



Company Report: Zhaojin Mining (01818 HK)

公司报告: 招金矿业 (01818 HK)

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Gold Price Stays High, Maintain "Buy"

金价保持高位, 维持“买入”评级

- The 2020 annual results of the Company was 17.1% lower than market consensus, but higher than our estimation. Total revenue of the Company increased 20.83% yoy to RMB7,648.6 million; net profit attributable to shareholders increased 119.53% yoy to RMB1,052.2 million.
 - We expect gold price to benefit from loose monetary policy and investor demand for safe-haven assets; we expect the annual average gold price to be around US\$1,800/oz-US\$2,000/oz in 2021. We expect the average annual copper price to trade between US\$7,500/t-US\$8,000/t in 2021.
 - We expect the Company to produce about 21-23 tons of mined gold in 2021. The Company plans to spend about RMB1.09 billion on the construction and improvement of gold mines in 2021.
 - Maintain the TP at HK\$11.95, and maintain "Buy".
- 公司 2020 年年度业绩比市场一致预期低 17.1%，但高于我们的估计。公司收入同比增加 20.83% 至人民币 76.486 亿元，股东净利同比增加 119.53% 至人民币 10.522 亿元。
- 我们预计金价将受益于宽松的货币政策和投资者对避险资产的需求，2021 年黄金年度均价在 1,800-2,000 美元/盎司之间。我们预计 2021 年年度铜均价在 7,500-8,000 美元/吨之间。
- 我们预计公司在 2021 年生产 21-23 吨左右的矿产金。公司计划在 2021 年投资人民币 10.9 亿元用于金矿的建设和改进。
- 维持公司目标价在 11.95 港元，且维持“买入”评级。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$11.95

Revised from 原目标价:

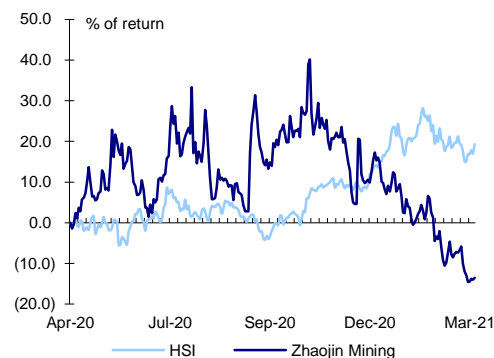
HK\$11.95

Share price 股价:

HK\$7.110

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(4.7)	(25.5)	(13.5)
Rel. % to HS Index 相对恒指变动 %	(2.5)	(32.1)	(34.2)
Avg. share price (HK\$) 平均股价 (港元)	7.5	8.3	9.1

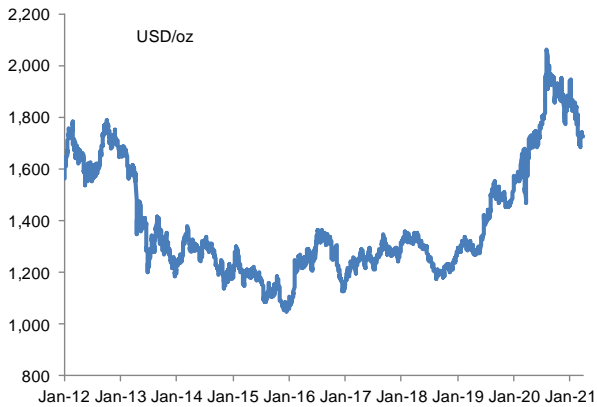
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2019A	6,330	479	0.149	1.0	42.7	5.390	1.2	0.041	0.6	3.5
2020A	7,649	1,052	0.322	116.2	18.3	5.216	1.1	0.050	0.8	7.7
2021F	9,372	1,766	0.540	67.8	10.9	5.730	1.0	0.162	2.7	12.3
2022F	10,001	2,154	0.659	22.0	9.0	6.165	1.0	0.198	3.3	13.7
2023F	10,547	2,359	0.721	9.5	8.2	6.685	0.9	0.216	3.7	13.8
Shares in issue (m) 总股数 (m)				3,221.4	Major shareholder 大股东					Zhaojin Group 37.3%
Market cap. (HK\$ m) 市值 (HK\$ m)				22,904.2	Free float (%) 自由流通比率 (%)					62.7%
3 month average vol. 3 个月平均成交股数 ('000)				7,050.9	FY21 Net gearing (%) FY21 净负债/股东资金 (%)					92.4
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				11.680 / 6.910	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)					13.8

Source: the Company, Guotai Junan International.

The 2020 annual results of Zhaojin Mining (the "Company") was 17.1% lower than market consensus, but higher than our estimation. Total revenue of the Company increased 20.83% yoy to RMB7,648.6 million; net profit attributable to shareholders increased 119.53% yoy to RMB1,052.2 million. The output of mined gold increased by 1.67% yoy to 20.1 tons, total output of gold increased by 8.93% yoy to 35.6 tons. The output of copper decreased by 45.83% yoy to 6,036 tons. Total revenue of copper mining business decreased by 15.4% to RMB425.5 million, but profitability improved greatly in 2020 and recorded profit of RMB11.4 million. Average gold price increased by 25.06% yoy to RMB386.24/g. The gross margin in 2020 was up 11.09 ppts to 47.27%, mainly due to higher gold price.

Figure-1: Gold price



Source: Bloomberg, Guotai Junan International.

Figure-2: Copper price



Source: Bloomberg, Guotai Junan International.

We expect gold price to benefit from loose monetary policy and investor demand for safe-haven assets; we expect the annual average gold price to be around US\$1,800/oz-US\$2,000/oz in 2021. We expect the annual average copper price to be around US\$7,500/t-US\$8,000/t in 2021. We expect gold price to still benefit from loose monetary policy and to rise in 2021. As the global economy retreated in 2020, governments and central banks worldwide all unleashed vast stimulus measures to boost their economies, and such policies are expected to continue in 2021. The US Federal Reserve (the "Federal Reserve") cut interest rate to the lowest level in its history and also implemented quantitative easing (QE) plans, which may release trillions of dollars in liquidity into the market. The U.S. government has just released a US\$1.9 trillion stimulus policy, and another US\$3 trillion stimulus policy may arrive soon. Besides, a weak US dollar and low real rates are expected to persist in 2021, which will further support gold price. In the mean time, investor demand for safe-haven assets and total assets is still growing, in which gold ETF hold reached new record highs, which will also support gold price. We expect gold price to continue to rise in 2021 and the annual average gold price to be around US\$1,800/oz-US\$2,000/oz in 2021. The advance in copper price extended in the first two months of 2021, as markets are optimistic on prospects of global economic recovery. Copper price was trading above the level of US\$8,000/t and even touched the level of US\$10,000/t. We expect the global economy to recover moderately in 2021 as COVID-19 vaccines are being widely administered to tackle the pandemic. Global consumption demand is expected to grow steadily if the U.S. releases a large scale stimulus policy. We expect the global supply of copper to be stable in 2021 as operations of global copper mining companies are stable. We expect global copper fundamentals to improve in 2021. We expect copper price to trade between US\$6,000/t-US\$10,000/t in 2021, and the annual average copper price may be around US\$7,500/t-US\$8,000/t in 2021.

We expect the Company to produce about 21-23 tons of mined gold in 2021. The production of the Company was adversely impacted in the 1st quarter of 2020 due to the outbreak of COVID-19 and the output of mined gold decreased by more than 20% yoy in 1H20. However, production resumed to normal levels since the 2nd quarter when the local COVID-19 epidemic was taken under control by the Chinese government. Output growth accelerated in the 2nd half of 2020 as the management intended to take advantage of high gold price and total mining output was generally not impacted. We expect mining output of the Company to grow steadily in the next few years. The Company plans to spend about RMB1.09 billion on the construction and improvement of gold mines in 2021, and continue to focus on the existing large projects. We expect mined gold output in the Zhaoyuan District to grow steadily as the production capacity expands and mined gold output contributed by mines outside Zhaoyuan to grow at a faster speed. In the mean time, the management of the Company is also looking for potential acquisition opportunities overseas and aims to acquire foreign gold projects at proper prices, which is expected to contribute the most

mining output growth in the future. The Company is sticking to its strategy unchanged in 2021.

Maintain the TP of the Company at HK\$11.95 and maintain "Buy". The fundamentals of the Company remain healthy as it holds abundant gold resources and continues expanding through acquisitions and exploration, which will strongly support output growth of mined gold in the future. We expect mining output of the Company to grow steadily in the next few years. The Company plans to spend about RMB1.09 billion on the construction and improvement of gold mines in 2021, and continue to focus on existing large projects. We expect the Company to produce about 21-23 tons of mined gold in 2021. We expect gold price to benefit from loose monetary policy and investor demand for safe-haven assets. We expect gold price to continue to rise in 2021 and the annual average gold price to be around US\$1,800/oz-US\$2,000/oz in 2021. The Company is focusing more on profitability, which is expected to lift profitability of its gold mining business through better management. As the management of the Company will pay more attention to profitability, we expect production costs to be controlled in the long term. We maintain the TP of the Company at HK\$11.95, which is equivalent to 18.4x FY21 PE and 1.7x FY21 PB, and maintain "Buy".

Table-1: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)
				19A	20A	21F	22F	19A	20A	21F	22F	21F
Barrick Gold Corp	ABX CN	CAD	26.24	8.8	18.4	15.8	15.4	1.7	1.6	1.5	1.4	11.2
Newcrest Mining Ltd	NCM AU	AUD	25.68	25.1	20.9	14.3	14.7	1.8	1.7	1.6	1.5	8.2
Newmont Mining Corp	NEM US	USD	62.80	16.4	24.6	16.1	16.2	2.4	2.2	2.0	1.9	10.4
Anglogold Ashanti Ltd	ANG SJ	ZAr	33,506.00	n.a.	8.9	8.4	8.0	3.8	2.7	2.1	1.7	33.7
Kinross Gold Corp	K CN	CAD	9.13	12.1	10.0	10.4	7.4	1.7	1.5	1.2	1.0	16.1
Gold Fields Ltd	GFI SJ	ZAr	14,980.00	51.8	13.4	8.8	8.6	3.2	3.5	3.9	(49.6)	21.8
Simple Average				22.9	16.0	12.3	11.7	2.4	2.2	2.1	(7.0)	16.9
Weighted Average				19.3	19.5	14.4	14.1	2.2	2.0	1.9	(2.0)	13.3
Zijin Mining Group Co Ltd-A	601899 CH	CNY	10.15	56.4	39.5	21.5	16.3	5.6	4.7	4.1	3.5	12.1
Shandong Gold Mining Co Lt-A	600547 CH	CNY	21.22	50.5	32.5	29.6	28.8	2.8	3.5	3.1	2.8	10.9
Zhongjin Gold Corp-A	600489 CH	CNY	8.50	170.0	28.7	26.7	25.2	1.8	2.4	2.2	2.0	8.9
Simple Average				92.3	33.6	25.9	23.4	3.4	3.5	3.1	2.8	10.6
Weighted Average				67.5	36.7	24.0	20.2	4.5	4.2	3.6	3.2	11.4
Zhaojin Mining Industry - H	1818 HK	HKD	7.11	n.a.	15.8	14.3	12.4	1.5	1.3	1.3	1.2	8.7
Zijin Mining Group Co Ltd-H	2899 HK	HKD	9.84	48.2	32.2	17.8	12.9	4.8	3.8	3.6	3.1	12.3
China Gold International Res	2099 HK	HKD	21.95	n.a.	11.1	7.2	6.7	0.8	0.7	0.6	0.6	6.8
Shandong Gold Mining Ltd-H	1787 HK	HKD	14.64	30.7	19.8	22.6	20.9	1.8	2.1	1.8	1.7	11.2
Simple Average				39.5	19.7	15.5	13.2	2.2	2.0	1.8	1.6	9.8
Weighted Average				40.4	27.9	18.5	14.7	3.8	3.2	3.0	2.6	11.7

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2019A	2020A	2021F	2022F	2023F	Year end 31 Dec (RMB m)	2019A	2020A	2021F	2022F	2023F
Total Revenue	6,330	7,649	9,372	10,001	10,547	PPE	14,989	15,209	14,414	14,729	15,095
COGS	(4,040)	(4,033)	(4,840)	(5,149)	(5,402)	Other long-term assets	496	506	455	410	369
Gross profit	2,290	3,615	4,531	4,853	5,145	Intangible assets	10,270	10,104	10,164	10,224	10,284
Other revenues and gains	498	807	652	729	691	Prepaid land lease payments	0	0	0	0	0
SG&A	(1,011)	(1,254)	(1,406)	(1,400)	(1,477)	Others	2,500	1,292	1,274	1,266	1,268
Other operating expenses	(470)	(1,153)	(1,130)	(1,108)	(1,085)	Total Non-current Assets	28,254	28,712	26,307	26,629	27,016
Operating Profit	1,306	2,014	2,648	3,074	3,274	Cash & Cash Equivalents	3,508	1,840	2,530	2,700	2,848
Finance costs	(662)	(699)	(622)	(598)	(559)	Trade receivables	734	840	1,229	1,301	1,364
Profit of an associate	(48)	23	18	16	15	Inventories	4,310	5,126	4,873	5,201	5,484
Profit Before Tax	596	1,337	2,043	2,493	2,730	Others	3,444	3,172	2,670	2,564	2,476
Income Tax	(157)	(103)	(429)	(524)	(573)	Total Current Assets	11,997	10,978	11,303	11,765	12,172
profit After Tax	438	1,235	1,614	1,969	2,157	Total Assets	40,252	39,690	37,609	38,394	39,188
Non-controlling Interest	41	(183)	151	184	202	Short-term borrowings	8,895	11,894	9,601	8,548	7,148
Shareholders' Profit / Loss	479	1,052	1,766	2,154	2,359	Gold loans	0	0	0	0	0
Basic EPS	0.149	0.322	0.540	0.659	0.721	Trade payables	2,139	2,512	2,437	2,500	2,637
						Other payables	108	127	133	140	147
						Others	1,393	1,944	8	9	9
						Total Current Liabilities	12,535	16,518	12,179	11,197	9,940
						Long-term borrowings	388	734	1,125	1,200	1,266
						Corporate bond	9,170	4,780	5,019	5,270	5,534
						Others	795	570	546	566	588
						Total Non-current Liabilities	10,354	6,115	6,690	7,037	7,387
						Total Liabilities	22,889	22,633	18,869	18,234	17,327
						Total Shareholders' Equity	13,950	13,553	15,061	16,297	17,805
						Minority Interest	3,413	3,504	3,679	3,863	4,056
						Total Equity	17,363	17,057	18,741	20,160	21,861
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2019A	2020A	2021F	2022F	2023F		2019A	2020A	2021F	2022F	2023F
Profit after tax	438	1,235	1,614	1,969	2,157	Gross Margin	36.2%	47.3%	48.4%	48.5%	48.8%
Changes in WC	(125)	(541)	(206)	(328)	(358)	Net Margin	7.6%	13.8%	18.8%	21.5%	22.4%
Adjust for depre.&amort.	841	851	857	865	884	ROE	3.5%	7.7%	12.3%	13.7%	13.8%
Others	(993)	(785)	1,728	633	876	ROA	1.2%	2.7%	4.7%	5.6%	6.0%
Cash from Operating Activities	162	759	3,994	3,138	3,558	ROCE	4.5%	8.8%	10.5%	11.4%	11.2%
Capex	(1,000)	(960)	(980)	(1,180)	(1,250)	Free CF(mn Rmb)	-838	-201	3,014	1,958	2,308
Others	91	96	101	106	111	Net Gearing	109.7%	113.2%	92.4%	78.6%	65.1%
Cash from Investing Activities	(909)	(864)	(879)	(1,074)	(1,139)						
Share issue	0	0	0	0	0						
Net bank borrowings	3,905	(700)	(1,273)	(651)	(1,006)						
Dividend paid	(131)	(164)	(530)	(646)	(708)						
Others	(662)	(699)	(622)	(598)	(559)						
Cash from Financing Activities	3,112	(1,563)	(2,425)	(1,894)	(2,272)						
Net Changes in Cash	2,365	(1,668)	690	170	147						
Cash at Beg of Year	1,143	3,508	1,840	2,530	2,700						
Foreign exchange rate changes	0	0	0	0	0						
Cash at End of Year	3,508	1,840	2,530	2,700	2,848						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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