.96	388.31	413.79	843.61	908.04	7.6	968.69	6.7	1,017.90	5.1
Total equity	4,408.67	6,463.04	7,306.93	6,997.45	9,247.62	9,605.49	3.9	10,290.54	7.1	10,804.78	5.0
Net debt / (cash)	(209.78)	(1,545.27)	(341.13)	1,913.44	4,556.79	7,275.12	59.7	9,183.77	26.2	10,855.46	18.2
Other debt-deemed items	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	4,198.89	4,917.78	6,965.81	8,910.89	13,804.40	16,880.61	22.3	19,474.32	15.4	21,660.24	11.2
Cash flow (Rmbm)	12/08	12/09	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	% ch
Operating income (EBIT, UBS)	704.33	1,054.34	1,726.56	2,365.24	2,857.21	1,739.21	-39.1	1,757.37	1.0	1,578.03	-10.2
Depreciation	248.10	233.87	384.12	480.23	438.73	556.31	26.8	663.34	19.2	756.30	14.0
Net change in working capital	(254.85)	16.32	(679.82)	(347.42)	(827.22)	154.49	-	(9.22)	-	(50.59)	448.6
Other (operating)	93.55	(8.95)	88.69	112.24	(26.05)	0.00	-	0.00	-	0.00	-
Operating cash flow (pre tax/interest)	791.13	1,295.57	1,519.55	2,610.29	2,442.67	2,450.01	0.3	2,411.49	-1.6	2,283.74	-5.3
Net interest received / (paid)	1.14	(11.04)	(78.63)	(85.66)	(202.80)	(318.78)	57.2	(421.90)	32.3	(497.10)	17.8
Dividends paid	(198.87)	(241.93)	(320.64)	(457.94)	(627.68)	(711.80)	13.40	(321.68)	-54.81	(302.75)	-5.88
Tax paid	(273.23)	(332.39)	(356.84)	(445.89)	(694.11)	(617.76)	-11.0	(356.56)	-42.3	(335.58)	-5.9
Capital expenditure	(977.82)	(494.71)	(1,336.16)	(1,756.80)	(2,516.64)	(3,500.00)	39.1	(3,200.00)	-8.6	(2,800.00)	-12.5
Net (acquisitions) / disposals	(151.46)	(423.25)	(561.67)	(37.65)	(184.74)	0.00	-	0.00	-	0.00	-
Other	(208.69)	133.35	(123.05)	(548.48)	(793.33)	(20.00)	-97.5	(20.00)	0.0	(20.00)	0.0
Share issues	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	(1,017.80)	(74.41)	(1,257.44)	(722.13)	(2,576.62)	(2,718.33)	5.5	(1,908.65)	-29.8	(1,671.69)	-12.4
FX / non cash items	(22.51)	1,409.89	53.30	(1,532.44)	(66.72)	0.00	-	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	(1,040.32)	1,335.48	(1,204.14)	(2,254.57)	(2,643.35)	(2,718.33)	2.8	(1,908.65)	-29.8	(1,671.69)	-12.4
Core EBITDA	952.43	1,288.21	2,110.68	2,845.47	3,295.94	2,295.52	-30.4	2,420.71	5.5	2,334.33	-3.6
Maintenance capital expenditure	(68.69)	(31.02)	(108.25)	(152.76)	(238.71)	(300.00)	25.7	(270.00)	-10.0	(230.00)	-14.8
Maintenance net working capital	(12.74)	0.82	(33.99)	(17.37)	(41.36)	7.72	-	(0.46)	-	(2.53)	448.6
Operating free cash flow, pre-tax	871.00	1,258.00	1,968.44	2,675.34	3,015.87	2,003.24	-33.6	2,150.25	7.3	2,101.81	-2.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

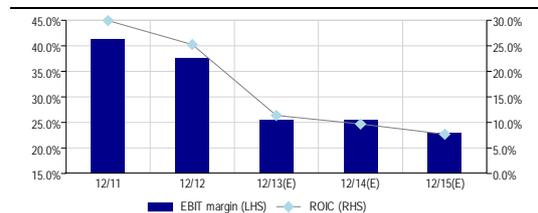
Company profile

Zhaojin Mining Industry (Zhaojin) is one of the largest gold producers in China focusing on the mining and smelting of gold. The company charges tolling fees for processing gold concentrates purchased from third parties. Zhaojin has seven operating mines and a smelter in Shandong Province. It has recently expanded into other provinces such as Xinjiang, Hainan and Gansu through acquisitions. As at end-2011, Zhaojin produced 23,577kg of gold with 15,936kg of self-mined gold, and 7,641kg of smelted and processed gold. The company owned minable gold reserves of 297t and gold resources of 558ts at end-2011.

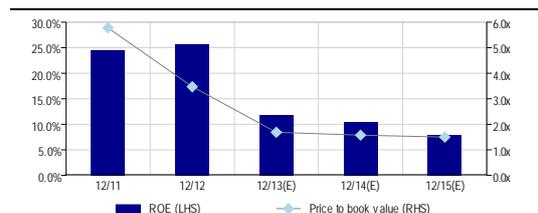
Value (EV/OpFCF & P/E)



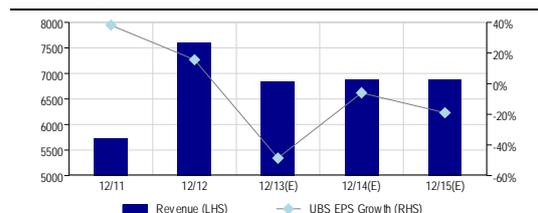
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
P/E (local GAAP)	20.5	22.9	14.9	14.7	15.6	19.3
P/E (UBS)	20.5	22.9	14.9	14.7	15.6	19.3
P/CEPS	15.4	17.8	12.2	9.5	9.2	9.7
Net dividend yield (%)	2.0	1.6	2.5	2.2	2.0	1.7
P/BV	3.7	5.8	3.5	1.7	1.6	1.5
EV/revenue (core)	5.5	6.8	4.4	3.3	3.6	3.9
EV/EBITDA (core)	11.8	13.7	10.1	9.8	10.3	11.5
EV/EBIT (core)	14.2	16.5	11.7	13.0	14.2	17.0
EV/OpFCF (core)	12.7	14.5	11.1	11.3	11.6	12.7
EV/op. invested capital	3.8	4.9	3.0	1.5	1.4	1.3

Enterprise value (Rmbm)	12/11	12/12	12/13E	12/14E	12/15E
Average market cap	37,132.55	28,753.10	14,781.35	14,781.35	14,781.35
+ minority interests	401.05	628.70	875.83	938.37	993.29
+ average net debt (cash)	786.16	3,235.12	5,915.96	8,229.45	10,019.62
+ pension obligations and other	646.20	879.73	1,025.86	1,025.86	1,025.86
- non-core asset value	(42.22)	(45.83)	(51.63)	(58.47)	(66.85)
Core enterprise value	38,923.73	33,450.82	22,547.36	24,916.56	26,753.27

Growth (%)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
Revenue	37.1	40.1	32.4	-10.0	0.8	-0.1
EBITDA (UBS)	36.4	34.8	15.8	-30.4	5.5	-3.6
EBIT (UBS)	41.9	37.0	20.8	-39.1	1.0	-10.2
EPS (UBS)	37.7	38.3	15.6	-48.6	-5.9	-18.8
Cash EPS	31.8	35.1	10.1	-34.9	3.1	-5.3
Net DPS	26.0	40.0	16.1	-55.5	-5.9	-18.8
BVPS	19.5	-4.8	25.5	3.5	7.2	5.0

Margins (%)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
EBITDA / revenue	46.9	49.6	43.4	33.5	35.1	33.9
EBIT / revenue	38.3	41.2	37.6	25.4	25.5	22.9
Net profit (UBS) / revenue	27.1	28.9	25.3	14.7	13.7	11.1

Return on capital (%)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
EBIT ROIC (UBS)	26.4	29.9	25.3	11.4	9.7	7.7
ROIC post tax	-	22.5	19.4	8.5	7.3	5.8
Net ROE	19.5	24.6	25.7	11.8	10.5	8.0

Coverage ratios (x)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
EBIT / net interest	-	27.7	14.1	5.5	4.2	3.2
Dividend cover (UBS EPS)	2.5	2.7	2.7	3.1	3.1	3.1
Div. payout ratio (% UBS EPS)	41.1	36.8	37.0	32.0	32.0	32.0
Net debt / EBITDA	0.4	0.7	1.4	3.2	3.8	4.7

Efficiency ratios (x)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
Revenue / op. invested capital	0.7	0.7	0.7	0.4	0.4	0.3
Revenue / fixed assets	0.7	0.8	0.8	0.5	0.4	0.4
Revenue / net working capital	18.6	18.9	9.8	5.3	5.1	4.8

Investment ratios (x)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
OpFCF / EBIT	1.1	1.1	1.1	1.2	1.2	1.3
Capex / revenue (%)	NM	NM	NM	NM	NM	NM
Capex / depreciation	4.0	3.7	5.7	6.3	4.8	3.7

Capital structure (%)	5Yr Avg	12/11	12/12	12/13E	12/14E	12/15E
Net debt / total equity	13.7	29.1	54.2	83.6	98.5	NM
Net debt / (net debt + equity)	12.0	22.5	35.2	45.5	49.6	52.6
Net debt (core) / EV	1.2	2.0	9.7	26.2	33.0	37.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of HK\$6.35 on 29 Oct 2013 21:26 EDT Market cap(E) may include forecast share issues/buybacks.

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■ Zhaojin Mining Industry

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■ Statement of Risk

We believe Zhaojin has less operational risks than other domestic gold companies as its primary mining operations are largely based out of Zhaoyuan, Shandong, where its headquarter is located. Risks are mainly industry-wide, such as gold price volatility, likely rising cost in an inflationary and high gold price environment.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	44%	32%
Neutral	Hold/Neutral	46%	32%
Sell	Sell	10%	19%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	less than 1%
Sell	Sell	less than 1%	less than 1%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2013.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities Asia Limited: Ghee Peh; Coria Chow.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Zhaojin Mining Industry ^{2, 4, 16}	1818.HK	Buy	N/A	HK\$6.32	28 Oct 2013

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Zhaojin Mining Industry (HK\$)



Source: UBS; as of 28 Oct 2013

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