

Analyst: Kelvin Li
ZIJIN MINING GROUP CO., LTD. (ZIJIN MINING) (紫金礦業)

Sector	: Commodities
HKSE Code	: 2899
Market Price	: HK\$4.99 (09/03/2007)
HSI	: 19,134.88 (09/03/2007)
H-share Issued	: 10,513.0 million
H-share Mkt. Cap.	: HK\$52,460.10 million
52 weeks Hi/Lo	: HK\$5.900 / HK\$2.238

Chairman : Chen Jinghe

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2006
Final Results Highlights

	FY2006 <u>RMB million</u>	FY2005 <u>RMB million</u>	<u>Change</u>
• Turnover	10,678.8	3,036.2	+251.7%
• Gross profit	3,959.9	1,472.8	+168.9%
• Finance costs	(115.0)	(18.4)	+523.6%
• Share of profits of associates	64.9	31.2	+108.3%
• Profit attributable to shareholders	1,704.5	703.6	+142.2%
	<u>RMB</u>	<u>RMB</u>	
• EPS – Basic	0.160	0.067*	+138.8%
• DPS – Final	0.090	0.080	+12.5%
• DPS – Total	0.090	0.080	+12.5%

Remark: (*) the EPS for FY2005 was adjusted after the issuance of new shares from the surplus reserve fund in June 2006.

- Zijin Mining reported a 142.2% y-o-y jump in net profit to RMB1.7 billion for the year ended 31st December 2006, beating consensus forecast of RMB1.65 billion. The strong bottom line was mainly driven by increased output and sales as well as rising gold and copper prices.
- EPS was RMB0.16 (FY05: RMB0.067), while a final dividend of RMB0.09 (FY05: RMB0.08) per share was declared, representing a payout ratio of 56% (FY05: 60% – before EPS adjustment for FY05).
- Turnover surged a strong 251.7% y-o-y to RMB10.68 billion on strong sale volume and product prices. Zijin reported a sharp 168.9% y-o-y increase in gross profit to RMB3.96 billion but saw its gross profit margin narrowed to 37.1% in FY06 from 48.5% in FY05, which was dragged by lower margins of the processed gold business. Excluding the processed gold segment, the Group's gross profit margin rose to 63.6% in FY06 from 59.7% a year earlier.
- Finance costs jumped more than five fold in FY06 to RMB115 million, as the Group raised its gearing for funding acquisitions during the year. As of 31/12/2006, the Group's net debt-to-shareholders' equity ratio was 58%, up from 11% a year earlier.
- The Group produced 49.3 tonnes of gold in 2006, of which 20.7 tonnes was mine-produced gold. According to China Gold Association, the Group grasped a market share of 20.53% (FY05: 9.36%) in terms of total gold output and 11.51% (FY05: 8.55%) in terms of mine-produced gold in the PRC in 2006.

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Business highlights

Breakdown of turnover by products

	Unit price		Volume		Revenue		
	FY2006	FY2005	FY2006	FY2005	FY2006	FY2005	Change
	(RMB)				(RMB million)		
Gold	157.19 / g	119.25 / g	46,777 kg	20,155 kg	7,352.8	2,403.4	+205.9%
Gold concentrates	131.23 / g	108.37 / g	1,795 kg	892 kg	235.6	96.7	+143.7%
Copper concentrates	44,591 / t	23,476 / t	32,004 t	17,067 t	1,427.1	400.7	+256.2%
Copper cathodes	51,336 / t	33,608 / t	6,711 t	1,125 t	344.5	37.8	+8,11.2%
Zinc bullions	26,829 / t	-	36,151 t	-	969.9	-	N/A
Zinc concentrates	16,179 / t	8,965 / t	11,365 t	1,418 t	183.9	12.7	+1,346.4%
Iron concentrates	360.13 / t	332.13 / t	486,683 t	335,025 t	175.3	111.3	+57.5%
Others					88.8	6.2	+1,334.4%
Less: Sales tax & levies					(99.0)	(32.6)	+204.1%
Total					10,678.8	3,036.2	+251.7%

Gross profit margin analysis by segments

	FY2006	FY2005	Change
Gold (gold produced from ores)	73.66%	66.02%	+7.64 ppt
Gold (processed gold)	0.52%	0.51%	+0.01 ppt
Gold concentrates	51.70%	51.51%	+0.19 ppt
Copper concentrates	83.25%	62.88%	+20.37 ppt
Copper cathodes	81.45%	50.63%	+30.82 ppt
Zinc concentrates	76.83%	-	N/A
Zinc bullions	35.90%	-	N/A
Iron concentrates	56.64%	59.32%	-2.68 ppt
Total (included processed gold)	37.08%	48.51%	-11.43 ppt
Total (excluded processed gold)	63.59%	59.66%	+3.93 ppt

- In 2006, Zijin Mining produced 49,280kg of **gold**, up 135% y-o-y. It comprised 20,700kg of mine gold, 28,510kg of refined gold and 70kg of gold associated in other metals. Of the 20,700kg mine gold output, more than half (13,870kg) was produced at Zijinshan Gold Mine, while the remaining was produced at Shuiyindong Gold Mine, Huichun Shuguang Gold and Copper Mine (in form of concentrates) and other newly productive mines. Refined gold output amounted to 28,510kg in FY06, up about four times from a year earlier. The Group's average selling price of gold for FY06 was RMB157.19 / gram or RMB 4,889 / ounce (approximately US\$611 per ounce), up 32% y-o-y, largely in line with the international market. The gold segment remained the core business of Zijin Mining, accounting more than 70% of total revenue in FY06, but it was down from about 80% a year earlier.
- The **copper** segment of Zijin Mining has been gaining weight in the Group's business model. Copper output amounted to 40,302 tonnes last year, up a sharp 102.8% y-o-y, which included 6,781 tonnes of mine copper cathodes, 33,187 tonnes of mine copper concentrates and 334 tonnes of copper associated with other metals, mainly driven by the newly commenced Xinjiang Ashele Copper Mine. Revenue from the segment totalled RMB1.8 billion, up more than 3-fold from a year earlier, which accounted for 16.4% (FY05: 14.3%) of the Group's total.
- The **zinc** segment provided Zijin Mining with a new source of income, thanks to the commencement of the Bayannaer Zinc Refinery. 41,400 tonnes of zinc ingot was produced from the mine in Inner Mongolia in FY06. Production of zinc concentrates also grew rapidly last year, driven by the output of the Ashele Copper Mine. For FY06, sales income from the segment accounted for 10.7% of the Group's total.
- As of the end of 2006, Zijin Mining recorded 455 tonnes of gold reserve, 6.7 million tonnes of copper reserve and 2.38 million tonnes of zinc reserve, up 21.3%, 7.2% and 261% y-o-y, respectively.

**Outlook & Prospects**

- **A greater production output in FY2007** Zijin Mining is setting higher production targets in FY07 after several investments made last year. Zijin Mining plans to produce 55 tonnes of good this year, of which 25 tonnes is mine-produced gold and 30 tonnes is process gold, up an aggregate 11.6% from FY06. Copper output is targeted to increase by 36.5% y-o-y to 55,000 tonnes, while the output of Zinc is to be raised to 130,000 tonnes, up 138% y-o-y. Meanwhile, Zijin Mining revealed that it will set aside RMB2 billion to RMB 3 billion for capital expenditure this year, mainly for acquisition of resources and exploration, compared with a capex of RMB2.87 billion in FY06.
- **Rising contribution from the copper segment** The share of copper mine business in Zijin's total revenue rose in FY06, while profit contribution of the segment accounted for nearly one-third of Zijin Mining's total last year. The Deerni Copper Mine in Qinghai has commenced production in 2007. It is expected to add 15,000 tonnes of copper output this year, which should boost the Group's total copper production volume by more than 36% y-o-y.
- **Transforming into a global miner** Besides developments in the domestic market, Zijin Mining also looks for overseas M&A opportunities in order to diversify its reserve base and resolve the problem of undersupply of mining resources on the Mainland. In 2006, Zijin Mining purchased controlling stakes in Mongolia Nari Tolgoi Gold Mine, Vietnam Tuyen Quang Iron Mine and Vietnam Ha Giang Lead-Zinc Mine. Besides, it became a shareholder of the London-listed Ridge Mining, Russian Kuton Gold Mine and Lantaersi Calcao Copper-Nickel Mine. In 2007, a consortium led by Zijin Mining launched a bid for Peru-based copper miner Monterrico Metals plc. The London-listed miner just finished a feasibility study for its Rio Blanco copper project in Peru, which is expected to have an initial annual copper output of 224,000 tonnes. Management of Zijin Mining expects these overseas projects to pay off in two to three years and contribute a significant portion in Zijin's bottom line.
- **Hedging level to be limited at 25%** Zijin Mining entered into forward selling contracts of gold and copper in FY06 in order to lock up the profit at certain price levels. However, due to rising gold and copper prices, Zijin Mining incurred a loss of RMB494.6 million from derivatives trading, compared with a loss of RMB10.3 million a year earlier. Zijin's management revealed that they would limit the hedging level to 25% for both copper cathode and mine-produced gold outputs.
- **A-share listing in the pipeline** Zijin Mining plans to issue 1.5 billion A shares this year to raise as much as RMB6.34 billion for future acquisitions. The new A-share issue will be subject to shareholders' approval.
- **Strong growth prospect supports valuation** Despite better-than-expected earnings in FY06, part of the final result of Zijin Mining had driven up some concerns, as we saw narrowed gross and net profit margins, which were mainly dragged by low-margin processed-gold business and losses on hedging. Nonetheless, trading at some 21x FY2007E P/E, valuation of the counter is not demanding compared to its global peers, given its strong growth prospect. Accordingly, we recommend a "Hold" on the counter.

Recommendation: HOLD



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