

## COMPANY RESULTS

### Zijin Mining (2899 HK)

1H22: In Line With Expectations; Copper Production Volume Up 71% yoy

Zijin's 1H22 earnings increased 90% to Rmb12,630m (+90% yoy), representing 56.8% of the full-year earnings forecast. Earnings growth was supported by the 70.5%/22.8% yoy growth of its copper and gold production output and 263.1% yoy growth in investment income. Zijin's gross margin remained resilient at 17.1% (+2.6ppt). Signs of copper and gold prices bottoming out should support the eventual valuation recovery of the company. **Maintain BUY. Target price: HK\$14.80.**

#### 1H22 RESULTS

Year to 30 Jun (Rmbm)	1H21	1H22	yoy % chg
Revenue	109,863.4	132,457.5	20.6%
- Mine-produced Gold	7,480.7	10,470.8	40.0%
- Mine-produced Copper	12,657.6	19,695.9	55.6%
- Mine-produced Zinc	2,630.9	3,414.2	29.8%
- Mine-produced Silver	586.8	619.9	5.6%
- Iron Ore	1,398.4	843.6	-39.7%
- Refined and Processed Gold	48,210.8	50,240.5	4.2%
- Refined Copper	18,514.1	22,016.2	18.9%
Gross Profit	15,906.1	22,697.0	42.7%
EBITDA	16,358.0	24,398.0	49.2%
Profit attributable to shareholders	6,649.0	12,630.0	90.0%
EPS (Rmb cents per share)	0.262	0.480	83.2%

Source: Zijin Mining, UOB Kay Hian

#### RESULTS

- In line with expectations.** Zijin Mining (Zijin) reported 1H22 net profit attributable to shareholders of Rmb12,630.0m (+90.0% yoy), representing 56.8% of 2022 consensus full-year earnings forecast. Earnings growth was supported by: a) production volume of mine-produced copper/gold expanding +70.5%/+22.8% yoy, and b) a 263.1% yoy increase in investment income (mainly contribution from associates and JV projects).
- 1H22 gross margin expanded by 2.66 ppt.** Zijin's 1H22 overall gross margin remained resilient at 17.1% (+2.66ppt) whereas mine operations' gross margin has expanded by 1.47ppt to 60.0%. Gross margin remained flattish for most of the products, except for mine-produced zinc/mine-produced silver with +7.3ppt/-5.2ppt change in gross margin due to fluctuation of ASP by +27.7%/-11.3% yoy. Iron ore recorded a margin compression of 8.0ppt due to the 33.5% yoy increase in unit cost of sales.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	171,501	225,102	256,108	268,964	282,748
EBITDA	20,445	32,920	43,261	47,229	54,382
Operating profit	13,075	24,800	34,079	36,754	42,586
Net profit (rep./act.)	6,509	15,673	22,313	23,770	27,827
Net profit (adj.)	6,509	15,673	22,313	23,770	27,827
EPS (Fen)	25.6	59.5	84.7	90.3	105.7
PE (x)	31.9	13.7	9.6	9.1	7.7
P/B (x)	3.7	3.0	2.4	2.1	1.7
EV/EBITDA (x)	15.6	9.7	7.4	6.8	5.9
Dividend yield (%)	1.5	2.4	3.5	3.7	4.3
Net margin (%)	3.8	7.0	8.7	8.8	9.8
Net debt/(cash) to equity (%)	95.7	77.4	63.3	49.0	32.9
Interest cover (x)	11.5	22.0	30.5	30.4	32.3
ROE (%)	12.1	24.6	28.0	24.7	24.4
Consensus net profit	-	-	22,238	23,074	27,413
UOBKH/Consensus (x)	-	-	1.00	1.03	1.02

Source: Zijin Mining, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$9.50
Target Price	HK\$14.80
Upside	+55.8%
(Previous TP)	HK\$18.00

#### COMPANY DESCRIPTION

Zijin Mining, through its subsidiaries, explores, mines, produces, refines, and sells gold, copper, zinc and other mineral resources in China.

#### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	2899 HK
Shares issued (m):	5,736.9
Market cap (HK\$m):	274,525.4
Market cap (US\$m):	35,025.4
3-mth avg daily t'over (US\$m):	34.6

#### Price Performance (%)

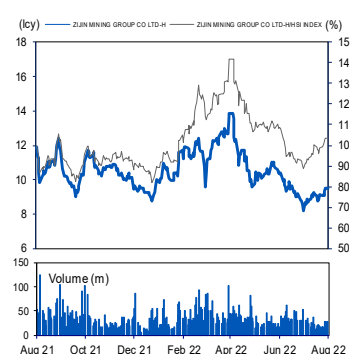
52-week high/low HK\$13.88/HK\$8.19

1mth	3mth	6mth	1yr	YTD
8.0	(1.0)	(18.1)	(17.7)	2.4

#### Major Shareholders

Minxi Xinghang State-owned Assets Investment Co. Ltd	29.0
FY22 NAV/Share (Rmb)	3.35
FY22 Net Debt/Share (Rmb)	2.12

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Gold and copper prices showing signs of bottoming out.** Both gold and copper prices saw a steep decline in 2Q22 subsequent to monetary tightening in the US which have then led to global recession fear and the strengthening of the US dollar. However, market demand for copper remains solid backed by the high paced growth of the renewable energy and electric vehicle industry. Besides, gold being the traditional safe heaven assets will eventually show its value under the current high market volatility environment, and the potential slowdown of rate hikes by the Federal Reserve in the US could provide support to gold prices. Gold and copper prices have shown signs of bottoming out since mid-July, which would gradually ease the margin compression pressure in 2H22.

### ASP OF KEY PRODUCTS

Products	Unit	Average Selling Price		
		1H21	1H22	yoy
Mine-produced Gold	Rmb/g	352.00	360.00	2.3%
Mine-produced Copper	Rmb/tonne	53,226	55,145	3.6%
Mine-produced Zinc	Rmb/tonne	13,313	17,006	27.7%
Mine-produced Silver	Rmb/g	3.62	3.21	-11.3%
Iron ore	Rmb/tonne	754	721	-4.4%

Source: Zijin Mining, UOB Kay Hian

- **6th largest copper miner in the world.** Production volume of mine-produced copper achieved 70.5% yoy growth in 1H22 to 410,190 tonnes, completing 103% of their 1H22 target. Zijin's pace of production volume growth has outperformed the industry by far when most of the top 15 global peers recorded negative yoy growth; it is now the 6th largest copper miner in the world. The company is confident it can exceed its initial 2022 mine-produced copper production volume target of 860,000 tonnes. Mine-produced copper's production in 2023 will be supported by the gradual production ramp-up in Julong Copper Mine in Tibet and Kamoakakula Copper Mine in Congo.

### PRODUCTION VOLUME OF KEY PRODUCTS

Product	Unit	1H21	1H22	yoy
Mine-produced Copper	tonne	240,626	410,190	70.5%
Refined Copper	tonne	315,246	346,333	9.9%
Mine-produced Gold	kg	22,015	27,031	22.8%
Refined and Processed Gold	kg	127,918	128,528	0.5%

Source: Zijin Mining, UOB Kay Hian

- **Aggressive diversification; searching for new growth driver in new energy space.** Zijin has so far secured two lithium brine and one hard-rock projects with a total lithium carbonate reserve of around 11.93m tonnes, ranking among the top 10 mining companies globally. These three lithium projects would eventually be capable of producing 150,000 tonnes of lithium carbonate annually in the mid-to-long term. Zijin will resume the mining and processing system at the Xiangyuan lithium polymetallic mine acquired in Jun 22, which could kickstart lithium carbonate production earliest by 4Q22.

### EARNINGS REVISION/RISK

- We fine-tune our earnings forecasts for 2022/23 by -1%/+1%.

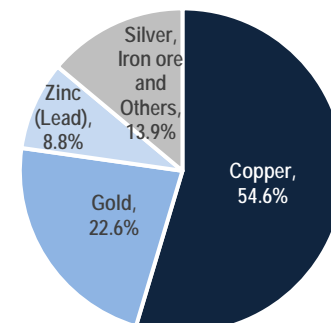
### VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of HK\$14.80.** The considerable scale of projects in the pipeline and aggressive diversification plan should continue to support the company's earnings growth, backed by its robust financial health and ample liquidity on hand. Slump in market prices for both gold and copper could be an opportunity for it to further expand market share at a more attractive valuation. Zijin is currently trading at 9.6x 2022F PE (-1SD); signs of copper and gold prices bottoming out should support the eventual valuation recovery of the company.

### SHARE PRICE CATALYST

- Recovery of copper and gold prices; M&A announcements.

### GROSS PROFIT CONTRIBUTION RATIO



Source: Zijin Mining, UOB Kay Hian

### GROSS MARGIN YOY CHANGE

Products	Gross Margin		
	1H21	1H22	yoy
Mine-produced Gold	48.1%	51.0%	+2.9ppt
Mine-produced Copper	65.3%	65.8%	+0.5ppt
Mine-produced Zinc	49.2%	56.5%	+7.3ppt
Mine-produced Silver	57.5%	53.3%	-4.2ppt
Iron ore	79.7%	71.7%	-8.0ppt
Refined/Processed Gold	0.01%	0.42%	+0.4ppt
Refined Copper	3.9%	2.1%	-1.9ppt
Refined Zinc	3.9%	4.3%	+0.4ppt
Overall	14.5%	17.1%	+2.7ppt
Overall (excl. refining)	58.5%	60.0%	+1.5ppt

Source: Zijin Mining, UOB Kay Hian

## PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	225,102.5	256,108.1	268,963.9	282,747.8
EBITDA	32,920.2	43,260.9	47,228.6	54,381.9
Deprec. & amort.	8,120.0	9,181.6	10,474.4	11,795.8
EBIT	24,800.2	34,079.3	36,754.3	42,586.2
Total other non-operating income	(137.0)	(500.0)	(500.0)	(500.0)
Associate contributions	1,627.1	3,138.8	3,851.7	4,726.5
Net interest income/(expense)	(1,496.5)	(1,420.0)	(1,555.4)	(1,682.5)
<b>Pre-tax profit</b>	<b>24,793.8</b>	<b>35,298.1</b>	<b>38,550.6</b>	<b>45,130.2</b>
Tax	(5,194.2)	(7,394.8)	(8,076.1)	(9,454.5)
Minorities	(3,926.8)	(5,590.4)	(6,704.4)	(7,848.6)
<b>Net profit</b>	<b>15,673.1</b>	<b>22,313.2</b>	<b>23,770.3</b>	<b>27,827.2</b>
Net profit (adj.)	15,673.1	22,313.2	23,770.3	27,827.2

## CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>26,072.2</b>	<b>34,466.7</b>	<b>37,117.5</b>	<b>43,330.2</b>
Pre-tax profit	24,793.8	35,298.1	38,550.6	45,130.2
Tax	(3,034.1)	(5,683.0)	(7,546.1)	(8,382.3)
Deprec. & amort.	8,126.5	9,188.0	10,480.8	11,802.2
Associates	(1,627.1)	(3,138.8)	(3,851.7)	(4,726.5)
Working capital changes	(1,530.3)	(1,197.6)	(516.0)	(493.3)
Non-cash items	(656.5)	0.0	0.0	0.0
Other operating cashflows	0.0	0.0	0.0	0.0
<b>Investing</b>	<b>(23,765.0)</b>	<b>(30,000.0)</b>	<b>(25,000.0)</b>	<b>(25,000.0)</b>
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(20,148.6)	(15,000.0)	(15,000.0)	(15,000.0)
Investments	(4,574.6)	(15,000.0)	(10,000.0)	(10,000.0)
Proceeds from sale of assets	1,875.0	0.0	0.0	0.0
Others	(916.8)	0.0	0.0	0.0
<b>Financing</b>	<b>23.3</b>	<b>1,734.0</b>	<b>(497.1)</b>	<b>(986.6)</b>
Dividend payments	(3,159.3)	(5,266.0)	(7,497.1)	(7,986.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	37,533.1	0.0	0.0	0.0
Loan repayment	(30,703.4)	0.0	0.0	0.0
Others/interest paid	(3,647.0)	7,000.0	7,000.0	7,000.0
<b>Net cash inflow (outflow)</b>	<b>2,330.6</b>	<b>6,200.7</b>	<b>11,620.4</b>	<b>17,343.6</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>11,786.7</b>	<b>13,631.3</b>	<b>19,832.0</b>	<b>31,452.4</b>
Changes due to forex impact	(486.0)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>13,631.3</b>	<b>19,832.0</b>	<b>31,452.4</b>	<b>48,796.0</b>

## BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	74,262.7	82,761.3	90,408.9	97,100.2
Other LT assets	87,267.7	101,763.9	112,488.2	123,722.1
Cash/ST investment	13,631.3	19,832.0	31,452.4	48,796.0
Other current assets	33,433.0	37,915.5	39,874.8	41,659.0
<b>Total assets</b>	<b>208,594.7</b>	<b>242,272.7</b>	<b>274,224.4</b>	<b>311,277.4</b>
ST debt	18,229.1	20,229.1	22,229.1	24,229.1
Other current liabilities	32,073.4	36,114.0	38,087.3	40,452.4
LT debt	50,374.3	55,374.3	60,374.3	65,374.3
Other LT liabilities	14,623.3	14,623.3	14,623.3	14,623.3
Shareholders' equity	71,034.4	88,081.3	104,354.3	124,194.6
Minority interest	21,862.8	27,453.2	34,157.6	42,006.2
<b>Total liabilities &amp; equity</b>	<b>208,594.7</b>	<b>242,272.7</b>	<b>274,223.4</b>	<b>311,277.4</b>

## KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	14.6	16.9	17.6	19.2
Pre-tax margin	11.0	13.8	14.3	16.0
Net margin	7.0	8.7	8.8	9.8
ROA	8.0	9.9	9.2	9.5
ROE	24.6	28.0	24.7	24.4
<b>Growth</b>				
Turnover	31.3	13.8	5.0	5.1
EBITDA	61.0	31.4	9.2	15.1
Pre-tax profit	128.6	42.4	9.2	17.1
Net profit	140.8	42.4	6.5	17.1
Net profit (adj.)	140.8	42.4	6.5	17.1
EPS	132.1	42.4	6.5	17.1
<b>Leverage</b>				
Debt to total capital	42.5	39.6	37.4	35.0
Debt to equity	96.6	85.8	79.2	72.1
Net debt/(cash) to equity	77.4	63.3	49.0	32.9
Interest cover (x)	22.0	30.5	30.4	32.3

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