

Zhaojin Mining Industry Company (1818 HK)

2020 NP Increase 120% with Good Cost Control

Investment Focus

Maintain **OUTPERFORM**

Rating	OUTPERFORM
Current Price	HK\$7.15
Target Price	HK\$13.80
Market cap	HK\$18.66bn / US\$2.40bn
Daily traded value (3mth)	US\$7.50mn
Shares in issue	3,270mn
Free float (%)	39%
1 yr high - low	HK\$11.52-HK\$7.15

Note: Current Price HK\$7.15 is the close price on 25 Mar 2021



Source: Factset

	1mth	3mth	12mth
Absolute	-15.2%	-20.7%	-6.6%
Absolute USD	-15.3%	-20.9%	-6.7%
Relative to MSCI China	-5.1%	-23.6%	-48.0%

(Rmb mn)	Dec-19A	Dec-20A	Dec-21E	Dec-22E
Revenue	6,330	7,649	7,551	7,976
(+/-)	-12%	21%	-1%	6%
Net profit	479	1,052	1,240	1,533
(+/-)	1%	120%	18%	24%
EPS(Rmb)	0.15	0.32	0.38	0.47
GPM	36.2%	47.3%	52.8%	53.2%
ROE	3.4%	7.8%	8.5%	9.7%
P/E	40	19	16	13

Source: Company data, HTI estimates

(This note is the English translation of a note that was originally written in Chinese and published on 25 Mar 2021)

Event

Zhaojin Mining announced its 2020 results, achieving revenue of Rmb7.65bn, up 21% YoY, and NP of Rmb1.05bn, corresponding to EPS of Rmb0.32, up 120% YoY, mainly due to the sharp increase in gold prices. In addition, the company plans to distribute a cash dividend of Rmb0.05 per share, with a dividend payout ratio of 16%.

Comment

The sharp rise in gold prices at home and abroad was the main reason for the growth. In 2020, benefiting from the continued loose monetary policy overseas, the international gold price hit a record high to USD2075/oz. In 2020, the average price of gold in London increased by 27% YoY to USD1,778/oz. The average domestic gold price rose by 24% to Rmb389/g.

Gold production increased slightly. In 2020, the company's mineral gold production increased by 1.7% YoY to 20.1 tons, of which self-produced gold increased by 5.6% YoY to 16.5 tons, and the company's smelted gold output was up 20% YoY to 15.5 tons. The company expects 19.1 tons of mineral gold output in 2021, of which 16.9 tons will be self-produced gold, up 3% YoY.

Cost control was better than expected. In 2020, the company's self-produced gold production costs fell by 1.7% YoY, of which cash costs fell by 1% YoY. The sharp increase in prices and effective cost control have made the company's GPM rise by 11ppt to 47%.

Profit-increasing factors: 1) Other income increased by Rmb310mn YoY, mainly due to the increase in investment income. 2) The effective tax rate fell to 7.7%, mainly due to the increase in the proportion of profits enjoying the preferential tax rate of 15%.

Profit-decreasing factors: 1) Other expenses increased by Rmb400mn YoY, mainly due to the provision of construction in progress impairment of Rmb420mn. 2) financial asset impairment losses of Rmb310mn. 3) administrative expenses increased by Rmb250mn YoY, mainly because that exploration R&D expenses were transferred from production costs to management expenses.

Earnings and valuation

Due to the Qixia gold mine accident, the company's production in 1Q2021 would be affected. We lower its profit forecast for 2021/22 by 22%/24% to Rmb12.4bn/ Rmb15.3bn, corresponding to EPS of Rmb0.38/Rmb0.47, up 18%/24% YoY. **We maintain an Outperform rating and TP of HKD13.8, corresponding to 25x 2022e P/E (was 2021e).**

Risks

Commodity prices fall sharply, and the progress of the project falls short of expectations.

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Financial Statements Analysis and Forecasts

IS (Rmb mn)	2019A	2020A	2021E	2022E	Balance sheet (Rmb mn)	2019A	2020A	2021E	2022E
Total revenue	6,330	7,649	7,551	7,976	Cash	3,508	1,840	1,873	2,507
OGS	4,040	4,033	3,567	3,736	Accountable receivable	2,754	2,059	2,360	2,493
GPM%	36%	47%	53%	53%	Inventory	4,310	5,126	3,243	3,397
Sales expenses	56	45	57	60	Other current assets	1,425	1,953	1,953	1,953
Sales expenses rate%	1%	1%	1%	1%	Total current assets	11,997	10,978	9,428	10,349
Admin expenses	956	1,209	1,194	1,261	Long - term equity investment	3,662	4,008	4,008	4,008
Admin expenses rate%	15.1%	15.8%	15.8%	15.8%	Fixed assets	14,989	15,209	18,922	19,324
EBIT	1,306	2,014	2,387	2,926	Tangible assets and others	9,604	9,494	10,138	10,399
Financial expenses	662	699	694	694	Total non-current assets	28,254	28,712	33,068	33,731
Financial expenses rate%	10%	9%	9%	9%	Total assets	40,252	39,690	42,496	44,080
Share of profit or loss of associates	7	19	19	19	Short-term debts	8,895	11,894	10,278	10,278
Profits	644	1,315	1,693	2,231	Accounts payable	368	508	325	340
Non-operating income and expenditure	-55	4	4	4	Other current liabilities	1,889	2,180	1,530	1,602
Total profits	596	1,337	1,716	2,254	Total liabilities	12,535	16,518	14,069	14,157
EBITDA	2,334	3,065	3,525	4,152	Long-term debts	9,559	5,515	9,559	9,559
Taxation	157	103	257	451	Other long-term debts	9,965	5,381	5,381	5,381
Effective income tax rate %	26.4%	7.7%	15.0%	20.0%	Total non-current debts	10,354	6,115	10,159	10,159
Minority interests	-41	183	219	270	Total liabilities	22,889	22,633	24,228	24,316
NP to ord equity	479	1,052	1,240	1,533	Paid-in capital	13,950	13,553	14,544	15,771
					Total liabilities and equities	40,252	39,690	42,496	44,080
					Cash Flow (Rmb mn)	2019A	2020A	2021E	2022E
					Operating profits	644	1,315	1,693	2,231
					Net cash flows from operating activities	1,780	3,354	3,827	3,525
					Net cash flows from investment activities	-2,212	-2,846	-2,853	-1,890
					Net cash flows from financing activities	2,778	-858	-942	-1,001
					Opening balances of cash and cash equivalents	1,143	3,508	1,840	1,873
					Increase/decrease in cash and cash equivalents	2,346	-350	32	635
					Closing balance of cash and cash equivalents	3,508	3,159	1,873	2,507
					Free cash flow				

Source: Zhaojin Mining's annual report, HTI estimates

APPENDIX

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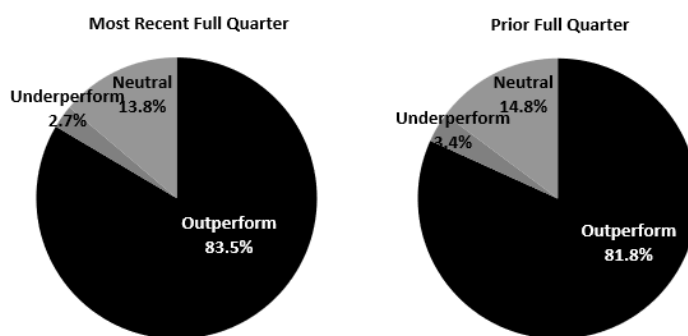
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Recommendation Chart

Zhaojin Mining Industry Company - 1818 HK



1. 2 Jun 2020 OUTPERFORM at 9.71 target 11.3.
2. 27 Aug 2020 OUTPERFORM at 8.95 target 12.5.
3. 27 Oct 2020 OUTPERFORM at 9.95 target 13.8.

Source: Company data Bloomberg, HTI estimates