

COMPANY RESULTS

Zijin Mining (2899 HK)

2023: In Line; Cost Pressure To Moderate In 2024

Zijin reported 2023 earnings of Rmb21,119.4m (+5.4% yoy), representing 96%/91% of consensus/our earnings estimates, in line with expectations. Mining entities' gross margin declined to 49.1% (-5.2ppt), and the increase in product ASP was offset by a steeper spike in mining costs. Management strives to maintain production costs at 2023's level while the expected Fed rate cut in 2H24 continues to support metal prices. **Maintain BUY. Target price: HK\$18.10.**

2023 RESULTS

Year to 31 Dec (Rmbm)	2022	2023	yoy chg
Revenue	270,329	293,403	8.5
Cost of sales	(227,784)	(247,024)	8.4
Gross profit	42,545	46,379	9.0
SG&A	(8,116)	(9,856)	21.4
Operating profit	34,428	36,523	6.1
Net finance cost	(1,905)	(3,268)	71.6
Non operating profit/loss	(2,530)	(1,967)	(22.3)
PBT	29,993	31,287	4.3
Tax	(5,226)	(4,748)	(9.1)
Minority interest	(4,725)	(5,420)	14.7
Net Profit	20,042	21,119	5.4
Gross margin (%)	15.7	15.8	0.1
EBIT margin (%)	12.7	12.4	(0.3)
Net profit margin (%)	7.4	7.2	(0.2)

Source: Zijin Mining, UOB Kay Hian

RESULTS

- In line.** Zijin Mining (Zijin) reported 2023 earnings of Rmb21,119.4m (+5.4% yoy), representing 96%/91% of consensus/our earnings estimates, in line with expectations. The slight miss to our forecasts was mainly attributable to the softer-than-expected gold production volume growth and the increase in administrative expenses in percentage to revenue (from 2022's 2.3% to 2023's 2.6%).
- Consolidated gross margin stayed resilient at 15.8% (+0.07ppt).** Average gross margin for mining entities was 49.1% (-5.2ppt). ASP for mine-produced gold and copper was up 10.2%/4.2% yoy respectively in 2023, but the unit production costs which jumped 8.8%/9.2% yoy has offset a big chunk of the positive contribution.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	270,329	293,403	331,729	354,120	366,631
EBITDA	39,235	41,717	52,438	63,062	71,365
Operating profit	29,108	31,507	41,028	49,991	56,536
Net profit (rep./act.)	20,042	21,119	28,570	35,208	40,617
Net profit (adj.)	20,042	21,119	28,570	35,208	40,617
EPS (Fen)	76.1	80.4	108.8	134.1	154.7
PE (x)	18.7	17.7	13.1	10.6	9.2
P/B (x)	4.2	3.5	2.8	2.4	2.0
EV/EBITDA (x)	14.3	13.4	10.7	8.9	7.9
Dividend yield (%)	1.4	1.8	2.4	2.9	3.4
Net margin (%)	7.4	7.2	8.6	9.9	11.1
Net debt/(cash) to equity (%)	108.7	98.7	88.2	73.2	58.3
Interest cover (x)	20.6	12.8	16.5	19.7	25.9
ROE (%)	25.1	21.5	23.8	24.2	23.4
Consensus net profit	-	-	26,833	34,974	39,199
UOBKH/Consensus (x)	-	-	1.06	1.01	1.04

Source: Zijin Mining, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$15.44
Target Price	HK\$18.10
Upside	+17.2%
(Previous TP)	HK\$15.00

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):	440,045.4
Market cap (US\$m):	56,261.0
3-mth avg daily t'over (US\$m):	45.9

Price Performance (%)

52-week high/low	HK\$15.86/HK\$10.58			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
15.1	24.5	22.5	20.6	21.4

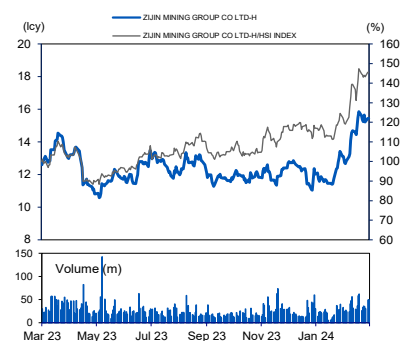
Major Shareholders

Minxi Xinghang State-owned Assets Investment Co. Ltd	29.0%
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FY24 NAV/Share (Rmb) 5.03

FY24 Net Debt/Share (Rmb) 4.44

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Evolved into one of the largest mining entities globally.** Given the aggressive expansion in recent years, for mine-produced copper/gold in particular, the company ranked 5th/7th globally in terms of 2023 output, 5th/6th globally in terms of reserves. Despite rising geopolitical tensions and rising metal prices, the company will continue looking for attractive M&A opportunities to maintain its expansion momentum, at the same time enhancing existing projects' production efficiencies by conducting technical upgrades and production capacity expansion.
- Robust production volume growth...** The company's volume of mine-produced copper/gold further increased by 11%/20% yoy to 1.007m tonnes/67.7 tonnes respectively in 2023. Mine-produced copper's production volume was guided to expand to 1.11m tonnes, partly supported by the completion of upgrade and expansion works at Kamo-a-Kakula mine, of which annual production capacity will hit 600,000 tonnes by 2Q24 (2023 output: 394,000 tonnes). Besides, mine-produced gold production volume is also guided to be 74 tonnes in 2024.
- ...offset by spike in mining costs.** The company's unit cost of sales for mine-produced copper/gold was up 17.2%/16.3% yoy. In 2023, mining costs for domestic mines had already peaked whereas overseas mines were still on the rise, key reasons being: a) depreciation of the renminbi, b) decline in average ore grade, c) spike in energy/raw materials' prices, d) longer haul distances at existing mines, and e) expansion of contribution ratio from lower-grade copper mines.
- Cost pressure to moderate in 2024.** Zijin was among the miners with lowest mining costs globally based on global standard, and is striving to maintain unit mining cost at 2023's level. With energy cost being the largest cost component for mining activities, we believe the gradual adoption of renewable energy at existing mining sites will eventually help in trimming mining costs and effectively curbing carbon emission. With the Fed expected to cut interest rate in 2H24, weakening of the US dollar should also contribute to the cost moderation.

### EARNINGS REVISION/RISK

- We fine-tune our earnings forecasts for 2024/25 by +5.1%/+7.0% respectively.

### VALUATION/RECOMMENDATION

- We maintain BUY with a higher target price of HK\$18.10, pegged to 15x 2024F PE (+1SD).** We still see upside potential for metal prices in 2H24 as the Fed is expected to start to cutting the interest rate, not forgetting the recent copper mine disruptions that could help in tightening supply-demand dynamics. Zijin remains as our top pick in the metal mining space, given its outstanding cost control and diversified product offering. However, mind that the current rising geopolitical tensions and resource nationalisation trend are the key threats for the company.

### SHARE PRICE CATALYST

- Earlier-than-expected Fed interest rate cut; unexpected supply disruptions.

### GROSS MARGINS (BY PRODUCT)

Product	2022 (%)	2023 (%)
Gold bullion	34.81	33.94
Gold concentrate	59.65	58.05
Copper concentrate	60.33	59.52
Electrodeposited copper	56.89	47.01
Electrolytic copper	53.46	27.68
Mine-produced zinc	48.69	21.83
Mine-produced silver	46.47	50.78
Iron ore	67.89	60.43
Refined and processed gold	0.55	0.59
Refined copper	2.88	3.09
Refined zinc	4.97	7.07
Overall gross profit	15.74	15.81
Overall gross profit margin (excluding refining)	54.29	49.09

Source: Zijin Mining, UOB Kay Hian

### COMPARISON OF COPPER PRODUCTION COST

----- Copper Companies C1 Cost (US\$/lb) -----			
Rank	Company	2023	yoy chg
1	Southern Copper	1.0	32%
2	Zijin Mining	1.1	14%
3	BHP	1.4	17%
4	Freeport	1.6	7%
5	Antofagasta	1.6	0%

Source: Zijin Mining, UOB Kay Hian

### COMPARISON OF GOLD PRODUCTION COST

----- Gold Companies AISC Cost (US\$/oz) -----			
Rank	Company	2023	yoy chg
1	Polyus PJSC	754	-23%
2	Zijin Mining	1,161	7%
3	Northern Star	1,179	-21%
4	Agnico Eagle Mines	1,179	6%
5	Kinross Gold	1,284	2%

Source: Zijin Mining, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	293,403	331,729	354,120	366,631
EBITDA	41,717	52,438	63,062	71,365
Deprec. & amort.	10,210	11,409	13,071	14,829
EBIT	31,507	41,028	49,991	56,536
Total other non-operating income	(649)	0	0	0
Associate contributions	3,698	4,471	5,372	6,390
Net interest income/(expense)	(3,268)	(3,173)	(3,203)	(2,753)
<b>Pre-tax profit</b>	<b>31,287</b>	<b>42,326</b>	<b>52,159</b>	<b>60,172</b>
Tax	(4,748)	(6,423)	(7,915)	(9,131)
Minorities	(5,420)	(7,332)	(9,036)	(10,424)
<b>Net profit</b>	<b>21,119</b>	<b>28,570</b>	<b>35,208</b>	<b>40,617</b>
Net profit (adj.)	21,119	28,570	35,208	40,617

### CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>36,860</b>	<b>43,323</b>	<b>53,001</b>	<b>60,805</b>
Pre-tax profit	31,287	42,326	52,159	60,172
Tax	(4,455)	(5,210)	(6,835)	(8,251)
Deprec. & amort.	10,228	11,428	13,090	14,848
Associates	(3,698)	(4,471)	(5,372)	(6,390)
Working capital changes	7,763	(1,632)	(967)	(547)
Non-cash items	(4,267)	882	926	973
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>(33,965)</b>	<b>(48,533)</b>	<b>(43,533)</b>	<b>(43,533)</b>
Capex (growth)	0	0	0	0
Capex (maintenance)	(37,582)	(46,033)	(41,033)	(41,033)
Investments	(2,770)	(2,500)	(2,500)	(2,500)
Proceeds from sale of assets	5,202	0	0	0
Others	1,186	0	0	0
<b>Financing</b>	<b>(5,817)</b>	<b>3,759</b>	<b>(13,592)</b>	<b>(21,252)</b>
Dividend payments	(15,175)	(5,252)	(8,900)	(10,967)
Issue of shares	0	0	0	0
Proceeds from borrowings	58,744	0	0	0
Loan repayment	(51,113)	(20,989)	(14,693)	(10,285)
Others/interest paid	1,727	30,000	10,000	0
<b>Net cash inflow (outflow)</b>	<b>(2,922)</b>	<b>(1,452)</b>	<b>(4,124)</b>	<b>(3,980)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>19,667</b>	<b>17,692</b>	<b>16,241</b>	<b>12,117</b>
Changes due to forex impact	947	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>17,692</b>	<b>16,241</b>	<b>12,117</b>	<b>8,136</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	117,720	144,850	165,860	185,540
Other LT assets	147,657	162,435	177,241	192,636
Cash/ST investment	17,692	16,241	12,117	8,136
Other current assets	59,936	65,975	68,474	69,660
<b>Total assets</b>	<b>343,006</b>	<b>389,501</b>	<b>423,691</b>	<b>455,972</b>
ST debt	20,989	14,693	10,285	7,199
Other current liabilities	63,193	67,803	70,415	71,935
LT debt	102,818	118,125	117,840	110,641
Other LT liabilities	17,014	18,525	19,451	20,424
Shareholders' equity	107,506	132,166	158,474	188,124
Minority interest	30,857	38,189	47,225	57,649
<b>Total liabilities &amp; equity</b>	<b>343,006</b>	<b>389,501</b>	<b>423,691</b>	<b>455,972</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	14.2	15.8	17.8	19.5
Pre-tax margin	10.7	12.8	14.7	16.4
Net margin	7.2	8.6	9.9	11.1
ROA	6.5	7.8	8.7	9.2
ROE	21.5	23.8	24.2	23.4
<b>Growth</b>				
Turnover	8.5	13.1	6.7	3.5
EBITDA	6.3	25.7	20.3	13.2
Pre-tax profit	4.3	35.3	23.2	15.4
Net profit	5.4	35.3	23.2	15.4
Net profit (adj.)	5.4	35.3	23.2	15.4
EPS	5.7	35.3	23.2	15.4
<b>Leverage</b>				
Debt to total capital	47.2	43.8	38.4	32.4
Debt to equity	115.2	100.5	80.8	62.6
Net debt/(cash) to equity	98.7	88.2	73.2	58.3
Interest cover (x)	12.8	16.5	19.7	25.9

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