

# CMOC Group Limited (03993.HK)

The production and sales of major products such as copper, cobalt were booming, and the cooperation agreement of the Nzilo II hydropower station in the Democratic Republic of the Congo (DRC) has been signed.

China | Non-ferrous metal mining and processing industry |

06 Nov 2024

## Overview

CMOC (3993.HK) engages in the non-ferrous metal industry, mainly the mining and processing business, which includes mining, beneficiation and smelting of base and rare metals, and mineral trading business. With its main business located over Asia, Africa, South America and Europe, the Company is a leading producer of copper, cobalt, molybdenum, tungsten and niobium in the world. It is also a leading producer of phosphate fertilizer in Brazil. In terms of trading business, the Company is one of the leading metal traders in the world. CMOC is one of the very few mining companies that has mastered a world-class metals trading platform.

## Company Performance review

The company's operating income in the third quarter of 2024 was 51.94 billion yuan (RMB, the same below), a year-on-year increase of 15.53%; the net profit attributable to shareholders of listed companies was 2.84 billion yuan, a year-on-year increase of 64.12%; EPS was 0.14 yuan. From January to September, operating income was 154.75 billion yuan, a year-on-year increase of 17.52%; net profit attributable to shareholders of listed companies was 8.27 billion yuan, a year-on-year increase of 238.62%; EPS was 0.39 yuan. The company's production and sales of copper and cobalt products had increased, the overall cost had decreased compared with the same period last year, and profits had increased year-on-year.

## The production and sales of major products such as copper, cobalt were booming

During the third quarter of 2024, the Company's new projects, TFM western area and KFM Phase II have carried out preliminary exploration, and the mineralization effect was good. In the first half of 2024, TFM and KFM maintained a fast-paced production mode with output exceeded their targets, achieving record-breaking monthly output and achieved significant results of cost reduction and efficiency improvement. TFM became the first mine in Africa and the first Chinese-owned mine in the world to be awarded The Copper Mark certificate. Through process adjustment and technological innovation, the recovery rate of copper and cobalt had been greatly improved. In the first three quarters of 2024, the company's copper output reached 0.48 million tons, a year-on-year increase of 78.20%, and its sales volume reached 0.47 million tons, a year-on-year increase of 160.98%; its cobalt output reached 0.08 million tons, a year-on-year increase of 127.39%, and its sales volume reached 0.08 million tons, a year-on-year increase of 1,021.07 %; molybdenum production reached 0.01 million tons, a year-on-year decrease of 6.34%, and sales volume reached 0.01 million tons, a year-on-year decrease of 6.91%; tungsten production reached 6,129 tons, a year-on-year increase of 3.79%, and sales volume reached 5,919 tons, a year-on-year increase of 4.02%; niobium production reached 7,682 tons, a year-on-year increase of 5.40%, sales volume reached 7,555 tons, a year-on-year increase of 8.65%; phosphate fertilizer output reached 0.90 million tons, a year-on-year increase of 2.26%, and sales volume reached 0.86 million tons, a year-on-year decrease of 4.74%.

## Valuation and recommendation

CMOC has provided guidance for the annual output of its main products in 2024. Among them, copper output is expected to be 520,000-570,000 tons, significantly exceeding the actual output in 2023; cobalt output is expected to be 60,000-70,000 tons; molybdenum output is expected to be 12,000-15,000 tons; tungsten output is expected to be 6,500-7,500 tons; niobium output is expected to be 9,000-10,000 tons; phosphate fertilizers output is expected to be 1.05-1.25 million tons.

## Accumulate

CMP HK\$6.87

(Closing price as of 04 Nov))

Target 7.77HKD (+13.1%)

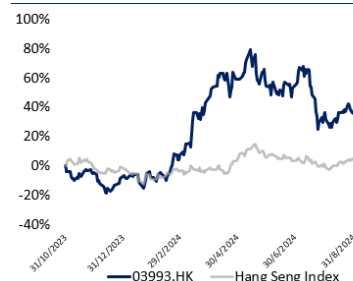
## COMPANY DATA

O/S SHARES (MN) :	21599
MARKET CAP (HKD bn) :	148.4
52 - WK HI/LO (HKD):	8.49/3.56

## SHARE HOLDING PATTERN, %

Cathy Fortune Corporation Limited	26.34%
Contemporary Amperex Technology Co., Limited	24.91%

## PRICE VS. HSI



Source: Phillip Securities (HK) Research

## KEY FINANCIALS

MMI unit	FY22	FY23	FY24E	2024Y1-7	FY24E
Revenue	173882.6	172900.9	186269.0	204751.7	210878.7
Net profit	9427.6	7181.7	8550.6	22362.2	21886.4
Diluted EPS (RMB)	0.24	0.28	0.38	0.56	0.57
P/E ratio, x	26.6	22.4	16.4	11.3	11.0
Dividend yield, %	1.2%	1.4%	2.5%	3.6%	3.7%

Source: Company reports, Phillip Securities Est.

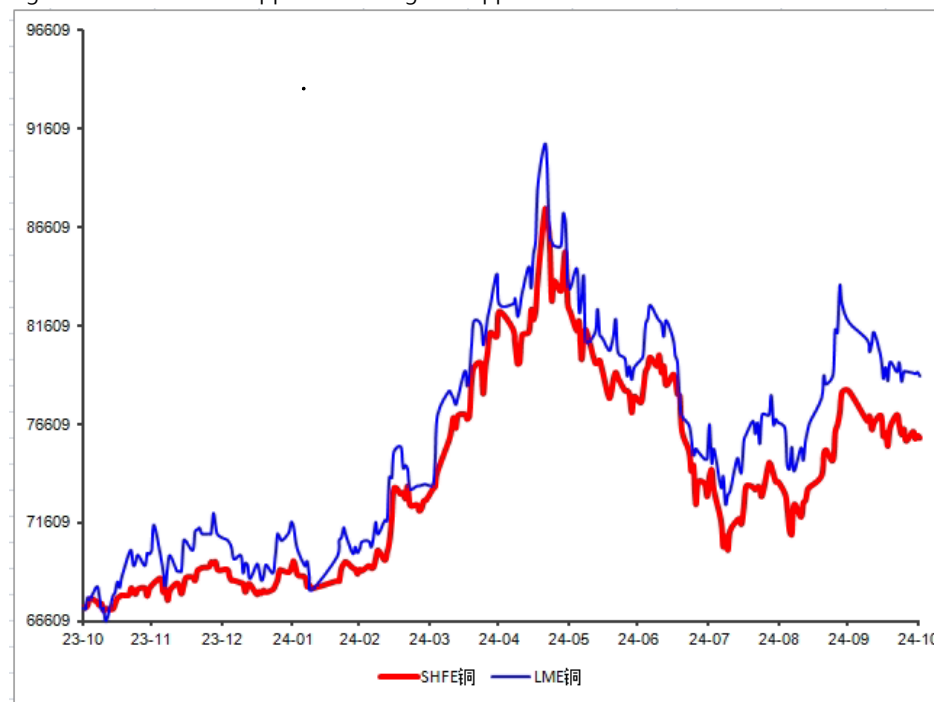
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Affected by the shortage of mine supply, expected reductions in refined copper production, and sanctions on Russian metals, copper prices increased significantly from January to May this year, and subsequently fell back as demand from China weakened. BHP Billiton, the world's largest mining company, predicted that the development of AI will aggravate the copper shortage. The company predicted that global copper demand will increase from 30.4 million tons per year in 2021 to 52.5 million tons in 2050, an increase of 72%. In the future, AI Development may become a new growth point for copper demand. Starting from October, interference in the smelting process has increased, and domestic supply is expected to continue to decrease. The consumption side is not strong, but the market is placing its hope on China to issue more stimulus measures. As the United States presidential election is coming, there is no determination of direction. It is expected that copper price will be at a high level and fluctuate in the short term.

Figure1: Price of LME copper and Shanghai Copper



Resources : Wind, PSHK

The International Cobalt Industry Association predicted that cobalt supply will be approximately 305,000 tons in 2024, while demand will be approximately 251,000 tons. Global cobalt resources are concentrated. After the increased amount in existing supply is released, it is expected that there will be few new resources in the long term. The main terminal demand for cobalt comes from new energy vehicle power batteries. From July to September this year, the penetration rate of new energy vehicles exceeded 50% for three consecutive months. Cobalt demand is expected to grow further in the future, and cobalt price may grow in the medium and long term.

The demand for high-end steel types such as molybdenum-containing steel is expected to return to high levels later. The strategic requirements for the overall upgrading of the manufacturing industry will also promote the overall upgrading of the steel industry, and the demand for special steel products will continue to increase. The supply and demand of Molybdenum will remain tightly balanced and price may become more stable. The company continues to be optimistic about the molybdenum market. There is no large-scale new production capacity released on the molybdenum supply side. At the same time, large-scale molybdenum mines are facing varying degrees of decline in raw ore grades. New production capacity at the

smelting end and chemical end will be gradually invested, which will further absorb raw materials.

The tungsten market is expected to remain in tight supply, and tungsten price is expected to maintain steady growth.

Recently, the government had been continuously issuing favorable policies such as subsidies for home appliances and new energy vehicles, which is expected to increase the demand for special steel, thus increasing the demand for niobium. The price of niobium is expected to rise in the future.

The third quarter is the traditional peak season for fertilizer sales in Brazil. Fertilizer price is expected to continue to rise and return to stabilization in the fourth quarter.

We predict that the company's revenue will be 204.8 billion yuan and 210.9 billion yuan respectively in 2024 and 2025, EPS will be 0.56/0.57 yuan per share, and the BVPS will be 2.84/2.75 yuan per share, P/B will be 2.21x/2.28x. The company has world-class mining resources. Congo (DRC) TFM is one of the world's largest copper and cobalt mines, KFM is the world's largest cobalt mine, Brazil's niobium mine is the world's second largest niobium mine, China's Sandaozhuang molybdenum and tungsten mine is one of the largest molybdenum mines in the world. The company's resources cover basic metals and special metals, which are closely related to the fields of energy transformation and industrial upgrading. At the same time, it is involved in agricultural applications through phosphorus. In the field of new energy metals, the company has important layouts in copper and cobalt, and is the world's leading new energy metal producer. It also has unique and scarce product portfolios such as molybdenum, tungsten, niobium, and phosphorus, all of which have leading industry positions. The cooperation agreement of the Nzilo II hydropower station in the Democratic Republic of the Congo (DRC) has been signed, and the power generation capacity of 200 MW will provide long-term and stable power guarantee for a new round of capacity leapfrogging. We believe that the company's in-depth development in the copper and cobalt industries will achieve more significant results in the future, giving the company a P/B of 2.5 times in 2024, a target price of HK\$7.7, and an "Accumulate" rating. (Current price as of Nov 04)

### **Risk factors**

Main product price fluctuations, geopolitical and policy risks, interest rate risks, exchange rate risks, safety and environmental protection and natural disaster risks.

## Financial

### Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
<b>Total Revenue</b>	173862.6	172990.9	186269.0	204751.7	210878.7
Operating costs	-157539.5	-156926.3	-168158.2	-170967.7	-176083.7
Taxes and levies	-1256.1	-1235.1	-3084.4	-4095.0	-4217.6
Selling expenses	-89.8	-97.2	-155.4	-102.4	-210.9
Administrative expenses	-1556.0	-1790.8	-2386.5	-2354.6	-2530.5
Research and development expenses	-272.4	-388.6	-327.1	-368.6	-316.3
Financial expenses	-1095.1	-1808.5	-3003.8	-3480.8	-3584.9
Other income	58.2	85.4	112.1	102.4	105.4
Investment income	110.3	725.9	2483.3	819.0	843.5
Gains from changes in fair value	-3367.8	-1610.8	1680.5	-3046.4	-3046.4
Gains from credit impairment	0.2	-19.7	-3.7	-3.7	-3.7
Gains from assets impairment	-60.7	-65.3	-140.7	-204.8	-210.9
Gains from disposal of assets	-5.3	29.1	2.8	14.8	14.8
<b>Operating profit</b>	8788.7	9889.1	13288.0	21064.1	21637.6
Non-operating income	19.2	19.7	25.2	20.5	42.2
Non-operating expenses	-52.5	-104.3	-105.2	-122.9	-126.5
<b>Profit before income tax</b>	8755.3	9804.5	13207.9	20961.7	21553.3
Income tax expense	-3327.7	-2612.8	-4677.3	-8599.6	-8856.9
<b>Net profit</b>	5427.6	7191.7	8530.6	12362.2	12696.4
<b>Net profit attributable to shareholders of the parent company</b>	5106.0	6067.0	8249.7	11991.3	12315.5
<b>EPS(RMB)</b>	0.24	0.28	0.38	0.56	0.57
<b>DPS(HKD)</b>	0.08	0.09	0.17	0.25	0.25
<b>Dividend payout ratio</b>	30%	30%	40%	40%	40%
<b>Weighted shares outstanding</b>	21599.2	21599.2	21599.2	21599.2	21599.2

### Key Financial Data

Dec Y/E	FY21	FY22	FY23	FY24E	FY25E
<b>Valuation Ratio</b>					
P/E ratio	26.6	22.4	16.4	11.3	11.0
Dividend Yield, %	1.2%	1.4%	2.5%	3.6%	3.7%
<b>Per share data(RMB)</b>					
EPS	0.24	0.28	0.38	0.56	0.57
BVPS	1.84	2.39	2.76	2.84	2.75
DPS(HKD)	0.08	0.09	0.17	0.25	0.25
<b>Growth &amp; Margin</b>					
<b>Growth</b>					
Revenue Growth	53.9%	-0.5%	7.7%	9.9%	3.0%
Operating Profit Growth	198.2%	12.5%	34.4%	58.5%	2.7%
Net Profit Growth	119.3%	18.8%	36.0%	45.4%	2.7%
<b>Margin</b>					
Operating Profit Margin	5.1%	5.7%	7.1%	10.3%	10.3%
Net Profit Margin	2.9%	3.5%	4.4%	5.9%	5.8%
<b>Key Ratios</b>					
ROE	12.8%	11.7%	13.9%	19.5%	20.7%
ROA	3.7%	3.7%	4.8%	6.6%	6.4%

### Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
<b>Current assets</b>					
Inventories	26960.0	32254.7	31430.5	31851.5	32804.6
Accounts receivable	2904.3	5817.3	5384.1	6170.6	6355.2
Cash and Deposit	20392.7	29045.5	26118.8	24102.6	27662.7
Others	20698.9	18564.2	20714.2	17784.2	12178.9
<b>Total current assets</b>	70955.9	85681.8	83647.6	79909.0	79001.6
<b>Non-current assets</b>					
PPE	28841.4	41714.8	46224.8	53285.1	61491.0
Others	37652.5	37622.6	43102.2	47788.7	53007.2
<b>Total non-current assets</b>	66493.9	79337.4	89327.0	101073.8	114498.2
<b>Total Assets</b>	137449.7	165019.2	172974.5	180982.8	193499.8
<b>Current liabilities</b>					
Accounts and bills payables	7084.5	10818.0	9472.0	9836.5	10130.8
Bank borrowings	26911.9	20107.5	24954.3	28049.3	34821.7
Others	16663.7	19135.6	14554.1	14554.1	15346.9
<b>Total current liabilities</b>	50660.1	50061.1	48980.3	52439.8	60299.4
<b>Non-current liabilities</b>					
Bank borrowings	13610.6	18975.2	18767.7	21289.3	27615.3
Others	24914.9	33945.5	33264.4	33340.8	34011.5
<b>Total non-current liabilities</b>	38525.5	52920.7	52032.1	54630.2	61626.8
<b>Total liabilities</b>	89185.6	102981.8	101012.4	107070.0	121926.2
Equity attributable to equity holders of the Company	39845.3	51698.6	59540.3	61347.6	59406.1
Non-controlling interests	8418.9	10338.9	12421.9	12565.2	12167.5
<b>Total equity</b>	48264.2	62037.4	71962.2	73912.8	71573.6
<b>Total liabilities and equity</b>	137449.8	165019.2	172974.5	180982.8	193499.8

**Consolidated Statement of Cash Flow**

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
<b>CFO</b>	6190.6	15453.8	15542.0	20980.4	21938.6
Net profit	5427.6	7191.7	8530.6	12362.2	12696.4
Change in working capital	-8881.6	-1570.7	3566.1	-843.0	-843.4
Others	9644.7	9832.8	3445.3	9461.2	10085.7
<b>CFI</b>	-4891.8	-7371.6	-10658.7	-14720.9	-14243.4
Purchase of PP&E	-4281.7	-10517.8	-12924.4	-14691.8	-16954.3
Others	-610.1	3146.1	2265.7	-29.1	2710.9
<b>CFF</b>	7888.7	-2096.6	-8606.5	-8275.7	-4135.1
Cash payments for distribution of dividends or profits or settlement of interest expenses	-2600.7	-4791.7	-8762.3	-10411.5	-15133.6
Cash received from borrowing	45431.0	59482.7	71744.2	86810.5	104172.5
Others	-34941.6	-56787.6	-73588.4	-84674.6	-93174.1
<b>Net increase in cash and cash equivalents</b>	9187.5	5985.6	-3723.1	-2016.2	3560.1
<b>Cash and cash equivalents at 31 December</b>	20392.7	29045.6	26118.8	24102.6	27662.7

Current Price as of: 04 Nov

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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