

Zhaojin Mining Industry Company Limited (01818.HK)

Expectations of interest rate cuts boost gold prices, Q3 revenue surges YOY
China | Gold |

Overview

Zhaojin Mining (1818.HK) is a comprehensive gold producer and gold smelting enterprise that integrates exploration, mining, mineral processing and smelting operations and focuses on developing the gold industry. The company's main products are "9999 gold" and "9995 gold" standard gold ingots; its main production technology and equipment have reached domestic leading and international advanced levels. The company is located in Zhaoyuan City, Shandong Province, China. This place is rich in resources, has a unique geographical location and a long history of gold mining. According to statistics from the China Gold Association, Zhaoyuan City's gold resources account for about one-tenth of China's total remaining gold resources. It is an important gold production base which is known as the "Gold Capital of China". The company has a number of subsidiaries and joint-stock companies nationwide, and its business covers major gold-producing regions across the country. As of December 31st, 2022, the company had a total of approximately 38.29 million ounces of gold mineral resources and approximately 15.50 million ounces of mineable gold reserves. In the first half of 2023, a total of 13.92 tons of new gold metal were completed in exploration.

Company Performance review

As of September 30, 2023 (Jan-Sep), the company's revenue was 6.39 billion yuan (RMB, the same as below), an increase of 10.3% YOY. Operating costs were 3.91 billion yuan, a slight increase YOY. Operating profit was 791 million yuan, an increase of 29.6% YOY. Net profit was 538 million yuan, an increase of 29.7% YOY. The company's Q3 performance achieved substantial year-on-year growth, mainly due to the increase in gold sales prices.

Industry Analysis

According to statistics from the China Gold Association, supply: in the first three quarters of 2023, domestic raw material gold production was 271.2 tons, an increase of 0.47% YOY, which included 214.9 tons of mined gold and 56.4 tons of non-ferrous by-product gold. In the first three quarters of 2023, 96.3 tons of gold were produced from imported raw materials, an increase of 11.5% YOY. If the gold produced from imported raw materials was included, the country produced a total of approximately 367.5 tons of gold, an increase of 3.1% YOY. Consumption: In the first three quarters of 2023, national gold consumption was 835.1 tons, an increase of 7.32% YOY, which include 552 tons of gold jewelry, an increase of 5.72%YOY; 222.4 tons of gold bars and gold coins, an increase of 15.98% YOY; 60.7 tons of industrial and other gold, a decrease of 5.53% YOY. In the first three quarters, the economy continued to recover slowly and market demand continued to expand. According to data from the National Bureau of Statistics, the growth rate of retail sales of gold, silver and jewelry commodities continues to lead above other categories of products. In addition, as of the end of September 2023, China's gold reserves reached 2,191.6 tons. In the first three quarters of 2023, People's Bank of China increased its gold holdings by a total of 181 tons. It has increased its gold holdings for eleven consecutive months. In conclusion, the growth of gold supply is smaller than the growth of consumption. In addition, Fed will subsequently start an interest rate cut cycle, the economy will continue to improve, and the price of gold is expected to continue to rise.

06 Feb 2024

Buy

CMP HK\$7.30
(Closing price as of 31 Jan)
Target HKD 12.60 (+73%)

COMPANY DATA

O/S SHARES (MN) :	2610
MARKET CAP (HKD bn) :	240.37
52 - WK HI/LO (HKD):	14.66/7.06

SHARE HOLDING PATTERN, %

Zhaojin Group Co.,Ltd	34.74%
Zijin Mining Group Company Limited	20.00%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB mm	FY21	FY22	FY23	FY24E	FY25E
Revenue	6,859.4	7,885.6	8,097.0	9,998.0	11,483.6
Net profit	191.0	550.2	732.3	1,049.6	1,154.2
Diluted EPS (RMB)	0.01	0.07	0.13	0.23	0.26
P/E ratio, x	647.8	91.76	50.50	29.13	25.56
Dividend Yield, %	0.00%	0.60%	1.11%	1.97%	2.23%

Source: Company reports, Phillip Securities Est.

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Company Business

Business

The company has the advantage of state-owned background. In November 2022, Jinshan (Hong Kong) International Mining Co., Ltd., a wholly-owned subsidiary of Zijin Mining, acquired 654,078,741 H shares of Zhaojin Mining Co., Ltd., holding a total of approximately 20.00% of the issued share capital of Zhaojin, became the second largest shareholder of Zhaojin Mining, which showed that Zijin Mining is optimistic about the future development of Zhaojin Mining, which also meant the two leading domestic gold companies had achieved a strong alliance. The flagship project of Zhaojin Mining is the Shandong Haiyu Gold Mine, the largest single gold mine in China. It has 562 tons of gold resources and an average grade of 4.2 g/ton. The project has complete licenses and obtained a mining license in July 2021. The scale of mining and collecting is 3.96 million tons/year. It is expected to be put into operation in 2025. The annual gold output will be about 15-20 tons. It will become the largest gold mine in China. The joining of Zijin Mining will further deepen the synergy between the two parties, and the construction process of maritime gold mines will be further pushed.

In the first half of 2023, the company's total gold output was approximately 11,768.8 kg, a decrease of approximately 12.9% YOY, of which mined gold was 8,419.3 kg, a decrease of approximately 2.7% YOY, and metallurgy gold was approximately 3,349.5 kg, a decrease of approximately 31.1% YOY. The company's total copper output was approximately 2,648 tons, a year-on-year increase of approximately 7.5%.

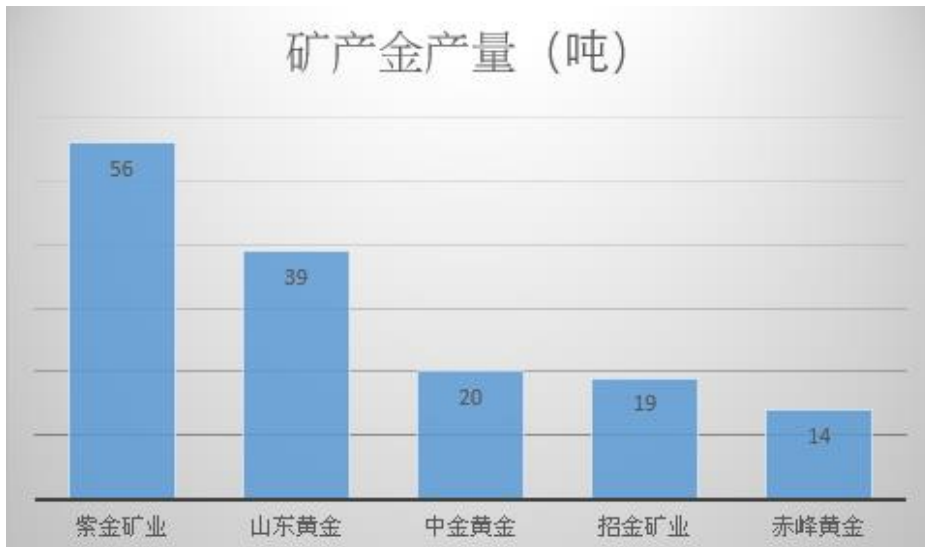
The company has unique advantages in terms of resource volume and output. As of the end of 2022, Zhaojin Mining ranked third in the country in terms of gold resources. In terms of mining gold, the output in the past three years was 20.10 tons, 12.62 tons and 19.24 tons respectively. The decrease of output in 2021 was mainly affected by the safety supervision and rectification of gold mines, but the output in 2022 increased significantly.

Figure1: Gold resources of each company (tons)



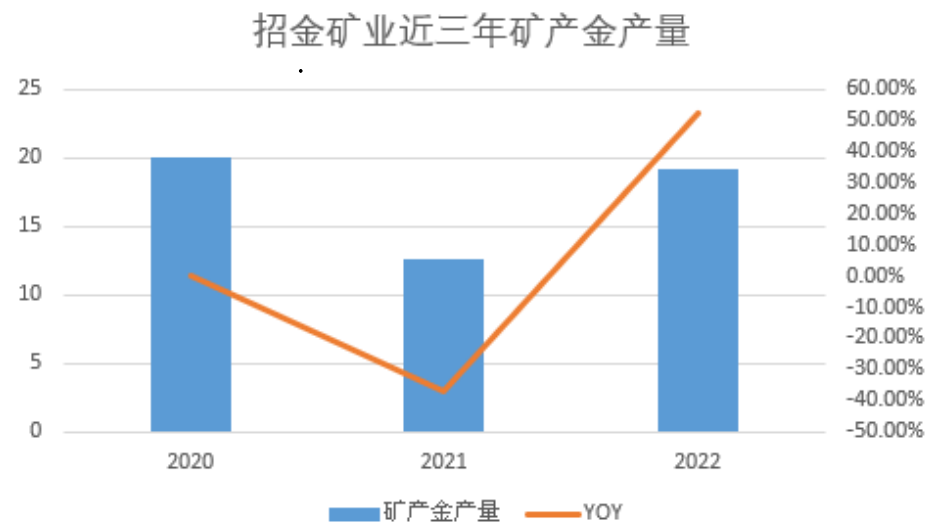
Resources : Wind, PSHK

Figure2: Mineral gold output of each company (tons)



Resources : China Electricity Council, PSHK

Figure 3: Mineral gold output of Zhaojin Mining in the past three years (tons)



Resources : Wind, PSHK

Valuation and recommendation

At the end of December last year, the dot plot and meeting minutes after Fed meeting both showed that this round of interest rate hikes may come to an end. Many investment banks are expected to start cutting interest rates as early as March this year, but the rate cutting cycle has been determined to start this year. Generally speaking, during the period of the interest rate cutting cycle, gold is relatively more attractive; cutting interest rates is equivalent to increasing the money supply, which may cause inflation to rise, and gold has a strong ability to resist inflation. In terms of geopolitics, the Russia-Ukraine war and the Israeli-Palestinian conflict are still continuing, and gold can be regarded as a good hedging asset. In conclusion, it can be determined that gold prices will maintain an upward trend in 2024. As can be seen from Figure 4, the price of gold had been rising since October last year and is currently close to 2100. The next target price is expected to be around 2150. Given that gold price had been rising for some time now, there may be a certain retracement before March, and then the rising cycle will officially begin.

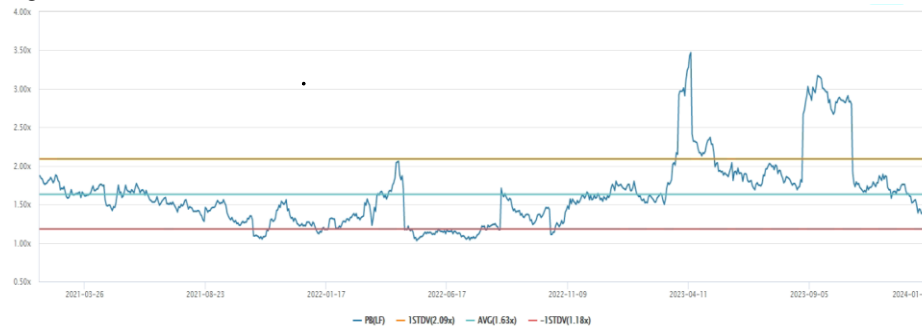
Figure4: COMEX gold price (USD/oz)



Resources : Wind, PSHK

We predict that the company's revenue will be 8.70 billion yuan, 10 billion yuan and 11.5 billion yuan respectively in 2023-2025, with a compound annual growth rate of 15%, earnings per share (EPS) are projected to be 0.13/0.23/0.26 yuan, and BVPS are projected to be 6.3/6.5/ 6.7, corresponding to a price-to-book ratio (P/B) of 1.02/0.99/0.96x. The company's earnings are expected to continue to improve in 2024. The company's average P/B in the past three years is approximately 1.63. With a forecasted 2 times P/B in 2023 and a valuation of HKD 12.60, we recommend a "buy" rating. (Current price as of January 31st)

Figure5: PB Curve



Resources : Wind, PSHK

Risk factors

Political factors, monetary policy, gold supply and demand, and the impact of safety accidents.

* The analyst has a financial interest in the listed corporation covered in this report.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB thousand	2021	2022	2023E	2024E	2025E
REVENUE	6859.4	7885.6	8697.0	9998.0	11493.6
Cost of sales	-4167.4	-5229.6	-5322.6	-6066.9	-6974.5
Gross profit	2692.1	2655.9	3374.4	3931.1	4519.1
Other income and gains	558.0	565.9	573.6	573.6	573.6
Selling and distribution expenses	-31.5	-33.1	-38.3	-43.9	-50.5
Administrative expenses	-1495.8	-1306.3	-1442.0	-1647.7	-1894.1
Impairment losses on financial assets	-79.8	-102.2	-111.6	-111.6	-111.6
Other expenses	-753.5	-505.2	-660.8	-640.5	-736.4
Finance costs	-607.9	-533.2	-729.2	-676.0	-777.2
Share of profits and losses of:					
– Associates	0.0	-2.5	0.0	0.0	0.0
– Joint ventures	0.1	0.0	0.0	0.0	0.0
PROFIT BEFORE TAX	281.7	739.2	966.3	1385.0	1523.0
Income tax expense	-90.7	-179.0	-234.0	-335.4	-368.8
NET PROFIT	191.0	560.2	732.3	1049.6	1154.2
EPS(RMB)	0.01	0.07	0.13	0.23	0.26
DPS(RMB)	0.00	0.04	0.07	0.13	0.15
Dividend payout ratio	0	57.14%	57.14%	57.14%	57.14%
Weighted shares outstanding	3270.4	3270.4	3270.4	3270.4	3270.4

Key Financial Data

Dec Y/E	FY21	FY22	FY23	FY24E	FY25E
Valuation Ratio					
P/E ratio	628.0	89.0	49.0	28.2	24.8
Dividend Yield, %	0.00%	0.62%	1.15%	2.03%	2.30%
Per share data(RMB)					
EPS	0.01	0.07	0.13	0.23	0.26
BVPS	6.0	6.1	6.3	6.5	6.7
DPS(HKD)	0.00	0.05	0.08	0.15	0.17
Growth & Margin					
Growth					
Revenue Growth	N/A	14.96%	10.29%	14.96%	14.96%
Gross Profit Growth	N/A	N/A	27.05%	16.50%	14.96%
EBIT Growth	N/A	162.42%	30.72%	43.33%	9.97%
Net Profit Growth	N/A	193.24%	30.72%	43.33%	9.97%
Margin					
Gross Profit Margin	39.25%	33.68%	38.80%	39.32%	39.32%
EBIT Margin	4.11%	9.37%	11.11%	13.85%	13.25%
Net Profit Margin	2.78%	7.10%	8.42%	10.50%	10.04%
Key Ratios					
ROE	16.58%	16.31%	15.84%	15.33%	14.91%
ROA	7.60%	7.13%	6.73%	6.37%	6.02%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
Current assets					
Inventories	4180.9	4670.6	5453.8	6216.5	7146.4
Accounts receivable	188.3	216.5	238.3	273.9	314.9
Cash and cash equivalents	2998.2	3583.2	4365.6	5131.2	5762.5
Others	4257.6	4480.5	4966.4	5452.4	5738.3
Total current assets	11625.0	12950.8	15024.1	17074.0	18962.2
Non-current assets					
PPE	28421.2	29595.1	30546.1	31527.6	32540.7
Others	2976.4	3341.6	3043.3	2745.0	2796.6
Total non-current assets	31397.6	32936.7	33589.4	34272.6	35337.3
Total Assets	43022.6	45887.5	48613.4	51346.7	54299.5
Current liabilities					
Accounts and bills payables	389.2	430.6	539.5	615.0	707.0
Bank borrowings	7828.6	9322.5	10813.6	12733.6	14370.6
Others	7555.3	5818.1	6147.9	6561.2	6861.8
Total current liabilities	15773.1	15571.3	17501.1	19909.8	21939.3
Non-current liabilities					
Bank borrowings	1299.3	2158.0	2752.7	2740.1	3305.2
Others	6221.4	8110.8	7710.8	7361.1	7124.3
Total non-current liabilities	7520.6	10268.8	10463.5	10101.2	10429.5
Total liabilities					
Equity attributable to equity holders of the Company	16302.3	16609.9	17211.4	17898.1	18493.1
Non-controlling interests	3426.5	3437.5	3437.5	3437.5	3437.5
Total equity	19728.9	20047.5	20648.9	21335.6	21930.7
Total liabilities and equity	43022.6	45887.5	48613.5	51346.6	54299.5

Consolidated Statement of Cash Flow

Dec Y/E, RMB thousand	2021	2022	2023E	2024E	2025E
CFO	2804.6	693.0	2103.6	2430.9	2267.6
Profit before tax	281.7	739.2	966.3	1385.0	1523.0
Depreciation and Amortization	890.7	986.3	1147.1	1183.9	1222.0
Change in working capital	885.7	-516.6	-696.0	-722.9	-878.9
Others	746.5	-515.9	686.3	584.9	401.5
CFI	-2877.5	-1955.0	-2472.0	-2539.5	-2609.0
Short term and long term investment.net	-499.8	-129.9	-347.6	-346.8	-345.9
Purchase of property, equipment and intangible assets	-2377.7	-1825.1	-2124.4	-2192.7	-2263.1
CFF	1244.4	1825.3	1150.8	874.2	972.7
Cash paid for distribution of dividends	-410.7	-101.2	-130.8	-228.9	-425.2
Cash received from financing	1655.1	1926.5	1281.6	1103.1	1397.9
Effect of exchange rate changes on cash					
Net Change in Cash	1,171.5	563.3	782.4	765.7	631.3
Cash, CE and Restricted cash at Beg	1,840.5	2,998.2	3,583.2	4,365.6	5,131.2
Restricted currency funds for disbursements	-13.8	21.7	0.0	0.0	0.0
Cash, CE and Restricted cash at Y/E	2,998.2	3,583.2	4,365.6	5,131.2	5,762.5

Current Price as of: 31 Jan

Source : PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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