



Rating  
**Buy**

Asia  
China

Resources  
Metals & Mining

Company  
**Zijin Mining**

Reuters 2899.HK    Bloomberg 2899 HK    Exchange HSI    Ticker 2899

Date  
27 March 2017

## Results

Price at 24 Mar 2017 (HKD)	3.07
Price target - 12mth (HKD)	3.70
52-week range (HKD)	3.17 - 2.22
HANG SENG INDEX	24,358

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## FY16 results missed on higher unit costs and non-ops

### Results missed on higher unit costs during 4Q and non-ops

Zijin released its FY16 annual results with NPAT of RMB1840m, representing an 11% increase YoY and achieving only 84% and 87% of our and consensus estimates respectively. Revenue increased 6% YoY, which is in line with estimates, but the unit costs of the mined gold, copper, and zinc segments during 4Q increased by 15%, 16%, and 23% respectively, causing gross profit to underperform our estimates by 5%. Additionally, cumulative investment losses of c.RMB2bn were incurred during the year and recorded impairment loss also increased relative to last year; thus PBT only increased 2% YoY. No dividend was announced for the period.

### Other financial highlights: refining segment contribution and higher net gearing

The poor mined segment performance during the reporting period can be attributed to the +9%/-8% YoY change in mined gold and copper ASP in comparison to the +14%/-5% YoY change in unit cost. While the refining segment gross profit increased by nearly 400% YoY and was able to make up for a portion of the underperformance, the overall gross margin of 10ppt still missed our estimate by 1ppt. Zijin's net gearing increased to 124% at the end of the reporting period, rising 47ppt YoY; as a result, the interest coverage ratio declined from 2.6x to 1.6x. We will review our model after obtaining more information about performance at the analyst meeting tomorrow; meanwhile, please refer to Figure 1 and 2 below for the FY16 financial summary.

### Maintaining Buy on gold and copper outlook; risks

Despite the expected rate hikes, our global commodity team believes the gold price will be supported by heightened political risk and we believe potential RMB depreciation will provide additional support. Also, the company is a major beneficiary of our more constructive view on the end-of-the-decade copper price due to the expected ramp-ups of Kolwezi and Kamao. Our valuation is based on a life-of-mine DCF method where we assume a 9.6% WACC. We maintain Buy on the outlook. Downside risks include lower commodity prices, lower volumes, and higher-than-expected unit costs.

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.6	32.3	29.0
HANG SENG INDEX	1.6	12.9	19.7

Source: Deutsche Bank

### Forecasts And Ratios

Year End Dec 31	2014A	2015A	2016E	2017E	2018E
Sales (CNYm)	58,760.5	74,303.6	78,338.4	92,166.5	100,599.7
EBITDA (CNYm)	6,819.8	6,384.9	7,588.5	11,281.3	11,980.9
EBIT(CNYm)	4,071	3,076	3,892	7,299	7,765
Reported EPS FD(CNY)	0.11	0.08	0.10	0.22	0.23
Reported NPAT (CNYm)	2,345.1	1,655.7	2,199.8	4,745.6	4,858.1
PER (x)	13.7	24.9	26.7	12.4	12.1
EV/EBITDA (x)	7.4	10.0	11.0	7.2	6.5
DPS (net) (CNY)	0.08	0.06	0.06	0.13	0.13
Yield (net) (%)	5.4	3.1	2.2	4.7	4.8

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close



Model updated: 16 March 2017

Running the numbers

Asia

China

Metals & Mining

Zijin Mining

Reuters: 2899.HK

Bloomberg: 2899 HK

Buy

Price (24 Mar 17) HKD 3.07

Target Price HKD 3.70

52 Week range HKD 2.22 - 3.17

Market Cap (m) HKDm 66,963  
USDm 8,621

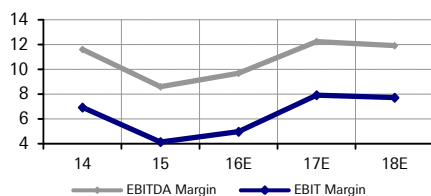
Company Profile

Zijin Mining is a mining conglomerate in the PRC. It is engaged primarily in the exploration, mining and sale of gold and other non-ferrous metals. The company is one of the largest and most efficient mine-produced gold producers in the PRC.

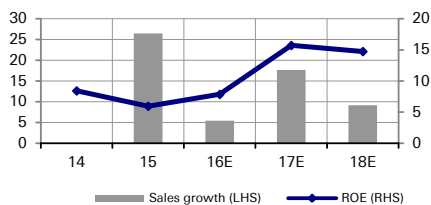
Price Performance



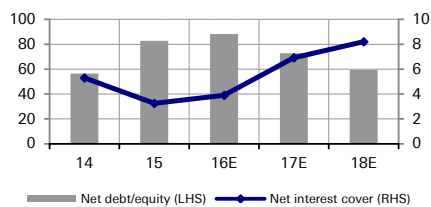
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016E	2017E	2018E
DB EPS (CNY)	0.11	0.08	0.10	0.22	0.23
Reported EPS (CNY)	0.11	0.08	0.10	0.22	0.23
DPS (CNY)	0.08	0.06	0.06	0.13	0.13
BVPS (CNY)	1.3	1.3	1.3	1.5	1.6
Weighted average shares (m)	21,573	21,558	21,543	21,543	21,543
Average market cap (CNYm)	32,034	41,279	59,431	59,431	59,431
Enterprise value (CNYm)	50,517	63,633	83,700	81,123	77,481

Valuation Metrics

P/E (DB) (x)	13.7	24.9	26.7	12.4	12.1
P/E (Reported) (x)	13.7	24.9	26.7	12.4	12.1
P/BV (x)	1.34	1.29	2.06	1.84	1.73
FCF Yield (%)	0.6	13.3	0.8	8.8	13.0
Dividend Yield (%)	5.4	3.1	2.2	4.7	4.8
EV/Sales (x)	0.9	0.9	1.1	0.9	0.8
EV/EBITDA (x)	7.4	10.0	11.0	7.2	6.5
EV/EBIT (x)	12.4	20.7	21.5	11.1	10.0

Income Statement (CNYm)

Sales revenue	58,761	74,304	78,338	92,167	100,600
Gross profit	9,790	8,795	12,314	15,729	16,707
EBITDA	6,820	6,385	7,589	11,281	11,981
Depreciation	2,749	3,309	3,696	3,982	4,216
Amortisation	0	0	0	0	0
EBIT	4,071	3,076	3,892	7,299	7,765
Net interest income/(expense)	-768	-946	-998	-1,055	-947
Associates/affiliates	21	-44	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	3,324	2,086	2,894	6,244	6,818
Income tax expense	689	743	579	1,249	1,705
Minorities	290	-313	116	250	256
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,345	1,656	2,200	4,746	4,858
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	2,345	1,656	2,200	4,746	4,858

Cash Flow (CNYm)

Cash flow from operations	6,321	10,269	6,944	9,558	11,112
Net Capex	-6,143	-4,794	-6,453	-4,390	-3,491
Free cash flow	177	5,476	491	5,168	7,621
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-3,034	-3,414	-1,292	-1,287	-2,776
Net inc/(dec) in borrowings	1,201	1,083	0	0	0
Other investing/financing cash flows	-2,954	-2,493	-1,837	-1,475	-1,366
Net cash flow	-4,609	652	-2,639	2,407	3,479
Change in working capital	-2,256	2,679	-66	-474	836

Balance Sheet (CNYm)

Cash and other liquid assets	4,140	5,498	4,859	7,266	10,745
Tangible fixed assets	33,242	35,760	38,322	38,837	38,375
Goodwill/intangible assets	9,882	10,781	11,193	11,304	11,258
Associates/investments	6,154	8,461	9,301	9,720	10,140
Other assets	21,742	23,413	21,453	25,147	21,428
Total assets	75,160	83,914	85,129	92,274	91,946
Interest bearing debt	23,167	31,922	33,922	33,922	33,922
Other liabilities	18,324	20,063	18,254	21,692	19,025
Total liabilities	41,491	51,986	52,177	55,614	52,948
Shareholders' equity	28,059	27,537	28,444	31,903	33,985
Minorities	5,609	4,391	4,507	4,757	5,012
Total shareholders' equity	33,669	31,928	32,951	36,660	38,998
Net debt	19,028	26,424	29,063	26,656	23,178

Key Company Metrics

Sales growth (%)	nm	26.5	5.4	17.7	9.1
DB EPS growth (%)	na	-29.3	33.0	115.7	2.4
EBITDA Margin (%)	11.6	8.6	9.7	12.2	11.9
EBIT Margin (%)	6.9	4.1	5.0	7.9	7.7
Payout ratio (%)	73.6	78.1	58.5	58.5	58.5
ROE (%)	8.4	6.0	7.9	15.7	14.7
Capex/sales (%)	10.6	6.5	8.2	4.8	3.5
Capex/depreciation (x)	2.3	1.5	1.7	1.1	0.8
Net debt/equity (%)	56.5	82.8	88.2	72.7	59.4
Net interest cover (x)	5.3	3.3	3.9	6.9	8.2

Source: Company data, Deutsche Bank estimates

Sharon Ding

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# Zijin financial summary

## FY16 key financial and operational summary

Figure 1: Zijin – FY16 results summary

PRC GAAP (RMB mn)	FY16	FY15	YoY	4Q16	3Q16	QoQ	4Q15	YoY	16FYDBe	% of DBe	16FY % of Cons Cons	
Revenue	78,851	74,304	6%	21,560	18,401	17%	13,106	65%	78,338	101%	80,018	99%
GP	8,161	5,486	49%	2,131	2,124	0%	765	178%	8,618	95%	8,187	100%
SG&A	(3,490)	(3,313)	5%	(948)	(868)	9%	(991)	-4%	(3,525)	99%	(3,923)	89%
OP	2,615	3,076	-15%	432	1,293	-67%	(247)	-275%	3,892	67%	4,264	61%
PBT	2,126	2,086	2%	466	1,044	-55%	(260)	-279%	2,894	73%	2,834	75%
NPAT	1,840	1,656	11%	415	886	-53%	(36)	-1242%	2,200	84%	2,117	87%
Recurring NPAT	990	1,865	-47%	(75)	500	-115%	181	na	na	na	na	na
Dividend announced	-	1,293	na	na	na	na	na	na	1,287	0%	na	na
Dividend payout ratio	0%	78%	na	na	na	na	na	na	59%	0%	na	na
Operating cashflows	8,602	10,269	-16%	3,292	1,678	96%	876	276%	6,944	124%	na	na
GPM	10.3%	7.4%	na	9.9%	11.5%	na	5.8%	na	11.0%	na	10.2%	na
SG&A % of revenue	4.4%	4.5%	na	4.4%	4.7%	na	7.6%	na	4.5%	na	4.9%	na
Effective tax rate	21%	36%	na	49%	16%	na	-29%	na	20%	na	na	na
Gearing ratio	124%	77%	na	124%	95%	na	77%	na	82%	na	na	na
AR days	4	5	na	6	7	na	9	na	5	na	na	na
AP days	25	23	na	23	25	na	32	na	22	na	na	na
Inventory turnover days	58	56	na	52	56	na	77	na	53	na	na	na

Source: Deutsche Bank estimates, Bloomberg Finance LP

Figure 2: Zijin – FY16 operational summary

	FY16	FY15	YoY	4Q16	3Q16	QoQ	4Q15	YoY	16FYDBe	% of DBe
<b>Sales volume</b>										
Mined gold	41,624	35,633	17%	11,044	10,238	8%	9,211	20%	42,638	98%
Mined copper	151,236	151,161	0%	37,534	39,909	-6%	41,809	-10%	149,238	101%
Mined zinc	244,407	177,230	38%	54,913	62,947	-13%	48,269	14%	270,000	91%
<b>ASP</b>										
Mined gold	235	215	9%	233	247	-6%	211	10%	247	95%
Mined copper	26,656	29,052	-8%	30,912	25,136	23%	28,082	10%	27,584	97%
Mined zinc	8,079	7,186	12%	10,950	8,379	31%	6,000	83%	8,328	97%
<b>Cost</b>										
Mined gold	155	136	14%	177	154	15%	135	31%	146	106%
Mined copper	16,563	17,504	-5%	18,817	16,176	16%	15,904	18%	15,754	105%
Mined zinc	3,946	3,800	4%	5,119	4,165	23%	2,874	78%	3,344	118%
<b>GP</b>										
Mined gold	3,314	2,827	17%	624	951	-34%	702	-11%	4,267	78%
Mined copper	1,526	1,746	-13%	454	358	27%	509	-11%	1,765	86%
Mined zinc	1,010	600	68%	320	265	21%	151	112%	1,346	75%

Source: Deutsche Bank estimates, company info



# Appendix 1

## Important Disclosures

\*Other information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Zijin Mining	2899.HK	3.07 (HKD) 24 Mar 17	13,14,15

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**Historical recommendations and target price: Zijin Mining (2899.HK)**  
 (as of 3/24/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

\*\*Analyst is no longer at Deutsche Bank

1.	30/06/2015:	Hold, Target Price Change HKD2.40	James Kan	4.	29/08/2016:	Buy, Target Price Change HKD3.20	Sharon Ding
2.	29/09/2015:	Hold, Target Price Change HKD2.30	James Kan	5.	03/10/2016:	Buy, Target Price Change HKD3.30	James Kan
3.	28/02/2016:	Upgrade to Buy, Target Price Change HKD2.80	Sharon Ding	6.	16/03/2017:	Buy, Target Price Change HKD3.70	Sharon Ding

**Equity rating key**

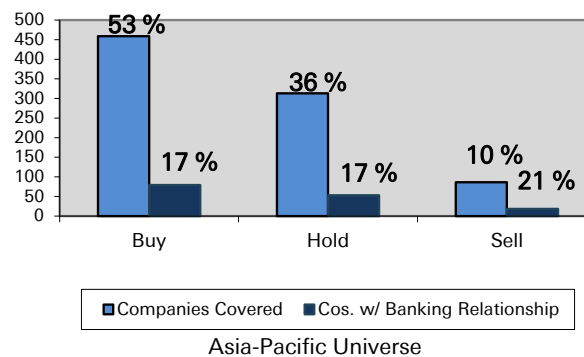
**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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**Equity rating dispersion and banking relationships**





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flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may – by construction – lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

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