

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

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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 lowers 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 recovery 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

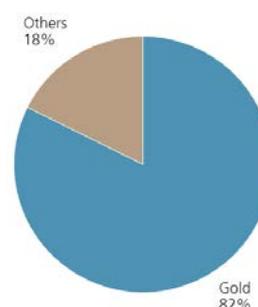
Business description

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.

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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.

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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

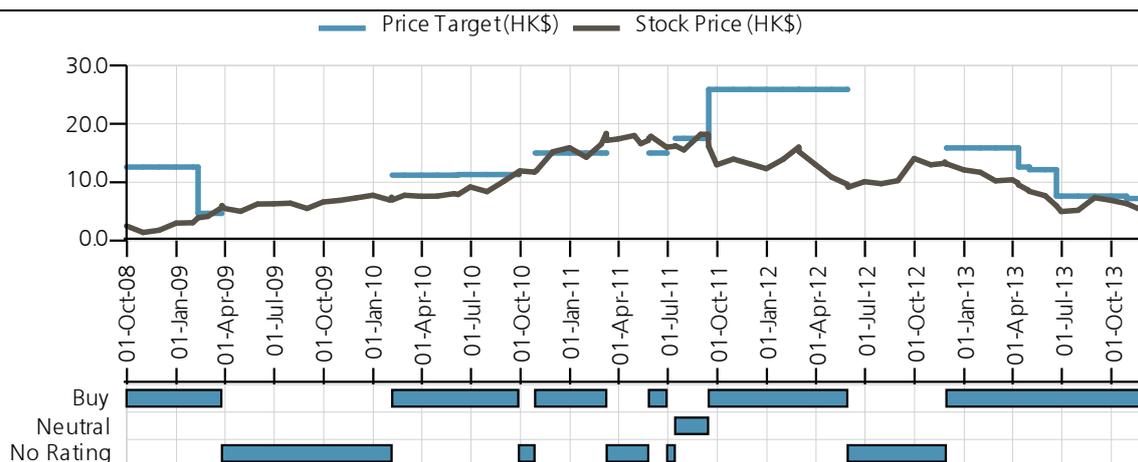
Source: UBS. All prices as of local market close.

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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 02 Dec 2013

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