

March 24, 2021 04:53 PM GMT

Zhaojin Mining Industry | Asia Pacific

FY20 results met our high expectations

Stock Rating
Overweight

Industry View
Attractive

Price Target
HK\$12.58

Zhaojin delivered strong 2020 net profit growth of 120% YoY to Rmb1.05bn vs. our estimate of Rmb1.18bn. Heading into 2021, we see earnings momentum moderating on the pullback in gold prices (down 11% QoQ in 1Q21) and the production impact from the Shandong mine accident in January.

2020 results in line: Zhaojin reported 2020 net profit of Rmb1.05bn, largely in line with our and consensus expectations. Along with the higher gold price, total gold output grew 9% YoY to 35.6 tons. Mined gold production increased 1.7% to 20.1 tons in 2020, recovering from the 22% decline in 1H due to Covid. Zhaojin declared a dividend of Rmb0.05/share, implying a 15% payout vs. 27% in 2018-19.

Shandong mine likely impacted volumes in 1Q21: Management said construction of Wucaolong has been suspended following an explosion in January. Shandong province has imposed tightened safety inspections for all non-coal mines and this is likely to have affected production.

Results highlights:

- **Gold production exceeded the 2020 target:** Gold production volume grew 9% YoY, to 35.6t, exceeding guidance of 32.4t. The company guided for 36.3t of gold production in 2021.
- **Copper business shrank but achieved turnaround:** A 45.8% YoY drop in copper production but a 57.8% YoY increase in ASP led to a profit of Rmb11.4mn for Zhaojin's copper operation in 2020.
- **Gross margin expanded** to 47% in 2020 from 36% in 2019 on the back of higher gold prices.
- **Gearing rose further to 116% in 2020 from 107% in 2019:** Debt rose 34% YoY on the increase from the corporate bond. Finance costs rose 6% YoY to Rmb699mn.

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Zhaojin Mining Industry (1818.HK, 1818 HK)

Greater China Materials / China

Stock Rating	Overweight
Industry View	Attractive
Shr price, close (Mar 24, 2021)	HK\$7.24
Price target	HK\$12.58
52-Week Range	HK\$11.68-7.11
Sh out, dil, curr (mn)	3,221
Mkt cap, curr (mn)	US\$3,003
EV, curr (mn)	US\$5,105
Avg daily trading value (mn)	US\$11.96

Fiscal Year Ending	12/19	12/20e	12/21e	12/22e
Revenue, net (Rmb mn)	6,330	8,195	8,013	8,670
EBITDA (Rmb mn)	2,151	3,410	3,708	4,097
ModelWare net inc (Rmb mn)	479	1,185	1,264	1,509
ModelWare EPS (Rmb)	0.15	0.37	0.39	0.47
EPS (Rmb)\$	0.21	0.38	0.50	0.58
P/E	51.7	21.1	15.5	13.0
EV/EBITDA	17.9	11.3	8.7	7.7
P/BV	1.8	1.7	1.2	1.2
ROE (%)	3.6	8.5	8.5	9.6
Div yld (%)	0.5	1.3	1.7	2.1

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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Exhibits

Exhibit 1: Zhaojin: Half-yearly financials

Income statement (IFRS)	1H18	2H18	2018	1H19	2H19	2019	1H20	2H20	2020
Net Revenue (After surcharge)	2,869	4,308	7,177	2,818	3,512	6,330	3,132	4,517	7,649
Cost of Sales (Including depreciation an	(1,678)	(3,017)	(4,695)	(1,746)	(2,294)	(4,040)	(1,775)	(2,258)	(4,033)
Gross Profit	1,191	1,291	2,482	1,072	1,218	2,290	1,357	2,258	3,615
Other Revenue	117	223	340	134	188	322	262	326	588
Selling and marketing costs	(24)	(32)	(56)	(33)	(22)	(56)	(19)	(26)	(45)
Administrative expenses	(442)	(499)	(942)	(443)	(513)	(956)	(491)	(718)	(1,209)
Other operating expenses	(169)	(542)	(711)	(178)	(292)	(470)	(296)	(857)	(1,153)
Profit from Operations	673	441	1,114	551	579	1,130	813	983	1,796
Bank interest income	50	50	100	76	100	176	109	110	219
Interest expense	(236)	(244)	(481)	(316)	(346)	(662)	(354)	(345)	(699)
- associated companies	2	22	24	2	(49)	(48)	7	16	23
- Profit from JCE	(3)	3		12	(12)		6	(6)	
PTP(adj.)	485	271	757	325	271	596	580	758	1,337
- income tax	(98)	(82)	(180)	(69)	(88)	(157)	(123)	21	(103)
- minority interest	(85)	(17)	(102)	(17)	58	41	(44)	(139)	(183)
Modelware Net Income	302	173	474	239	240	479	412	640	1,052
Normalized net income									
Depreciation	514	503	1,017	511	510	1,021	507	500	1,007
EBITDA	1,187	944	2,131	1,062	1,089	2,151	1,320	1,483	2,803
Weighted average shares for basic EPS	3,221	3,221	3,221	3,221	3,221	3,221	3,270	3,221	3,221
Basic	0.09	0.05	0.15	0.07	0.07	0.15	0.13	0.20	0.33

Source: Company data, Morgan Stanley Research

Exhibit 2: Zhaojin stock price vs. gold price



Source: Refinitiv, Datastream, Morgan Stanley Research

Exhibit 3: Zhaojin's P/B is currently below its long-term average



Source: Refinitiv, company data, Morgan Stanley Research

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 February 28, 2021)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1493	43%	400	47%	27%	664	43%
Equal-weight/Hold	1439	42%	359	42%	25%	651	42%
Not-Rated/Hold	6	0%	1	0%	17%	5	0%
Underweight/Sell	518	15%	87	10%	17%	214	14%
TOTAL	3,456		847			1534	

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

Zhaojin Mining Industry (1818.HK) - As of 3/23/21 in HKD
Industry : Greater China Materials



Stock Rating History: 3/1/16 : 0/A

Price Target History: 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 : 11.98; 9/24/20 : 12.54; 11/19/20 : 12.58

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)
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INDUSTRY COVERAGE: Greater China Materials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/24/2021)
Hannah Yang, CFA		
MMG Ltd (1208.HK)	O (05/14/2020)	HK\$4.13
Shandong Pharmaceutical Glass Co. Ltd. (600529.SS)	O (01/04/2021)	Rmb36.94
Rachel L Zhang		
Aluminum Corp. of China Ltd. (601600.SS)	O (11/30/2020)	Rmb3.70
Aluminum Corp. of China Ltd. (2600.HK)	O (11/30/2020)	HK\$3.09
Angang Steel Company Limited (0347.HK)	O (11/28/2013)	HK\$3.67
Angang Steel Company Limited (000898.SZ)	O (01/09/2018)	Rmb3.57
Baoshan Iron & Steel (600019.SS)	O (01/16/2016)	Rmb8.03
China Jushi (600176.SS)	O (12/22/2020)	Rmb18.00
China Molybdenum (3993.HK)	O (09/24/2019)	HK\$4.45
China Molybdenum (603993.SS)	E (09/24/2019)	Rmb5.19
China Steel Corp. (2002.TW)	E (02/23/2021)	NT\$25.00
CSG Holding Co., Ltd. (000012.SZ)	E (07/30/2020)	Rmb6.09
Flat Glass Group Co Ltd (6865.HK)	O (07/30/2020)	HK\$22.15
Flat Glass Group Co Ltd (601865.SS)	O (07/30/2020)	Rmb25.54
Ganfeng Lithium Co. Ltd. (002460.SZ)	E (06/16/2020)	Rmb90.37
Ganfeng Lithium Co. Ltd. (1772.HK)	O (06/16/2020)	HK\$91.00
GEMCo Ltd (002340.SZ)	O (02/23/2021)	Rmb8.41
Jiangxi Copper (0358.HK)	O (09/24/2019)	HK\$14.14
Jiangxi Copper (600362.SS)	E (09/24/2019)	Rmb21.62
Lee & Man Paper Manufacturing (2314.HK)	U (06/01/2020)	HK\$6.92
Maanshan Iron & Steel (0323.HK)	E (03/24/2021)	HK\$2.48
Maanshan Iron & Steel (600808.SS)	E (03/24/2021)	Rmb2.92
Nine Dragons Paper (2689.HK)	E (11/06/2020)	HK\$11.08
Shandong Nanshan Aluminium Co. (600219.SS)	O (11/30/2020)	Rmb3.45
Tianqi Lithium Industries Inc. (002466.SZ)	++	Rmb36.17
Xinyi Glass Holding Limited (0868.HK)	O (07/30/2020)	HK\$23.55
Zhejiang Huayou Cobalt Co Ltd (603799.SS)	O (02/23/2021)	Rmb61.65
Zhuzhou Kibing Group Co Ltd (601636.SS)	O (07/30/2020)	Rmb11.98
Sara Chan		
FangDa Carbon New Material Co. Ltd. (600516.SS)	O (01/05/2021)	Rmb8.27
Shandong Gold Mining Co. Ltd (600547.SS)	U (11/06/2018)	Rmb21.80
Shandong Gold Mining Co. Ltd (1787.HK)	E (11/06/2018)	HK\$15.00
Zhaojin Mining Industry (1818.HK)	O (01/20/2015)	HK\$7.24
Zhongjin Gold Corp. Ltd. (600489.SS)	U (04/04/2019)	Rmb8.45
Zijin Mining Group (2899.HK)	O (07/09/2019)	HK\$9.25
Zijin Mining Group (601899.SS)	U (07/09/2019)	Rmb9.36

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

* Historical prices are not split adjusted.