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Zhaojin Mining

Analysts | Chris Jiang

Stock	1818:HK
Recommendation	HOLD
Current Price	\$7.55
Target Price	\$7.90

Quick Read

Argonaut visited Zhaojin Mining's (Zhaojin, HK:1818) Jinchiling Mine and Dayingezhuang Mine in Zhaoyuan District, Shandong Province. Although feeding grades and mine life extension are in-line with Argonaut's expectation, pressure on cost escalation was worse than we have anticipated. Argonaut increased production cost assumptions post the site visit. HOLD recommendation maintained while lowering price target to HK\$7.90 (was HK\$9.30).

Event & Impact

Production and feed grade steady: Following a steady production in March Q, June Q is expected to be steady as well with combined grades within Zhaoyuan District reaching over 3g/t. For 2013, Argonaut expects the feeding grade of Jinchiling to be >4.0g/t and Dayingezhuang to be >2.5g/t.

Mines to go deeper and larger: Jinchiling and Dayingezhuang will be mined for another 5 years and >10 years respectively and both of the mines will be deeper. In particular, Dayingezhuang will be mined towards 1,000m. Argonaut forecasts Dayingezhuang to produce 68koz in 2013 ramping up to 114koz in 2015.

Figure 1: Dayingezhuang Mine's shaft



Source: Argonaut

Cost to increase ~10% per annum: Due to rising labour wages, increasing raw material costs and underground mines becoming deeper, the management expects annual cost increase of ~10%. It was evident in the March Q financials which showed a cost increase of ~13% over March Q 2012.

Trimming valuation and maintain HOLD: Argonaut increased 2013's production cost forecasts to US\$669/oz (was US\$641/oz). By 2016, Zhaojin's production cost is estimated as US\$710/oz. Current debt has increased to RMB5,907m from RMB3,159m in 2012. The debt level is likely to rise further as Zhaojin acquires more mining asset in the future. Combining the factors, Argonaut lowers the valuation to HK\$7.90 (was HK\$9.30). HOLD recommendation is maintained.

Recommendation

Argonaut retains a HOLD recommendation while lowering price target to HK\$7.90 (was HK\$9.30).