



Zijin Mining

2019 earnings rise YoY; benefit from rising gold prices and falling AI

Results Review

2019 earnings results in line with preannouncement

2019 revenue rose 28% YoY to Rmb136.1bn, and attributable net profit rose 4.6% YoY to Rmb4.28bn or Rmb0.17/sh, in line with preannouncement. We attribute the earnings improvement to rising output volume, falling asset impairment and significant increase in gold prices, which compensated for falling prices of copper and zinc. 4Q19 revenue rose 16% YoY to Rmb34.5bn, and attributable net profit was Rmb1.28bn (+72% YoY and +11% QoQ). We think the significant earnings improvement was driven by falling asset impairment and rising gold prices.

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Trends to watch

Industry outlook: Overseas COVID-19 is depressing demand expectation and risk-averse sentiment boosted USD. We see downward pressure on the price of copper and zinc, while we think that gold prices will remain stable amid cash preference, low interest rates and deflationary expectation from low oil prices.

Guidance: Zijin guided 2020-2022 gold output at 44t, 42-47t and 49-54t, copper output at 410,000t, 500,000-560,000t and 670,000-740,000t and zinc output at 400,000t, 370,000-410,000t and 380,000-420,000t. The firm also guided 2020 capex at Rmb6.58bn for projects investment (including technological upgrades), Rmb340mn for geological exploration and Rmb6.8bn for M&A.

Financials and valuation

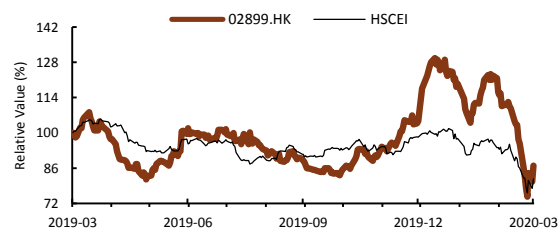
Given changing assumption on metal prices (Figure 3), we trim 2019-2020 earnings forecast 30% and 22% to Rmb3.6bn and Rmb4.8bn. The H- and A- share is trading at 16.5x and 26.1x 2020e P/E. **For H-shares we maintain OUTPERFORM and our TP of HK\$3.20** (19.2x 2020 P/E), offering 16.4% upside from the current price. **For A-shares we maintain OUTPERFORM and our TP of Rmb4.00** (27.9x 2020 P/E), offering 7.0% upside from the current price.

Risks

Disappointing metal prices.

Maintain OUTPERFORM

Ticker	601899.SH	02899.HK
CICC investment rating	OUTPERFORM	OUTPERFORM
Last close	Rmb3.74	HK\$2.75
CICC target	Rmb4.00	HK\$3.20
52wk price range	Rmb5.02~3.06	HK\$4.19~2.30
Market cap (bn)	Rmb88	HK\$96
Daily value (mn)	Rmb1,148.13	HK\$155.63
Shares outstanding (mn)	25,377	25,377
Free float (%)	76	23
Daily volume (mn sh)	286.53	51.27
Business sector	Nonferrous Metals	



(Rmb mn)	2018A	2019A	2020E	2021E
Revenue	105,994	136,098	122,068	130,220
(+/-)	12.1%	28.4%	-10.3%	6.7%
Net profit	4,094	4,284	3,636	4,759
(+/-)	16.7%	4.6%	-15.1%	30.9%
EPS	0.16	0.17	0.14	0.19
BPS	1.59	2.02	2.06	2.19
DPS	0.09	0.10	0.06	0.06
CPS	0.40	0.42	0.51	0.53
P/E	15.0	14.6	16.5	12.6
P/B	1.5	1.2	1.1	1.1
EV/EBITDA	9.1	7.8	8.0	6.8
Dividend yield	3.8%	4.1%	2.4%	2.4%
ROAA	4.0%	3.6%	2.9%	3.8%
ROAE	10.9%	9.3%	7.0%	8.8%

Source: Wind, Bloomberg, Corporate filings, CICC Research

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Financial summary

Financial statement (Rmb mn)	2018A	2019A	2020E	2021E	Financial ratios	2018A	2019A	2020E	2021E
Income statement					Growth ability				
Revenue	105,994	136,098	122,068	130,220	Revenue	12.1%	28.4%	-10.3%	6.7%
COGS	-92,651	-120,583	-108,351	-114,128	Operating profit	5.6%	17.1%	-10.8%	25.1%
Selling expenses	-887	-574	-1,483	-1,582	EBITDA	9.0%	19.1%	0.0%	20.8%
Administrative expenses	-2,965	-3,689	-3,309	-3,530	Net profit	16.7%	4.6%	-15.1%	30.9%
Other ops income (expense)	-1,780	-2,066	-733	-814	Profitability				
Operating profit	7,436	8,709	7,765	9,710	Gross margin	12.6%	11.4%	11.2%	12.4%
Finance costs	-1,254	-1,467	-1,793	-1,977	Operating margin	7.0%	6.4%	6.4%	7.5%
Other income (expense)	-51	-268	-268	-268	EBITDA margin	11.0%	10.2%	11.3%	12.8%
Profit before income tax	6,130	6,974	5,704	7,466	Net margin	3.9%	3.1%	3.0%	3.7%
Income tax	-1,448	-1,913	-1,426	-1,866	Liquidity				
Minority interest	-589	-777	-642	-840	Current ratio	0.82	0.86	0.76	0.76
Net profit	4,094	4,284	3,636	4,759	Quick ratio	0.48	0.41	0.44	0.40
EBITDA	11,609	13,830	13,833	16,706	Cash ratio	0.27	0.19	0.07	-0.02
Recurrent net income	4,094	4,284	3,636	4,759	Liabilities / assets	58.1%	53.9%	52.5%	50.2%
Balance sheet					Net debt / equity	57.8%	59.6%	64.3%	64.0%
Cash and bank balances	10,090	6,225	2,127	-576	Return				
Trade and bill receivables	1,010	944	2,305	2,428	RoA	4.0%	3.6%	2.9%	3.8%
Inventories	12,670	14,887	9,696	10,344	RoE	10.9%	9.3%	7.0%	8.8%
Other current assets	6,679	6,539	9,122	9,379	Per-share data				
Total current assets	30,449	28,594	23,251	21,575	EPS (Rmb)	0.16	0.17	0.14	0.19
Fixed assets and CIP	38,952	43,904	49,929	55,027	BPS (Rmb)	1.59	2.02	2.06	2.19
Intangible assets and others	43,479	51,333	50,640	49,896	DPS (Rmb)	0.09	0.10	0.06	0.06
Total non-current assets	82,431	95,237	100,569	104,924	Cash flow per share (Rmb)	0.40	0.42	0.51	0.53
Total assets	112,879	123,831	123,820	126,498	Valuation				
Short-term borrowings	25,324	20,210	19,034	17,858	P/E	15.0	14.6	16.5	12.6
Trade and bill payables	4,701	4,803	4,803	3,275	P/B	1.5	1.2	1.1	1.1
Other current liabilities	7,198	8,350	6,866	7,195	EV/EBITDA	9.1	7.8	8.0	6.8
Total current liabilities	37,223	33,363	30,703	28,328	Dividend yield	3.8%	4.1%	2.4%	2.4%
Long-term borrowings	21,797	25,793	26,701	27,609					
Other non-current liabilities	6,585	7,596	7,596	7,596					
Total non-current liabilities	28,382	33,389	34,297	35,205					
Total liabilities	65,606	66,751	65,000	63,534					
Share capital	2,303	2,538	2,538	2,538					
Retained profit	38,152	48,648	49,747	53,052					
Shareholders' equity	40,455	51,186	52,285	55,590					
Minority interest	6,818	5,894	6,535	7,375					
Total liabilities & equity	112,879	123,831	123,820	126,498					
Cash flow statement									
Pretax profit	4,683	5,061	4,278	5,599					
Depreciation & amortization	4,225	5,389	6,336	7,263					
Change in working capital	-1,748	-2,488	-238	-2,226					
Others	3,074	2,704	2,590	2,824					
Cash flow from operations	10,233	10,666	12,966	13,461					
Capital expenditure	-17,857	-15,899	-12,466	-12,466					
Others	4,217	1,796	0	0					
Cash flow from investing	-13,640	-14,103	-12,466	-12,466					
Equity financing	78	7,861	0	0					
Bank borrowings	8,821	-235	-267	-267					
Others	-1,243	-7,952	-4,331	-3,431					
Cash flow from financing	7,655	-326	-4,598	-3,699					
Foreign exchange gain (loss)	-69	-84	0	0					
Net changes in cash	4,178	-3,847	-4,098	-2,704					

Source: Corporate filings, CICC Research

Company description

Zijin Mining Group Co Ltd is a large mining group that explores and mines gold and nonferrous metals. The company owns subsidiaries in more than 20 provinces in China and nearly 10 other countries, and is the largest manufacturer of gold in China. It is also the second largest manufacturer of copper and one of the six largest manufacturers of zinc in China. In 2007, Zijin ranked tenth among major global gold mining companies by revenue.



Results review (continued)

Copper and gold accounting for 2/3 of total gross profit. 2019 gross profit contribution was 35.6% for copper, 30.9% for gold, 11.9% for lead & zinc and 21.6% for silver and iron.

Copper: Rising output but falling prices. 2019 copper output rose 49% YoY to 370,000t. ASP of copper concentrate and cathode copper fell 3.1% and 6.6% YoY, while unit cost of copper rose 17% YoY. 4Q19 copper output was 95,000t (+60% YoY and +13% QoQ).

Gold: Rising output and prices. 2019 gold output rose 12% YoY to 40.8t with ASP up 18% YoY and unit cost down 0.2% YoY. 4Q19 gold output was 11.4t (+10% YoY and +11% QoQ) with ASP up 23% YoY (-2% QoQ) and unit cost down 12% YoY (-9% QoQ).

Zinc: Gross margin narrowing. 2019 zinc output rose 35% YoY to 374,000t with ASP down 26% YoY and unit cost up 32% YoY. 4Q19 zinc output was 95,000t (+63% YoY and +4% QoQ) with ASP down 22% YoY (+2% QoQ) and unit cost up 68% YoY (+26% QoQ).

Asset impairment loss narrowed Rmb1.13bn YoY in 2019 with that of intangible assets narrowing Rmb500mn. **Net income from investment and fair value change** fell Rmb950mn YoY in 2019.

Figure 1: Annual results review

(Rmb mn)	2018A	2019E	2019A	2019A YoY	vs CICC estimate	2020E	2020E YoY
Revenue	105,994	121,203	136,098	28.4%	12.3%	122,068	-10.3%
Gross profit	11,744	14,948	13,641	16.2%	-8.7%	12,496	-8.4%
Operating profit	6,181	6,761	7,242	17.2%	7.1%	5,972	-17.5%
Net profit attributable to equity shareholders	4,094	4,177	4,284	4.6%	2.6%	3,636	-15.1%
Fully-diluted EPS (Rmb)	0.16	0.16	0.17	4.6%	2.6%	0.14	-15.1%
Gross margin	11.1%	12.3%	10.0%	-1.1ppt	-2.3ppt	10.2%	0.2ppt
Operating margin	5.8%	5.6%	5.3%	-0.5ppt	-0.3ppt	4.9%	-0.4ppt
Net margin	3.9%	3.4%	3.1%	-0.7ppt	-0.3ppt	3.0%	-0.2ppt

Source: Corporate filings, Wind Info, CICC Research



Figure 2: Quarterly results review

(Rmb Mn)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	QoQ	YoY	2018	2019	YoY
Sales revenue	22,864	26,950	26,359	29,821	29,042	38,156	34,429	34,471	0.1%	15.6%	105,994	136,098	28.4%
Sales cost	19,353	23,364	23,219	26,715	25,321	34,321	30,459	30,481	0.1%	14.1%	92,651	120,583	30.1%
Gross profit	3,511	3,586	3,139	3,106	3,721	3,835	3,969	3,990	0.5%	28.4%	13,343	15,515	16.3%
Sales tax	332	366	376	525	425	444	471	534	13.3%	1.7%	1,599	1,874	17.2%
Operating expenses	228	202	217	241	303	326	304	-359	-218.0%	-249.1%	887	574	-35.3%
Administrative expenses	621	736	725	883	896	962	913	919	0.7%	4.1%	2,965	3,689	24.4%
R&D expenses	43	88	43	101	52	83	147	195	33.2%	93.4%	274	476	73.6%
Financing costs	621	39	145	449	550	301	310	306	-1.0%	-31.7%	1,254	1,467	17.0%
Asset impairment loss	-7	-257	-428	-809	2	152	-29	248	n.a.	n.a.	1,500	372	-75.2%
Credit impairment loss	1	-56	-28	164	-1	65	-16	15	n.a.	-90.6%	-82	64	n.a.
Other operating revenue	92	-454	-915	-322	3	216	-16	41	n.a.	n.a.	1,237	244	-80.2%
Operating profit	1,763	2,015	1,174	1,230	1,497	1,718	1,855	2,172	17.1%	76.6%	6,181	7,242	17.2%
Other income	-74	77	5	-59	-67	-109	-33	-59	n.a.	n.a.	-51	-268	n.a.
Profit before tax	1,689	2,091	1,179	1,171	1,430	1,609	1,822	2,113	16.0%	80.4%	6,130	6,974	13.8%
Income tax	304	408	339	396	380	420	486	627	29.1%	58.3%	1,448	1,913	32.2%
Net profit	1,385	1,684	839	775	1,050	1,189	1,336	1,486	11.2%	91.8%	4,683	5,061	8.1%
Attributable to minority shareholders	300	243	13	33	175	210	184	207	12.8%	522.8%	589	777	31.9%
Attributable to equity shareholders	1,085	1,441	826	741	874	979	1,152	1,278	10.9%	72.4%	4,094	4,284	4.6%
Diluted EPS(Rmb)	0.043	0.057	0.033	0.029	0.034	0.039	0.045	0.050	10.9%	72.4%	0.161	0.169	4.6%
Gross margin	15.4%	13.3%	11.9%	10.4%	12.8%	10.1%	11.5%	11.6%	0ppt	1.2ppt	12.6%	11.4%	-1.2%
Operating margin	7.7%	7.5%	4.5%	4.1%	5.2%	4.5%	5.4%	6.3%	0.9ppt	2.2ppt	5.8%	5.3%	-0.5%
Net margin	4.7%	5.3%	3.1%	2.5%	3.0%	2.6%	3.3%	3.7%	0.4ppt	1.2ppt	3.9%	3.1%	-0.7%
Operating expenses ratio	1.0%	0.7%	0.8%	0.8%	1.0%	0.9%	0.9%	-1.0%	-1.9ppt	-1.8ppt	0.8%	0.4%	-0.4%
Administrative expenses ratio	2.7%	2.7%	2.8%	3.0%	3.1%	2.5%	2.7%	2.7%	0ppt	-0.3ppt	2.8%	2.7%	-0.1%
R&D expenses ratio	0.2%	0.3%	0.2%	0.3%	0.2%	0.2%	0.4%	0.6%	0.1ppt	0.2ppt	0.3%	0.3%	0.1%
Financing costs ratio	2.7%	0.1%	0.5%	1.5%	1.9%	0.8%	0.9%	0.9%	0ppt	-0.6ppt	1.2%	1.1%	-0.1%
Effective tax rate	18.0%	19.5%	28.8%	33.8%	26.6%	26.1%	26.7%	29.7%	3ppt	-4.1ppt	23.6%	27.4%	3.8%

Source: Corporate filings, Wind Info, CICC Research

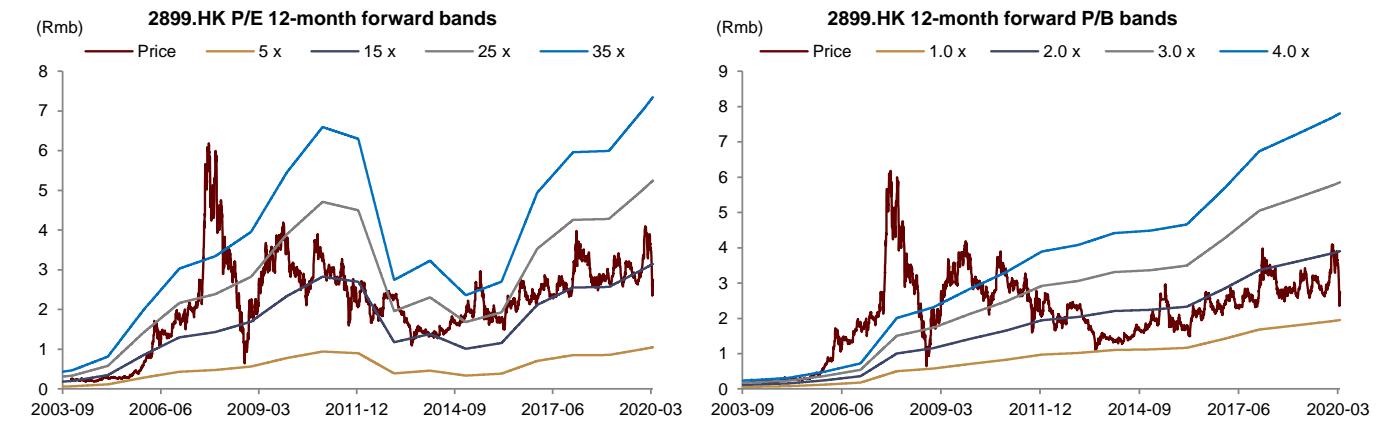
Figure 3: Key assumptions for earnings forecasts

Price	2020E-new	2020E-old	Dif	2021E-new	2021E-old	Dif
Gold (Rmb/g)	346	339	2%	346	339	2%
ASP (US\$/Oz)	1,560	1,550	1%	1,600	1,550	3%
Copper Concentrate(Rmb/t)	29,000	38,436	-25%	31,800	39,204	-19%
Zinc Concentrate(Rmb/t)	6,401	9,961	-36%	5,014	9,415	-47%
Unit production cost	2020E-new	2020E-old	Dif	2021E-new	2021E-old	Dif
Mine gold (Rmb/g)	184	184	0%	184	184	0%
Mine copper (Rmb/t)	20,552	20,552	0%	20,552	20,552	0%
Mine zinc (Rmb/t)	5,910	5,910	0%	5,910	5,910	0%
Production volume (t)	2020E-new	2020E-old	Dif	2021E-new	2021E-old	Dif
Mined Gold	44.0	44.0	0%	44.5	44.5	0%
Processed Gold	205.1	205.1	0%	215	215.4	0%
Self-Sufficiency Ratio	18%	18%	0%	17%	17%	0%
Copper Concentrate	410,541	410,541	0%	530,830	530,830	0%
Zinc Concentrate	400,253	400,253	0%	390,647	390,647	0%
Financials (Rmb mn)	2020E-new	2020E-old	Dif	2021E-new	2021E-old	Dif
Sale Revenue	122,068	129,407	-6%	130,220	137,299	-5%
COGS	108,351	111,326	-3%	114,128	117,279	-3%
Asset impairment	368	750	-51%	368	750	-51%
Gross profit	5,972	8,302	-28%	7,734	9,795	-21%
Profit Before Tax	5,704	8,093	-30%	7,466	9,586	-22%
Profit attributable for equi	3,636	5,159	-30%	4,759	6,111	-22%
EPS (Rmb)	0.14	0.20	-30%	0.19	0.24	-22%

Source: Corporate filings, CICC Research

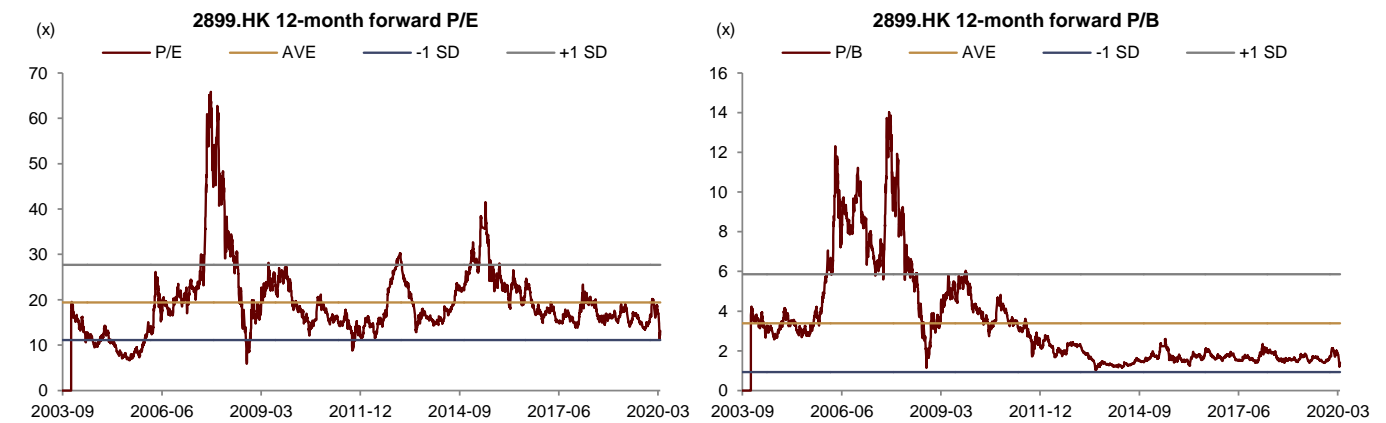


Figure 4: P/E and P/B Band



Source: Wind Info, CICC Research

Figure 5: Historical P/E and P/B



Source: Wind Info, CICC Research



Figure 6: Valuations of comparable companies

Company	Ticker	Trade currency	Reporting currency	Rating	Target price	Last price	EPS (Report CY)			P/E			BPS (Report CY)			P/B		
							2019A/E	2020E	2021E	2019A/E	2020E	2021E	2019A/E	2020E	2021E	2019A/E	2020E	2021E
ZIJIN MINING*	601899.SH	CNY	CNY	OUTPERFORM	4.00	3.74	0.17	0.14	0.19	22.2	26.1	19.9	2.02	2.06	2.19	1.9	1.8	1.7
ZIJIN MINING*	02899.HK	HKD	CNY	OUTPERFORM	3.20	2.75	0.17	0.14	0.19	14.6	16.5	12.6	2.02	2.06	2.19	1.2	1.1	1.1
ZHAOJIN MINING*	01818.HK	HKD	CNY	OUTPERFORM	10.00	7.69	0.15	0.23	0.25	47.1	28.3	26.8	4.27	4.44	4.58	1.6	1.5	1.4
SD-GOLD*	600547.SH	CNY	CNY	OUTPERFORM	45.00	33.00	0.42	0.67	0.74	78.7	49.5	44.7	7.32	7.88	8.46	4.5	4.2	3.9
ZHONGJIN GOLD*	600489.SH	CNY	CNY	NEUTRAL	10.00	8.16	0.06	0.08	0.09	138.8	107.7	94.6	3.99	4.04	4.10	2.0	2.0	2.0
HUNAN GOLD*	002155.SZ	CNY	CNY	NEUTRAL	7.50	7.73	0.13	0.14	0.16	58.1	56.5	49.4	4.11	4.22	4.35	1.9	1.8	1.8
MMG*	01208.HK	HKD	USD	OUTPERFORM	2.00	1.08	-0.03	0.00	0.01	N.A.	36.5	17.3	0.13	0.13	0.14	1.1	1.1	1.0
JCCL*	600362.SH	CNY	CNY	OUTPERFORM	19.00	12.60	0.72	0.82	0.77	17.6	15.4	16.4	14.89	15.48	16.01	0.8	0.8	0.8
JIANGXI COPPER*	00358.HK	HKD	CNY	OUTPERFORM	12.00	6.71	0.72	0.82	0.77	8.5	7.1	7.5	14.89	15.48	16.01	0.4	0.4	0.4
CHALCO*	601600.SH	CNY	CNY	NEUTRAL	3.80	2.94	0.06	0.09	0.10	48.3	32.6	30.8	3.14	3.23	3.33	0.9	0.9	0.9
CHALCO*	02600.HK	HKD	CNY	NEUTRAL	3.10	1.51	0.06	0.09	0.10	22.4	14.4	13.6	3.14	3.23	3.33	0.4	0.4	0.4
CH ZN&GE*	600497.SH	CNY	CNY	NEUTRAL	3.30	3.47	0.15	0.02	0.03	22.7	147.9	138.7	2.93	2.83	2.85	1.2	1.2	1.2
NONFEMET*	000060.SZ	CNY	CNY	NEUTRAL	3.35	3.58	0.24	0.11	0.14	15.0	31.9	25.7	3.06	3.10	3.21	1.2	1.2	1.1
CMOC*	603993.SH	CNY	CNY	OUTPERFORM	5.83	3.53	0.08	0.13	0.15	41.6	27.3	23.2	1.87	1.96	2.04	1.9	1.8	1.7
CMOC*	03993.HK	HKD	CNY	OUTPERFORM	5.26	2.11	0.08	0.13	0.15	22.5	14.0	11.9	1.87	1.96	2.04	1.0	0.9	0.9
ZHANGYUAN TUNGSTEN*	002378.SZ	CNY	CNY	NEUTRAL	6.00	4.17	-0.31	-0.11	0.02	N.A.	N.A.	240.5	1.82	1.71	1.73	2.3	2.4	2.4
GANFENGLITHIUM*	002460.SZ	CNY	CNY	OUTPERFORM	72.00	39.11	0.37	0.62	1.20	104.7	63.5	32.6	6.19	6.69	7.71	6.3	5.8	5.1
GANFENGLITHIUM*	01772.HK	HKD	CNY	OUTPERFORM	42.00	22.65	0.37	0.62	1.20	54.8	31.7	16.2	6.19	6.69	7.71	3.3	2.9	2.5
TIANQI LITHIUM*	002466.SZ	CNY	CNY	NEUTRAL	25.00	21.18	-2.10	-0.30	0.26	N.A.	N.A.	81.5	6.61	6.31	6.57	3.2	3.4	3.2
JDCMOLY*	601958.SH	CNY	CNY	NEUTRAL	7.50	6.08	0.18	0.19	0.21	33.1	32.6	28.4	4.12	4.09	4.08	1.5	1.5	1.5

Note: CICC covers the companies marked * and we use our estimates, time weighted average forecasts used

As of the market close on March 24, 2020 (Beijing time)

Source: Wind Info, Bloomberg, Corporate filings, CICC Research



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