



Rating
Hold

Asia
China

Resources
Metals & Mining

Company
Zhaojin Mining Alert

Reuters 1818.HK	Bloomberg 1818 HK	Exchange HSI	Ticker 1818
ADR Ticker ZHAOY	ISIN US98953R1014		

Date
27 August 2013

Results

Price at 26 Aug 2013 (HKD)	7.00
Price target - 12mth (HKD)	5.60
52-week range (HKD)	14.40 - 4.57
HANG SENG INDEX	22,005

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1H13 results disappoints but volume is on track

Weak 1H13 results with bottom line down 40% YoY

Zhaojin reported weak 1H13 results with bottom line 299.7m, down 40%YoY. The company's NPAT only achieved 22% of Bloomberg consensus and 24% of DB estimates, respectively. Zhaojin's 1H13 top line reached RMB2,371m (23%YoY), achieving 33% of Bloomberg consensus and 36% of DB estimates. Its operating profits of RMB562m achieved 25% and 29% of Bloomberg consensus and DB estimates, respectively. We believe the disappointing results were mainly due to substantial drop in gold price and cost inflation. Result details are shown in the right hand table.

Production volume on track

During the period, Zhaojin produced 12,351.6kg (c.397koz) of gold, down 1.35%YoY. Gold output from the Group's mines accounted for 8,624.1kg (c.277koz), representing an increase of c.11%YoY. Of which mined production from outside of Zhaoyuan increased by 33%YoY. Total mined production growth of 11% is slightly lower than our FY13 estimates of 14%YoY, but with strong growth from outside of Zhaoyuan, we believe the mined production is still on track.

Cost slightly higher than expected

Zhaojin's unit integrated cost of gold increased by 10.4%YoY from RMB122/g to RMB134.6/g in 1H13, due to higher labor & D&A charges. It is slightly higher than what we had expected (RMB133.4/g in FY13). Higher D&A comes from mines outside of Zhaoyuan, according to the company, the unit cost escalation will ease with the production ramp up of mines out of Zhaoyuan. The company consistently guides less with 10%YoY cost inflation in coming years, we forecast 8%YoY growth in 2013E and 5%YoY growth in 2014E.

Net gearing up significantly

Zhaojin's net gearing jumped to c.82% as of 31 Jun 2013 from c.49% at the end of 2012. The company already decided to cut c.RMB5bn capex (from c.RMB3.56bn to c.RMB3.0bn) in FY13. According to the company, it spent c.RMB1.1bn capex in 1H13. We believe its debt level would continue to rise as EBITDA was only c.RMB0.9bn in 1H13 with c.RMB1.9bn capex left in 2H13.

Remain cautious; Maintain Hold

Deutsche Bank global commodity forecasts gold price of \$1,428/oz and \$1,338/oz in 2013 and 2014, respectively. We believe Zhaojin would continue to struggle with margin squeeze in coming years. The company is now trading at 14x 2014DBe NPAT and 1.7x 2014DBe BVPS with estimated 2014DBe ROAE at 12%. Remain Hold.

Stock data

Market cap (HKDm)	20,761
Market cap (USDm)	2,677
Shares outstanding (m)	2,965.8
Major shareholders	Shandong Zhaojin Group (37.84%)
Avg daily value traded (USDm)	7.1
Free float(%)	77

Source: Deutsche Bank

Key data

FYE 12/31	2012A	2013E	2014E
Sales (CNYm)	7,603	7,094	7,071
Net Profit (CNYm)	1,923.5	1,367.8	1,146.9
DB EPS (CNY)	0.66	0.46	0.39
PER (x)	14.9	12.0	14.3
Yield (net) (%)	2.5	3.1	2.6

Source: Deutsche Bank

1H13 results

mn except %	1H13	YoY%	% of DBe
Revenue	2,371	23%	33%
GP	1,042	-6%	35%
OP	562	-27%	25%
NPAT	300	-40%	22%

Source: Deutsche Bank

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