

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

Sector	: Commodities
HKSE Code	: 2899
Market Price	: HK\$9.71 (10/03/2008)
HSI	: 22,705.05 (10/03/2008)
Total share Issued	: 13,141.30 million
Total Mkt. Cap.	: HK\$127,602.1 million
52 weeks Hi/Lo	: HK\$14.60 / HK\$3.744

Chairman : Chen Jinghe

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	FY2007	FY2006	<i>Change</i>
	<u>RMB million</u>	<u>RMB million</u>	
• Turnover	14,871.3	10,678.8	+39.3%
• Gross profit	5,575.9	3,959.9	+40.8%
• Finance costs	(292.7)	(115.0)	+154.6%
• Share of profits of associates	90.6	64.9	+39.5%
• Profit attributable to shareholders	2,552.0	1,704.5	+49.7%
	<u>RMB</u>	<u>RMB</u>	
• EPS – Basic	0.19	0.13	+49.7%
• DPS – Final	-	0.09	-100.0%

- Zijin Mining reported a 49.7% y-o-y jump in net profit to RMB2.55 billion for the year ended 31st Dec 2007, driven by increased production output and sales, rising gold prices as well as contribution from the newly acquired mines. In fact, Zijin's bottom line was slightly below consensus forecast of RMB2.58 billion.
- EPS was RMB0.19, compared with RMB0.13 a year earlier. No final dividend was proposed for FY07, compared with a final payout of RMB0.09 per share in FY06, as the management said they need to set aside funds for future expansion.
- Turnover increased 39.3% y-o-y to RMB14.87 billion on strong sale volume in gold, copper and zinc as well as rising gold prices. Gross profit rose 40.8% to RMB5.58 billion in FY07, while gross profit margin was little changed y-o-y at 37.5% (FY06: 37.1%).
- The Group produced 52,294 kg of gold last year, of which 24,827 kg was ore-produced gold, representing growth of 6.1% and 19.5% y-o-y, respectively. In terms of ore-produced gold, Zijin grasped a market share of 10.50% in FY07 in the PRC, down from 11.51% in FY06.

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Business highlights
Breakdown of turnover by products

	Unit price		Volume		Revenue		
	FY2007	FY2006	FY2007	FY2006	FY2007	FY2006	Change
	(RMB)				(RMB million)		
Gold	168.89 / g	156.23 / t	53,176 kg	48,572 kg	8,981.2	7,588.4	+18.4%
Copper concentrates	46,106 / t	44,591 / t	41,255 t	32,004 t	1,902.1	1,427.1	+33.3%
Copper cathodes	51,570 / t	51,337 / t	8,030 t	6,711 t	414.1	344.5	+20.2%
Zinc bullion	23,642 / t	26,829 / t	115,056 t	36,151 t	2,720.2	969.9	+180.5%
Zinc concentrates	12,388 / t	16,179 / t	7,155 t	11,365 t	88.6	183.9	-51.8%
Iron concentrates	490.61 / t	360.13 / t	917,505 t	486,683 t	450.1	175.3	+156.8%
Others					490.8	88.8	+452.6%
Less: Sales tax & levies					(175.9)	(99.0)	+77.6%
Total					14,871.3	10,678.8	+39.3%

Gross profit margin analysis by segments

	FY2007	FY2006	Change
Gold (gold and gold concentrates from mines)	67.86%	69.86%	-2.00 ppt
Gold (processed gold from refinery)	0.24%	0.52%	-0.28 ppt
Copper concentrates	77.18%	83.25%	-6.07 ppt
Copper cathodes	78.16%	73.86%	+4.30 ppt
Zinc concentrates	71.95%	76.83%	-4.88 ppt
Zinc bullion	24.70%	35.90%	-11.20 ppt
Iron concentrates	68.03%	56.64%	+11.39 ppt
Overall (including refined products)	39.44%	37.08%	+2.36 ppt

- In FY07, the Group's **gold** output grew 6.1% y-o-y, of which ore-produced gold output was up a robust 19.5% y-o-y at 24,827 kg. Of the gold produced from mine, 64% was from Zijinshan Gold Mine (紫金山金礦), 9.5% from Shuiyindong Gold Mine (水銀銅金礦), 5.7% from Hunchun Zijin (琿春紫金), 4.4% from Chongli Zijin (崇禮紫金), while the remaining 16.7% was from other mines. Refined gold output amounted to 27,467 kg in FY07, down 3.7% y-o-y. The Group's average selling price of gold for FY07 was RMB168.89 per gram or US\$728.76 per ounce, up 8.9% y-o-y. Revenue of the gold segment totalled RMB9.0 billion in FY07, up 18.4% y-o-y. As other business segments continued to grow and newly acquired units started contribute, the gold segment's share in total Group revenue dropped to 60% in FY07 from 71% in FY06.
- Copper** output increased 17.2% y-o-y to 47,244 tonnes. Revenue from the segment totalled RMB2.36 billion, up 30.7% y-o-y and represented 15.6% (FY06: 16.6%) of the Group's total. Zijin's **zinc** segment grew substantially y-o-y, thanks to the contribution of the Bayannaer Zinc Refinery (巴彥淖爾鋅冶煉廠) and Xinjiang Ashele Copper Mine (新疆阿舍勒銅礦). The Group's zinc output jumped 121.9% y-o-y last year to 159,168 tonnes, mainly driven by the zinc bullion output from Bayannaer. Revenue of the segment now accounted for 18.9% of the total, up from 10.8% a year earlier.
- As of 31st Dec 2007, Zijin had 638 tonnes of gold reserve, 9.37 million tonnes of copper reserve and 3.19 million tonnes of zinc reserve, compared with 455 tonnes, 6.7 million tonnes and 2.38 million tonnes of zinc reserve as of 31st Dec 2006, representing growth of 40.2%, 39.9% and 34.0%, respectively.

Outlook & Prospects

- **Conservative FY2008 production plan** Zijin reveals that it plans to produce 57.3 tonnes of gold, of which 29.7 tonnes was produced from its own mines, 59,000 tonnes of copper and 149,000 tonnes of zinc this year, up 9.6% (mine-produced gold: +19.6% y-o-y), 24.9% and down 6.4% y-o-y, respectively. The reason for the conservative FY2008 output estimate was mainly due to technical difficulties in production that Zijin encountered in its Shuiyindong Gold Mine.
- **Expanding abroad to strengthen reserve resources** Besides the acquisition of an indirect majority stake in Peru-based copper miner Monterrigo Metals plc and the purchase of a 75% stake in JV Zeravshan – one of the largest gold miners in the Republic of Tajikistan, Zijin also acquired a 70% interest in the Russia Kuton Gold Mine and Tuva Lead Zinc Mine in Tuva Republic of Russia. Zijin said it is putting more efforts in 2008 to enhance efficiency and profitability of these operations and integrate these business units into the Group.
- **Higher capital expenditure for FY2008** Zijin Mining has earmarked RMB5 billion for capital expenditure in FY08, up from RMB4 billion in FY07. Half of the FY08 capex would be used in overseas expansion.
- **Transforming into a diversified miner** Besides the overseas expansion, the Group also completed 11 domestic projects, strengthening Zijin's reserve position in gold, copper, zinc, lead, tungsten, antimony and other minerals.
- **Hedging activity kept at minimal** Zijin has entered into forward selling contracts of gold and copper during FY07 in order to lock up the profit at certain price levels. Nonetheless, it reported a realized loss of RMB74.6 million from hedging last year amid persistently rising gold prices. As at the end of FY07, the Group no longer held any gold forward contracts. And at the end of last year, Zijin only entered into forward contracts of 415 tonnes of copper cathode and 300 tonnes of zinc bullion, and it reported an unrealized gain of RMB4.44 million from the contracts.
- **A-share listing in the pipeline** Zijin's management revealed that they are working on the A-share listing plan and hoped it would complete in the first half this year. Any delay of the A-share listing should not be a threat to Zijin's expansion plan, as it has signed a RMB10 billion project financing agreement with Bank of China last month.
- **Fully valued** Zijin Mining continues to grow its diversified business model via both domestic and foreign expansion. Nonetheless, trading at 34x FY08E P/E, the counter is seemed fully valued despite its leading position in the Mainland's mining industry, rich mineral resources and high gold prices.

Recommendation: SELL

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