

Zhaojin Mining Industry

Lower 2014 gold price, maintain Buy

Lower 2013-14E gold price on QE tapering and weaker physical demand

UBS global commodities team lower 2014E gold price forecasts by 9% to US\$1,200/oz. They also trimmed Q413E forecast by 11% to US\$1,240/oz, this means 2013E price is 3% lower at US\$1,404/oz. With the expectation of QE-tapering, and Indian government curbing gold import to protect current account, they believe the gold market can fluctuate widely and seek to test the US\$1,050/oz level. However, they expect some demand support for gold from asset diversification.

High cost mines closed, but output growth still strong

Zhaojin has shut mine capacity with cost higher than US\$1,200/oz since August, and these represent <10% of company's reserves. We expect these mines to remain closed through 2014, and lower 2014E mine gold output by 4% to 16.7t (535koz). We expect Zhaojin should reopen these mines medium term to avoid asset write off and to lower cost through technical upgrades, and only trim 2015E output by 1% to 19.2t (617koz). We stress 2013-15E output CAGR 13% at a cost of only US\$705-722/oz.

Current valuation represents attractive risk/reward

With lower 2013/14E gold price and lower output, we lower 2013/14/15E EPS by 13%/38%/8% to Rmb0.30/0.20/0.24. We note Zhaojin's share price has declined 34% since August versus 14% decline in gold price and 9% decline in Zijin's share price. We believe current share price represents attractive risk/reward. We prefer Zhaojin in gold sector with cost advantage and strong output growth to drive profit.

Valuation: lower TP to HK\$6.59, maintain Buy

We roll over our TP to 2014E. With lower gold prices and output, we lower our TP by 9% to HK\$6.59. Our TP is based on target 2014E P/NAV multiple of 2.34x (unchanged) and implies gold price of US\$1,334/oz.

Equities

 China
Mining

12-month rating **Buy**
12m price target **HK\$6.59**
Prior: HK\$7.22
Price **HK\$5.14**
RIC: 1818.HK **BBG:** 1818 HK

Trading data and key metrics

52-wk range HK\$13.28-4.57

Market cap. HK\$15.2bn/US\$1.97bn

Shares o/s 2,966m (ORD)

Free float 94%

Avg. daily volume ('000) 11,619

Avg. daily value (m) HK\$72.2

Common s/h equity (12/13E) Rmb8.57bn

P/BV (UBS, 12/13E) 1.4x

Net debt / EBITDA (12/13E) 3.5x

EPS (UBS, diluted) (Rmb)

	From	To	% ch	Cons.
12/13E	0.34	0.30	-12.87	0.37
12/14E	0.32	0.20	-37.58	0.32
12/15E	0.26	0.24	-7.73	0.30

Ghee Peh

Analyst

ghee.peh@ubs.com

+852-2971 6448

Coria Chow

Associate Analyst

coria-y.chow@ubs.com

+852-3712 4655

Highlights (Rmbm)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenues	4,097.80	5,741.11	7,602.96	6,592.58	6,083.86	6,773.38	7,328.60	7,595.75
EBIT (UBS)	1,726.56	2,365.24	2,857.21	1,555.56	1,254.17	1,499.71	1,900.58	1,965.45
Net earnings (UBS)	1,201.73	1,661.58	1,923.52	875.90	590.58	708.38	953.65	989.57
EPS (UBS, diluted) (Rmb)	0.41	0.57	0.66	0.30	0.20	0.24	0.32	0.33
DPS (Rmb)	0.15	0.21	0.24	0.09	0.06	0.08	0.10	0.11
Net (debt) / cash	341.13	(1,913.44)	(4,556.79)	(7,419.69)	(9,646.14)	(10,992.06)	(11,537.87)	(11,793.25)
Profitability/valuation	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
EBIT margin %	42.1	41.2	37.6	23.6	20.6	22.1	25.9	25.9
ROIC (EBIT) %	29.2	29.9	25.3	10.2	6.9	7.4	8.7	8.5
EV/EBITDA (core) x	11.6	13.7	10.1	9.4	11.7	10.8	9.3	8.9
P/E (UBS, diluted) x	21.1	22.9	14.9	13.7	20.3	16.9	12.6	12.1
Equity FCF (UBS) yield %	0.0	1.5	(2.9)	(13.6)	(11.9)	(5.3)	1.7	4.8
Net dividend yield %	1.7	1.6	2.5	2.3	1.6	1.9	2.5	2.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$5.14 on 02 Dec 2013 14:38 HKT

Investment Thesis

Zhaojin Mining

Investment case

UBS global team is lowering 2013-14E gold price forecasts with the expectation of QE tapering and slower weaker physical demand from India. With expected gold price volatility, we stress cost is the key to stabilize profit margin. We stress Zhaojin can leverage on its cost advantage with unit cost of only US\$705-722/oz for 2013-15E, and output CAGR of 13% over the period. With share price declining 34% since August compared to 14% decline in gold price over the same period, we believe the share current price represents attractive risk/reward.

Upside scenario

We assume gold price to rebound to US\$1,417/oz for the rest of 2013E (implying 2013E average of US\$1,425/oz). We then assume gold price to decline 5%YoY to US\$1,354/oz for 2014E, and stay flat YoY for 2015E. This scenario represents slower-than-expected economic recovery in US, and/or higher-than-expected inflation raises demand for safe-haven assets like gold. The implied valuation is HK\$7.63/share.

Downside scenario

We assume gold price to stay at US\$1,050/oz for the rest of 2013E (implying 2013E average of US\$1,394/oz), staying at US\$1,050/oz for 2014E and rebounds 5%YoY to US\$1,102/oz in 2015E. This scenario represents US economy continues to recover and therefore investors' risk appetite increases, undermining demand for gold. However, output cut from high cost producers helps stabilizing gold price. We also assume Zhaojin to face de-rating to P/NAV of 2.1x. The implied valuation is HK\$5.68/share.

Upcoming catalysts

We believe the possible catalysts are: 1) possible rise in demand for gold as safe haven asset, 2) potential acquisitions, 3) continual growth in mined output, especially from new mines outside of Shandong 4) better than expected cost control

12-month rating

Buy

12m price target

HK\$6.59

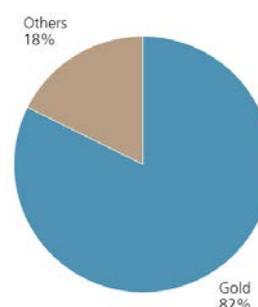
Business description

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 as at end-2011.

Industry outlook

We believe the macro economic uncertainties increases gold price volatility. On a negative note, rising expectation for slower Fed asset purchases, the end of QE and continued improvement in US economy pose significant challenges to the gold price. On a positive note, inventory building for the Chinese New Year can provide support to gold price. We expect rising cost to be a major challenge for China gold producers. There is also competition for gold resources domestically and overseas, as most of the large gold producers in China are planning output expansion.

Revenues by region (%)



EBIT by product segment

(Rmb m)	2011	2012	2013E	2014E	2015E
Gold	2,358	3,620	2,686	2,291	2,613
Others	706	75	(184)	(292)	(283)
Total	3,064	3,695	2,502	1,999	2,329

Source: UBS estimates

Sensitivity analysis

With the expected volatility in gold price, we believe cost control is the key to stable profit. We assess the sensitivity of Zhaojin's earnings to gold prices and cost. We estimate:

- 1% change in gold price can change 2013E/14E EPS by 2.8%/4%
- 1% change in cost can change 2013E/14E EPS by 1.6%/ 2.7%

Figure 1: Zhaojin – key operational forecasts

	Unit	2013E old	2013E new	% chg	2014E old	2014E new	% chg	2015E old	2015E new	% chg
Output	t	15,064	15,064	0.0%	17,350	16,650	-4.0%	19,400	19,200	-1.0%
	koz	484.3	484.3	0.0%	557.8	535.3	-4.0%	623.7	617.3	-1.0%
Cost	Rmb/g	134.9	134.9	0.0%	135.6	134.2	-1.0%	136.9	136.7	0.0%
	US\$/oz	705.1	705.1	0.0%	715.6	708.3	-1.0%	722.9	721.8	0.0%
Price	US\$/oz	1,440	1,404	-2.5%	1,325	1,200	-9.4%	1,200	1,200	0.0%
	Rmb/g	275	269	-2.5%	253	230	-9.4%	230	230	0.0%

Source: UBS estimates

Figure 2: Zhaojin – key financial forecasts

	Unit	2013E old	2013E new	% chg	2014E old	2014E new	% chg	2015E old	2015E new	% chg
Revenue	Rmb m	6,843	6,593	-3.7%	6,897	6,084	-11.8%	6,889	6,773	-1.7%
COGS	Rmb m	4,124	4,091	-0.8%	4,295	4,084	-4.9%	4,467	4,444	-0.5%
Gross profit	Rmb m	2,719	2,502	-8.0%	2,602	1,999	-23.2%	2,422	2,329	-3.8%
Gross margin	%	39.7%	37.9%	-1.8%	37.7%	32.9%	-4.9%	35.2%	34.4%	-0.8%
Net profit	Rmb m	1,005	876	-12.9%	946	591	-37.6%	768	708	-7.7%
EPS	Rmb	0.34	0.30	-12.9%	0.32	0.20	-37.6%	0.26	0.24	-7.7%

Source: UBS estimates

Figure 3: Zhaojin mining – valuation summary

	2014e NAV/share (Rmb)	Target multiple (Rmb)	Net debt/share(Rmb)	Exchange rate	TP (HK\$)
Zhaojin	3.80	2.34	3.71	1.27	6.59

Source: UBS estimates

Zhaojin Mining Industry (1818.HK)

Income statement (Rmbm)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
Revenues	4,097.80	5,741.11	7,602.96	6,592.58	-13.3	6,083.86	-7.7	6,773.38	7,328.60	7,595.75
Gross profit	2,310.84	3,063.74	3,694.98	2,501.59	-32.3	1,999.44	-20.1	2,329.45	2,651.76	2,744.01
EBITDA (UBS)	2,110.68	2,845.47	3,295.94	2,111.86	-35.9	1,917.51	-9.2	2,245.46	2,714.69	2,837.36
Depreciation & amortisation	(384.12)	(480.23)	(438.73)	(556.31)	26.8	(663.34)	19.2	(745.75)	(814.11)	(871.91)
EBIT (UBS)	1,726.56	2,365.24	2,857.21	1,555.56	-45.6	1,254.17	-19.4	1,499.71	1,900.58	1,965.45
Associates & investment income	3.96	6.94	10.17	5.95	-41.5	7.38	24.0	8.46	8.44	10.30
Other non-operating income	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Net interest	(78.62)	(85.66)	(202.80)	(318.78)	-57.2	(423.64)	-32.9	(503.12)	(555.98)	(571.75)
Exceptionals (incl goodwill)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Profit before tax	1,651.90	2,286.52	2,664.58	1,242.72	-53.4	837.91	-32.6	1,005.06	1,353.04	1,404.01
Tax	(409.74)	(563.78)	(617.76)	(310.68)	49.7	(209.48)	32.6	(251.26)	(338.26)	(351.00)
Profit after tax	1,242.16	1,722.74	2,046.82	932.04	-54.5	628.44	-32.6	753.79	1,014.78	1,053.00
Preference dividends and Minorities	(40.43)	(61.16)	(123.30)	(56.14)	54.5	(37.86)	32.6	(45.41)	(61.13)	(63.43)
Extraordinary items	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Net earnings (local GAAP)	1,201.73	1,661.58	1,923.52	875.90	-54.5	590.58	-32.6	708.38	953.65	989.57
Net earnings (UBS)	1,201.73	1,661.58	1,923.52	875.90	-54.5	590.58	-32.6	708.38	953.65	989.57
Tax rate (%)	24.8	24.7	23.2	25.0	7.8	25.0	0.0	25.0	25.0	25.0
Per share (Rmb)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
EPS (UBS, diluted)	0.41	0.57	0.66	0.30	-55.2	0.20	-32.6	0.24	0.32	0.33
EPS (local GAAP, diluted)	0.41	0.57	0.66	0.30	-55.2	0.20	-32.6	0.24	0.32	0.33
EPS (UBS, basic)	0.41	0.57	0.66	0.30	-55.2	0.20	-32.6	0.24	0.32	0.33
Net DPS (Rmb)	0.15	0.21	0.24	0.09	-61.2	0.06	-32.6	0.08	0.10	0.11
Book value per share	2.37	2.26	2.83	2.89	2.0	2.99	3.6	3.17	3.41	3.64
Average shares (diluted)	2,914.86	2,914.86	2,919.11	2,965.83	1.6	2,965.83	0.0	2,965.83	2,965.83	2,965.83
Balance sheet (Rmbm)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
Cash and equivalents	781.89	1,245.87	1,350.65	1,237.75	-8.4	761.30	-38.5	905.38	1,249.57	984.19
Other current assets	1,401.10	2,715.93	3,029.15	3,067.87	1.3	3,977.88	29.7	4,381.37	4,639.33	4,810.57
Total current assets	2,182.99	3,961.80	4,379.80	4,305.62	-1.7	4,739.18	10.1	5,286.75	5,888.90	5,794.76
Net tangible fixed assets	3,691.08	4,926.70	7,373.43	9,944.94	34.9	12,121.51	21.9	13,527.76	14,477.75	15,082.02
Net intangible fixed assets	2,932.93	3,178.08	4,557.50	4,942.06	8.4	5,314.53	7.5	5,674.91	6,023.20	6,359.39
Investments / other assets	607.94	1,224.51	1,656.91	1,670.48	0.8	1,685.48	0.9	1,701.57	1,717.63	1,735.55
Total assets	9,414.93	13,291.09	17,967.64	20,863.10	16.1	23,860.71	14.4	26,190.99	28,107.46	28,971.73
Trade payables & other ST liabilities	1,108.44	2,400.74	1,786.72	1,711.94	-4.2	2,611.40	52.5	2,886.87	3,125.25	3,251.68
Short term debt	370.00	1,510.16	3,167.65	5,167.65	63.14	6,167.65	19.35	6,967.65	7,167.65	7,367.65
Total current liabilities	1,478.44	3,910.90	4,954.36	6,879.59	38.9	8,779.04	27.6	9,854.52	10,292.90	10,619.32
Long term debt	70.76	1,649.16	2,739.79	3,489.79	27.4	4,239.79	21.5	4,929.79	5,619.79	5,409.79
Other long term liabilities	558.80	733.59	1,025.86	1,025.86	0.0	1,025.86	0.0	1,025.86	1,025.86	1,025.86
Preferred shares	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Total liabilities (incl pref shares)	2,108.00	6,293.64	8,720.02	11,395.24	30.7	14,044.70	23.3	15,810.17	16,938.55	17,054.98
Common s/h equity	6,918.62	6,583.66	8,404.01	8,568.10	2.0	8,878.40	3.6	9,397.80	10,124.76	10,809.17
Minority interests	388.31	413.79	843.61	899.75	6.7	937.61	4.2	983.02	1,044.15	1,107.58
Total liabilities & equity	9,414.93	13,291.09	17,967.64	20,863.10	16.1	23,860.71	14.4	26,190.99	28,107.46	28,971.73
Cash flow (Rmbm)	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
Net income (before pref divs)	1,201.73	1,661.58	1,923.52	875.90	-54.5	590.58	-32.6	708.38	953.65	989.57
Depreciation & amortisation	384.12	480.23	438.73	556.31	26.8	663.34	19.2	745.75	814.11	871.91
Net change in working capital	(679.82)	(347.42)	(827.22)	193.59	-	90.64	-53.2	(169.80)	(106.57)	543.44
Other operating	178.05	284.35	107.74	(256.89)	-	(70.73)	72.5	78.73	139.69	(535.13)
Operating cash flow	1,084.08	2,078.74	1,545.76	1,368.90	-11.4	1,273.83	-6.9	1,363.07	1,800.87	1,869.79
Tangible capital expenditure	(1,082.54)	(1,527.60)	(2,387.09)	(3,000.00)	-25.7	(2,700.00)	10.0	(2,000.00)	(1,600.00)	(1,300.00)
Intangible capital expenditure	(253.62)	(229.20)	(129.55)	(500.00)	-286.0	(500.00)	0.0	(500.00)	(500.00)	(500.00)
Net (acquisitions) / disposals	(561.67)	(37.65)	(184.74)	0.00	-	0.00	-	0.00	0.00	0.00
Other investing	(38.10)	(424.36)	(743.89)	(20.00)	-	(20.00)	-	(20.00)	(20.00)	(20.00)
Investing cash flow	(1,935.93)	(2,218.81)	(3,445.27)	(3,520.00)	-2.2	(3,220.00)	8.5	(2,520.00)	(2,120.00)	(1,820.00)
Equity dividends paid	(320.63)	(457.94)	(627.68)	(711.80)	-13.4	(280.29)	60.6	(188.99)	(226.68)	(305.17)
Share issues / (buybacks)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Other financing	(84.95)	(124.12)	(49.44)	0.00	-	0.00	-	0.00	0.00	0.00
Change in debt & pref shares	(241.26)	526.76	2,748.12	2,750.00	0.07	1,750.00	-36.36	1,490.00	890.00	(10.00)
Financing cash flow	(646.85)	(55.30)	2,071.01	2,038.20	-1.6	1,469.71	-27.9	1,301.01	663.32	(315.17)
Cash flow inc/(dec) in cash	(1,257.43)	(722.13)	(2,576.62)	(112.90)	95.6	(476.45)	-322.0	144.08	344.19	(255.38)
FX / non cash items	(174.79)	1,186.11	2,681.40	0.00	-	0.00	-	0.00	0.00	(10.00)
Balance sheet inc/(dec) in cash	(1,432.22)	463.98	104.78	(112.90)	-	(476.45)	-322.0	144.08	344.19	(265.38)

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Zhaojin Mining Industry (1818.HK)

Valuation (x)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
P/E (local GAAP, diluted)	21.1	22.9	14.9	13.7	20.3	16.9	12.6	12.1
P/E (UBS, diluted)	21.1	22.9	14.9	13.7	20.3	16.9	12.6	12.1
P/CEPS	16.0	17.8	12.2	8.4	9.6	8.2	6.8	6.4
Equity FCF (UBS) yield %	0.0	1.5	(2.9)	(13.6)	(11.9)	(5.3)	1.7	4.8
Net dividend yield (%)	1.7	1.6	2.5	2.3	1.6	1.9	2.5	2.6
P/BV x	3.7	5.8	3.5	1.4	1.3	1.3	1.2	1.1
EV/revenues (core)	6.0	6.8	4.4	3.0	3.7	3.6	3.4	3.3
EV/EBITDA (core)	11.6	13.7	10.1	9.4	11.7	10.8	9.3	8.9
EV/EBIT (core)	14.2	16.5	11.7	12.7	17.9	16.1	13.3	12.9
EV/OpFCF (core)	12.5	14.5	11.1	10.9	13.6	11.9	9.9	9.2
EV/op. invested capital	4.2	4.9	3.0	1.3	1.2	1.2	1.1	1.1
Enterprise value (Rmbm)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Market cap.	24,642.82	37,134.58	28,754.22	11,981.48	11,981.48	11,981.48	11,981.48	11,981.48
Net debt (cash)	(943.20)	786.16	3,235.12	5,988.24	8,532.91	10,319.10	11,264.96	11,264.96
Buy out of minorities	394.14	401.05	628.70	871.68	918.68	960.31	1,013.58	1,075.86
Pension provisions/other	518.08	646.20	879.73	1,025.86	1,025.86	1,025.86	1,025.86	1,025.86
Total enterprise value	24,611.84	38,967.99	33,497.76	19,867.26	22,458.94	24,286.75	25,285.89	25,348.17
Non core assets	(38.73)	(42.22)	(45.83)	(51.78)	(59.16)	(67.62)	(76.06)	(86.37)
Core enterprise value	24,573.10	38,925.77	33,451.93	19,815.48	22,399.78	24,219.13	25,209.83	25,261.80
Growth (%)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenue	46.5	40.1	32.4	-13.3	-7.7	11.3	8.2	3.6
EBITDA (UBS)	63.8	34.8	15.8	-35.9	-9.2	17.1	20.9	4.5
EBIT (UBS)	63.8	37.0	20.8	-45.6	-19.4	19.6	26.7	3.4
EPS (UBS, diluted)	59.4	38.3	15.6	-55.2	-32.6	19.9	34.6	3.8
Net DPS	36.4	40.0	16.1	-61.2	-32.6	19.9	34.6	3.8
Margins & Profitability (%)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Gross profit margin	56.4	53.4	48.6	37.9	32.9	34.4	36.2	36.1
EBITDA margin	51.5	49.6	43.4	32.0	31.5	33.2	37.0	37.4
EBIT margin	42.1	41.2	37.6	23.6	20.6	22.1	25.9	25.9
Net earnings (UBS) margin	29.3	28.9	25.3	13.3	9.7	10.5	13.0	13.0
ROIC (EBIT)	29.2	29.9	25.3	10.2	6.9	7.4	8.7	8.5
ROIC post tax	22.0	22.5	19.4	7.6	5.2	5.5	6.5	6.4
ROE (UBS)	18.5	24.6	25.7	10.3	6.8	7.8	9.8	9.5
Capital structure & Coverage (x)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Net debt / EBITDA	NM	0.7	1.4	3.5	5.0	4.9	4.3	4.2
Net debt / total equity	(4.7)	27.3	49.3	78.4	98.3	NM	NM	99.0
Net debt / (net debt + total equity)	(4.9)	21.5	33.0	43.9	49.6	51.4	50.8	49.7
Net debt/EV	(1.4)	4.9	13.6	37.4	43.1	45.4	45.8	46.7
Capex / depreciation %	NM	NM	NM	NM	NM	NM	196.5	149.1
Capex / revenue %	26.4	26.6	NM	NM	NM	29.5	21.8	17.1
EBIT / net interest	22.0	27.6	14.1	4.9	3.0	3.0	3.4	3.4
Dividend cover (UBS)	2.7	2.7	2.7	3.1	3.1	3.1	3.1	3.1
Div. payout ratio (UBS) %	36.4	36.8	37.0	32.0	32.0	32.0	32.0	32.0
Revenues by division (Rmbm)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Others	4,097.80	5,741.11	7,602.96	6,592.58	6,083.86	6,773.38	7,328.60	7,595.75
Total	4,097.80	5,741.11	7,602.96	6,592.58	6,083.86	6,773.38	7,328.60	7,595.75
EBIT (UBS) by division (Rmbm)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Others	1,726.56	2,365.24	2,857.21	1,555.56	1,254.17	1,499.71	1,900.58	1,965.45
Total	1,726.56	2,365.24	2,857.21	1,555.56	1,254.17	1,499.71	1,900.58	1,965.45

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+28.2%
Forecast dividend yield	1.6%
Forecast stock return	+29.8%
Market return assumption	9.5%
Forecast excess return	+20.3%

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.

Required Disclosures

This report has been prepared by UBS Securities Asia Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

Analyst Certification: Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	44%	32%
Neutral	FSR is between -6% and 6% of the MRA.	46%	32%
Sell	FSR is > 6% below the MRA.	10%	19%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

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

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.

KEY DEFINITIONS: **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). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **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.

EXCEPTIONS AND SPECIAL CASES: UK and European Investment Fund ratings and definitions are: **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Securities Asia Limited: Ghee Peh; Coria Chow.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Zhaojin Mining Industry ¹⁶	1818.HK	Buy	N/A	HK\$5.14	02 Dec 2013

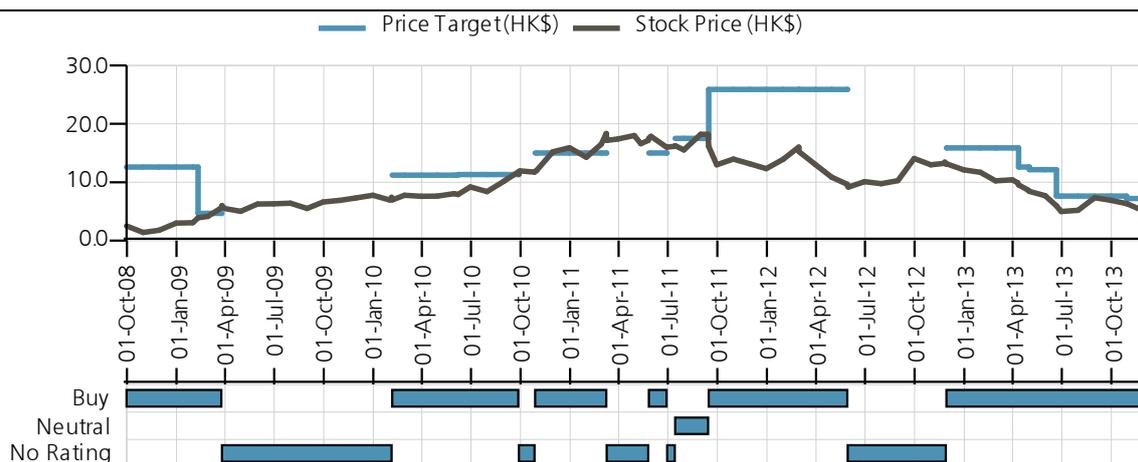
Source: UBS. All prices as of local market close.

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

16. UBS Securities (Hong Kong) Limited is a market maker in the HK-listed securities of this company.

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 02 Dec 2013

Global Disclaimer

This document has been prepared by UBS Securities Asia Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this document is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACP (Autorité de Contrôle Prudentiel) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spolka z ograniczona odpowiedzialnoscia) Oddzial w Polsce. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this document, the document is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** Distributed by UBS South Africa (Pty) Limited, an authorised user of the JSE and an authorised Financial Services Provider. **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Qualified Investors within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate') to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a document prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd. [mica (p) 107/09/2013 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to institutional investors only. Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services License No. 231087) and/or UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). The Information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the Information, consider the appropriateness of the Information, having regard to their objectives, financial situation and needs. If the Information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Dubai:** The research distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (253825-x). **India:** Prepared by UBS Securities India Private Ltd. 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research documents produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2013. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

