



Recommendation Change

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Upgrading Zhaojin and Zijin to Buy on rising financial instability

Buy Zhaojin and Zijin on new gold price forecasts

The Deutsche Bank global commodity team has upgraded its gold price forecasts by 15.7%/11.9%/10.9% YoY in 2016/17/18 to \$1,195/ \$1,231/ \$1,275/oz, respectively, on rising risks in the global financial system. We accordingly raise our earnings for Zhaojin by 46%/73% and for Zijin by 25%/15% in 2016 and 2017, representing respective bottom-line growth of 81%/52% YoY and 58%/26% YoY in 2016/17. Based on our DCF life-of-mine valuation methodology, we raise Zhaojin and Zijin's target prices by 77%/22% to HKD7.6 and HKD2.8, respectively. With 19% and 24% upside potential, we upgrade both Zhaojin and Zijin from Hold to Buy.

Relatively pricey, but underpinned by rising financial stress

Although gold is relatively expensive compared to many other commodities, as well as relative to its medium-term trading history, our commodity team believes it is well underpinned by rising financial instabilities, i.e., the rising risk of a US corporate default cycle, the risk of a sharp RMB devaluation on strong capital outflows, and overall weakening global macro momentum. Seasonally, the first quarter is usually the strongest. With a potential Fed hike in the near term, our global commodity team expects \$1,230/oz, \$1,150/oz and \$1,170/oz in 1Q16, 2Q16 and 3Q16, respectively, indicating a good entry point in 2Q16.

Buy Zhaojin (pure gold player) and Zijin (undemanding valuation); risks

We derive Zhaojin and Zijin's target prices, of HKD7.6 and HKD2.8 respectively, using the DCF life-of-mine methodology and a WACC of 7.6% and 9.2%, respectively. With 19% and 24% upside potential, we upgrade both from Hold to Buy. We prefer Zhaojin as a pure gold player, with roughly 90% gold exposure vs. Zijin's c.50-60% gold exposure and c.30% copper exposure. We however also like Zijin's undemanding valuation, currently trading at 17x/12x 2016/17DBE EPS, vs. Zhaojin's 21x/14x 2016/17DBE EPS. In 2016 ytd, Zijin's share price is up 16% and Zhaojin is up c.40%. Risks: downside risks in gold and copper prices.

Key Changes

Company	Target Price	Rating
2899.HK	2.30 to 2.80(HKD)	Hold to Buy
1818.HK	4.30 to 7.60(HKD)	Hold to Buy

Source: Deutsche Bank

Top picks

Zijin Mining (2899.HK),HKD2.35	Buy
Zhaojin Mining (1818.HK),HKD6.13	Buy

Source: Deutsche Bank

Companies Featured

Zijin Mining (2899.HK),HKD2.35	Buy
	2015A 2016E 2017E
P/E (x)	24.5 17.0 12.4
EV/EBITDA (x)	10.5 7.6 5.7
Price/book (x)	1.3 1.3 1.2
Zhaojin Mining (1818.HK),HKD6.13	Buy
	2014A 2015E 2016E
P/E (x)	23.6 37.8 20.9
EV/EBITDA (x)	10.4 13.4 10.3
Price/book (x)	1.1 1.7 1.6

Source: Deutsche Bank

Figure 1: Changes summary

	New FY16 NPAT (mRMB)	chg%	New FY17 NPAT (mRMB)	chg%	New TP TP (HKD)	TP chg%	Upside	Rating
Zijin	2,668	25%	3,652	15%	2.8	+22%	24%	Buy
Zhaojin	731	46%	1,112	73%	7.6	+77%	19%	Buy

Source: Deutsche Bank



Model updated: 26 February 2016

Running the numbers

Asia
China
Metals & Mining

Zhaojin Mining

Reuters: 1818.HK Bloomberg: 1818.HK

Buy

Price (26 Feb 16) HKD 6.13
Target Price HKD 7.60
52 Week range HKD 3.47 - 6.46
Market Cap (m) HKDm 18,181
USDm 2,340

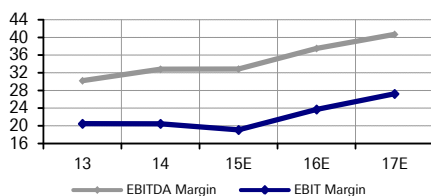
Company Profile

Zhaojin is an integrated mining company with exploration, mining, processing and smelting operations focusing on the gold production business. The Company is one of the leading gold producers and one of the largest enterprises of gold smelting in the PRC.

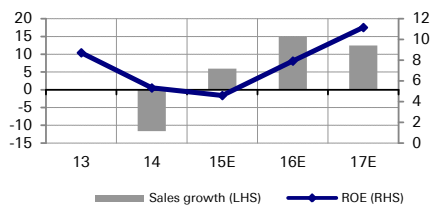
Price Performance



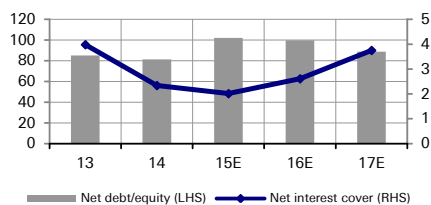
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	0.25	0.15	0.14	0.25	0.37
Reported EPS (CNY)	0.25	0.15	0.14	0.25	0.37
DPS (CNY)	0.10	0.05	0.04	0.08	0.12
BVPS (CNY)	2.8	2.9	3.0	3.2	3.5
Weighted average shares (m)	2,966	2,966	2,966	2,966	2,966
Average market cap (CNYm)	17,781	10,748	15,298	15,298	15,298
Enterprise value (CNYm)	26,096	19,183	26,050	26,463	26,160

Valuation Metrics

	2013	2014	2015E	2016E	2017E
P/E (DB) (x)	24.2	23.6	37.8	20.9	13.8
P/E (Reported) (x)	24.2	23.6	37.8	20.9	13.8
P/BV (x)	1.24	1.06	1.71	1.61	1.47
FCF Yield (%)	nm	nm	nm	2.3	7.4
Dividend Yield (%)	1.7	1.4	0.9	1.6	2.4
EV/Sales (x)	4.1	3.4	4.4	3.9	3.4
EV/EBITDA (x)	13.6	10.4	13.4	10.3	8.4
EV/EBIT (x)	20.1	16.7	23.0	16.3	12.5

Income Statement (CNYm)

	2013	2014	2015E	2016E	2017E
Sales revenue	6,344	5,606	5,941	6,825	7,676
Gross profit	2,857	2,864	3,109	3,788	4,428
EBITDA	1,916	1,839	1,951	2,560	3,123
Depreciation	617	691	818	941	1,032
Amortisation	0	0	0	0	1
EBIT	1,299	1,147	1,133	1,619	2,091
Net interest income/(expense)	-326	-490	-563	-620	-557
Associates/affiliates	21	26	-3	27	27
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	994	683	567	1,026	1,560
Income tax expense	226	176	142	256	390
Minorities	33	51	21	38	59
Other post-tax income/(expense)	0	0	0	0	0
Net profit	734	455	404	731	1,112
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	734	455	404	731	1,112

Cash Flow (CNYm)

	2013	2014	2015E	2016E	2017E
Cash flow from operations	875	1,068	1,516	2,697	2,977
Net Capex	-2,543	-2,126	-3,097	-2,347	-1,847
Free cash flow	-1,668	-1,058	-1,581	350	1,130
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-807	-420	-148	-132	-238
Net inc/(dec) in borrowings	3,170	447	2,000	504	-695
Other investing/financing cash flows	-1,008	1,250	-558	-620	-557
Net cash flow	-313	219	-288	103	-360
Change in working capital	-526	-588	-288	279	111

Balance Sheet (CNYm)

	2013	2014	2015E	2016E	2017E
Cash and other liquid assets	1,200	1,643	1,355	1,458	1,098
Tangible fixed assets	9,476	11,145	13,468	14,925	15,795
Goodwill/intangible assets	5,196	5,628	5,585	5,533	5,479
Associates/investments	514	585	582	608	635
Other assets	6,987	7,399	7,608	7,365	7,287
Total assets	23,372	26,400	28,597	29,890	30,294
Interest bearing debt	9,133	9,580	11,585	12,089	11,394
Other liabilities	4,917	7,070	6,986	7,136	7,303
Total liabilities	14,050	16,650	18,570	19,225	18,697
Shareholders' equity	8,426	8,667	8,923	9,522	10,396
Minorities	897	1,083	1,104	1,143	1,201
Total shareholders' equity	9,323	9,750	10,027	10,665	11,597
Net debt	7,933	7,937	10,229	10,631	10,296

Key Company Metrics

	2013	2014	2015E	2016E	2017E
Sales growth (%)	nm	-11.6	6.0	14.9	12.5
DB EPS growth (%)	na	-38.0	-11.2	80.8	52.1
EBITDA Margin (%)	30.2	32.8	32.8	37.5	40.7
EBIT Margin (%)	20.5	20.5	19.1	23.7	27.2
Payout ratio (%)	40.4	32.6	32.6	32.6	32.6
ROE (%)	8.7	5.3	4.6	7.9	11.2
Capex/sales (%)	40.2	38.5	52.1	34.4	24.1
Capex/depreciation (x)	4.1	3.1	3.8	2.5	1.8
Net debt/equity (%)	85.1	81.4	102.0	99.7	88.8
Net interest cover (x)	4.0	2.3	2.0	2.6	3.8

Source: Company data, Deutsche Bank estimates

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Model updated: 26 February 2016

Running the numbers

Asia

China

Metals & Mining

Zijin Mining

Reuters: 2899.HK

Bloomberg: 2899 HK

Buy

Price (26 Feb 16) HKD 2.35

Target Price HKD 2.80

52 Week range HKD 1.71 - 3.49

Market Cap (m) HKDm 51,258
USDm 6,598

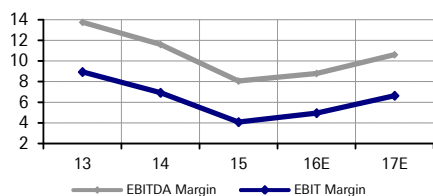
Company Profile

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.

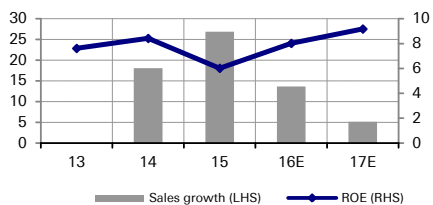
Price Performance



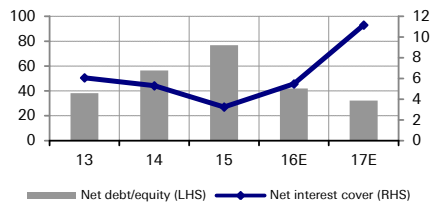
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2013	2014	2015	2016E	2017E
DB EPS (CNY)	0.08	0.11	0.08	0.12	0.16
Reported EPS (CNY)	0.10	0.11	0.08	0.12	0.16
DPS (CNY)	0.08	0.08	0.05	0.04	0.07
BVPS (CNY)	1.3	1.3	1.3	1.6	1.7
Weighted average shares (m)	21,812	21,573	21,573	22,970	22,970
Average market cap (CNYm)	36,491	32,034	41,308	43,131	43,131
Enterprise value (CNYm)	48,751	50,517	63,343	56,918	53,631

Valuation Metrics

	2013	2014	2015	2016E	2017E
P/E (DB) (x)	19.9	13.7	24.5	17.0	12.4
P/E (Reported) (x)	17.2	13.7	24.5	17.0	12.4
P/BV (x)	1.04	1.34	1.27	1.25	1.17
FCF Yield (%)	0.9	0.6	nm	2.6	11.6
Dividend Yield (%)	4.7	5.4	2.5	2.2	3.4
EV/Sales (x)	1.0	0.9	0.8	0.7	0.6
EV/EBITDA (x)	7.1	7.4	10.5	7.6	5.7
EV/EBIT (x)	11.0	12.4	20.8	13.6	9.1

Income Statement (CNYm)

	2013	2014	2015	2016E	2017E
Sales revenue	49,772	58,761	74,556	84,743	89,106
Gross profit	10,601	9,790	9,347	10,487	12,652
EBITDA	6,846	6,820	6,006	7,452	9,455
Depreciation	2,395	2,749	2,963	3,253	3,536
Amortisation	0	0	0	0	0
EBIT	4,451	4,071	3,043	4,199	5,918
Net interest income/(expense)	-733	-768	-936	-766	-530
Associates/affiliates	117	21	21	21	21
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	3,835	3,324	2,128	3,454	5,410
Income tax expense	973	689	532	863	1,352
Minorities	736	290	-92	-78	406
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,126	2,345	1,688	2,668	3,652
DB adjustments (including dilution)	-291	0	0	0	0
DB Net profit	1,834	2,345	1,688	2,668	3,652

Cash Flow (CNYm)

	2013	2014	2015	2016E	2017E
Cash flow from operations	8,842	6,321	4,874	6,573	10,329
Net Capex	-8,519	-6,143	-5,856	-5,412	-5,069
Free cash flow	324	177	-982	1,162	5,260
Equity raised/(bought back)	0	0	0	9,000	0
Dividends paid	-3,687	-3,034	-1,726	-1,045	-1,036
Net inc/(dec) in borrowings	484	1,201	6,000	-2,000	-2,000
Other investing/financing cash flows	150	-2,954	-4,015	-1,605	-950
Net cash flow	-2,729	-4,609	-723	5,511	1,274
Change in working capital	2,765	-2,256	-621	-37	2,205

Balance Sheet (CNYm)

	2013	2014	2015	2016E	2017E
Cash and other liquid assets	4,492	4,140	3,416	8,824	10,098
Tangible fixed assets	29,529	33,242	36,743	39,498	41,633
Goodwill/intangible assets	8,995	9,882	9,510	9,149	8,782
Associates/investments	5,854	6,154	9,233	10,072	10,492
Other assets	18,029	21,742	22,132	23,825	19,996
Total assets	66,898	75,160	81,035	91,368	91,001
Interest bearing debt	17,133	23,167	29,167	27,244	25,244
Other liabilities	16,680	18,324	18,328	20,220	18,832
Total liabilities	33,813	41,491	47,495	47,464	44,076
Shareholders' equity	27,612	28,059	28,022	38,465	41,080
Minorities	5,473	5,609	5,517	5,440	5,845
Total shareholders' equity	33,085	33,669	33,539	43,904	46,925
Net debt	12,641	19,028	25,751	18,420	15,146

Key Company Metrics

	2013	2014	2015	2016E	2017E
Sales growth (%)	nm	18.1	26.9	13.7	5.1
DB EPS growth (%)	na	29.3	-28.0	48.4	36.9
EBITDA Margin (%)	13.8	11.6	8.1	8.8	10.6
EBIT Margin (%)	8.9	6.9	4.1	5.0	6.6
Payout ratio (%)	81.5	73.6	61.9	36.6	41.9
ROE (%)	7.6	8.4	6.0	8.0	9.2
Capex/sales (%)	17.3	10.6	7.9	6.4	5.7
Capex/depreciation (x)	3.6	2.3	2.0	1.7	1.4
Net debt/equity (%)	38.2	56.5	76.8	42.0	32.3
Net interest cover (x)	6.1	5.3	3.3	5.5	11.2

Source: Company data, Deutsche Bank estimates

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Upgrading Zhaojin and Zijin

New Deutsche Bank gold price forecasts

Deutsche Bank's global commodity team has upgraded its gold price forecast by an average of 13% over the next three years, on the rising risk of a US credit default cycle, the rising potential of a sharp one-off RMB devaluation and overall slowing global momentum, despite gold already being relatively expensive vs. other commodities like oil. We show our new forecasts in Figure 2 below.

Figure 2: Gold price forecasts

USD/oz	2015	2016	2017	2018	2019	2020	2021	
Gold price (annually)	1160	1195	1231	1275	1317	1359	1400	
% Change from previous forecast	0.0%	15.7%	11.9%	10.9%	6.8%	3.2%	0.0%	
	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Gold price (quarterly)	1230	1150	1170	1230	1250	1175	1210	1290
% Change from previous forecast	11.8%	9.5%	17.0%	25.5%	19.0%	6.8%	10.0%	12.2%

Source: Deutsche Bank

Zhaojin – upgrading to Buy, target price of HKD7.6

Following Deutsche Bank's new gold price forecasts, we upgrade Zhaojin's 2016 and 2017 earnings by 46% and 73% to RMB731m and RMB1112m, respectively, which is almost twice the level of consensus, as shown in the figures below.

Figure 3: Zhaojin's forecast change table

RMB m	2016E			2017E		
	New	Old	Change%	New	Old	Change%
Revenue	6,825	6,300	8%	7,676	6,750	14%
EBIT	1,619	1,275	27%	2,091	1,399	49%
NP	731	501	46%	1,112	644	73%

Source: Deutsche Bank

Figure 4: Zhaojin Deutsche Bank estimates against consensus

RMB m	2016E			2017E		
	DBe	Consensus	DBe/Cons.	DBe	Consensus	DBe/Cons.
Revenue	6,825	5,931	115%	7,676	6,505	118%
EBIT	1,619	1,265	128%	2,091	1,445	145%
NP	731	439	167%	1,112	540	206%

Source: Deutsche Bank, Bloomberg Finance LP



Our sensitivity analysis below shows that every c.100/oz gold price movement from the current forecast would result in a 37% change in earnings vs. an 18% change in Zijin earnings.

Figure 5: Earnings sensitivity to gold price

Gold price	% chg to current assumptions	FY16 earnings	%chg in earnings	2016 PEx
USD/oz		RMBm		X
1,000	-16%	229	-69%	66
1,100	-8%	486	-33%	31
1,195	0%	731	0%	21
1,300	9%	1,001	37%	15
1,400	17%	1,259	72%	12

Source: Deutsche Bank

We base our target price of HKD7.6 on a DCF life-of-mine valuation methodology, with a WACC of 7.6%. We adopt 9.5% as the cost of equity for Zhaojin, reflecting a risk-free rate of 3.9%, a market risk premium of 5.6% and beta of 1.0. Our target price indicates 26x/17x 2016/17DBe EPS and 2.0x/1.8x 2016/17DBe BVPS, respectively. With 19% upside potential, we upgrade Zhaojin from Hold to Buy.

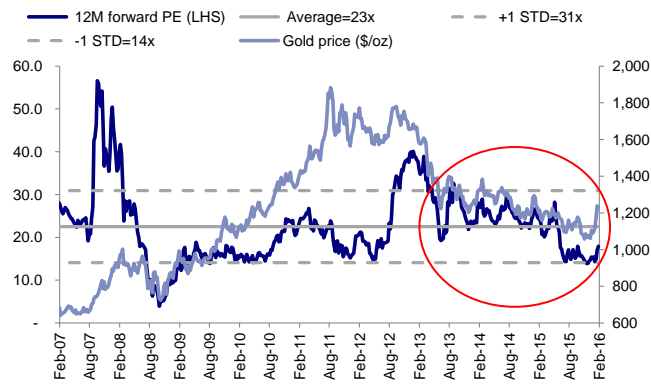
Zhaojin is currently trading at 18x 12 months forward PE, 20% lower than its historical average of 23x. As illustrated in Figure 7 below, we can see that recent share price momentum is still lagging that of the gold price.

Figure 6: Zhaojin share price vs. gold price



Source: Deutsche Bank, Bloomberg Finance LP

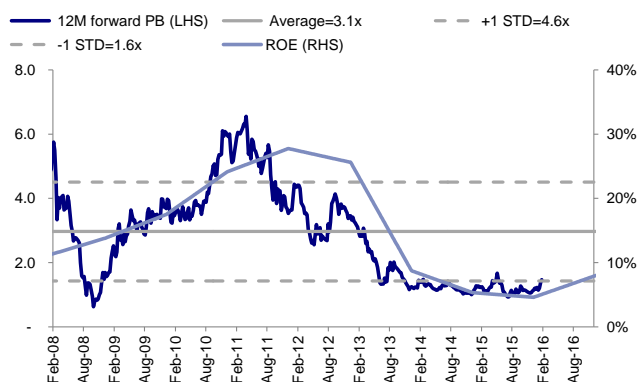
Figure 7: Zhaojin PE vs. gold price



Source: Deutsche Bank, Bloomberg Finance LP

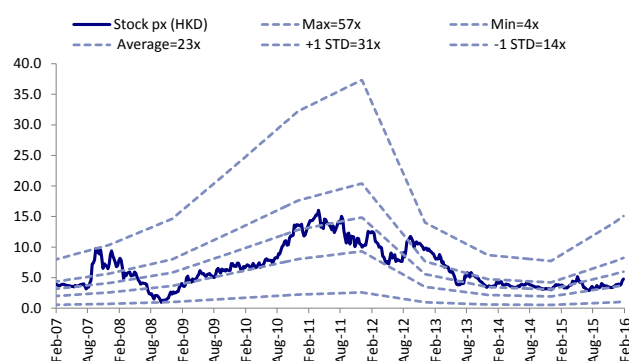


Figure 8: Zhaojin PB vs. ROE band



Source: Deutsche Bank, Bloomberg Finance LP

Figure 9: Zhaojin PE band



Source: Deutsche Bank, Bloomberg Finance LP

Zijin Mining – upgrading to Buy, target price of HKD2.8

As shown in the table below, we revise up Zijin’s FY16/17 earnings by 25% and 15% to RMB2.7bn and RMB3.7bn, respectively, driven by ~16%/12% upgrade in the gold price. Copper price forecasts remain unchanged at US\$4,575/t and US\$4,725/t in 2016 and 2017 respectively in our current model.

Our earnings forecasts are ~19%/12% higher than Bloomberg consensus in 2016 and 2017 as shown in Figure 11.

Figure 10: Zijin's forecast change table

RMB m	2016E			2017E		
	New	Old	Change%	New	Old	Change%
Revenue	84,743	75,989	11.5%	89,106	81,961	8.7%
EBIT	4,199	3,485	20.5%	5,918	5,230	13%
NP	2,668	2,127	25.4%	3,652	3,178	15%

Source: Deutsche Bank

Figure 11: Zijin Deutsche Bank estimates against consensus

RMB m	2016E			2017E		
	DBe	Consensus	DBe/Cons.	DBe	Consensus	DBe/Cons.
Revenue	84,743	71,605	118%	89,106	76,582	116%
EBIT	4,199	4,596	91%	5,918	6,263	94%
NP	2,668	2,246	119%	3,652	3,265	112%

Source: Deutsche Bank, Bloomberg Finance LP

Our sensitivity analysis below shows that every c.100/oz gold price movement (c.8% chg) from the current forecast would result in an 18% change in Zijin’s earnings. Also, the copper price of \$4,000/t suggests a 14% decline in FY16 earnings.

Figure 12: Earnings sensitivity to gold price

Gold px	% chg to current assumptions	16 earnings	%chg in earnings	2016 PEx
USD/oz		RMBm		X
1,000	-16%	1,758	-34%	25
1,100	-8%	2,224	-17%	20
1,195	0%	2,668	0%	17



1,300	9%	3,158	18%	14
1,400	17%	3,625	36%	12

Source: Deutsche Bank

Figure 13: Earnings sensitivity to copper price

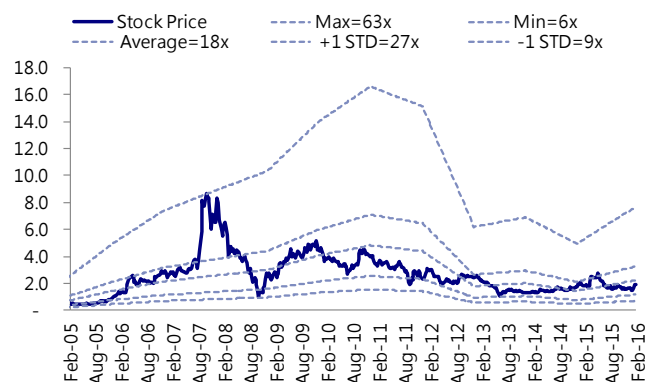
Copper	% chg to current assumptions	16 earnings	%chg in earnings	2016 PEx
USD/t		RMBm		X
3,500	-23%	1,980	-26%	22
4,000	-13%	2,300	-14%	19
4,575	0%	2,668	0%	17
5,000	9%	2,940	10%	15
5,500	20%	3,260	22%	14

Source: Deutsche Bank

We base our target price of HKD2.8 on a DCF life-of-mine valuation methodology, with a WACC of 9.2%. We adopt 11.2 % as the cost of equity for Zijin, reflecting a risk-free rate of 3.9%, a market risk premium of 5.6% and beta of 1.3. Zijin is currently trading at 17x/12x 2016/17DBE EPS and 1.2x/1.1x 2016/17DBE BVPS. Our target price indicates 20x/15x 2016/17DBE EPS and 1.5x/1.4x 2016/17DBE BVPS, respectively. With 24% upside potential, we upgrade Zijin from Hold to Buy.

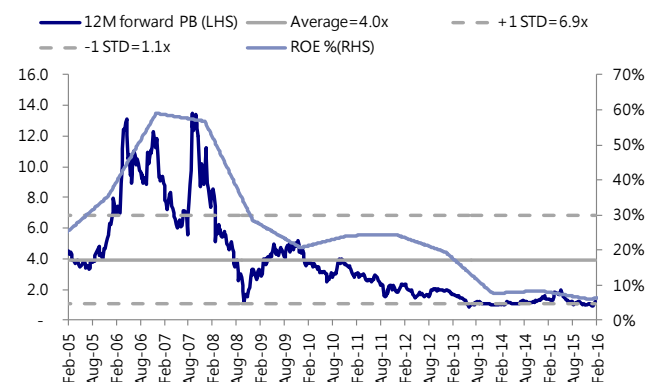
As shown in Figure 14 and Figure 15 below, Zijin's 12m forward PE is trading at 16x and 1.2x, lower than the historical average of 18x and 3.9x. We believe the valuation is undemanding, given the encouraging gold price forecasts on rising financial risks across the world.

Figure 14: Zijin PE band



Source: Deutsche Bank, Bloomberg Finance LP

Figure 15: Zijin PB vs. ROE band



Source: Deutsche Bank, Bloomberg Finance LP

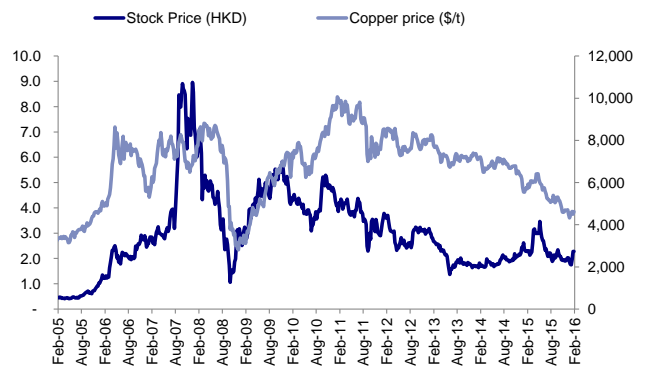


Figure 16: Zijin share price vs. gold price



Source: Deutsche Bank, Bloomberg Finance LP

Figure 17: Zijin share price vs. copper price



Source: Deutsche Bank, Bloomberg Finance LP



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Zijin Mining	2899.HK	2.36 (HKD) 26 Feb 16	6,9,14,15
Zhaojin Mining	1818.HK	6.13 (HKD) 26 Feb 16	6,9

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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Historical recommendations and target price: Zijin Mining (2899.HK)

(as of 2/26/2016)



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

1.	28/10/2014:	Upgrade to Hold, Target Price Change HKD2.10	3.	29/09/2015:	Hold, Target Price Change HKD2.30
2.	30/06/2015:	Hold, Target Price Change HKD2.40			

Historical recommendations and target price: Zhaojin Mining (1818.HK)

(as of 2/26/2016)



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

1.	06/04/2014:	Hold, Target Price Change HKD4.50	3.	16/08/2015:	Hold, Target Price Change HKD4.10
2.	30/06/2015:	Hold, Target Price Change HKD4.40	4.	29/09/2015:	Hold, Target Price Change HKD4.30



Equity rating key

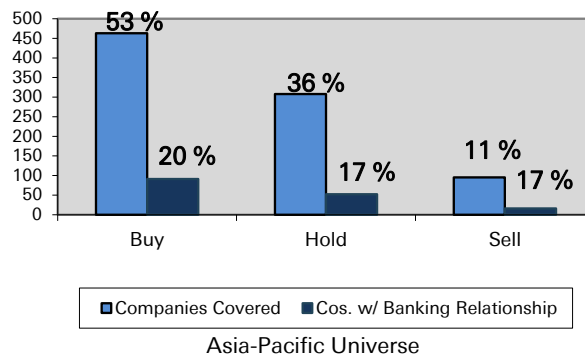
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Equity rating dispersion and banking relationships



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