

Zhaojin Mining

2020 earnings rose 120% YoY on rising gold price

Results Review

2020 recurring earnings in line with our forecasts

Zhaojin Mining announced its 2020 results: Revenue rose 21% YoY to Rmb7.6bn and net profit attributable to shareholders rose 120% YoY to Rmb1.05bn (or Rmb0.32/sh). Recurring earnings rose 156% YoY to Rmb1.31bn, in line with our forecast, mainly driven by a higher price of mined gold. Attributable net profit missed our forecast, mainly due to increased financial and asset impairment losses.

Mined gold output rose. In 2020, Zhaojin's mined gold output reached 20.1t (+1.7% YoY), with the output of self-produced mined gold at 16.5t (+5.6% YoY).

Domestic gold ASP rose 24% YoY to Rmb388/g in 2020. International gold ASP rose 27% YoY to US\$1772/oz. In 4Q20, domestic and international gold ASP declined 1.8% and 4.6% QoQ.

The firm's 2020 administrative expenses rose Rmb254mn YoY, and financial expenses increased Rmb37mn YoY, mainly because average interest-bearing liabilities increased YoY.

Zhaojin's 2020 impairment loss from fixed assets and projects under construction increased Rmb479mn YoY to Rmb524mn; the impairment loss from financial assets also rose by Rmb282mn YoY.

Investment income from associates and joint-ventures edged up Rmb70mn YoY to Rmb23mn.

See page 3 for details.

Trends to watch

Full-year guidance for FY21. The company plans to increase its overall gold output (including mined gold and processed gold) in 2021 to 36.26t (+1.8% YoY). It intends to invest Rmb1.091bn in technological upgrading of infrastructure projects. In addition, it plans to spend Rmb195mn on geological prospecting and add gold reserves of 44t in 2021 (+21.25t YoY).

Financials and valuation

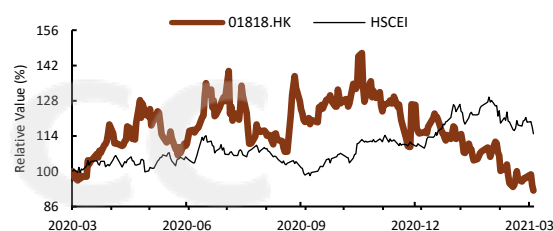
Given our changed assumptions for the gold price, **we lower our 2021 earnings forecast 26% to Rmb1.2bn, and introduce a 2022 earnings forecast at Rmb1.3bn.** The stock is trading at 16.9x 2021e and 15.2x 2022e P/E. **We maintain an OUTPERFORM rating while revising down our target price 15% to HK\$11 (26x 2021e P/E and 23x 2022e P/E), offering 52% upside.**

Risks

Gold price declines more than we expected.

Maintain OUTPERFORM

Ticker	01818.HK
CICC investment rating	OUTPERFORM
Last close	HK\$7.24
CICC target	HK\$11.00
52wk price range	HK\$11.68~7.13
Market cap (bn)	HK\$24
Daily value (mn)	HK\$58.34
Shares outstanding (mn)	3,270
Free float (%)	80
Daily volume (mn sh)	7.52
Business sector	Basic Materials



(Rmb mn)	2019A	2020A	2021E	2022E
Revenue	6,330	7,649	7,824	9,834
(+/-)	-11.8%	20.8%	2.3%	25.7%
Net profit	479	1,052	1,200	1,339
(+/-)	1.1%	119.5%	14.1%	11.6%
Recurrent net income	511	1,307	1,090	1,511
(+/-)	-18.2%	155.7%	-16.6%	38.7%
EPS	0.15	0.32	0.37	0.41
BPS	4.27	4.14	4.45	4.80
DPS	0.04	0.05	0.06	0.06
CPS	0.54	1.27	1.02	0.89
P/E	44.3	18.9	16.9	15.2
P/B	1.5	1.5	1.4	1.3
EV/EBITDA	17.1	12.6	11.3	9.2
Dividend yield	0.6%	0.8%	0.9%	1.0%
ROAA	1.3%	2.6%	2.8%	2.6%
ROAE	3.5%	7.7%	8.5%	8.8%

Source: Wind, Bloomberg, Corporate filings, CICC Research

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Financial summary

Financial statement (Rmb mn)	2019A	2020A	2021E	2022E	Financial ratios	2019A	2020A	2021E	2022E
Income statement					Growth ability				
Revenue	6,330	7,649	7,824	9,834	Revenue	-11.8%	20.8%	2.3%	25.7%
COGS	-4,040	-4,033	-4,390	-5,174	Operating profit	7.6%	54.3%	13.6%	31.5%
Selling expenses	-56	-45	-46	-58	EBITDA	3.6%	32.9%	11.1%	23.2%
Administrative expenses	-956	-1,209	-1,237	-1,555	Net profit	1.1%	119.5%	14.1%	11.6%
Other ops income (expense)	-470	-1,153	-689	-865	Recurrent net income	-18.2%	155.7%	-16.6%	38.7%
Operating profit	1,306	2,014	2,287	3,008	Profitability				
Finance costs	-662	-699	-576	-683	Gross margin	36.2%	47.3%	43.9%	47.4%
Other income (expense)	-48	23	23	23	Operating margin	20.6%	26.3%	29.2%	30.6%
Profit before income tax	596	1,337	1,734	2,347	EBITDA margin	36.8%	40.4%	43.9%	43.1%
Income tax	-157	-103	-325	-587	Net margin	7.6%	13.8%	15.3%	13.6%
Minority interest	-41	183	208	422	Recurrent net margin	8.1%	17.1%	13.9%	15.4%
Net profit	479	1,052	1,200	1,339	Liquidity				
EBITDA	2,327	3,092	3,436	4,235	Current ratio	0.96	0.66	0.88	1.04
Recurrent net income	511	1,307	1,090	1,511	Quick ratio	0.61	0.35	0.60	0.76
Balance sheet					Cash ratio	0.28	0.11	0.40	0.57
Cash and bank balances	3,508	1,840	8,107	13,551	Liabilities / assets	56.9%	57.0%	61.2%	63.6%
Trade and bill receivables	3,346	2,616	2,663	3,204	Net debt / equity	86.6%	91.3%	81.4%	73.1%
Inventories	4,310	5,126	5,579	6,575	Return				
Other current assets	833	1,396	1,396	1,396	RoA	1.3%	2.6%	2.8%	2.6%
Total current assets	11,997	10,978	17,746	24,726	RoE	3.5%	7.7%	8.5%	8.8%
Fixed assets and CIP	14,989	15,209	15,485	15,639	Per-share data				
Intangible assets and others	13,266	13,502	13,928	14,082	EPS (Rmb)	0.15	0.32	0.37	0.41
Total non-current assets	28,254	28,712	29,413	29,721	BPS (Rmb)	4.27	4.14	4.45	4.80
Total assets	40,252	39,690	47,159	54,448	DPS (Rmb)	0.04	0.05	0.06	0.06
Short-term borrowings	8,895	11,894	14,892	17,891	Cash flow per share (Rmb)	0.54	1.27	1.02	0.89
Trade and bill payables	368	508	986	1,239	Valuation				
Other current liabilities	3,272	4,116	4,308	4,730	P/E	44.3	18.9	16.9	15.2
Total current liabilities	12,535	16,518	20,186	23,860	P/B	1.5	1.5	1.4	1.3
Long-term borrowings	9,650	5,515	8,093	10,156	EV/EBITDA	17.1	12.6	11.3	9.2
Other non-current liabilities	703	600	600	600	Dividend yield	0.6%	0.8%	0.9%	1.0%
Total non-current liabilities	10,354	6,115	8,694	10,756					
Total liabilities	22,889	22,633	28,880	34,616					
Share capital	3,270	3,270	3,270	3,270					
Retained profit	10,679	10,282	11,296	12,427					
Shareholders' equity	13,950	13,553	14,566	15,697					
Minority interest	3,413	3,504	3,712	4,134					
Total liabilities & equity	40,252	39,690	47,159	54,448					
Cash flow statement									
Pretax profit	596	1,337	1,734	2,347					
Depreciation & amortization	1,021	1,078	1,148	1,227					
Change in working capital	-514	162	169	-861					
Others	677	1,576	301	204					
Cash flow from operations	1,780	4,153	3,352	2,917					
Capital expenditure	-1,807	-2,242	-1,850	-1,536					
Others	-404	-919	0	0					
Cash flow from investing	-2,212	-3,161	-1,850	-1,536					
Equity financing	3	0	0	0					
Bank borrowings	3,685	-1,046	5,577	5,061					
Others	-910	-292	-813	-999					
Cash flow from financing	2,778	-1,338	4,765	4,062					
Foreign exchange gain (loss)	19	0	0	0					
Net changes in cash	2,365	-346	6,267	5,444					

Source: Corporate filings, CICC Research

Company description

Zhaojin Mining Industry Co Ltd is engaged in the exploration, mining, ore processing, smelting, and sale of gold and other metallic products. The company operates as an integrated mining enterprise that specializes in the production of gold. It principally produces Au9999 and Au9995 gold bullions under the "Zhaojin" brand. The company is structured into three major segments: gold mining & smelting operations; copper mining & smelting operations; and other investment activities.

Zhaojin Mining announced its 2020 results: Revenue rose 21% YoY to Rmb7.6bn; net profit attributable to shareholders rose 120% YoY to Rmb1.05bn (or Rmb0.32/sh); recurring earnings rose 156% YoY to Rmb1.31bn, in line with our forecast, mainly driven by the higher price of mined gold. Attributable net profit missed our forecast, mainly due to increased financial and asset impairment losses.

In 4Q20, revenue reached Rmb1.85bn and attributable net profit was Rmb161mn (-0.6% YoY and -66% QoQ). Recurring net profit reached Rmb422mn (+98% YoY and -21% QoQ). Attributable net profit declined QoQ in 4Q20, mainly because gold prices fell and impairment losses increased in 4Q20. Recurring net profit decreased QoQ mainly due to falling gold prices in 4Q20.

Mined gold output rose. In 2020, Zhaojin's mined gold output reached 20.1t (+1.7% YoY), with the output of self-produced mined gold at 16.5t (+5.6% YoY). In 2H20, its mined gold output increased 54% HoH to 12.2t and self-produced mined gold output rose 21% HoH to 9.03t, thanks to a low base set in 1H20 due to COVID-19. The firm's 2020 copper output fell 46% YoY to 6036t.

Domestic gold ASP rose 24% YoY to Rmb388/g in 2020. International gold ASP rose 27% YoY to US\$1772/oz. In 4Q20, domestic and international gold ASP declined 1.8% and 4.6% QoQ.

The firm's 2020 administrative expenses rose Rmb254mn YoY and financial expenses increased Rmb37mn YoY, mainly because average interest-bearing liabilities increased YoY.

Zhaojin's 2020 impairment loss from fixed assets and projects under construction increased Rmb479mn YoY to Rmb524mn; the impairment loss from financial assets rose by Rmb282mn YoY.

Investment income from associates and joint-ventures edged up Rmb70mn YoY to Rmb23mn. **Other income and returns increased Rmb309mn YoY** to Rmb807mn, mainly because booking gains from financial instruments clearing grew Rmb235mn YoY and forex gains grew Rmb61mn YoY.

In 2020, minority interest increased Rmb224mn YoY to Rmb183mn (14.8% of total profit). As of end-2020, net liabilities reached Rmb15.8bn and net gearing ratio expanded 5ppt YoY to 92%.

Figure 1: Annual results

(Rmb mn)	2019A	2020E	2020A	2020A YoY	vs CICC estimate	2021E	2021E YoY
Revenue	6,330	7,982	7,649	20.8%	-4.2%	7,824	2.3%
Gross profit	2,290	4,123	3,615	57.9%	-12.3%	3,434	-5.0%
Operating profit	1,306	2,939	2,014	54.3%	-31.5%	2,287	13.6%
Net profit attributable to equity shareholders	479	1,323	1,052	119.5%	-20.5%	1,200	14.1%
Fully-diluted EPS (Rmb)	0.15	0.40	0.32	119.5%	-20.5%	0.37	14.1%
Gross margin	36.2%	51.7%	47.3%	11.1ppt	-4.4ppt	43.9%	-3.4ppt
Operating margin	20.6%	36.8%	26.3%	5.7ppt	-10.5ppt	29.2%	2.9ppt
Net margin	7.6%	16.6%	13.8%	6.2ppt	-2.8ppt	15.3%	1.6ppt

Source: Corporate filings, Wind Info, CICC Research

Figure 2: Quarterly results

(Rmb mn)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	2019	2020	YoY
Sales revenue	1,456	1,362	1,816	1,696	1,370	1,762	2,669	1,848	-30.8%	9.0%	6,330	7,649	20.8%
COGS	833	914	1,083	1,211	855	920	1,209	1,049	-13.2%	-13.3%	4,040	4,033	-0.2%
Gross profit	623	448	733	485	515	842	1,460	798	-45.3%	64.6%	2,290	3,615	57.9%
Other income	31	127	-136	476	25	299	-470	953	n.a.	100.3%	498	807	62.2%
Selling expenses	14	20	10	12	8	11	13	13	4.8%	14.1%	56	45	-19.3%
G&A expenses	230	213	218	294	232	259	340	378	11.4%	28.6%	956	1,209	26.6%
Other expenses	44	81	24	321	35	214	-43	947	n.a.	195.2%	470	1,153	145.2%
Operating profit	366	261	345	334	265	657	681	412	-39.4%	23.5%	1,306	2,014	54.3%
Finance cost	186	130	237	109	174	180	74	271	265.1%	148.8%	662	699	5.6%
Share of profits of associates	14	0	12	-74	6	6	142	-132	-192.9%	n.a.	-48	23	n.a.
Profit before tax	193	131	119	151	97	483	748	10	-98.7%	-93.7%	596	1,337	124.5%
Income tax	60	9	14	75	34	90	126	-146	-216.5%	-295.9%	157	103	-34.8%
Net profit for the period	133	123	106	77	63	393	623	156	-75.0%	103.3%	438	1,235	181.8%
Minority interests	1	16	28	-86	-18	62	144	-6	-103.8%	n.a.	-41	183	n.a.
Net profit for shareholders	132	107	78	162	81	331	478	161	-66.3%	-0.6%	479	1,052	119.5%
Diluted EPS (Rmb)	0.04	0.03	0.02	0.05	0.02	0.10	0.15	0.05	-66.3%	-0.6%	0.15	0.32	119.5%
Gross margin	42.8%	32.9%	40.4%	28.6%	37.6%	47.8%	54.7%	43.2%	-11.5ppt	14.6ppt	36.2%	47.3%	11.1ppt
EBIT margin	25.1%	19.2%	19.0%	19.7%	19.3%	37.3%	25.5%	22.3%	-3.2ppt	2.6ppt	20.6%	26.3%	5.7ppt
Net margin	9.1%	7.8%	4.3%	9.6%	5.9%	18.8%	17.9%	8.7%	-9.2ppt	-0.8ppt	7.6%	13.8%	6.2ppt
Selling expenses ratio	0.9%	1.4%	0.6%	0.7%	0.6%	0.6%	0.5%	0.7%	0.2ppt	0ppt	0.9%	0.6%	-0.3ppt
G&A ratio	15.8%	15.7%	12.0%	17.4%	17.0%	14.7%	12.7%	20.5%	7.8ppt	3.1ppt	15.1%	15.8%	0.7ppt
Financial cost ratio	22.4%	14.2%	21.9%	9.0%	20.4%	19.5%	6.1%	25.8%	19.7ppt	16.8ppt	16.4%	17.3%	1ppt
Effective tax rate	31.1%	6.7%	11.5%	49.3%	34.8%	18.6%	16.8%	-1529.6%	-1546.4ppt	-1579ppt	26.4%	7.7%	-18.8ppt

Source: Corporate filings, Wind Info, CICC Research



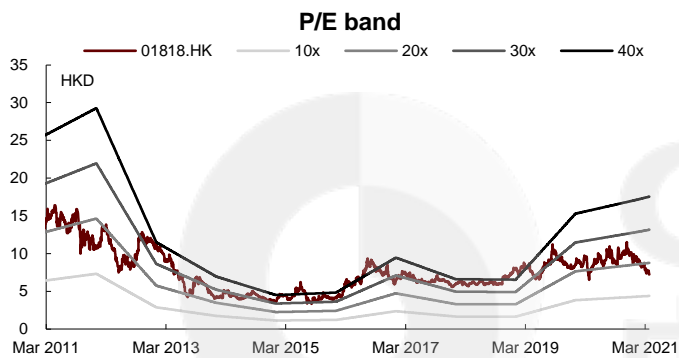
Figure 3: Key assumptions

Assumptions	2020A	2021E-new	2021E-old	Dif	2022E
Gold production (kg)	35,616	36,260	32,351	12%	41,767
Self production	16,467	16,886	18,858	-10%	22,392
Smelting and processing gold	15,518	17,188	12,928	33%	17,188
Gold price (Rmb/g)	388	366	412	-11%	366
Average cash cost (Rmb/g)	153	134	114	18%	133
Gross margin (Rmb/g)	236	232	299	-22%	233

Financials (Rmb mn)	2020A	2021E-new	2021E-old	Dif	2022E
Sale revenue	7,649	7,824	8,773	-11%	9,834
COGS	4,033	4,390	4,075	8%	5,174
Gross profit	3,615	3,434	4,698	-27%	4,661
G&A expenses	1,209	1,237	1,290	-4%	1,555
Finance costs	699	576	722	-20%	683
Profit before tax	1,337	1,734	2,627	-34%	2,347
Profit attributable to shareholders	1,052	1,200	1,615	-26%	1,339
EPS (Rmb)	0.32	0.37	0.49	-26%	0.41

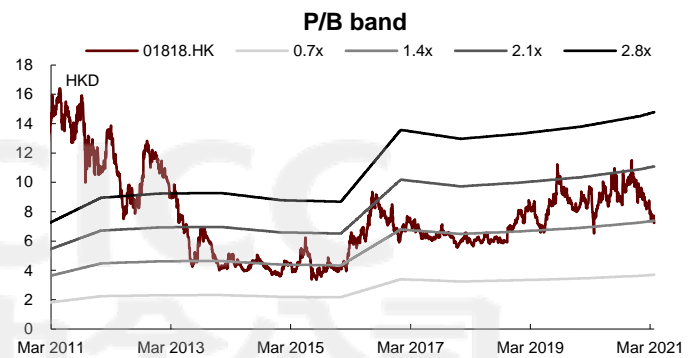
Source: Corporate filings, CICC Research

Figure 4: P/E band



Source: Wind Info, Bloomberg, CICC Research

Figure 5: P/B band



Source: Wind Info, Bloomberg, CICC Research

Figure 6: Valuations of comparable companies

Company	Ticker	Trade currency	Reporting currency	Rating	Target price	Last price Mar. 24	EPS (Report CY)		P/E		BPS (Report CY)		P/B	
							2020A/E	2021E	2020A/E	2021E	2020A/E	2021E	2020A/E	2021E
ZUIJIN MINING*	601899.SH	CNY	CNY	OUTPERFORM	13.00	9.36	0.26	0.47	36.6	20.0	2.22	2.57	4.2	3.6
ZUIJIN MINING*	02899.HK	HKD	CNY	OUTPERFORM	15.38	9.25	0.26	0.47	30.5	17.0	2.22	2.57	3.5	3.1
ZHAOJIN MINING*	01818.HK	HKD	CNY	OUTPERFORM	11.00	7.24	0.32	0.37	18.9	16.9	4.14	4.45	1.5	1.4
SD-GOLD*	600547.SH	CNY	CNY	OUTPERFORM	35.00	21.80	0.66	0.79	33.2	27.7	5.91	6.53	3.7	3.3
ZHONGJIN GOLD*	600489.SH	CNY	CNY	NEUTRAL	11.50	8.45	0.29	0.27	29.5	31.0	3.39	3.52	2.5	2.4
HUNAN GOLD*	002155.SZ	CNY	CNY	NEUTRAL	10.10	8.18	0.19	0.29	43.6	28.3	4.26	4.50	1.9	1.8
MMG*	01208.HK	HKD	USD	OUTPERFORM	5.79	4.13	-0.01	0.05	N.M.	10.4	0.12	0.17	4.6	3.2
JCCL*	600362.SH	CNY	CNY	OUTPERFORM	19.00	21.62	0.65	0.71	33.2	30.3	14.91	15.43	1.5	1.4
JIANGXI COPPER*	00358.HK	HKD	CNY	OUTPERFORM	11.00	14.14	0.65	0.71	19.3	17.0	14.91	15.43	0.8	0.8
CHALCO*	601600.SH	CNY	CNY	NEUTRAL	4.59	3.70	0.04	0.19	85.0	19.2	3.19	3.38	1.2	1.1
CHALCO*	02600.HK	HKD	CNY	NEUTRAL	3.44	3.09	0.04	0.19	59.7	13.8	3.19	3.38	0.8	0.8
CH ZN&GE*	600497.SH	CNY	CNY	NEUTRAL	4.40	4.66	0.18	0.16	26.1	29.0	2.99	3.13	1.6	1.5
NONFEMET*	000060.SZ	CNY	CNY	NEUTRAL	4.84	4.46	0.22	0.22	20.6	20.5	3.21	3.36	1.4	1.3
CMOC*	603993.SH	CNY	CNY	OUTPERFORM	8.16	5.19	0.11	0.21	48.1	25.3	1.80	1.99	2.9	2.6
CMOC*	03993.HK	HKD	CNY	OUTPERFORM	6.87	4.45	0.11	0.21	34.7	18.6	1.80	1.99	2.1	1.9
XTC*	600549.SH	CNY	CNY	NEUTRAL	16.30	17.07	0.38	0.48	44.6	35.5	5.64	6.12	3.0	2.8
GANFENGLITHIUM*	002460.SZ	CNY	CNY	OUTPERFORM	149.58	90.37	0.78	1.53	116.2	59.0	7.03	8.56	12.9	10.6
GANFENGLITHIUM*	01772.HK	HKD	CNY	OUTPERFORM	167.69	91.00	0.78	1.53	103.9	51.0	7.03	8.56	11.5	9.1
TIANQI LITHIUM*	002466.SZ	CNY	CNY	NEUTRAL	25.00	36.17	-0.30	0.26	N.M.	139.2	6.31	6.57	5.7	5.5
JDCMOLY*	601958.SH	CNY	CNY	NEUTRAL	6.50	5.96	0.05	0.11	115.1	56.7	3.79	3.86	1.6	1.5
YUNHAI METALS*	002182.SZ	CNY	CNY	OUTPERFORM	15.60	9.99	0.38	0.64	26.5	15.6	4.36	4.96	2.3	2.0
CNRE*	600111.SH	CNY	CNY	NEUTRAL	14.20	17.45	0.17	0.22	103.2	80.0	2.81	2.97	6.2	5.9
ZHONG KE SAN HUAN*	000970.SZ	CNY	CNY	NEUTRAL	11.50	9.42	0.12	0.22	77.7	42.4	4.35	4.53	2.2	2.1
YUNSHENG*	600366.SH	CNY	CNY	NEUTRAL	6.80	6.80	0.20	0.16	34.5	41.7	4.47	4.47	1.5	1.5
ZHMAG*	300224.SZ	CNY	CNY	NEUTRAL	14.10	12.00	0.16	0.24	74.0	50.9	3.18	3.22	3.8	3.7
GALAXY MAGNETS*	300127.SZ	CNY	CNY	NEUTRAL	23.10	15.74	0.44	0.53	36.1	29.5	3.98	4.30	4.0	3.7
APALT*	002540.SZ	CNY	CNY	OUTPERFORM	6.60	4.90	0.28	0.33	17.5	14.8	3.76	3.96	1.3	1.2
BAOTI*	600456.SH	CNY	CNY	NEUTRAL	40.30	38.10	0.76	1.06	50.3	36.0	9.21	9.95	4.1	3.8
YUNNAN GERMANIUM*	002428.SZ	CNY	CNY	NEUTRAL	15.78	9.91	0.03	0.18	306.0	55.2	2.22	2.40	4.5	4.1
NAC Kazatomprom JSC*	KAP.LI	USD	KZT	OUTPERFORM	28.00	24.10	707.56	1031.94	14.3	10.0	4135.14	4835.54	2.5	2.1

Note: CICC covers the companies marked * and we use our estimates

Source: Wind Info, Bloomberg, Corporate filings, CICC Research

Important legal disclosures

General Disclosures

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