

COMPANY RESULTS

Zijin Mining (2899 HK)

2022: Results In Line

Zijin reported 2022 earnings of Rmb20,042m (+27.9% yoy), largely in line with market expectations. Gross margin was flattish at 15.7%, and gross profit margin of mine-produced products fell to 54.3% (-4.69ppt yoy), dragged by the 8.4% yoy decline in mine-produced copper ASP. The depreciation of renminbi is expected to continue weighing on production cost in 2023. Mine-produced copper and gold is expected to grow by 33%/61% yoy in the next three years. Maintain BUY. Target price: HK\$15.60.

2022 RESULTS

Year to 31 Dec (Rmbm)	2021	2022	yoy %
Revenue	225,102	270,329	20.1
Cost of sales	(190,351)	(227,784)	19.7
Gross profit	34,751	42,545	22.4
SG&A	(6,491)	(8,116)	25.0
Operating profit	(1,496)	(1,905)	27.3
Net finance cost	28,260	34,428	21.8
Non operating profit/loss	(1,970)	(2,530)	28.5
PBT	24,794	29,993	21.0
Tax	(5,194)	(5,226)	0.6
Minority interest	(3,927)	(4,725)	20.3
Net Profit	15,673	20,042	27.9
Gross margin (%)	15.4	15.7	0.3
Net profit margin (%)	7.0	7.4	0.5

Source: Zijin Mining, UOB Kay Hian

RESULTS

- **Results In line.** Zijin Mining (Zijin) reported 2022 net earnings of Rmb20,042m (+27.9% yoy), largely in line with expectations. The company has announced final dividend of Rmb0.20 per share.
- **Gross margin flattish at 15.7%.** Gross margin remained flattish at 15.7% (+0.3ppt yoy). The gross profit margin of mine-produced products was 54.29%, declining 4.69 ppt yoy, mainly due to the 8.4% yoy decline in the ASP of mine-produced copper. It was offset by the stronger refined metals segments. Copper remained as the largest contributor to the company's gross profit, with contribution ratio of 49.4%, followed by gold at 24.6%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	225,102	270,329	301,602	315,859	341,528
EBITDA	33,484	39,235	46,151	53,064	62,299
Operating profit	25,364	29,108	33,538	38,339	45,644
Net profit (rep./act.)	15,673	20,042	23,852	28,230	34,613
Net profit (adj.)	15,673	20,042	23,852	28,230	34,613
EPS (Fen)	59.5	76.1	90.6	107.2	131.5
PE (x)	18.6	14.5	12.2	10.3	8.4
P/B (x)	4.1	3.3	2.7	2.3	1.9
EV/EBITDA (x)	13.8	11.8	10.0	8.7	7.4
Dividend yield (%)	1.8	1.8	2.5	2.9	3.6
Net margin (%)	7.0	7.4	7.9	8.9	10.1
Net debt/(cash) to equity (%)	77.4	108.7	102.8	85.4	66.4
Interest cover (x)	17.6	20.6	17.1	19.9	25.8
ROE (%)	24.6	25.1	24.3	23.9	24.4
Consensus net profit	-	-	22,849	27,198	32,962
UOBKH/Consensus (x)	-	-	1.04	1.04	1.05

Source: Zijin Mining, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$12.60
Target Price	HK\$15.60
Upside	+23.8%
(Previous TP)	HK\$13.30

COMPANY DESCRIPTION

Zijin Mining Group Co., Ltd., 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):	353,901.7
Market cap (US\$m):	45,083.6
3-mth avg daily t'over (US\$m):	46.6

Price Performance (%)

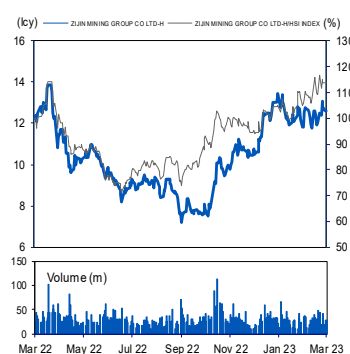
52-week high/low HK\$13.88/HK\$7.20

1mth	3mth	6mth	1yr	YTD
6.4	20.5	64.3	3.1	19.1

Major Shareholders

Minxi Xinghang State-owned Assets Investment Co. Ltd	29.0
FY23 NAV/Share (Rmb)	4.08
FY23 Net Debt/Share (Rmb)	4.20

PRICE CHART



Source: Bloomberg

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- **Sales volume growth remained robust.** Sales volume for mine-produced gold/copper/silver recorded 33%/40%/32% yoy growth. Production volume of mine-produced copper for 2022 was 877,317 tonnes, up 48.7% yoy or about 287,420 tonnes, accounting for over 40% of the net global increment in 2022, the highest growth among global copper miners. The fast growth of mine-produced copper was mainly driven by Kamoa (+102,351 tonnes; +251% yoy) and Tibet Julong (+99,287; +633% yoy). Going forward, Kamoa and Tibet Julong will continue to be the key growth drivers for mine-produced copper.

STOCK IMPACT

- **Depreciation of renminbi to continue weighing on margin.** One of the key reasons for higher production costs in 2022 was due to the depreciation of renminbi. Weaker renminbi in 2022 has led to higher overseas production costs (after currency translation) and higher raw material import costs for domestic operations. Over 2% of the production costs increase for copper/ gold/ zinc in 2022 was due to the exchange rate fluctuations. The company expects another 4-8% increase in production costs in 2023 due to the same reason, but it will also be partially offset by the change in products' ASP denominated in US dollars.
- **Production volume guidance up to 2025.** The company has given a updated production guidance up until 2025. It expects production volume for mine-produced copper/ gold to reach 1,170,000/ 90 tonnes by 2025, up from 880,000/ 56 tonnes in 2022, targeting a growth of 33.0%/ 60.7% in the next three years. Lithium carbonate will start contribute to earnings in 2023 with expected production volume of 3,000 tonnes, which will eventually hit 120,000 tonnes by 2025.

PRODUCTION GUIDANCE (TONNES)

Products	2022	2023F	2025F
Mine-produced copper	880,000	950,000	1,170,000
Mine-produced gold	56	72	90
Mine-produced zinc (lead)	440,000	450,000	480,000
Mine-produced silver	387	390	450
Lithium carbonate	-	3,000	120,000

Source: Zijin Mining, UOB Kay Hian

- **Not concerned on recent slump in lithium carbonate prices.** Regarding the recent slump in lithium carbonate prices, management was not too concerned as the overseas/ domestic lithium mine acquisition previously was based on the cost assumption of around US\$10,000/ Rmb100,000 per tonne, providing a sufficient safety margin for the company. The key purpose of the company stepping into this competitive space was to gain exposure and experience, preparing it to capture growth opportunities when the time is right.
- **Rmb29.3b capex budget allocated for 2023.** Subsequent to the aggressive Rmb51.5b of capex incurred in 2022, the company has budgeted another Rmb29.3b of capex budget in 2023. Zijin guided that this will be entirely funded by its current year operational cash flow. Given no major acquisitions in 2023, the cash surplus will be used for debt repayment.

EARNINGS REVISION/RISK

- We fine-tune our 2023F/24 earnings forecasts by -2%/-2%.

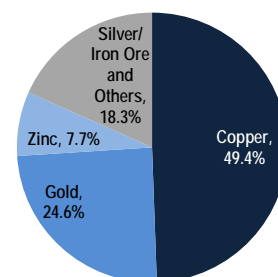
VALUATION/RECOMMENDATION

- **We maintain BUY with a higher target price of HK\$15.60,** pegged to 15x 2023F PE (+1SD). We continue to like Zijin on its unwavering efforts in exposure diversification and dominance expansion in the respective segments. The projects in the pipeline have a clear visibility on their production volume growth in the next three years, granting a promising outlook on their earnings growth. Although the performance is still largely dependent on the global price movements, we think the company is on the right track to capture the upcoming opportunities arising from the global energy transformation trend and further solidify its leading position in the existing operations.

SHARE PRICE CATALYST

- Slower-than-expected Fed rate hike.

GROSS PROFIT CONTRIBUTION



Source: Zijin Mining, UOB Kay Hian

OPERATIONAL DATA

Production (tonne)	2021	2022	yoy %
Mine-produced Gold	47.46	56.40	18.8
Mine-produced Copper	584,165	877,317	50.2
Mine-produced Zinc	396,443	402,321	1.5
Mine-produced Silver	308.8	387.5	25.5
Refined Gold	272	259	(4.9)
Refined Copper	621,334	690,849	11.2
Refined Zinc	322,440	318,454	(1.2)
Sales (tonne)	2021	2022	yoy %
Mine-produced Gold	45.7	60.8	33.2
Mine-produced Copper	528,686	738,690	39.7
Mine-produced Zinc	399,261	401,564	0.6
Mine-produced Silver	305.76	403.39	31.9
Refined Gold	272	258	(5.0)
Refined Copper	620,721	691,837	11.5
Refined Zinc	322,647	318,488	(1.3)
ASP	2021	2022	yoy %
Mine-produced Gold	348.7	368.6	5.7
Mine-produced Copper	53,583.0	49,078.0	(8.4)
Mine-produced Zinc	14,136.0	15,624.0	10.5
Mine-produced Silver	3.4	3.1	(11.1)
Refined Gold	368.0	389.6	5.9
Refined Copper	60,514.0	59,460.0	(1.7)
Refined Zinc	19,966.0	22,278.0	11.6
Unit Cost	2021	2022	yoy %
Mined-produced Gold	176.22	191.77	8.8
Mined-produced Copper	18,194.00	19,862.00	9.2
Mined-produced Zinc	7,369.00	8,017.00	8.8
Mine-produced Silver	1.57	1.63	3.8
Refined Gold	367.55	387.40	5.4
Refined Copper	58,841.00	57,748.00	(1.9)
Refined Zinc	19,076.00	21,171.00	11.0
Gross Margin	2021	2022	yoy %
Mine-produced Gold	49.5%	47.4%	(2.09)
Mine-produced Copper	66.1%	60.3%	(5.72)
Mine-produced Zinc	47.9%	48.7%	0.82
Mine-produced Silver	54.3%	46.5%	(7.83)
Refined Gold	0.12%	0.55%	0.43
Refined Copper	2.77%	2.88%	0.11
Refined Zinc	4.46%	4.97%	0.51

Source: Zijin Mining, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	270,329	301,602	315,859	341,528
EBITDA	39,235	46,151	53,064	62,299
Deprec. & amort.	10,128	12,613	14,726	16,654
EBIT	29,108	33,538	38,339	45,644
Total other non-operating income	(953)	0	0	0
Associate contributions	3,743	5,262	7,058	9,168
Net interest income/(expense)	(1,905)	(2,694)	(2,663)	(2,418)
Pre-tax profit	29,993	36,106	42,733	52,394
Tax	(5,226)	(6,291)	(7,445)	(9,129)
Minorities	(4,725)	(5,963)	(7,058)	(8,653)
Net profit	20,042	23,852	28,230	34,613
Net profit (adj.)	20,042	23,852	28,230	34,613

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	95,062	121,732	132,075	141,022
Other LT assets	131,338	147,949	165,818	185,268
Cash/ST investment	19,667	15,161	13,350	18,130
Other current assets	59,978	59,375	61,066	64,274
Total assets	306,044	344,216	372,310	408,693
ST debt	23,666	24,566	24,196	23,938
Other current liabilities	47,504	50,906	52,504	55,308
LT debt	92,690	101,124	98,927	96,990
Other LT liabilities	17,028	18,615	19,546	20,523
Shareholders' equity	88,943	107,529	128,604	154,747
Minority interest	35,513	41,476	48,533	57,186
Total liabilities & equity	306,044	344,216	372,310	408,692

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	28,679	42,326	43,812	51,345
Pre-tax profit	29,993	36,106	42,733	52,394
Tax	(6,121)	(5,650)	(6,751)	(8,116)
Deprec. & amort.	10,168	12,631	14,744	16,673
Associates	(3,743)	(5,262)	(7,058)	(9,168)
Working capital changes	(10,661)	3,614	(789)	(1,416)
Non-cash items	9,042	886	931	977
Other operating cashflows	0	0	0	0
Investing	(50,981)	(50,900)	(35,900)	(35,900)
Capex (growth)	0	0	0	0
Capex (maintenance)	(44,510)	(45,900)	(30,900)	(30,900)
Investments	(12,027)	(5,000)	(5,000)	(5,000)
Proceeds from sale of assets	4,549	0	0	0
Others	1,007	0	0	0
Financing	27,258	4,068	(9,722)	(10,666)
Dividend payments	(11,475)	(5,266)	(7,156)	(8,469)
Issue of shares	0	0	0	0
Proceeds from borrowings	60,159	0	0	0
Loan repayment	(32,253)	(23,666)	(24,566)	(24,196)
Others/interest paid	10,827	33,000	22,000	22,000
Net cash inflow (outflow)	4,956	(4,506)	(1,810)	4,780
Beginning cash & cash equivalent	13,631	19,667	15,161	13,350
Changes due to forex impact	1,080	0	0	0
Ending cash & cash equivalent	19,667	15,161	13,350	18,130

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	14.5	15.3	16.8	18.2
Pre-tax margin	11.1	12.0	13.5	15.3
Net margin	7.4	7.9	8.9	10.1
ROA	7.8	7.3	7.9	8.9
ROE	25.1	24.3	23.9	24.4
Growth				
Turnover	20.1	11.6	4.7	8.1
EBITDA	17.2	17.6	15.0	17.4
Pre-tax profit	21.0	20.4	18.4	22.6
Net profit	27.9	19.0	18.4	22.6
Net profit (adj.)	27.9	19.0	18.4	22.6
EPS	27.9	19.0	18.4	22.6
Leverage				
Debt to total capital	48.3	45.8	41.0	36.3
Debt to equity	130.8	116.9	95.7	78.1
Net debt/(cash) to equity	108.7	102.8	85.4	66.4
Interest cover (x)	20.6	17.1	19.9	25.8

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