

Asian Daily

Zhaojin Mining (1818.HK)

3Q20 NP +513% beat, boosted by historical-high gold price and likely strong sales volume

Maintain **OUTPERFORM**

Previous Rating: OUTPERFORM

Target price (HK\$): 15.50

Previous target price (HK\$): 15.00

- Zhaojin announced 3Q20 net income of Rmb478 mn, (+44% QoQ, +513% YoY), a beat. We believe the strong earnings were driven by historical-high gold price in 3Q and likely higher sales volume. We expect elevated gold price to lend support to Zhaojin's bottom line. We revise up our earnings forecasts, and lift target price to HK\$15.50 (from HK\$15.00). We maintain our OUTPERFORM rating.
- Zhaojin's 3Q20 revenue grew 47% YoY to Rmb2.7 bn, a result of historical-high gold price and likely higher sales volume. We believe Zhaojin's 9M20 mined gold production volume might increase by ~5-10% YoY. Zhaojin booked Rmb1.2 bn of FCF in 9M20. Net gearing fell 13 pp to 70% by end of 9M20, vs 83% at the end of 2019.
- We revise up our 2020 earnings forecast by ~9% to Rmb1.2 bn, to reflect higher gold sales volume and lower unit cost assumptions. We derive our new TP of HK\$15.50 by averaging: (1) 3.1x 2020E P/B and (2) 17x three-year average EV/EBITDA.
- Valuation. Zhaojin shares are currently trading at 23x/18x 2020E/21E P/E and 1.9x/1.8x 2020E/21E P/B, close to ~1x SD above mean.

Price (23-Oct-20, HK\$)	9.95	Est. pot. % chg. to TP	55.8
Mkt cap (HK\$/US\$ mn)	32,540 / 4,199	Blue sky scenario (HK\$)	25.0
Number of shares (mn)	3,270	Grey sky scenario (HK\$)	2.0
Free float (%)	67.4	Performance	1M 3M 12M
52-wk range (HK\$)	10.96 - 6.54	Absolute (%)	3.1 (0.7) 15.0
ADTO-6M (US\$ mn)	14.1	Relative (%)	(3.8) (11.4) (19.3)
Year	12/19A	12/20E	12/21E 12/22E
Revenue (Rmb mn)	6,329.9	8,333.8	10,772.0 9,665.5
EBITDA (Rmb mn)	2,306.4	3,489.2	4,107.4 3,657.6
EBIT (Rmb mn)	1,278.6	2,405.9	2,971.8 2,473.4
Net profit (Rmb mn)	479.3	1,200.0	1,600.0 1,300.0
EPS (CS adj.) (Rmb)	0.15	0.37	0.49 0.4
Chg. from prev. EPS (%)	n.a.	9.1	0.0 0.0
Consensus EPS (Rmb)	n.a.	0.34	0.49 0.53
EPS growth (%)	(2.3)	150.4	33.3 (18.8)
P/E (x)	58.6	23.4	17.5 21.6
Dividend yield (%)	0.5	1.2	1.6 1.3
EV/EBITDA (x)	14.5	9.7	8.5 9.3
P/B (x)	2.01	1.89	1.76 1.66
ROE (%)	3.5	8.3	10.4 7.9
Net debt/equity (%)	30.3	31.0	34.8 28.1

Source: Company data, Refinitiv, Credit Suisse estimates

Zhaojin's 9M20 mined gold production volume might increase ~5-10% YoY. 3Q20 gross profit grew 115% YoY to Rmb1.3 bn (+43% QoQ), while GP margin climbed 15 pp higher YoY to 47% (-3% pp QoQ). Zhaojin booked Rmb1.2 bn of free cash flow in 9M20. Net gearing fell 13 pp to 70% by the end of 9M20, vs 83% at the end of 2019.

Earnings forecasts revisions

We revise up our 2020 earnings forecast by ~9% to Rmb1.2 bn, to reflect higher gold sales volume and lower unit cost assumptions. We keep 2021/22 earnings forecasts unchanged. We derive our new target price of HK\$15.50 (previous HK\$15.00) by averaging: (1) 3.1x 2020E P/B and (2) 17x three-year average EV/EBITDA, to reflect the company's asset quality and earnings growth prospects. Our target is at ~1.5x SD above the historical mean.

Figure 1: Zhaojin quarterly financials summary

(in Rmb mn)	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ %	YoY %
Revenues	1,816	1,696	1,370	1,762	2,669	52%	47%
Cost of sales	(1,233)	(1,061)	(890)	(885)	(1,415)	60%	15%
Gross profit	583	635	480	876	1,254	43%	115%
Selling exp	(10)	(12)	(8)	(11)	(13)	20%	23%
Admin exp	(218)	(294)	(232)	(259)	(340)	31%	56%
Operating profit	355	329	240	607	901	49%	154%
EBITDA	355	1,357	240	607	901	49%	154%
Interest Expense	(237)	(109)	(174)	(180)	(74)	-59%	-69%
PBT	119	151	97	483	748	55%	527%
Tax	(14)	(75)	(34)	(90)	(126)	40%	815%
PAT	106	77	63	393	623	58%	490%
Minority interest	(28)	86	18	(62)	(144)	134%	423%
Net profit	78	162	81	331	478	44%	513%
Basic EPS (RMB)	0.03	0.05	0.02	0.11	0.14	27%	367%
GPM (%)	32%	37%	35%	50%	47%	-2.8pps	14.8pps
NPM (%)	4%	10%	6%	19%	18%	-0.9pps	13.6pps
FCF	-	(28)	-	-	1,161	-	-
Net gearing (%)	84%	83%	61%	92%	70%	-21.9pps	-13.6pps

Source: Company data, Credit Suisse estimates

3Q20 net income up 513% YoY, a beat

Zhaojin announced 3Q20 net income of Rmb478 mn, (+44% QoQ, +513% YoY), beating our estimates and street consensus. 9M20 net income reached Rmb891 mn (+181% YoY). We believe the strong earnings were driven by historical-high gold price in the quarter and likely higher gold production and sales volume. We expect loose monetary policies, especially zero US interest rate, to keep gold price elevated, lending support to Zhaojin's bottom line. We revise up our earnings forecasts, lift our target price to HK\$15.50 (from HK\$15.00), and maintain our OUTPERFORM rating.

3Q20 GP at Rmb1.3 bn, +115% YoY

Zhaojin's 3Q20 revenue grew 47% YoY to Rmb2.7 bn, a result of historical-high gold price in the quarter (3Q20 gold price +30% YoY) and likely higher mined gold production and sales volume. We estimate

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Valuation, Methodology and Risks

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Zhaojin Mining (1818.HK)

Method: We rate Zhaojin at OUTPERFORM. Gold business contributes more than 90% of Zhaojin's revenue. Zhaojin's high-grade mines allow it to produce at lower-than-peers' costs. The production volume has been stable. Recent gold price rally was driven by fear of global economy growth uncertainties. If gold price remains at current levels through 2H20E, we expect gold price to increase more than 30% in 2020E, which should help support Zhaojin's 2020E earnings. We derive our TP of HK\$15.5 by averaging (1) 3.1x 2020E P/B and (2) 17x three year average EV/EBITDA, to reflect the company's asset quality and earnings growth prospects. Our target is at ~1.5x SD above the historical mean.

Risk: Downside risks to our OUTPERFORM rating and TP of HK\$15.5 include lower-than-expected gold prices, likely driven by (1) below-market-expected Fed rate cut, leading to weaker gold prices, (2) slower-than-expected rate cut leading to lower gold prices, and (3) stronger-than-expected economic growth or employment rate leading to weaker rate cut. Company-level risks include higher-than-expected costs, lower-than-expected realised selling prices, lower-than-expected sales volume, production safety issues leading to higher costs or production suspension, environment protection violations, etc.

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3-Year Price and Rating History for Zhaojin Mining (1818.HK)

1818.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
26-Feb-19	8.61		NR
08-Nov-19	8.61	9.00	N *
25-Feb-20	9.39	11.70	O
27-Apr-20	9.06	12.00	
08-Jun-20	8.78	13.00	
19-Aug-20	9.09	15.00	



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Rating	Versus universe (%)	Of which banking clients (%)
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