

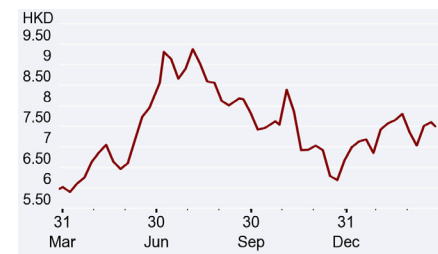
Zhaojin Mining Industry (1818.HK)

Alert: Direct Impact From Placement

- What's new:** Zhaojin announced that it plans a placement issue of upto 174.9mn shares @ HK\$6.93/share, a 7% discount to yesterday's closing price. Net proceeds are expected to be ~HK\$1.2bn (US\$155.4mn). The 174.9mn shares represent 5.9% of the existing share count and 5.6% of the enlarged share capital.
- Use of proceeds:** Company mentioned this is for supplementing working capital. The placement is expected to reduce 2017 net gearing from 82% to 74%, all else being equal. This could also give the company ammunition for M&A.
- Shareholding structure:** Controlling shareholder Shandong Zhaojin Group's stakes will drop from 36.6% to 34.6% after the placement. The second-largest shareholder – Shanghai Yuyuan Tourist, a subsidiary of Fosun International – faces dilution to 23.6%, from 25.0% prior to the transaction.
- Implication:** Share price dropped ~5% in the morning as an immediate response to the news, similar to the magnitude of dilution. As the negative from the placement is now almost fully reflected in the share price, we think what's important next is the quality of any M&A transaction. Both Zhaojin and Zijin mentioned their strong intention to do M&A during their post-results investor meetings.
- Potential M&A targets:** Zhaojin and Zijin are both actively talking to various M&A targets, according to management. Bloomberg reported in November 2016 that Zhaojin (together with Fosun International) and Zijin are competing for Russia's largest gold miner – Polyus (<https://www.bloomberg.com/news/articles/2016-11-24/chinese-gold-miners-said-to-compete-for-2-billion-polyus-stake>).

Buy/High Risk	1H
Price (28 Mar 17 16:10)	HK\$7.50
Target price	HK\$9.20
Expected share price return	22.7%
Expected dividend yield	0.5%
Expected total return	23.2%
Market Cap	HK\$22,244M
	US\$2,863M

Price Performance (RIC: 1818.HK, BB: 1818 HK)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Zhaojin Mining Industry

Valuation

We value Zhaojin at HK\$9.20/sh, based on the average of DCF and PB valuations. Under our DCF valuation, we assume a long-term gold price of US\$1,370/oz, in line with our commodity team's forecast. With a 3% terminal growth and a WACC of 6%, our NPV/share works out to HK\$9.27/sh. In our PB valuation, which derives a fair value of HK\$9.05/sh, we assign 2.0x 17E PB, which is set below the historical mean of 2.5x since 2011 to reflect our view that future ROE will be below that of peers and also below the company's historical levels.

Risks

Our quantitative model assigns a High Risk rating to Zhaojin based on the volatility of its share-price movements in the past 12 months. Major downside risks that could mean the shares fail to achieve our target price include: 1) gold prices are lower than we expect due to a spike in interest rates; 2) production costs are higher than we are modelling; 3) capex outlays overrun at the Haiyu Gold mine and/or there are production delays.

Appendix A-1

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IMPORTANT DISCLOSURES

Zhaojin Mining Industry (1818.HK)

Ratings and Target Price History Fundamental Research

Analyst: Ada Gao, CFA
Covered since December 5 2016



	Date	Rating	Target Price	Closing Price
1	11-Feb-15 05:40:19	*3	*4.10	4.65
2	01-Jun-15 17:46:14	*2	*6.70	5.95
3	14-Oct-15 18:21:51	2	*5.10	4.65

	Date	Rating	Target Price	Closing Price
4	11-Dec-15 06:01:07	2	*4.50	4.04
5	02-May-16 13:38:49	2	*6.80	6.63
6	15-Jul-16 01:11:35	Coverage terminated		

	Date	Rating	Target Price	Closing Price
7	05-Dec-16 00:12:34	*1H	*9.20	6.85

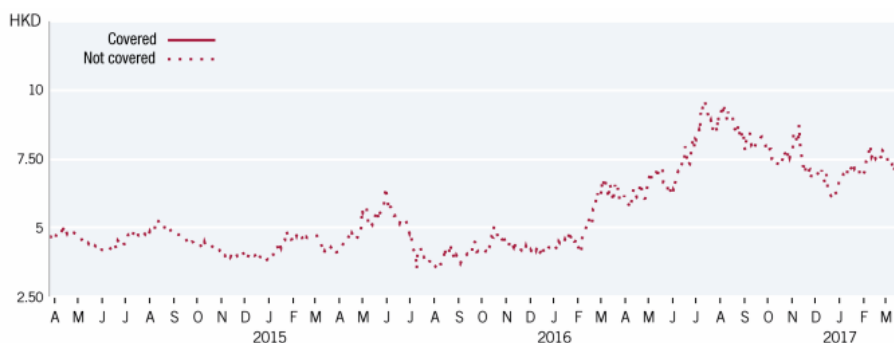
*Indicates Change

Rating/target price changes above reflect Eastern Time

Zhaojin Mining Industry (1818.HK)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ada Gao, CFA
Covered since December 5 2016



*Indicates Change

Rating/target price changes above reflect Eastern Time

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Data current as of 31 Dec 2016

	12 Month Rating			Catalyst Watch		
	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	65%	61%	60%	72%	63%	50%

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