



## Company Report: Zhaojin Mining (01818 HK)

公司报告: 招金矿业 (01818 HK)

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# Gold Output Maintains Steady Growth, Maintain "Buy"

## 黄金产量保持稳定增长, 维持“买入”评级

- The 2012 annual results of the Company were 9.2% and 4.5%, respectively, higher than market consensus and our estimation. Total revenue increased by 32.4% yoy to RMB 7.06 billion, and net profit attributable to shareholders increased by 15.8% yoy to RMB 1.92 billion.
- We expect the output of mined gold of Zhaojin Mining to increase by about 18% to 21.3 t in 2013. We expect the output growth of mined gold in 2013 to accelerate as several new mines commence production.
- We expect gold prices to stay at high levels due to strong fundamentals in 2013. We expect average gold prices in 2013 to be US\$ 1,700 oz, which is equivalent about RMB 350/g.
- Zhaojin Mining kept expanding its gold resources through acquisition and exploration. Gold resources held by the Company increased significantly in the past few years and we expect the Company to continue to expand its gold resources in the coming years.
- Revise down TP to HK\$ 13.67 but maintain "Buy" .
- 招金矿业 2012 年业绩比市场一致预期和我们的估计分别高 9.2%和 4.5%。公司收入同比增长 32.4%至 70.6 亿元, 股东净利同比增长 15.8%至 19.2 亿元。
- 我们预计公司 2013 年矿金产量将增长 18%至 21.3 吨。我们预计随着几个新矿山的投产, 公司 2013 年的矿金产量增长将会加速。
- 我们预计在强劲基本面的支撑下金价 2013 年将维持在高位。我们预计 2013 年的平均价格将是 1,700 美元/盎司, 相当于人民币 350 元/克。
- 招金矿业通过收购和勘探持续扩充黄金资源量。公司黄金资源量在过去几年持续增长, 我们相信公司在未来几年将会继续扩充其黄金资源量。
- 下调公司目标价至 13.67 港元但维持“买入”评级。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$13.67**

Revised from 原目标价:

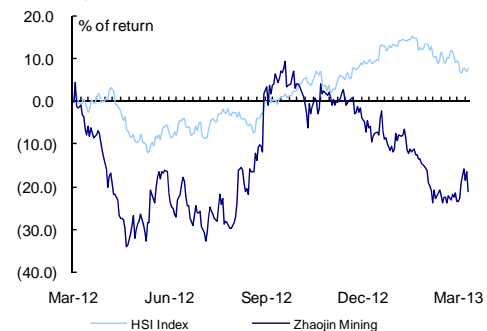
HK\$15.58

Share price 股价:

HK\$10.380

### Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	2.2	(13.9)	(21.7)
Rel. % to HS index 相对恒指变动 %	4.7	(12.6)	(29.4)
Avg. share price(HK\$) 平均股价 (港元)	2.2	(13.9)	(21.7)

Source: Bloomberg, Guotai Junan International.

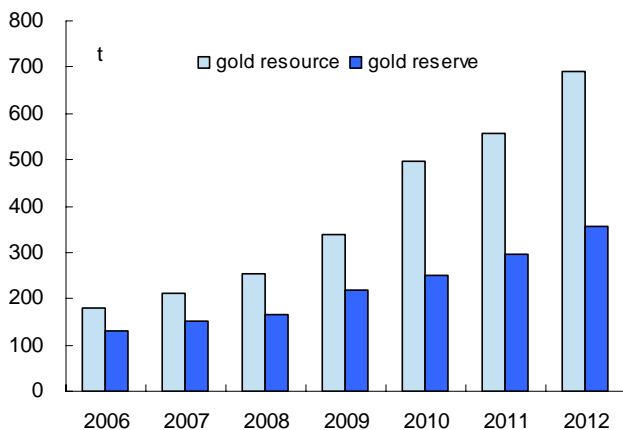
Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
FY11A	5,741	1,660	0.569	37.9	17.0	2.255	4.3	0.227	2.4	27.7
FY12A	7,603	1,924	0.659	15.9	14.3	2.879	3.3	0.198	2.1	25.7
FY13F	8,847	2,128	0.729	10.7	12.9	3.389	2.8	0.219	2.3	23.3
FY14F	9,324	2,023	0.693	(5.0)	13.6	3.874	2.4	0.208	2.2	19.1
FY15F	9,754	1,715	0.588	(15.2)	16.0	4.286	2.2	0.176	1.9	14.4

Shares in issue (m) 总股数 (m)	2,919.1	Major shareholder 大股东	Zhaojin Group 37.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	30,256.2	Free float (%) 自由流通比率 (%)	29.4
3 month average vol. 3 个月平均成交股数 ('000)	6,213.50	FY13 Net gearing (%) FY13 净负债/股东资金 (%)	22.8
52 Weeks high/low (HK\$) 52 周高/低	14.480 / 8.000	FY13 Est. NAV (HK\$) FY13 每股估值 (港元)	22.5

Source: The Company, Guotai Junan International.

The 2012 annual results of the Company were 9.2% and 4.5%, respectively, higher than market consensus and our estimation. Total revenue increased by 32.4% yoy to RMB 7.06 billion, and net profit attributable to shareholders increased by 15.8% yoy to RMB 1.92 billion. The significant growth of net profit was mainly attributed to the output growth of mined gold. Total mined gold output increased by 13.5% yoy to 18.09 tons, 21.1% higher than our estimation. The output of mined gold in Zhaoyuan district increased by 9.5% yoy to 13.6 tons, while the output of mined gold outside Zhaoyuan district increased by 27.7% yoy to 4.4 tons. At the mean time, the output of smelted gold increased by 25.5% yoy to 9.6 tons, also higher than market consensus and our estimation. The average selling prices of gold of the Company increased by 3.5% to RMB 344.5/g, slightly lower than our estimation.

**Zhaojin Mining kept expanding its gold resources through acquisition and exploration.** Gold resources held by the Company increased significantly in the past few years. Gold resources grew at a CAGR of 25.1% in 2006-2012, increased from 180 tons to 690 tons. At the mean time, gold reserves grew at a CAGR of 18.2% in 2006-2012, increased from 130 tons to 356 tons. The compelling growth of gold resources and reserves was mainly contributed by the newly acquired mines and further exploration of existing mines. Zhaojin Mining started to acquire gold mines since its listing, and it had acquired many gold mines so far. Generally speaking, gold resources and reserves outside Zhaoyuan district grew faster than that in Zhaoyuan district. Although gold mines in Zhaoyuan district constitute the main part of gold resources and reserves of the company, we believe gold mines outside Zhaoyuan district will contribute most of the gold reserves growth in the future as more gold mines are acquired and further explored. We expect the Company to continue to expand its gold resources in the coming years through acquisition and exploration.

**Figure 1 Gold resource and reserve of the Company**


Source: The Company, Guotai Junan International.

**Figure 2 Gold prices**


Source: Bloomberg, Guotai Junan International.

**We expect gold prices to stay at high levels due to strong fundamentals in 2013.** Gold prices benefited a lot from easing monetary policies of developed countries and central banks are expected to maintain the policy in 2013. At the same time, long-term low interest rate environment also provides strong support to gold prices, which lowered opportunity costs of holding gold. The quantitative easing policies of Fed and BOJ lift inflation expectations and drive more investors to gold for value reserving. At the mean time, the persistence of EU and US debt problems lift uncertainties of global financial markets and lift hedging demand of gold. Additionally, investment demand of gold from both central banks and private sectors maintained strong growth since 2008, which also helps to drive gold prices to historical high levels. We expect investment demand of gold to maintain at high levels in 2013. We expect average gold prices in 2013 to be US\$ 1,700 oz, which is equivalent about RMB 350/g.

**We expect the output of mined gold of Zhaojin Mining to increase by about 18% to 21.3 t in 2013.** The output of mined gold of the Company maintained double-digit growth since its listing. The output of mined gold increased by 13.5% yoy to 18.06 t in 2012, generally in line with our forecast. Mined gold output contributed by mines in Zhaoyuan district was stable, while mined gold output contributed by mines outside Zhaoyuan district grew faster than those located in Zhaoyuan district. According to the Company, the output of mined gold in Zhaoyuan district increased by 9.5% yoy to 13.6 tons, while the output

outside Zhaoyuan district increased by 27.7% yoy to 4.4 tons. As most of the expansion projects are located outside Zhaoyuan district, the output of mines outside Zhaoyuan district is expected to maintain faster growth rate in the next few years. We expect the output growth of mined gold in 2013 to accelerate as several new mines commence production. We expect the output of mined gold of the Company to increase by about 18% to 21.3 t in 2013.

**Table 1 Main projects under construction**

Projects	Location	Production capacity(t/d)	Planned production time
Qinghe Mining	Xinjiang Province	2,000	2H2013
Zaozigou Gold Mine	Gansu Province	2,000	2H2012
Canzhuang Mining	Zhaoyuan	1,150	2H2013
Baiyun Mining	Liaoning Province	2,000	2H2013

Source: The Company, Guotai Junan International.

**Revise down TP to HK\$ 13.67, maintain “Buy”.** The Company holds abundant gold resource and keeps expanding it through acquisition and exploration, which will strongly support the output growth of mined gold. We expect the output of mined gold of the Company to increase by 18% in 2013 as several new gold mines commence production. At the mean time, we expect gold prices to stay at high levels due to strong fundamentals, which help to maintain the profitability of the Company. As a result, we revise up FY13 EPS to RMB 0.729, up by 17.4%. However, we expect gold prices to decline in 2014-2015 as global financial uncertainties mitigate and net profit of the Company is expected to decline in 2014-2015. As a result, we believe the FY13 15x PE valuation level is reasonable. Hence, we revise down TP of Zhaojin Mining to HK\$ 13.67 but maintain “Buy”.

**Table 3 Zhaojin's Peer Comparison**

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)
				11A	12F	13F	14F	11A	12F	13F	14F	12F
Barrick Gold Corp	ABX CN	CAD	30.03	9.7	7.7	7.2	6.5	1.9	1.1	1.1	1.0	15.5
Goldcorp Inc	G CN	CAD	34.33	22.2	17.0	16.8	11.9	1.7	1.2	1.2	1.1	7.8
Newcrest Mining Ltd	NCM AU	AUD	22.35	29.8	16.2	20.1	12.8	2.1	1.1	1.1	1.0	7.4
Newmont Mining Corp	NEM US	USD	41.61	13.9	11.7	10.1	8.5	2.3	1.5	1.4	1.2	12.9
Anglogold Ashanti Ltd	ANG SJ	ZAr	21,857	12.4	8.4	6.6	5.4	3.3	1.8	1.5	1.2	22.1
Kinross Gold Corp	K CN	CAD	8.32	15.3	11.1	11.5	10.1	1.1	0.7	0.8	0.8	6.2
Gold Fields Ltd	GFI SJ	ZAr	7,142	12.8	7.4	7.5	6.5	1.9	1.1	0.9	0.9	14.3
Simple Average				16.6	11.4	11.4	8.8	2.0	1.2	1.1	1.0	12.3
Weighted Average				17.1	12.1	12.2	9.2	2.0	1.2	1.2	1.1	11.8
Zijin Mining Group Co Ltd-A	601899 CH	CNY	3.52	9.1	14.7	12.7	12.6	2.1	2.6	2.3	2.0	19.2
Shandong Gold Mining Co Lt-A	600547 CH	CNY	33.81	21.2	19.8	15.8	13.0	7.1	5.9	4.5	3.4	30.4
Zhongjin Gold Corp-A	600489 CH	CNY	14.75	18.2	23.4	20.2	16.6	4.0	4.2	3.5	2.8	17.0
Simple Average				16.2	19.3	16.2	14.0	4.4	4.2	3.4	2.8	22.2
Weighted Average				15.2	18.6	15.6	13.8	4.1	4.0	3.3	2.7	22.0
Zhaojin Mining Industry - H	1818 HK	HKD	10.38	17.6	13.5	11.5	11.1	4.4	3.1	2.6	2.3	24.1
Zijin Mining Group Co Ltd-H	2899 HK	HKD	2.58	9.1	8.8	7.8	7.8	2.1	1.6	1.4	1.2	18.7
China Gold International Res	2099 HK	HKD	28.20	13.2	17.7	16.5	14.6	0.8	1.1	1.0	0.9	6.1
Lingbao Gold Co Ltd-H	3330 HK	HKD	2.93	5.7	8.7	6.1	5.6	0.8	0.7	0.7	0.6	8.3
Simple Average				11.4	12.2	10.5	9.8	2.0	1.6	1.4	1.2	14.3
Weighted Average				11.4	10.7	9.4	9.1	2.5	1.9	1.6	1.4	18.7

Source: Bloomberg, Guotai Junan International.

**Figure 3 Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end Dec 31st (RMB m)	FY11A	FY12A	FY13E	FY14E	FY15E	Year end Dec 31st (RMB m)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	5,741	7,603	8,847	9,324	9,754	Net PPE	4,927	7,373	7,461	8,128	8,313
COGS	(2,677)	(3,908)	(4,596)	(5,276)	(6,072)	Net intangibles	3,178	4,558	3,998	4,489	5,378
Gross profit	3,064	3,695	4,251	4,047	3,683	Others	1,225	1,657	1,823	2,005	2,205
Other revenues and gains	122	125	123	124	124	Non-current assets	9,329	13,588	13,282	14,622	15,896
SG&A	(670)	(851)	(1,150)	(1,212)	(1,268)	Cash&cash equivalents	1,246	1,351	1,769	1,865	1,951
Other operating expenses	(138)	(95)	(116)	(106)	(111)	Trade receivables	46	986	430	453	474
Profit from operation	2,378	2,873	3,108	2,853	2,427	Inventories	2,131	2,011	2,654	2,797	2,926
Finance costs	(98)	(219)	(293)	(190)	(187)	Others	539	32	36	39	43
Profit of an associate	7	10	81	88	93	Current assets	3,962	4,380	4,889	5,154	5,394
Profit before tax and MI	2,287	2,665	2,896	2,752	2,333	Total assets	13,291	17,968	18,171	19,776	21,291
Income tax	(564)	(618)	(724)	(688)	(583)	Long-term borrowings	1,679	2,740	2,654	2,797	2,926
Profit from continuing operation	1,723	2,047	2,172	2,064	1,750	Others	704	1,026	1,128	1,241	1,365
Discontinued operation	(2)	0	0	0	0	Non-current liabilities	2,383	3,766	3,782	4,038	4,292
Profit before MI	1,721	2,047	2,172	2,064	1,750	Short-term borrowings	1,510	3,168	1,199	943	827
Minority interests	(61)	(123)	(43)	(41)	(35)	Trade payables	1,538	408	964	1,016	1,063
Net profit attributable to shareholders'	1,660	1,924	2,128	2,023	1,715	Other payables	327	420	590	615	526
EPS	0.569	0.659	0.729	0.693	0.588	Others	362	365	401	441	486
DPS	0.227	0.198	0.219	0.208	0.176	Current liabilities	3,911	4,954	3,607	3,499	3,525
Cash Flow Statement						Total Liabilities	6,294	8,720	7,390	7,538	7,817
Year end Dec 31st (RMB m)	FY11A	FY12A	FY13E	FY14E	FY15E	Minority interests	414	844	887	928	963
Net income	1,660	1,924	2,128	2,023	1,715	Shareholder's equity	6,584	8,404	9,894	11,310	12,510
Changes in WC	(347)	(1,437)	498	(733)	(745)	Financial Ratios					
Adjust for depre.&amort.	490	606	650	442	126	Year end Dec 31st	FY11A	FY12A	FY13E	FY14E	FY15E
Others	276	(1,165)	1,756	807	879	Gross Margin	53.4%	48.6%	48.0%	43.4%	37.8%
Cash flows from operating	2,079	(72)	5,031	2,539	1,975	Net Margin	28.9%	25.3%	24.1%	21.7%	17.6%
Capex	(2,340)	(1,800)	(1,700)	(1,600)	(1,200)	ROE	27.7%	25.7%	23.3%	19.1%	14.4%
Others	72	55	73	66	0	ROA	12.5%	10.7%	11.7%	10.2%	8.1%
Cash flows from investing	(2,269)	(1,745)	(1,627)	(1,534)	(1,200)	ROCE	25.4%	22.2%	21.9%	18.1%	14.2%
Share issue	0	0	0	0	0	Free CF(mn Rmb)	(262)	(1,872)	3,331	939	775
Net bank borrowings	1,224	2,718	(2,054)	(113)	13	Net Gearing	32.5%	60.8%	22.8%	17.7%	15.1%
Dividend paid	(458)	(577)	(639)	(607)	(514)						
Others	(112)	(219)	(293)	(190)	(187)						
Cash flows from financing	654	1,922	(2,986)	(910)	(689)						
Net change in cash	464	105	419	95	86						
Cash at beginning of year	782	1,246	1,351	1,769	1,865						
Cash at end of year	1,246	1,351	1,769	1,865	1,951						

Source: The Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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