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## Zhaojin Mining Industry | Asia Pacific

## 3Q20 beat our high expectation

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
HK\$12.54

**3Q20 profit quadrupled YoY on gold price and finance cost cut:** Zhaojin's 3Q net profit increased to Rmb482mn, up 467% YoY and 47% QoQ, against a gold price rise of 17% YoY in Rmb terms. This is well above our estimate of Rmb183mn (+116% YoY). 3Q20 operating profit grew 43% QoQ and 129% YoY, with EBIT margin expanding to 36%, from 26% in 1H20. While no production data was provided, we think a catch-up in volume from the miss in 1Q led to the earnings spike. Finance cost shrank 52% YoY to Rmb122mn. Cumulatively, 9M20 net profit surged 181% YoY to Rmb891mn (vs. 13% rise in 1H20), accounting for 84% of our full-year estimate and 82% of consensus. 9M20 finance cost decreased 23% YoY to Rmb428mn and also contributed to the better-than-expected bottom line.

**See robust earnings into 4Q20:** Our commodity team projects gold price will sustain its current high level and average at US\$1,925/oz in 4Q20. Zhaojin is our preferred pick in China's gold industry. Reiterate OW.

MORGAN STANLEY ASIA LIMITED+

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## Zhaojin Mining Industry ( 1818.HK, 1818 HK)

Greater China Materials / China

Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$12.54
Up/downside to price target (%)	26
Shr price, close (Oct 23, 2020)	HK\$9.95
52-Week Range	HK\$11.52-6.54
Sh out, dil, curr (mn)	3,221
Mkt cap, curr (mn)	US\$4,135
EV, curr (mn)	US\$6,184
Avg daily trading value (mn)	US\$12.3

Fiscal Year Ending	12/19	12/20e	12/21e	12/22e
Revenue, net (Rmb mn)	6,330	8,298	8,735	9,080
EBITDA (Rmb mn)	2,151	3,261	4,043	4,523
ModelWare net inc (Rmb mn)	479	1,054	1,429	1,719
ModelWare EPS (Rmb)	0.15	0.33	0.44	0.53
EPS (Rmb)§	0.21	0.34	0.49	0.53
P/E	51.7	26.2	19.3	16.1
EV/EBITDA	17.9	12.7	10.1	8.8
P/BV	1.8	1.9	1.8	1.6
ROE (%)	3.6	7.6	9.7	10.9
Div yld (%)	0.5	1.0	1.4	1.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates  
e = Morgan Stanley Research estimates

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## Valuation Methodology and Risks

### **Zhaojin Mining Industry(1818.HK)**

Probability weightings of 15%/80%/5% on bull/base/bear scenarios - skew reflects increasing likelihood for gold prices to reach our bull case. DCF discounts our earnings estimates through 2030, and then normalizes them by our cost of equity of 8%. We calculate our cost of equity assumption on a risk-free rate of 0%, an ERP of 5.6%, and a beta of 1.16. We assume a steady-state revenue growth rate of 1% p.a.

#### **Risks to Upside**

- Stronger-than-expected gold prices move the share price toward our bull case;
- Further RMB depreciation;
- Production volume increase higher-than-expected.

#### **Risks to Downside**

- Falling gold prices amid US dollar strength;
- Execution risk in new projects;
- Increased borrowings lead to higher financing costs and weigh on near-term earnings.

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(as of September 30, 2020)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
<b>Overweight/Buy</b>	<b>1326</b>	<b>40%</b>	<b>360</b>	<b>46%</b>	<b>27%</b>	<b>590</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1444</b>	<b>43%</b>	<b>341</b>	<b>43%</b>	<b>24%</b>	<b>676</b>	<b>45%</b>
<b>Not-Rated/Hold</b>	<b>4</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>25%</b>	<b>3</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>557</b>	<b>17%</b>	<b>85</b>	<b>11%</b>	<b>15%</b>	<b>226</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,331</b>		<b>787</b>			<b>1495</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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**Attractive (A):** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

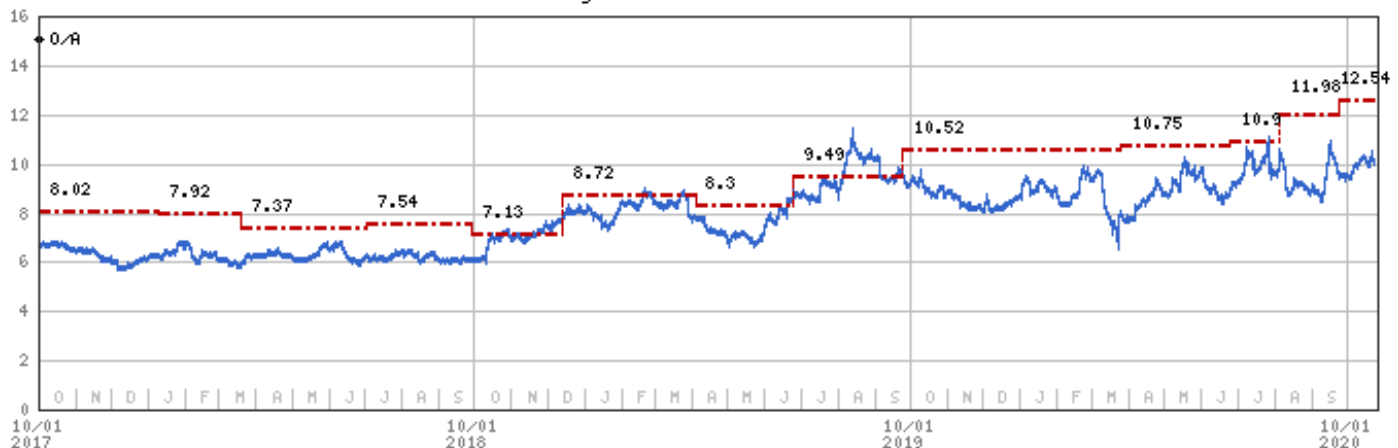
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### Stock Price, Price Target and Rating History (See Rating Definitions)

Zhaojin Mining Industry (1818.HK) - As of 10/25/20 in HKD  
Industry : Greater China Materials



Stock Rating History: 10/1/15 : 0/C; 1/15/16 : 0/A

Price Target History: 9/30/15 : 6.5; 12/16/15 : 5.6; 3/16/16 : 6.6; 6/28/16 : 9.25; 12/13/16 : 9.34; 3/14/17 : 8.24; 9/28/17 : 8.02; 1/9/18 : 7.92; 3/20/18 : 7.37; 7/3/18 : 7.54; 9/28/18 : 7.13; 12/14/18 : 8.72; 4/4/19 : 8.3; 6/25/19 : 9.49; 9/24/19 : 10.52; 3/25/20 : 10.75; 6/25/20 : 10.9; 8/6/20 : 11.96; 9/24/20 : 12.54

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
Stock and Industry Ratings (abbreviations below) appear as + Stock Rating/Industry View  
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/26/2020)
<b>Hannah Yang, CFA</b>		
MMG Ltd (1208.HK)	O (05/14/2020)	HK\$1.99
<b>Rachel L Zhang</b>		
Aluminum Corp. of China Ltd. (601600.SS)	E (09/24/2019)	Rmb2.93
Aluminum Corp. of China Ltd. (2600.HK)	E (09/24/2019)	HK\$1.78
Angang Steel Company Limited (0347.HK)	O (11/28/2013)	HK\$2.26
Angang Steel Company Limited (000898.SZ)	O (01/09/2018)	Rmb2.70
Baoshan Iron & Steel (600019.SS)	O (01/16/2016)	Rmb5.35
China Jushi (600176.SS)	O (04/30/2019)	Rmb14.00
China Molybdenum (3993.HK)	O (09/24/2019)	HK\$2.88
China Molybdenum (603993.SS)	E (09/24/2019)	Rmb3.89
CSG Holding Co., Ltd. (000012.SZ)	E (07/30/2020)	Rmb5.95
Flat Glass Group Co Ltd (6865.HK)	O (07/30/2020)	HK\$21.10
Flat Glass Group Co Ltd (601865.SS)	O (07/30/2020)	Rmb34.50
Ganfeng Lithium Co. Ltd. (002460.SZ)	E (06/16/2020)	Rmb58.41
Ganfeng Lithium Co. Ltd. (1772.HK)	O (06/16/2020)	HK\$43.65
Jiangxi Copper (0358.HK)	O (09/24/2019)	HK\$9.43
Jiangxi Copper (600362.SS)	E (09/24/2019)	Rmb14.93
Lee & Man Paper Manufacturing (2314.HK)	U (06/01/2020)	HK\$6.03
Maanshan Iron & Steel (0323.HK)	O (01/16/2016)	HK\$1.82
Maanshan Iron & Steel (600808.SS)	O (03/14/2017)	Rmb2.63
Nine Dragons Paper (2689.HK)	U (06/01/2020)	HK\$10.72
Shandong Nanshan Aluminium Co. (600219.SS)	U (03/25/2020)	Rmb2.33
Tianqi Lithium Industries Inc. (002466.SZ)	++	Rmb21.27
Xinyi Glass Holding Limited (0868.HK)	O (07/30/2020)	HK\$16.12
Zhuzhou Kibing Group Co Ltd (601636.SS)	O (07/30/2020)	Rmb8.17
<b>Sara Chan</b>		
FangDa Carbon New Material Co. Ltd. (600516.SS)	U (08/12/2019)	Rmb6.11
Shandong Gold Mining Co. Ltd (600547.SS)	U (11/06/2018)	Rmb25.14
Shandong Gold Mining Co. Ltd (1787.HK)	E (11/06/2018)	HK\$19.12
Zhaojin Mining Industry (1818.HK)	O (01/20/2015)	HK\$9.95
Zhongjin Gold Corp. Ltd. (600489.SS)	U (04/04/2019)	Rmb9.68
Zijin Mining Group (2899.HK)	O (07/09/2019)	HK\$5.80
Zijin Mining Group (601899.SS)	U (07/09/2019)	Rmb7.04
<b>Sean Xiang</b>		
China Steel Corp. (2002.TW)	E (09/28/2017)	NT\$20.70
GEM Co Ltd (002340.SZ)	O (10/07/2020)	Rmb4.81
Zhejiang Huayou Cobalt Co Ltd (603799.SS)	O (07/03/2020)	Rmb36.11

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.