

Zhaojin Mining Industry (1818.HK)

9M22 Net Profit +660% YoY; Maintain Buy

CITI'S TAKE

Zhaojin Mining reported 9M22 net profit at Rmb265mn (PRC GAAP), up 660% YoY given low base in 9M21 caused by operation disruption amid stringent safety inspections. 9M22 net profit accounting for 41%/41% of Citi forecast/Bloomberg consensus. Implied 3Q22 net profit came in at Rmb163mn, +855% YoY and +782% QoQ. The sequential improvement in 3Q22 net profit is mainly due to lower administrative expenses and lower fair value loss. Maintain Buy.

Gold price outlook — The Shanghai average gold price is Rmb385/g in 3Q22, +3% YoY and -4% QoQ. According to the Citi Commodity team's forecasts, 2022 average gold price may reach \$1,801/oz, -4% YoY and gold price in 4Q22E to be \$1,710/oz, -4% YoY and -1% QoQ. The commodity team see moderate downside risk potential for gold in the short term given aggressive front-end pricing for US policy rates, the back-up in medium-term real Treasury yields, and bearish gold vol skew.

Net gearing at 55%, improved FCF QoQ — 9M22 net gearing was at 55%, vs. 72% in YE2021 and 61% in 1H22. During the quarter, OCF delivered at Rmb399mn, with capex at Rmb462mn, FCF came in at Rmb-63mn, vs. Rmb11mn in 3Q21 and Rmb-713mn in 2Q22.

Implications — Zhaojin Mining currently trades at 1.1x 2022E P/B, below the historical average of ~2x. Maintain Buy.

Buy

Price (20 Oct 22 16:10)	HK\$5.96
Target price	HK\$8.20
Expected share price return	37.6%
Expected dividend yield	0.0%
Expected total return	37.6%
Market Cap	HK\$19,492M US\$2,483M

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Statistical Abstract

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2020A	1,052	0.322	116.2	17.1	1.3	7.7	0.9
2021A	34	0.010	-96.8	na	1.1	0.2	0.0
2022E	652	0.199	na	27.5	1.1	3.9	0.6
2023E	986	0.302	51.3	18.2	1.0	5.7	0.9
2024E	1,432	0.438	45.2	12.5	0.9	7.7	1.2

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

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Figure 1. Zhaojin Mining key financial summary

Key operating data	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	YoY	QoQ		9M21	9M22	YoY
Gold price (Rmb/oz)	376	377	374	370	393	399	385	3%	-1%		376	369	4%
Key financial data (Rmb mm)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	YoY	QoQ		9M21	9M22	YoY
Net Revenue	1,317	2,252	1,604	1,687	1,641	1,988	1,960	22%	-1%		5,173	5,589	8%
Gross profit	515	681	412	1,085	652	688	592	44%	-14%		1,607	1,932	20%
SG&A	(270)	(295)	(269)	(690)	(288)	(349)	(324)	21%	-7%		(837)	(962)	15%
Other expenses, net	(8)	(177)	126	(396)	(97)	(65)	89	-29%	n.a.		(59)	(76)	27%
EBIT	237	205	268	(9)	267	271	356	33%	31%		711	995	26%
Finance costs	(164)	(118)	(125)	(19)	(124)	(102)	(74)	-41%	-27%		(408)	(299)	-27%
Profit before tax	73	87	143	(21)	143	170	283	98%	67%		303	596	97%
Income tax	(24)	(41)	(48)	22	(46)	(62)	(73)	52%	17%		(113)	(181)	61%
Profit after tax	49	46	95	1	97	107	210	121%	96%		190	415	118%
MI	(26)	(51)	(78)	(2)	(13)	(89)	(47)	-39%	-47%		(155)	(149)	-4%
Net profit	23	(5)	17	(1)	84	18	163	855%	782%		35	265	660%
Gross margin	39%	30%	26%	64%	40%	35%	30%	5ppt	-4ppt		31%	35%	3ppt
SG&A % of revenue	-20%	-13%	-17%	-41%	-18%	-18%	-17%	0ppt	1ppt		-16%	-17%	-1ppt
EBIT Margin	18%	9%	17%	0%	16%	14%	18%	1ppt	5ppt		14%	16%	2ppt
Net margin	2%	0%	1%	0%	5%	1%	8%	7ppt	7ppt		1%	5%	4ppt
Net gearing	89%	88%	76%	72%	46%	61%	55%	-20ppt	-5ppt		76%	55%	-20ppt
FCF	(341)	(66)	11	1,053	(335)	(713)	(63)	n.a.			(397)	(1,111)	

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Source: Citi Research, Company Reports

Figure 2. Zhaojin Mining stock price vs gold price



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Source: Citi Research, Bloomberg

Zhaojin Mining Industry

Valuation

We value Zhaojin at HK\$8.20 based on a DCF valuation which assumes a LT gold price of US\$1,400/oz. With a 2% terminal growth and a WACC of 7.2% (3% risk-free rate, 0.8 beta, 7.5% market risk premium), our NPV/share works out to HK\$8.20.

Risks

Major downside risks that could push the stock below our target price include: 1) gold prices fall lower than we expect due to a spike in interest rates; 2) production costs rise to levels higher than we are modelling; 3) capex outlays overrun at the Haiyu Gold mine and/or there are production delays.

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Zhaojin Mining Industry (1818.HK)

Ratings and Target Price History
Fundamental Research

Analyst: Jack Shang, CFA



Date	Rating	Target Price	Closing Price
1 25-Aug-20 22:21:08	*1H	*12.00	9.07
2 08-Jun-21 13:00:06	1H	*10.50	8.22
3 08-Sep-21 15:07:34	1H	*8.20	6.55
4 26-Oct-21 05:32:08	1H	*7.70	5.76
5 03-Jan-22 18:47:45	*1	7.70	6.56
6 14-Jul-22 08:33:51	1	*8.20	6.65

*Indicates Change

Rating/target price changes above reflect Eastern Time

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