

Equity | China | Non-Ferrous-Mining  
25 March 2013

# First read: earnings beat; strong expansion in reserves

## Earnings beat; Gold sales volume higher than expected

Zhaojin Mining's net profit in 2012 increased by 15.8% YoY to RMB1,924mn, beating our estimate and market consensus by 9.8% and 9.3% respectively, mainly thanks to rising gold sales volume and gold price. Mined gold production grew by 13.49% YoY to 18.1 tonnes, among which 13.6 tonnes are from mines in Zhaoyuan area. Mined gold production outside Zhaoyuan reached 4.4 tonnes, up 27.7% YoY. Achieved gold price on average in 2012 was RMB344.0/g, RMB4.7/g higher than gold price on Shanghai Gold Exchange on average in 2012.

## Strong expansion in gold reserve

Upon aggressive acquisition and exploration, Zhaojin Mining's gold reserve expansion remains strong in 2012. Total gold reserve increased by 59 tonnes YoY to 356 tonnes in 2012, a year with highest annual gold reserve addition in Zhaojin's history. Zhaojin Mining targets to increase the gold reserve by 20 tones in 2013 by investing RMB1bn in acquisitions. Zhaojin Mining said it will continue its successful expansion in Gansu and Xinjiang in the future and be likely to tap overseas mining market for reserve expansion.

*Zhaojin Mining will hold an analyst meeting on 26 March in HK and we plan to update our financial model after getting more information.*

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## Stock Data

Price	HK\$10.18
Price Objective	HK\$16.70
Date Established	4-Mar-2013
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	HK\$8.00-HK\$14.48
Mrkt Val / Shares Out (mn)	US\$3,823 / 2,914.9
Market Value (mn)	HK\$29,673
Average Daily Volume	5,524,848
BofAML Ticker / Exchange	ZHAOF / HKG
Bloomberg / Reuters	1818 HK / 1818.HK
ROE (2012E)	24.4%
Net Dbt to Eqty (Dec-2011A)	6.0%
Est. 5-Yr EPS / DPS Growth	8.5% / 8.5%
Free Float	NA

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Refer to important disclosures on page 3 to 5. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2. Link to Definitions on page 2. 11260516

## Price objective basis & risk

### Zhaojin Mining (ZHAOF)

We set our 12-month price objective at HK\$16.7, based on 2.0x NPV for the gold business and 10x P/E for the non-gold business. Our 2.0x NPV applied to Zhaojin Mining, is in line with the historical average P/NPV for global peers and a premium to Zijin to reflect its favorable status of a pure gold player. Downside risks are: 1) weaker-than-expected gold price 2) slower-than-expected volume growth due to unexpected interference in expansion outside Zhaoyuan 3) Stronger than expected cost inflation.

## Link to Definitions

### Basic Materials

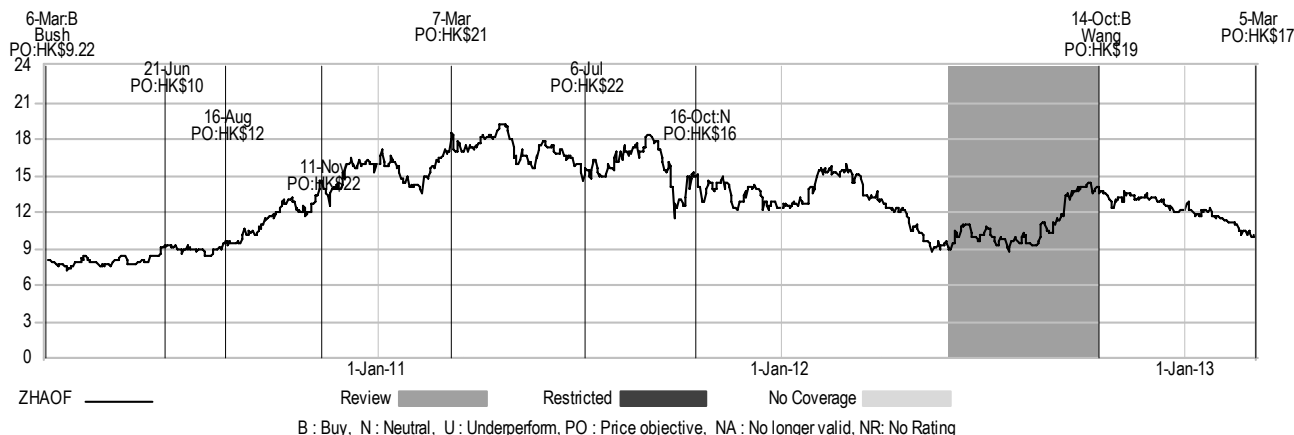
Click [here](#) for definitions of commonly used terms.

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### ZHAOF Price Chart



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### Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Jan 2013)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	107	48.86%	Buy	64	65.31%
Neutral	52	23.74%	Neutral	37	78.72%
Sell	60	27.40%	Sell	22	40.74%

### Investment Rating Distribution: Global Group (as of 01 Jan 2013)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1961	49.47%	Buy	1299	71.85%
Neutral	1013	25.55%	Neutral	640	70.18%
Sell	990	24.97%	Sell	543	59.15%

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Underperform	N/A	≥ 20%

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