

# Global gold

All that glitters

	Ticker	Price (lc)	Rating		PT (lc)		Up/(Dn) side (%)	PER (x)		EV/EBITDA (x)		Div yield (%)	
			New	Old	New	Chg (%)		FY1E	FY2E	FY1E	FY2E	FY1E	FY2E
<b>G-Resources Group</b>	1051 HK	0.26	IL	OP	0.29	(34.1)	11.5	17.4	8.1	7.3	3.9	0.0	2.6
<b>Philex Mining Corp</b>	PX PM	11.24	UP	IL	10.80	(43.2)	(3.9)	nm	17.1	56.3	14.0	-0.4	1.8
<b>Zhaojin Mining Industry</b>	1818 HK	5.09	IL	OP	5.43	(52.9)	6.7	12.7	14.6	14.2	16.9	2.4	2.1
<b>Zijin Mining Group</b>	2899 HK	1.64	UP	-	1.45	(14.7)	(11.6)	12.5	14.2	5.8	6.0	2.0	1.8

Share prices as of 22 July 2013.

Source: Companies, FactSet, Standard Chartered Research estimates

- Following our commodities team's gold price revisions, we cut our 2013-14E earnings forecasts for gold equities under our coverage 12-41%. Our new gold price assumptions are USD 1,437/1,400/1,300/oz for 2013/2014/2015.
- We downgrade Zhaojin Mining and G-Resources to In-Line (from Outperform) and Philex Mining to Underperform (from In-Line).
- Zijin Mining remains our top sell in the China gold sector, given its rapidly rising gold production costs – we forecast a 2012-15E CAGR of 15%, compared to 8% for Zhaojin Mining.

On 10 and 16 July 2013, our commodities team lowered its 2013-15 gold and copper price forecasts by 3-13% and 2-17%, respectively, along with other precious metal and base metal prices. (See the full reports: *Gold – Searching for a floor, as lease rates spike* and *Metals – Precious metal markets lead the way down*) We highlight key points and summarise the changes to their forecasts below.

- For gold, it is still too early to conclude that the wave of investor selling has ended, but strong outflows through 1H13 have been replaced by a more neutral picture so far this month.
- The physical market for gold is currently mixed and demand is not as strong as it was in late April. We expect weak import numbers for India in July and August, following an 80% decrease in June from May's very strong number. Demand from China and Vietnam has helped offset the weakness in India.
- Central banks, including those of Kazakhstan, Russia and Turkey, have continued to buy.

In his 10 July note, our commodity analyst, Dan Smith, expected gold prices to find a floor soon and then slowly rise over the next year, as supply is likely to be choked off by lower prices and demand should slowly recover. A rising cost floor should provide support over the long term.

## Our price forecasts

	Current forecast			Previous forecast			% change		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Gold (USD/oz)	1,437	1,400	1,300	1,481	1,500	1,500	-3%	-7%	-13%
Copper (USD/tonne)	7,437	8,000	7,500	7,613	8,500	9,000	-2%	-6%	-17%
Zinc (USD/tonne)	2,007	2,200	2,300	2,025	2,300	2,400	-1%	-4%	-4%
Lead (USD/tonne)	2,193	2,300	2,400	2,163	2,400	2,600	1%	-4%	-8%
Silver (USD/oz)	25	23	22	26	25	25	-4%	-8%	-12%

Source: Standard Chartered Research estimates

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## Derating of the gold sector to continue

As a result of commodity price changes, we cut our 2013-14E earnings 12-41% for gold equities under our coverage. Our 2013 earnings estimates are 30-40% below the consensus forecasts (see Figure 1). We downgrade Zhaojin Mining and G-Resources to In-Line (from Outperform) and Philex Mining to Underperform (from In-Line). We maintain our Underperform rating on Zijin Mining.

- Our pecking order among the four stocks is: Zhaojin Mining, G-Resources, Zijin Mining, and Philex Mining.
- We prefer Zhaojin Mining as it continues to deliver double-digit production growth at low costs.
- For investors with greater risk appetite, G-Resources is ramping up production after the mine commencement in mid-2012. The stock is trading at 8x 2014E PE, the cheapest in our coverage universe.
- We remain negative on Zijin Mining due to its rapidly rising gold production costs; we forecast a 15% CAGR in 2012-15, compared to 8% for Zhaojin Mining.
- Philex Mining is operating under a temporary licence, which could potentially prevent it from recapitalising its balance sheet. It is also trading at a premium valuation, in our view, i.e. its 2014E PER is higher than Zijin and Zhaojin's.

**Fig 1: Valuation comparison**

Name	Ticker	Rating	Market cap (USD)	Stock currency	Price	Price target	PE		EV/EBITDA		2013E EPS ours vs. consensus
							2013E	2014E	2013E	2014E	
Zijin Mining	2899 HK	UP	4,611	HKD	1.64	1.45	12.5	14.2	5.8	6.0	-31%
Zhaojin Mining	1818 HK	IL	1,913	HKD	5.09	5.43	12.7	14.6	14.2	16.9	-30%
Philex Mining	PX PM	UP	1,278	PHP	11.24	10.80	nm	17.1	56.3	14.0	NA
G-Resources	1051 HK	IL	657	HKD	0.26	0.29	17.4	8.1	7.3	3.9	-36%

Above data as of 22 July 2013.

Source: Companies, Bloomberg, Standard Chartered Research estimates



# Zijin Mining Group

## A victim of high-cost production

- We reiterate our Underperform rating on Zijin Mining (Zijin). We cut our 2013-15 earnings forecasts by 12-48% to reflect our gold and copper price revisions and lower copper production volume assumptions.
- We forecast a 2012-15 gold production cost CAGR of 15% on grade depletion, and a -35% earnings CAGR over the same period.
- Our new 2013/2014 earnings forecasts are 36%/33% below consensus. We expect Zijin's ROE to contract to 5-8% in 2013-15, from >20% prior to 2012.
- We lower our price target to HKD 1.45 (from HKD 1.70) and expect the shares to trade below 1x PBR.

### Rising earnings sensitivity to gold prices due to high

**costs.** Zijin announced that its 1H13 net profit will be 45-55% lower YoY, at RMB 1.1-1.3bn. This implies 2Q13 net profit will be RMB 380-580mn, down from RMB 720mn in 1Q13. Zijin's earnings are subject to significant downside risk from gold price corrections, as it is no longer a low-cost producer. Gold/copper prices decreased by 13%/9% in 2Q13 from 1Q13. We estimate Zijin's 2013 earnings would change 2.2%/1.0% for every 1.0% change in gold/copper prices.

**Gold and copper price cuts.** We cut our 2013/2014/2015 net profit forecasts 12%/25%/49% to RMB 2.3bn/2.0bn/1.4bn. Our commodity team has lowered its 2013-15 gold price forecasts 3-13%, to USD 1,437/1,400/1,300/oz; it cut its copper price forecasts 2-17% for the same period, and expects copper prices to stabilise at around USD 7,500-8,000/t. We estimate the construction in the Deerni mine will affect 10ktpa of copper output in 2013-15, accounting for 10% of Zijin's 2012 copper output.

**No remedy for the escalating costs.** Zijin indicated that costs are unlikely to drop even with production ramp-up from new gold and copper mines in 2H13/1H14. Production costs for the Zijinshan gold mine have risen significantly, but are still below the blended average of other gold mines. Average gold costs could escalate further in the next three to five years, when Zijinshan's gold output declines.

**Valuation.** Zijin is trading at 12.5x 2013E PE and 14.2x 2014E PE. We forecast a 2013-15 net profit CAGR of -21%. 2013E PBR has decreased to 1.0x and we see further downside risk, as we forecast ROE to decrease to 5% in 2015, from 8% in 2013E and 20% in 2012. Zijin plans to buy back H shares starting in 2H13, which could alleviate downside pressure on the share price.

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## UNDERPERFORM (unchanged)

PRICE as of 22 Jul 2013

PRICE TARGET

**HKD 1.64****HKD 1.45****Bloomberg code**

2899 HK

**Reuters code**

2899.HK

**Market cap**

HKD 35,772mn (USD 4,611mn)

**12-month range**

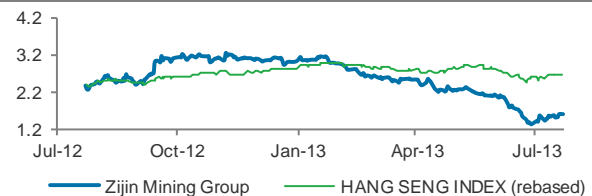
HKD 1.35 - 3.30

**EPS adj. est. change** 2013E -12.4% 2014E -25.9%

Year-end: December	2012	2013E	2014E	2015E
Sales (RMB mn)	47,874	44,952	45,490	43,467
EBITDA (RMB mn)	10,438	6,658	6,969	6,520
EBIT (RMB mn)	9,118	4,737	4,495	3,602
Pre-tax profit (RMB mn)	8,557	3,665	3,171	2,272
Net profit adj. (RMB mn)	5,212	2,260	1,956	1,402
FCF (RMB mn)	(3,411)	(279)	381	541
EPS adj. (RMB)	0.24	0.10	0.09	0.06
DPS (RMB)	0.06	0.03	0.02	0.02
Book value/share (RMB)	1.29	1.25	1.28	1.27
EPS growth adj. (%)	-8.8	-56.6	-13.5	-28.3
DPS growth (%)	-40.3	-56.6	-13.5	-28.3
EBITDA margin (%)	21.8	14.8	15.3	15.0
EBIT margin (%)	19.0	10.5	9.9	8.3
Net margin adj. (%)	10.9	5.0	4.3	3.2
Div. payout (%)	25.0	25.0	25.0	25.0
Net gearing (%)	16.6	32.5	41.2	50.2
ROE (%)	19.6	8.2	7.1	5.0
ROCE (%)	22.7	10.4	9.3	7.1
EV/sales (x)	1.2	0.9	0.9	1.0
EV/EBITDA (x)	5.3	5.8	6.0	6.7
PBR (x)	1.9	1.0	1.0	1.0
<b>PER adj. (x)</b>	<b>10.0</b>	<b>12.5</b>	<b>14.2</b>	<b>19.4</b>
<b>Dividend yield (%)</b>	<b>2.5</b>	<b>2.0</b>	<b>1.8</b>	<b>1.3</b>

Source: Company, Standard Chartered Research estimates

### Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	4	-28	-35
Relative to index	-2	-26	-40
Relative to sector	-	-	-
Major shareholder	Minxi Xinghang (29.0%)		
Free float	37%		
Average turnover (USD)	14,913,212		

Source: Company, FactSet



## Changes to gold prices and Zijin's sensitivity

On 10 and 16 July 2013, our commodities team lowered its 2013-15 gold and copper price forecasts by 3-13% and 2-17%, respectively, along with other precious metal and base metal prices. (See the full reports: *Gold – Searching for a floor, as lease rates spike* and *Metals – Precious metal markets lead the way down.*) We summarise the changes to their forecasts below.

**Fig 2: Our price forecasts**

	Current forecast			Previous forecast			% change		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Gold (USD/oz)	1,437	1,400	1,300	1,481	1,500	1,500	-3%	-7%	-13%
Copper (USD/tonne)	7,437	8,000	7,500	7,613	8,500	9,000	-2%	-6%	-17%
Zinc (USD/tonne)	2,007	2,200	2,300	2,025	2,300	2,400	-1%	-4%	-4%
Lead (USD/tonne)	2,193	2,300	2,400	2,163	2,400	2,600	1%	-4%	-8%
Silver (USD/oz)	25	23	22	26	25	25	-4%	-8%	-12%

Source: Standard Chartered Research estimates

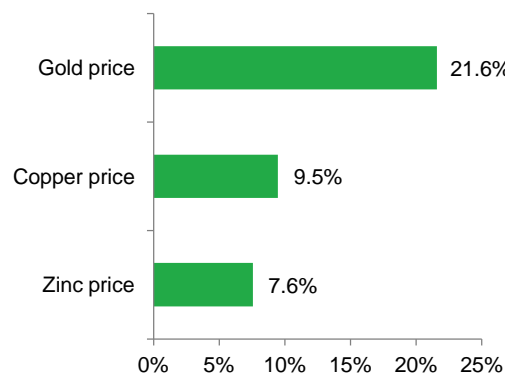
Due to rising gold production costs, Zijin's earnings sensitivity to gold prices has risen substantially in the past few years. We estimate every 10% change in gold prices would lead to a 20-25% change in Zijin's 2013-14E earnings, compared to a 10-15% earnings change in 2010-11, when Zijin had low gold production costs.

Forecast a 2012-15 gold production cost CAGR of 15%

We forecast a 2012-15 gold production cost CAGR of 15% for Zijin and summarise the reasons for such aggressive cost inflation below:

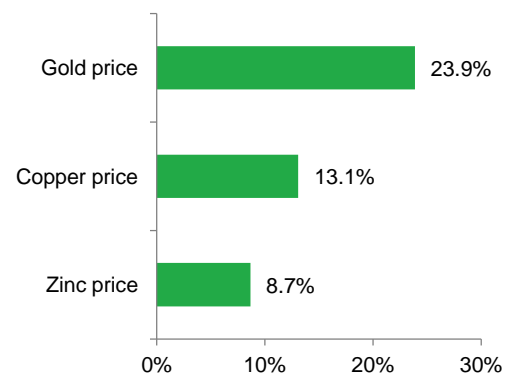
- A decreasing cut-off grade for the Zijinshan gold mine due to its declining resources. The mine has only 70 tonnes of resources left. At annual production of 12-13 tonnes, it will at most produce for another five years, but management has guided that it will decrease output after two to three years to extend mine life.
- A large amount of low-grade ore generated from pre-stripping for the Zijinshan copper mine has been processed. The average grade for the Zijinshan gold mine was 0.47g/t in 1H13. We estimate that for every 10% decrease in grade, Zijin's gold production cost will increase 15%.
- The addition of high-cost Norton Gold Fields (NGF AU, not rated). Management guided that Norton Gold's cost, currently around USD 1,300/oz, is unlikely to drop substantially. Norton targets a USD 1,200/oz cash cost and 5 tonnes of gold production in 2013, accounting for 15% of Zijin's output.
- Although costs at the Zijinshan gold mine have increased significantly in recent years, it is still one of Zijin's lowest cost mines. When Zijinshan stops producing, the average gold production cost could rise. Management estimate it takes 4-5 tonnes of gold output in other mines to match the profit made from 1 tonne of gold output from the Zijinshan gold mine.

**Fig 3: Zijin's earnings sensitivity to 10% change in prices, 2013E**



Source: Standard Chartered Research estimates

**Fig 4: Zijin's earnings sensitivity to 10% change in prices, 2014E**



Source: Standard Chartered Research estimates



## Strategy from here

Zijin joined our Earth Resources Conference on 20 June 2013. Our key takeaways from the management about strategy are:

- **Stable gold output.** Zijin will focus on increasing production from new gold mines, compensating for the volume decline from the Zijinshan gold mine. Total gold output could remain at 32-33 tonnes for the next few years.
- **Patient on acquisitions.** Zijin will continue its efforts in M&A. However, rather than focusing only on the size of resources, it will pay more attention to development potential and communication with the local community/management. Australia, Southeast Asia and Central Asia are the main areas for potential acquisitions.
- **H-share buyback.** Zijin's board approved the H-share buyback programme in late May, and the company is likely to begin the purchases in 2H13. It plans to buy no more than 10% of outstanding H shares, or 600mn shares, a year. We note that Zijin's A-share price is around twice its H-share price.

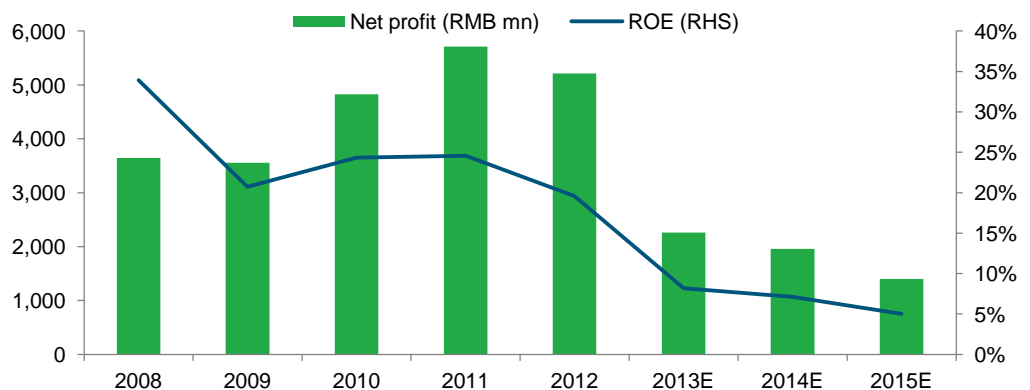
## Consensus forecasts remain too optimistic

*Our revised 2013/2014 earnings estimates are 36/33% below consensus*

We cut our 2013/2014/2015 net profit forecasts by 12%/25%/49%, to RMB 2.3bn/2.0bn/1.4bn (see Figure 7). Although consensus earnings forecasts have come down 20-30% since six weeks ago, our revised forecasts are still 33-36% below consensus. After factoring in our commodity price downgrades, we now forecast Zijin's ROE to contract to 5-8% in 2013-15, compared to >20% prior to 2012. We expect Zijin's PBR to continue to contract in the next 6-12 months.

Zijin will report 1H13 results on 13 August 2013; its profit alert implied RMB 1.1-1.3bn net profit in 1H13. We think gold prices in 2H13 are unlikely to be higher than the 1H13 average of USD 1,525/oz (July-to-date average is USD 1,260/oz), implying a potential decrease in HoH earnings. However, consensus net profit forecasts remain high, at RMB 3.5bn for 2013, even after the aggressive downgrades in recent weeks. We think there will be more disappointment to come.

**Fig 5: Zijin's net profit and ROE**

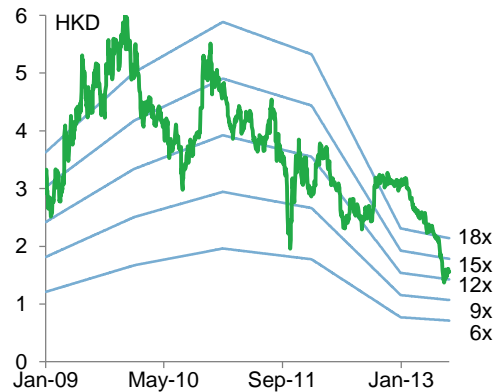


Source: Company, Standard Chartered Research estimates

Zijin is trading at 12.5x 2013E and 14.2x 2014E PER. We forecast a 2013-15 net profit CAGR of -21%. 2013E PBR has decreased to 1.0x and we see further downside risk potential, as we forecast ROE to decrease to 5% in 2015, from 8% in 2013E and 20% in 2012 (Figure 4). We lower our price target to HKD 1.45 (from HKD 1.70), based on 0.5x P/NPV for gold assets (previously 0.7x). Share prices of global gold miners have corrected 20-30% since early June and further downward pressure seems likely.



Fig 6: Zijin – Forward PER



Source: Bloomberg, Standard Chartered Research estimates

Fig 7: Zijin – Forward PBR



Source: Bloomberg, Standard Chartered Research estimates

Fig 8: Zijin – Key assumptions and earnings revisions

		New				Old			Revision		
		2012	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
<b>Sales volume</b>											
Gold - mining	tonnes	33.2	33.2	33.1	32.7	33.2	33.1	32.7	0%	0%	0%
Gold - refining	tonnes	58.3	60.0	60.0	60.0	60.0	60.0	60.0	0%	0%	0%
Copper	000 tonnes	106.6	113.4	125.6	150.1	125.7	137.9	156.2	-10%	-9%	-4%
Zinc ingot	000 tonnes	154.0	170.0	170.0	170.0	170.0	170.0	170.0	0%	0%	0%
Iron ore	000 tonnes	2,401.4	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	0%	0%	0%
<b>Realised price</b>											
Gold	USD/oz	1,677	1,437	1,400	1,300	1,481	1,500	1,500	-3%	-7%	-13%
Copper	USD/lb	3.02	2.88	3.10	2.91	2.94	3.30	3.49	-2%	-6%	-17%
Zinc ingot	USD/lb	0.93	0.82	0.90	0.94	0.83	0.94	0.98	-1%	-4%	-4%
Iron ore	USD/t	97	121	123	120	121	123	120	0%	0%	0%
<b>Cost</b>											
Gold	USD/oz	596	777	877	944	777	877	944	0%	0%	0%
Copper	USD/lb	1.04	1.29	1.32	1.45	1.32	1.35	1.45	-2%	-2%	0%
Zinc ingot	USD/lb	0.95	0.81	0.82	0.79	0.81	0.85	0.82	-1%	-4%	-3%
Iron ore	USD/t	35	56	57	58	56	57	58	0%	0%	0%
<b>Financials</b>											
Revenue	RMB mn	47,874	44,952	45,490	43,467	46,515	48,788	49,979	-3%	-7%	-13%
Gross profit	RMB mn	11,499	7,700	7,495	6,475	8,317	8,806	9,089	-7%	-15%	-29%
Operating profit	RMB mn	8,708	4,537	4,295	3,402	5,056	5,398	5,607	-10%	-20%	-39%
Net profit	RMB mn	5,212	2,260	1,956	1,402	2,580	2,640	2,773	-12%	-26%	-49%

Source: Company, Standard Chartered Research estimates



Income statement (RMB mn)					
Year-end: Dec	2011	2012	2013E	2014E	2015E
Sales	39,382	47,874	44,952	45,490	43,467
Gross profit	11,845	11,499	7,700	7,495	6,475
SG&A	(2,577)	(2,792)	(3,163)	(3,200)	(3,073)
Other income	299	410	200	200	200
Other expenses	0	0	0	0	0
<b>EBIT</b>	<b>9,567</b>	<b>9,118</b>	<b>4,737</b>	<b>4,495</b>	<b>3,602</b>
Net interest	(496)	(804)	(1,273)	(1,524)	(1,530)
Associates	205	243	200	200	200
Other non-operational	0	0	0	0	0
Exceptional items	0	0	0	0	0
<b>Pre-tax profit</b>	<b>9,276</b>	<b>8,557</b>	<b>3,665</b>	<b>3,171</b>	<b>2,272</b>
Taxation	(2,366)	(2,403)	(989)	(856)	(614)
Minority interests	(1,198)	(942)	(415)	(359)	(257)
Exceptional items after tax	0	0	0	0	0
<b>Net profit</b>	<b>5,713</b>	<b>5,212</b>	<b>2,260</b>	<b>1,956</b>	<b>1,402</b>
<b>Net profit adj.</b>	<b>5,713</b>	<b>5,212</b>	<b>2,260</b>	<b>1,956</b>	<b>1,402</b>
<b>EBITDA</b>	<b>10,486</b>	<b>10,438</b>	<b>6,658</b>	<b>6,969</b>	<b>6,520</b>
EPS (RMB)	0.26	0.24	0.10	0.09	0.06
EPS adj. (RMB)	0.26	0.24	0.10	0.09	0.06
DPS (RMB)	0.10	0.06	0.03	0.02	0.02
Avg fully diluted shares (mn)	21,812	21,812	21,812	21,812	21,812

Balance sheet (RMB mn)					
Year-end: Dec	2011	2012	2013E	2014E	2015E
Cash	6,180	7,473	5,410	5,176	2,203
Short-term investments	849	1,358	1,358	1,358	1,358
Accounts receivable	489	841	910	922	881
Inventory	7,160	11,602	11,921	12,158	11,837
Other current assets	3,254	3,058	3,148	3,169	3,097
<b>Total current assets</b>	<b>17,932</b>	<b>24,334</b>	<b>22,747</b>	<b>22,784</b>	<b>19,377</b>
PP&E	18,044	23,990	28,374	30,871	32,928
Intangible assets	339	497	497	497	497
Associates and JVs	2,920	4,411	4,611	4,811	4,811
Other long-term assets	13,085	14,123	15,222	16,116	17,001
<b>Total long-term assets</b>	<b>34,388</b>	<b>43,021</b>	<b>48,703</b>	<b>52,294</b>	<b>55,236</b>
<b>Total assets</b>	<b>52,320</b>	<b>67,354</b>	<b>71,450</b>	<b>75,078</b>	<b>74,613</b>
Short-term debt	3,815	6,400	6,400	6,400	6,400
Accounts payable	3,232	4,487	4,595	4,687	4,563
Other current liabilities	9,317	12,092	13,922	13,538	13,312
<b>Total current liabilities</b>	<b>16,365</b>	<b>22,979</b>	<b>24,917</b>	<b>24,625</b>	<b>24,276</b>
Long-term debt	2,361	6,655	9,655	12,655	12,655
Convertible bonds	0	0	0	0	0
Deferred tax	0	0	0	0	0
Other long-term liabilities	3,462	4,138	4,138	4,138	4,138
<b>Total long-term liabilities</b>	<b>5,823</b>	<b>10,793</b>	<b>13,793</b>	<b>16,793</b>	<b>16,793</b>
<b>Total liabilities</b>	<b>22,188</b>	<b>33,771</b>	<b>38,710</b>	<b>41,418</b>	<b>41,069</b>
Shareholders' funds	25,009	28,182	27,173	27,949	27,731
Minority interests	5,124	5,401	5,567	5,711	5,814
<b>Total equity</b>	<b>30,133</b>	<b>33,583</b>	<b>32,740</b>	<b>33,660</b>	<b>33,545</b>
<b>Total liabilities and equity</b>	<b>52,320</b>	<b>67,354</b>	<b>71,450</b>	<b>75,078</b>	<b>74,613</b>
Net debt (cash)	(4)	5,581	10,645	13,878	16,852
Year-end shares (mn)	21,812	21,812	21,812	21,812	21,812

Source: Company, Standard Chartered Research estimates

Cash flow statement (RMB mn)					
Year-end: Dec	2011	2012	2013E	2014E	2015E
EBIT	9,567	9,118	4,737	4,495	3,602
Depreciation & amortisation	919	1,320	1,921	2,475	2,918
Net interest	628	954	1,441	1,668	1,668
Tax paid	(2,366)	(2,403)	(989)	(856)	(614)
Changes in working capital	(2,048)	(1,536)	(288)	(110)	218
Others	(310)	(2,045)	(901)	(1,089)	(1,051)
<b>Cash flow from operations</b>	<b>6,390</b>	<b>5,408</b>	<b>5,921</b>	<b>6,581</b>	<b>6,741</b>
Capex	(7,476)	(7,996)	(6,000)	(6,000)	(6,000)
Acquisitions	(1,436)	(823)	(200)	(200)	(200)
Disposals	93	10	0	0	0
Others	1,115	(1,127)	(1,132)	(1,156)	(1,162)
<b>Cash flow from investing</b>	<b>(7,704)</b>	<b>(9,936)</b>	<b>(7,332)</b>	<b>(7,356)</b>	<b>(7,362)</b>
Dividends	(2,652)	(3,017)	(2,181)	(565)	(489)
Issue of shares	0	0	0	0	0
Change in debt	0	0	0	0	0
Other financing cash flow	5,185	8,952	2,686	1,106	(1,864)
<b>Cash flow from financing</b>	<b>2,533</b>	<b>5,935</b>	<b>505</b>	<b>541</b>	<b>(2,353)</b>
<b>Change in cash</b>	<b>1,219</b>	<b>1,406</b>	<b>(905)</b>	<b>(233)</b>	<b>(2,973)</b>
Exchange rate effect	(93)	(9)	0	0	0
<b>Free cash flow</b>	<b>(2,523)</b>	<b>(3,411)</b>	<b>(279)</b>	<b>381</b>	<b>541</b>

Financial ratios and other					
Year-end: Dec	2011	2012	2013E	2014E	2015E
<b>Operating ratios</b>					
Gross margin (%)	30.1	24.0	17.1	16.5	14.9
EBITDA margin (%)	26.6	21.8	14.8	15.3	15.0
EBIT margin (%)	24.3	19.0	10.5	9.9	8.3
Net margin adj. (%)	14.5	10.9	5.0	4.3	3.2
Effective tax rate (%)	25.5	28.1	27.0	27.0	27.0
Sales growth (%)	39.7	21.6	-6.1	1.2	-4.4
Net income growth (%)	18.3	-8.8	-56.6	-13.5	-28.3
EPS growth (%)	-21.1	-8.8	-56.6	-13.5	-28.3
EPS growth adj. (%)	-21.1	-8.8	-56.6	-13.5	-28.3
DPS growth (%)	0.0	-40.3	-56.6	-13.5	-28.3
<b>Efficiency ratios</b>					
ROE (%)	24.5	19.6	8.2	7.1	5.0
ROCE (%)	29.7	22.7	10.4	9.3	7.1
Asset turnover (x)	0.9	0.8	0.6	0.6	0.6
Op. cash/EBIT (x)	0.7	0.6	1.2	1.5	1.9
Depreciation/capex (x)	0.1	0.2	0.3	0.4	0.5
Inventory days	70.5	94.1	115.2	115.7	118.4
Accounts receivable days	5.4	5.1	7.1	7.3	7.6
Accounts payable days	28.2	38.7	44.5	44.6	45.6
<b>Leverage ratios</b>					
Net gearing (%)	0.0	16.6	32.5	41.2	50.2
Debt/capital (%)	17.2	29.4	34.5	37.8	37.9
Interest cover (x)	15.2	9.6	3.3	2.7	2.2
Debt/EBITDA (x)	0.6	0.9	2.2	2.5	2.9
Current ratio (x)	1.1	1.1	0.9	0.9	0.8
<b>Valuation</b>					
EV/sales (x)	1.7	1.2	0.9	0.9	1.0
EV/EBITDA (x)	6.5	5.3	5.8	6.0	6.7
EV/EBIT (x)	7.1	6.0	8.2	9.3	12.2
PER (x)	11.7	10.0	12.5	14.2	19.4
PER adj. (x)	11.7	10.0	12.5	14.2	19.4
PBR (x)	2.1	1.9	1.0	1.0	1.0
Dividend yield (%)	3.3	2.5	2.0	1.8	1.3





# Zhaojin Mining Industry

## Time to focus on cash flow

- We expect Zhaojin Mining Industry's ROE to slip to 10.8% and 8.6% in 2013/14E, respectively, from 23.7% in 2012, based on our commodities team's latest gold price assumptions.
- We think Zhaojin is likely to be more cautious on its capex (hence production growth) going forward amid lower gold prices.
- We downgrade Zhaojin to In-Line (from Outperform) on lower gold price assumptions and a lower price/NPV multiple. However, it remains our preferred pick in the gold space, given its production growth and low production costs.

**Production growth is still strong, but could be below guidance.** We like Zhaojin for its high growth and low-cost expansion. The company's mine production in 1Q13 was up by c.20% YoY, putting it on track to achieve the 2013 target of 505koz. However, since gold prices have dropped significantly, we believe the company could review its production plan.

**Rising gearing and its impact on long-term growth.** The company's net debt was RMB 5.3bn in 1Q13, or 56% of its equity (versus 49.4% by end-2012, and net cash before 2010). The significant capex in the past few years is the key driver for Zhaojin's rising gearing. Going forward, lower gold prices could force the company to be more cautious on its acquisition and expansion plans. We estimate that the company can generate c.RMB 1.7bn operating cash flow, compared with its planned capex of RMB 3.5bn for 2013. In case the company does revise its expansion/acquisition plans, production could fall to single-digit growth in a few years.

**Earnings in 2013 could fall c.50% YoY.** We revise down our earnings estimate for 2013/14E by 37%/46%, respectively, driven by lower gold price and production assumptions, lower margins in the smelting business and higher financing costs. On the new earnings, Zhaojin is trading at 12.7x 2013E PER and 14.6x 2014E PER. On the current share price, it trades at USD 131/oz on EV/ resource or USD 253/oz EV/reserve.

**Valuation.** We cut our price target to HKD 5.43 from HKD 11.54, driven primarily by lower gold prices and a lower price/NPV multiple (we use 1x versus 1.3x previously). In the gold space, Zhaojin is still our preferred company because of its production growth and low production costs.

## IN-LINE (from OUTPERFORM)

PRICE as of 22 Jul 2013

PRICE TARGET

**HKD 5.09****HKD 5.43****Bloomberg code**

1818 HK

**Reuters code**

1818.HK

**Market cap**

HKD 14,837mn (USD 1,913mn)

**12-month range**

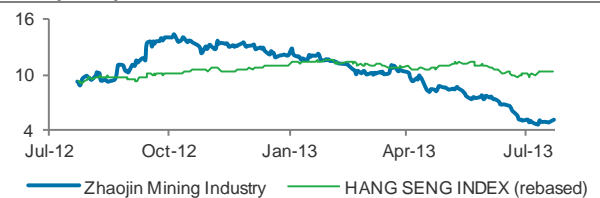
HKD 4.46 - 14.48

<b>EPS adj. est. change</b>	2013E	-30.2%	2014E	-40.5%
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Year-end: December	2012	2013E	2014E	2015E
Sales (RMB mn)	7,603	5,870	6,089	5,851
EBITDA (RMB mn)	2,502	1,273	1,150	725
EBIT (RMB mn)	2,749	1,534	1,435	1,031
Pre-tax profit (RMB mn)	2,665	1,282	1,098	604
Net profit adj. (RMB mn)	2,058	939	801	433
FCF (RMB mn)	(397)	(1,027)	(1,055)	(814)
EPS adj. (RMB)	0.71	0.32	0.27	0.15
DPS (RMB)	0.24	0.10	0.08	0.04
Book value/share (RMB)	2.88	3.06	3.24	3.35
EPS growth adj. (%)	14.8	-55.1	-14.7	-45.9
DPS growth (%)	14.3	-60.4	-14.7	-45.9
EBITDA margin (%)	32.9	21.7	18.9	12.4
EBIT margin (%)	36.2	26.1	23.6	17.6
Net margin adj. (%)	27.1	16.0	13.2	7.4
Div. payout (%)	36.4	30.0	30.0	30.0
Net gearing (%)	49.3	61.6	73.7	84.2
ROE (%)	25.7	10.8	8.6	4.4
ROCE (%)	24.5	11.5	10.3	7.1
EV/sales (x)	4.2	3.1	3.2	3.5
EV/EBITDA (x)	12.8	14.2	16.9	28.4
PBR (x)	3.4	1.3	1.2	1.2
<b>PER adj. (x)</b>	<b>13.9</b>	<b>12.7</b>	<b>14.6</b>	<b>26.5</b>
<b>Dividend yield (%)</b>	<b>2.4</b>	<b>2.4</b>	<b>2.1</b>	<b>1.1</b>

Source: Company, Standard Chartered Research estimates

## Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-14	-39	-48
Relative to index	-19	-37	-52
Relative to sector	-	-	-
Major shareholder	Shandong Zhaojin Group (37.8%)		
Free float	30%		
Average turnover (USD)	7,453,554		

Source: Company, FactSet





## Earnings revision

### Disappointing 1Q13 earnings

Zhaojin's 1Q13 earnings were disappointing at RMB 234mn. Management said there was c.1 tonne of unsold gold inventory at the end of the first quarter. While the company has had a good track record of timing gold sales to achieve better average selling prices, gold prices fell significantly from early April, which implies that the gold unsold in 1Q would have to be sold at much lower prices.

### Solid production growth unlikely to offset low gold prices

We think Zhaojin can still achieve double-digit growth in mine gold production, but this may fall short of the company's guidance of 505koz at the beginning of the year. We would not be surprised if the company revises its production target, as gold prices have fallen to c.USD 1,300/oz currently from c.USD 1,700/oz at the beginning of the year. .

### Earnings revision

We revise down our earnings estimate for 2013/14E by 37%-46%, respectively, driven by lower gold price and production assumptions, lower margins in the smelting business and higher financing costs. Earnings for 2014 are likely to be lower YoY because of lower gold prices and higher interest expenses, in our view. Please refer to Fig 1 for operating assumptions.

**Fig 9: Operating assumptions and P&L estimate for Zhaojin**

Key assumptions	Unit	2012	2013E	2014E	2015E	2013E	2014E	2015E
Gold production volume	koz	439	488	534	578	500	542	598
Gold price	USD/oz	1,669	1,437	1,400	1,300	1,470	1,500	1,500
Gold production cost in RMB	RMB/gram	124	139	143	147	137	141	146
Gold production cost in USD	USD/oz	628	727	760	799	718	750	795
P&L estimate								
Revenue	RMB mn	7,603	5,870	6,089	5,851	6,104	6,566	6,872
EBIT	RMB mn	2,749	1,534	1,435	1,031	2,040	2,172	2,156
EBIT margin		36.2%	26.1%	23.6%	17.6%	33.4%	33.1%	31.4%
Net profit	RMB mn	1,924	939	801	433	1,490	1,495	1,435
Net margin		25.3%	16.0%	13.2%	7.4%	24.4%	22.8%	20.9%
EPS	RMB	0.659	0.317	0.270	0.146	0.502	0.504	0.484

Source: Company, Standard Chartered Research estimates

## Valuation and recommendation

On our new earnings, Zhaojin is trading at 12.7x 2013E PER and 14.6x 2014E PER. On the current share price, it trades at USD 131/oz on EV/ resource or USD 253/oz EV/reserve.

We cut our price target on Zhaojin to HKD 5.43 from HKD 11.54, driven primarily by lower gold prices and a lower price/NPV multiple (we use 1x versus 1.3x previously). The global gold sector currently trades at c.0.7x price/NPV on average. We think Zhaojin deserves to trade at a premium to its peers because of its production growth and low production costs.



Income statement (RMB mn)					
Year-end: Dec	2011	2012	2013E	2014E	2015E
Sales	5,741	7,603	5,870	6,089	5,851
Gross profit	2,469	2,995	1,794	1,719	1,337
SG&A	(808)	(946)	(972)	(1,025)	(1,051)
Other income	594	700	712	740	745
Other expenses	0	0	0	0	0
<b>EBIT</b>	<b>2,255</b>	<b>2,749</b>	<b>1,534</b>	<b>1,435</b>	<b>1,031</b>
Net interest	(98)	(219)	(251)	(337)	(427)
Associates	7	10	0	0	0
Other non-operational	122	125	0	0	0
Exceptional items	0	0	0	0	0
<b>Pre-tax profit</b>	<b>2,287</b>	<b>2,665</b>	<b>1,282</b>	<b>1,098</b>	<b>604</b>
Taxation	(564)	(618)	(321)	(274)	(151)
Minority interests	(61)	(123)	(22)	(22)	(20)
Exceptional items after tax	0	0	0	0	0
<b>Net profit</b>	<b>1,662</b>	<b>1,924</b>	<b>939</b>	<b>801</b>	<b>433</b>
<b>Net profit adj.</b>	<b>1,791</b>	<b>2,058</b>	<b>939</b>	<b>801</b>	<b>433</b>
<b>EBITDA</b>	<b>2,041</b>	<b>2,502</b>	<b>1,273</b>	<b>1,150</b>	<b>725</b>
EPS (RMB)	0.57	0.66	0.32	0.27	0.15
EPS adj. (RMB)	0.61	0.71	0.32	0.27	0.15
DPS (RMB)	0.21	0.24	0.10	0.08	0.04
Avg fully diluted shares (mn)	2,915	2,919	2,966	2,966	2,966

Balance sheet (RMB mn)					
Year-end: Dec	2011	2012	2013E	2014E	2015E
Cash	1,246	1,351	1,291	(342)	(1,713)
Short-term investments	0	0	0	0	0
Accounts receivable	521	845	845	845	845
Inventory	2,131	2,011	2,011	2,011	2,011
Other current assets	64	173	173	173	173
<b>Total current assets</b>	<b>3,962</b>	<b>4,380</b>	<b>4,320</b>	<b>2,688</b>	<b>1,317</b>
PP&E	4,927	7,373	9,613	11,829	13,523
Intangible assets	3,178	4,558	4,558	4,558	4,558
Associates and JVs	0	0	0	0	0
Other long-term assets	1,225	1,657	1,657	1,657	1,657
<b>Total long-term assets</b>	<b>9,329</b>	<b>13,588</b>	<b>15,827</b>	<b>18,043</b>	<b>19,737</b>
<b>Total assets</b>	<b>13,291</b>	<b>17,968</b>	<b>20,148</b>	<b>20,731</b>	<b>21,054</b>
Short-term debt	1,510	3,168	4,668	4,668	4,668
Accounts payable	1,538	408	408	408	408
Other current liabilities	863	1,379	1,379	1,379	1,379
<b>Total current liabilities</b>	<b>3,911</b>	<b>4,954</b>	<b>6,454</b>	<b>6,454</b>	<b>6,454</b>
Long-term debt	158	57	57	57	57
Convertible bonds	1,491	2,683	2,683	2,683	2,683
Deferred tax	0	0	0	0	0
Other long-term liabilities	734	1,026	1,026	1,026	1,026
<b>Total long-term liabilities</b>	<b>2,383</b>	<b>3,766</b>	<b>3,766</b>	<b>3,766</b>	<b>3,766</b>
<b>Total liabilities</b>	<b>6,294</b>	<b>8,720</b>	<b>10,220</b>	<b>10,220</b>	<b>10,220</b>
Shareholders' funds	6,584	8,404	9,061	9,622	9,925
Minority interests	414	844	866	888	908
<b>Total equity</b>	<b>6,997</b>	<b>9,248</b>	<b>9,928</b>	<b>10,511</b>	<b>10,834</b>
<b>Total liabilities and equity</b>	<b>13,291</b>	<b>17,968</b>	<b>20,148</b>	<b>20,731</b>	<b>21,054</b>
Net debt (cash)	1,913	4,557	6,116	7,749	9,120
Year-end shares (mn)	2,915	2,919	2,966	2,966	2,966

Source: Company, Standard Chartered Research estimates

Cash flow statement (RMB mn)					
Year-end: Dec	2011	2012	2013E	2014E	2015E
EBIT	2,255	2,749	1,534	1,435	1,031
Depreciation & amortisation	(214)	(246)	(260)	(284)	(306)
Net interest	98	219	251	337	427
Tax paid	(564)	(618)	(321)	(274)	(151)
Changes in working capital	(347)	(1,429)	0	0	0
Others	851	1,838	269	232	185
<b>Cash flow from operations</b>	<b>2,079</b>	<b>2,512</b>	<b>1,473</b>	<b>1,445</b>	<b>1,186</b>
Capex	(2,340)	(2,909)	(2,500)	(2,500)	(2,000)
Acquisitions	0	0	0	0	0
Disposals	0	0	0	0	0
Others	72	0	0	0	0
<b>Cash flow from investing</b>	<b>(2,269)</b>	<b>(2,909)</b>	<b>(2,500)</b>	<b>(2,500)</b>	<b>(2,000)</b>
Dividends	(458)	(577)	(282)	(240)	(130)
Issue of shares	0	0	0	0	0
Change in debt	1,224	0	0	0	0
Other financing cash flow	(124)	(219)	(251)	(337)	(427)
<b>Cash flow from financing</b>	<b>654</b>	<b>(796)</b>	<b>(533)</b>	<b>(577)</b>	<b>(557)</b>
<b>Change in cash</b>	<b>464</b>	<b>(1,193)</b>	<b>(1,560)</b>	<b>(1,633)</b>	<b>(1,371)</b>
Exchange rate effect	0	0	0	0	0
<b>Free cash flow</b>	<b>(262)</b>	<b>(397)</b>	<b>(1,027)</b>	<b>(1,055)</b>	<b>(814)</b>

Financial ratios and other					
Year-end: Dec	2011	2012	2013E	2014E	2015E
<b>Operating ratios</b>					
Gross margin (%)	43.0	39.4	30.6	28.2	22.8
EBITDA margin (%)	35.6	32.9	21.7	18.9	12.4
EBIT margin (%)	39.3	36.2	26.1	23.6	17.6
Net margin adj. (%)	31.2	27.1	16.0	13.2	7.4
Effective tax rate (%)	24.7	23.2	25.0	25.0	25.0
Sales growth (%)	40.1	32.4	-22.8	3.7	-3.9
Net income growth (%)	38.3	15.8	-51.2	-14.7	-45.9
EPS growth (%)	38.3	15.6	-51.9	-14.7	-45.9
EPS growth adj. (%)	-32.6	14.8	-55.1	-14.7	-45.9
DPS growth (%)	-30.0	14.3	-60.4	-14.7	-45.9
<b>Efficiency ratios</b>					
ROE (%)	27.8	25.7	10.8	8.6	4.4
ROCE (%)	26.1	24.5	11.5	10.3	7.1
Asset turnover (x)	0.5	0.5	0.3	0.3	0.3
Op. cash/EBIT (x)	0.9	0.9	1.0	1.0	1.2
Depreciation/capex (x)	-0.1	-0.1	-0.1	-0.1	-0.2
Inventory days	162.4	164.0	180.1	168.0	162.6
Accounts receivable days	28.4	32.8	52.5	50.6	52.7
Accounts payable days	110.7	77.1	36.5	34.1	33.0
<b>Leverage ratios</b>					
Net gearing (%)	27.3	49.3	61.6	73.7	84.2
Debt/capital (%)	33.7	45.4	54.1	51.9	50.7
Interest cover (x)	23.0	12.6	6.1	4.3	2.4
Debt/EBITDA (x)	1.2	1.7	5.2	6.4	10.2
Current ratio (x)	1.0	0.9	0.7	0.4	0.2
<b>Valuation</b>					
EV/sales (x)	6.8	4.2	3.1	3.2	3.5
EV/EBITDA (x)	19.0	12.8	14.2	16.9	28.4
EV/EBIT (x)	17.2	11.6	11.8	13.6	20.0
PER (x)	22.4	14.9	12.7	14.6	26.5
PER adj. (x)	20.8	13.9	12.7	14.6	26.5
PBR (x)	4.4	3.4	1.3	1.2	1.2
Dividend yield (%)	1.6	2.4	2.4	2.1	1.1



# Philex Mining Corp

## Overhang of licence uncertainty and weak gold prices to hurt

- According to management, the Padcal mine has ramped-up to full production after its re-start in March 2013. However, the mine continues to operate under the temporary licence (which was extended indefinitely on 7 July 2013).
- We expect the overhang of the licence uncertainty and possible rights issue to be a drag on the share price.
- We now forecast a wider loss for 2013 and reduce our 2014 EPS estimate by 12.6%. We downgrade our rating from In-Line to Underperform given our commodities' team's new gold price forecasts.

**Padcal mine has ramped-up to full production, but...** Since restart in March 2013 after a seven-month stoppage following a leak in the tailings dam, the Padcal mine has ramped-up to full production according to management. However, the mine continues to operate under a temporary licence approved by the Mines and Geosciences Bureau and Pollution Adjudication Board. We think this could effectively prevent Philex from recapitalising its balance sheet and funding the Silangan project.

**Downgrade our view on gold.** Our commodities team has downgraded its view on gold (*Gold – Searching for a floor*, dated 10 July 2013). They have cut their 2013-16 gold price forecasts by 4-24% and their 2013-16 copper price forecasts by 3-17% (*Precious metals lead the way down*, dated 16 July 2013). Copper is a key by-product at the Padcal mine. We cut our 2014 EPS estimate by 12.6% and forecast a wider loss per share of PHP 0.05 for 2013.

**Downgrade to Underperform on poor earnings momentum, licence uncertainty and hefty valuation.** We do not forecast any sharp recoveries in gold and copper prices. Our commodities team expects metal prices to be range bound, resulting in poor earnings momentum for Philex. Moreover, after our EPS cuts, it is trading at 16.9X 2014E PE, at a premium to Zhaojin Mining (15x 2014 PE) and Zijin Mining (14x 2014E PE), which we consider unwarranted given the uncertainty over the permanent licence at Padcal and possible funding issue at Silangan. We downgrade Philex to Underperform with a new price target of PHP 10.80 based on a sum-of-the-parts (SOTP) valuation.

## UNDERPERFORM (from IN-LINE)

PRICE as of 22 Jul 2013

PRICE TARGET

**PHP 11.24****PHP 10.80****Bloomberg code**

PX PM

**Reuters code**

PX.PS

**Market cap**

PHP 55,446mn (USD 1,278mn)

**12-month range**

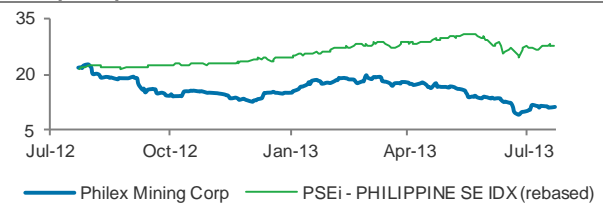
PHP 8.80 - 23.10

**EPS adj. est. change** 2013E nm 2014E -12.6%

Year-end: December	2011	2012	2013E	2014E
Sales (PHP mn)	16,134	9,137	4,341	11,774
EBITDA (PHP mn)	9,015	4,343	1,152	5,520
EBIT (PHP mn)	7,943	3,447	398	4,536
Pre-tax profit (PHP mn)	8,131	260	(1,078)	4,536
Net profit adj. (PHP mn)	5,771	225	(740)	3,245
FCF (PHP mn)	5,293	(4,910)	(9,925)	(11,282)
EPS adj. (PHP)	1.17	0.05	(0.15)	0.66
DPS (PHP)	0.33	0.11	(0.05)	0.20
Book value/share (PHP)	7.35	6.45	6.35	6.81
EPS growth adj. (%)	45.6	-96.1	nm	nm
DPS growth (%)	58.2	-66.9	nm	nm
EBITDA margin (%)	55.9	47.5	26.5	46.9
EBIT margin (%)	49.2	37.7	9.2	38.5
Net margin adj. (%)	35.8	2.5	-17.1	27.6
Div. payout (%)	28.3	241.2	30.0	30.0
Net gearing (%)	-13.3	-1.0	43.8	90.9
ROE (%)	24.7	0.9	-3.4	14.5
ROCE (%)	29.9	12.6	1.4	12.1
EV/sales (x)	6.0	10.4	14.9	6.6
EV/EBITDA (x)	10.7	22.0	56.3	14.0
PBR (x)	2.8	2.3	1.8	1.6
<b>PER adj. (x)</b>	<b>17.3</b>	<b>432.8</b>	<b>nm</b>	<b>17.1</b>
<b>Dividend yield (%)</b>	<b>1.6</b>	<b>0.6</b>	<b>-0.4</b>	<b>1.8</b>

Source: Company, Standard Chartered Research estimates

### Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	14	-36	-47
Relative to index	6	-31	-59
Relative to sector	-	-	-
Major shareholder	First Pacific (46.5%)		
Free float	24%		
Average turnover (USD)	1,331,730		

Source: Company, FactSet



### Changes to earnings estimates

The table below summarises the changes to our earnings estimates.

**Fig 10: Philex – Summary earnings changes**

		2013E			2014E		
		New	Old	% var	New	Old	% var
Gold price	USD/ounce	1,437	1,470	-2%	1,400	1,500	-7%
Copper price	USD/t	7,437	7,613	-2%	8,000	8,500	-6%
Gold production	koz	38	38	0%	113	113	0%
Copper production	kt	5	5	0%	16	16	0%
Sales	USD mn	4,341	4,426	-2%	11,774	12,519	-6%
EBITDA	USD mn	1,152	1,230	-6%	5,520	6,201	-11%
EBIT	USD mn	398	473	-16%	4,536	5,195	-13%
Net income	USD mn	(765)	(712)	-8%	3,220	3,689	-13%
EPS	US cents	(0.2)	(0.1)	-8%	0.7	0.8	-13%

Source: Company, Standard Chartered Research estimates

### New price target of PHP 10.80, implies 6% downside potential

We base our new PT of PHP 10.80 on a SOTP valuation. We value the Padcal and Silangan mines based on life-of-mine DCF valuations. We value the 65% stake in Philex Petroleum (PXP PM, not rated) on the current market valuation.

**Fig 11: Philex Mining – SOTP valuation**

Operation	Methodology	PHP mn	PHP/shr	Multiple	PHP/shr
Padcal	DCF	19,764	4.0	1.3	5.2
Silangan	DCF	39,287	8.0	1.0	8.0
Philex Petroleum (PPC)	Mkt cap	10,373	2.1	NA	2.1
Corporate and others	DCF	(12,643)	(2.6)	NA	(2.6)
Net debt		(9,483)	(1.9)	NA	(1.9)
<b>Price target</b>					<b>10.80</b>

Source: Company, Standard Chartered Research estimates



Income statement (PHP mn)					
Year-end: Dec	2010	2011	2012	2013E	2014E
Sales	13,394	16,134	9,137	4,341	11,774
Gross profit	6,953	9,015	4,343	1,152	5,520
SG&A	(888)	(1,072)	(895)	(754)	(984)
Other income	0	0	0	0	0
Other expenses	0	0	0	0	0
<b>EBIT</b>	<b>6,065</b>	<b>7,943</b>	<b>3,447</b>	<b>398</b>	<b>4,536</b>
Net interest	-	-	-	-	-
Associates	(38)	(44)	0	0	0
Other non-operational	(350)	181	(3,201)	(1,500)	0
Exceptional items	-	-	-	-	-
<b>Pre-tax profit</b>	<b>5,684</b>	<b>8,131</b>	<b>260</b>	<b>(1,078)</b>	<b>4,536</b>
Taxation	(1,739)	(2,331)	(555)	313	(1,315)
Minority interests	19	(29)	520	25	25
Exceptional items after tax	-	-	0	0	0
<b>Net profit</b>	<b>3,963</b>	<b>5,771</b>	<b>225</b>	<b>(740)</b>	<b>3,245</b>
<b>Net profit adj.</b>	<b>3,963</b>	<b>5,771</b>	<b>225</b>	<b>(740)</b>	<b>3,245</b>
<b>EBITDA</b>	<b>6,953</b>	<b>9,015</b>	<b>4,343</b>	<b>1,152</b>	<b>5,520</b>
EPS (PHP)	0.81	1.17	0.05	(0.15)	0.66
EPS adj. (PHP)	0.81	1.17	0.05	(0.15)	0.66
DPS (PHP)	0.21	0.33	0.11	(0.05)	0.20
Avg fully diluted shares (mn)	4,922	4,922	4,937	4,927	4,927

Balance sheet (PHP mn)					
Year-end: Dec	2010	2011	2012	2013E	2014E
Cash	3,782	3,947	1,670	(33)	(4,290)
Short-term investments	-	-	-	-	-
Accounts receivable	2,180	1,596	208	99	268
Inventory	1,094	1,119	1,315	625	1,694
Other current assets	695	1,670	1,164	1,164	1,164
<b>Total current assets</b>	<b>7,751</b>	<b>8,332</b>	<b>4,356</b>	<b>1,854</b>	<b>(1,164)</b>
PP&E	5,095	5,400	6,035	15,419	29,574
Intangible assets	259	259	259	259	259
Associates and JVs	833	0	0	0	0
Other long-term assets	11,715	18,464	18,757	18,757	18,757
<b>Total long-term assets</b>	<b>17,902</b>	<b>24,123</b>	<b>25,051</b>	<b>34,435</b>	<b>48,590</b>
<b>Total assets</b>	<b>25,653</b>	<b>32,454</b>	<b>29,407</b>	<b>36,289</b>	<b>47,426</b>
Short-term debt	150	350	1,450	1,450	1,450
Accounts payable	969	1,160	1,096	520	1,412
Other current liabilities	1,193	1,066	2,073	2,073	2,073
<b>Total current liabilities</b>	<b>2,312</b>	<b>2,576</b>	<b>4,618</b>	<b>4,043</b>	<b>4,934</b>
Long-term debt	0	0	0	8,000	16,000
Convertible bonds	-	-	-	-	-
Deferred tax	2,013	2,635	2,381	2,381	2,381
Other long-term liabilities	570	192	191	191	191
<b>Total long-term liabilities</b>	<b>2,583</b>	<b>2,827</b>	<b>2,572</b>	<b>10,572</b>	<b>18,572</b>
<b>Total liabilities</b>	<b>4,895</b>	<b>5,403</b>	<b>7,190</b>	<b>14,615</b>	<b>23,506</b>
Shareholders' funds	20,522	26,143	21,817	21,299	23,569
Minority interests	236	908	400	375	350
<b>Total equity</b>	<b>20,758</b>	<b>27,051</b>	<b>22,217</b>	<b>21,674</b>	<b>23,920</b>
<b>Total liabilities and equity</b>	<b>25,653</b>	<b>32,454</b>	<b>29,407</b>	<b>36,289</b>	<b>47,426</b>
Net debt (cash)	(3,632)	(3,597)	(220)	9,483	21,740
Year-end shares (mn)	4,915	4,915	4,931	4,927	4,927

Source: Company, Standard Chartered Research estimates

Cash flow statement (PHP mn)					
Year-end: Dec	2010	2011	2012	2013E	2014E
EBIT	6,065	7,943	3,447	398	4,536
Depreciation & amortisation	888	1,072	895	754	984
Net interest	11	78	14	25	(0)
Tax paid	(950)	(2,358)	(555)	313	(1,315)
Changes in working capital	(1,718)	(398)	1,127	224	(347)
Others	211	304	(3,201)	(1,500)	0
<b>Cash flow from operations</b>	<b>4,507</b>	<b>6,641</b>	<b>1,728</b>	<b>213</b>	<b>3,856</b>
Capex	(1,466)	(1,347)	(6,638)	(10,138)	(15,138)
Acquisitions	0	0	0	0	0
Disposals	170	0	0	0	0
Others	(1,660)	(3,748)	0	0	0
<b>Cash flow from investing</b>	<b>(2,956)</b>	<b>(5,095)</b>	<b>(6,638)</b>	<b>(10,138)</b>	<b>(15,138)</b>
Dividends	(649)	(1,633)	(543)	222	(975)
Issue of shares	57	33	0	0	0
Change in debt	(1,378)	(2,354)	0	8,000	8,000
Other financing cash flow	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(442)</b>	<b>(1,400)</b>	<b>7,857</b>	<b>8,222</b>	<b>7,025</b>
<b>Change in cash</b>	<b>901</b>	<b>165</b>	<b>2,947</b>	<b>(1,703)</b>	<b>(4,256)</b>
Exchange rate effect	(208)	20	0	0	0
<b>Free cash flow</b>	<b>3,041</b>	<b>5,293</b>	<b>(4,910)</b>	<b>(9,925)</b>	<b>(11,282)</b>

Financial ratios and other					
Year-end: Dec	2010	2011	2012	2013E	2014E
<b>Operating ratios</b>					
Gross margin (%)	51.9	55.9	47.5	26.5	46.9
EBITDA margin (%)	51.9	55.9	47.5	26.5	46.9
EBIT margin (%)	45.3	49.2	37.7	9.2	38.5
Net margin adj. (%)	29.6	35.8	2.5	-17.1	27.6
Effective tax rate (%)	30.6	28.7	213.4	29.0	29.0
Sales growth (%)	47.9	20.5	-43.4	-52.5	171.3
Net income growth (%)	40.0	45.6	-96.1	nm	nm
EPS growth (%)	38.7	45.6	-96.1	nm	nm
EPS growth adj. (%)	39.4	45.6	-96.1	nm	nm
DPS growth (%)	133.3	58.2	-66.9	nm	nm
<b>Efficiency ratios</b>					
ROE (%)	21.1	24.7	0.9	-3.4	14.5
ROCE (%)	27.8	29.9	12.6	1.4	12.1
Asset turnover (x)	0.6	0.6	0.3	0.1	0.3
Op. cash/EBIT (x)	0.7	0.8	0.5	0.5	0.9
Depreciation/capex (x)	0.6	0.8	0.1	0.1	0.1
Inventory days	63.5	56.7	92.6	111.0	67.7
Accounts receivable days	36.8	42.7	36.0	12.9	5.7
Accounts payable days	52.0	54.6	85.9	92.5	56.4
<b>Leverage ratios</b>					
Net gearing (%)	-17.5	-13.3	-1.0	43.8	90.9
Debt/capital (%)	-	-	-	-	-
Interest cover (x)	-972.7	-159.3	-249.0	-16.1	9,290.0
Debt/EBITDA (x)	-	-	-	-	-
Current ratio (x)	3.4	3.2	0.9	0.5	-0.2
<b>Valuation</b>					
EV/sales (x)	4.5	6.0	10.4	14.9	6.6
EV/EBITDA (x)	8.6	10.7	22.0	56.3	14.0
EV/EBIT (x)	9.9	12.1	27.7	163.2	17.0
PER (x)	16.0	17.3	432.4	nm	17.1
PER adj. (x)	16.0	17.3	432.8	nm	17.1
PBR (x)	2.5	2.8	2.3	1.8	1.6
Dividend yield (%)	1.6	1.6	0.6	-0.4	1.8



# G-Resources Group

## Wholesale cuts after the collapse in gold prices

- Our commodities team recently downgraded their 2013, 2014 and long-term gold price forecasts and now has a neutral view on the price outlook.
- We cut our FY13/FY14 EPS forecasts for G-Resources 8%/13% to reflect the lower gold price forecasts.
- We cut our price target to HKD 0.29 (from HKD 0.44) and downgrade our rating to In-Line to reflect the significant downgrade to our gold price forecasts to USD 1,300/oz (from USD 1,700/oz) for 2015 and USD 1,350/oz (from USD 1,600/oz) for 2016.

### Significant downward revisions to our gold price forecasts.

Our commodities team recently downgraded their 2013-16 gold price forecasts by 4-24%. They also lowered their 2013-16 silver price forecasts by 4-18%. Accordingly, we have cut our FY13/FY14 EPS forecasts for G-Resources by 8%/13%.

**Growth story intact but will wait for an attractive entry point and better momentum in gold prices.** We estimate G-Resources produced 176koz of gold in FY13 (year ending June 2013) and will ramp-up to 200koz of gold in FY14 (up 14% YoY). Our production assumptions are well below the company target of 250koz for calendar year 2013. We believe Martabe is located in a highly prospective region with potential to increase its resources and support future production growth. However, we would wait for a better momentum in gold prices to enter the stock.

**More focus on organic growth.** From our recent meetings with management, we believe the hunger to grow through acquisitions has dwindled. There seem to be more focus on delivering growth organically at Martabe. This also provides a good opportunity for the management to declare its first dividend, as cash flow turns positive in FY14E. While management has not committed on dividend, we have assumed a modest dividend payout of 20%, implying a 2.6% dividend yield on today's share price.

**Downgrade to In-Line.** Our new 12-month DCF-based price target of HKD 0.29 reflects our lower gold price forecasts. After our EPS cuts, the company is trading at 8.1x FY14E PE, which we believe is reasonable compared to established miners Zhaojin Mining (15X 2014E PE) and Zijin Mining (14x 2014E PE).

## IN-LINE (from OUTPERFORM)

PRICE as of 22 Jul 2013

PRICE TARGET

**HKD 0.26****HKD 0.29**

### Bloomberg code

1051 HK

### Reuters code

1051.HK

### Market cap

HKD 5,099mn (USD 657mn)

### 12-month range

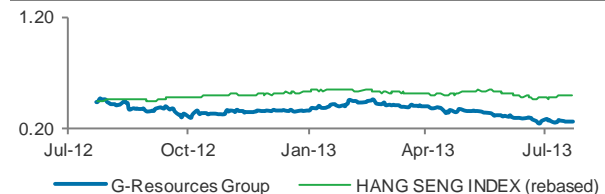
HKD 0.23 - 0.49

<b>EPS adj. est. change</b>	2013E	-13.8%	2014E	-21.9%
-----------------------------	-------	--------	-------	--------

Year-end: June	2011	2012	2013E	2014E
Sales (USD mn)	0	0	278	322
EBITDA (USD mn)	(19)	(20)	83	152
EBIT (USD mn)	(19)	(19)	55	120
Pre-tax profit (USD mn)	(21)	(19)	58	124
Net profit adj. (USD mn)	(21)	(19)	38	83
FCF (USD mn)	(147)	(71)	(94)	29
EPS adj. (USD)	(0.00)	(0.00)	0.00	0.00
DPS (USD)	0.00	0.00	0.00	0.00
Book value/share (USD)	0.75	0.65	0.58	0.58
EPS growth adj. (%)	-	nm	nm	115.1
DPS growth (%)	-	-	-	nm
EBITDA margin (%)	nm	nm	29.9	47.2
EBIT margin (%)	nm	nm	19.8	37.2
Net margin adj. (%)	nm	nm	13.8	25.6
Div. payout (%)	0.0	0.0	0.0	20.0
Net gearing (%)	-23.0	-2.1	-2.3	-3.3
ROE (%)	-	-2.7	4.5	8.6
ROCE (%)	-	-2.7	6.0	11.8
EV/sales (x)	-	nm	2.2	1.9
EV/EBITDA (x)	-	nm	7.3	3.9
PBR (x)	0.1	0.1	0.1	0.1
<b>PER adj. (x)</b>	<b>nm</b>	<b>nm</b>	<b>17.4</b>	<b>8.1</b>
<b>Dividend yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.6</b>

Source: Company, Standard Chartered Research estimates

### Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-7	-27	-43
Relative to index	-12	-25	-48
Relative to sector	-	-	-
Major shareholder	CST Mining (16.5%)		
Free float	69%		
Average turnover (USD)	1,219,487		

Source: Company, FactSet



## Earnings revisions

We cut our FY13 and FY14 EPS forecasts 8% and 18%, respectively, to reflect the downgrade in our gold and silver price forecasts (see [Gold – Searching for a floor](#), dated 10 July 2013 and [Precious metals lead the way down](#), dated 16 July 2013). We have maintained our conservative production estimate of 200koz of gold for FY14 versus company's guidance of 250koz for calendar year 2013.

**Fig 12: G-Resources – Summary earnings changes**

		FY13E			FY14E		
		New	Old	% var	New	Old	% var
Gold price	USD/ounce	1,601	1,640	-3%	1,400	1,500	-7%
Silver price	USD/ounce	28	30	-7%	22	25	-12%
Gold production	koz	176	176	0%	200	200	0%
Silver production	koz	1,000	1,000	0%	2,000	2,000	0%
Sales	USD mn	278	284	-2%	322	352	-9%
EBITDA	USD mn	83	85	-2%	152	189	-20%
EBIT	USD mn	55	63	-13%	120	154	-22%
Net Income	USD mn	40	44	-8%	87	106	-18%
EPS	US cents	0.2	0.2	-8%	0.4	0.5	-18%

Source: Company, Standard Chartered Research estimates

## Cutting price target to HKD 0.29; modest 11% upside

We base our new price target on a life-of-mine DCF valuation. We assume a WACC of 11.3%, driven by a cost of equity of 13.6%, and a cost of debt of 8%. Our new price target implies modest upside potential of 11% to the current share price.

**Fig 13: G-Resources – DCF valuation**

DCF valuation	USD mn
PV of cash flows	751
Net debt	-17
Financial investments	
Minority interest	(2)
Equity value	732
No. of shares (mn)	19,611
<b>Value per share (HKD)</b>	<b>0.29</b>
<b>Upside to current share price</b>	<b>11%</b>

Source: Company, Standard Chartered Research estimates





Income statement (USD mn)					
Year-end: Jun	-	2011	2012	2013E	2014E
Sales	-	0	0	278	322
Gross profit	-	(19)	(20)	83	152
SG&A	-	-	-	-	-
Other income	-	-	-	-	-
Other expenses	-	-	-	-	-
<b>EBIT</b>	-	<b>(19)</b>	<b>(19)</b>	<b>55</b>	<b>120</b>
Net interest	-	0	0	2	4
Associates	-	0	0	0	0
Other non-operational	-	(2)	1	1	1
Exceptional items	-	-	-	-	-
<b>Pre-tax profit</b>	-	<b>(21)</b>	<b>(19)</b>	<b>58</b>	<b>124</b>
Taxation	-	0	0	(17)	(37)
Minority interests	-	0	0	(2)	(4)
<b>Net profit</b>	-	<b>(21)</b>	<b>(19)</b>	<b>38</b>	<b>83</b>
<b>Net profit adj.</b>	-	<b>(21)</b>	<b>(19)</b>	<b>38</b>	<b>83</b>
<b>EBITDA</b>	-	<b>(19)</b>	<b>(20)</b>	<b>83</b>	<b>152</b>
EPS (USD)	-	(0.00)	(0.00)	0.00	0.00
EPS adj. (USD)	-	(0.00)	(0.00)	0.00	0.00
DPS (USD)	-	0.00	0.00	0.00	0.00
Avg fully diluted shares (mn)	-	14,067	16,627	19,955	19,955

Balance sheet (USD mn)					
Year-end: Jun	-	2011	2012	2013E	2014E
Cash	-	136	65	60	72
Short-term investments	-	0	0	0	0
Accounts receivable	-	3	11	34	30
Inventory	-	3	2	2	2
Other current assets	-	0	0	0	0
<b>Total current assets</b>	-	<b>142</b>	<b>78</b>	<b>96</b>	<b>104</b>
PP&E	-	468	825	897	965
Intangible assets	-	0	0	0	0
Associates and JVs	-	0	0	0	0
Other long-term assets	-	33	56	56	56
<b>Total long-term assets</b>	-	<b>501</b>	<b>881</b>	<b>953</b>	<b>1,021</b>
<b>Total assets</b>	-	<b>642</b>	<b>959</b>	<b>1,050</b>	<b>1,125</b>
Short-term debt	-	0	0	0	0
Accounts payable	-	49	71	32	37
Other current liabilities	-	0	35	35	35
<b>Total current liabilities</b>	-	<b>49</b>	<b>106</b>	<b>67</b>	<b>72</b>
Long-term debt	-	0	49	39	39
Convertible bonds	-	-	-	-	-
Deferred tax	-	0	0	0	0
Other long-term liabilities	-	3	12	12	12
<b>Total long-term liabilities</b>	-	<b>3</b>	<b>61</b>	<b>51</b>	<b>51</b>
<b>Total liabilities</b>	-	<b>52</b>	<b>166</b>	<b>117</b>	<b>123</b>
Shareholders' funds	-	590	793	930	996
Minority interests	-	0	0	2	6
<b>Total equity</b>	-	<b>590</b>	<b>793</b>	<b>932</b>	<b>1,003</b>
<b>Total liabilities and equity</b>	-	<b>642</b>	<b>959</b>	<b>1,050</b>	<b>1,125</b>
Net debt (cash)	-	(136)	(17)	(22)	(34)
Year-end shares (mn)	-	14,067	16,627	18,921	18,921

Source: Company, Standard Chartered Research estimates

Cash flow statement (USD mn)					
Year-end: Jun	-	2011	2012	2013E	2014E
EBIT	-	(19)	(19)	55	120
Depreciation & amortisation	-	(0)	(0)	28	32
Net interest	-	0	0	2	4
Tax paid	-	0	0	(17)	(37)
Changes in working capital	-	44	15	(63)	9
Others	-	(42)	(37)	1	1
<b>Cash flow from operations</b>	-	<b>(17)</b>	<b>(42)</b>	<b>6</b>	<b>129</b>
Capex	-	(129)	(322)	(100)	(100)
Acquisitions	-	0	0	0	0
Disposals	-	0	0	0	0
Others	-	3	(1)	0	0
<b>Cash flow from investing</b>	-	<b>(127)</b>	<b>(324)</b>	<b>(100)</b>	<b>(100)</b>
Dividends	-	0	0	0	(17)
Issue of shares	-	-	-	-	-
Change in debt	-	0	81	(10)	0
Other financing cash flow	0	0	213	99	0
<b>Cash flow from financing</b>	-	<b>0</b>	<b>294</b>	<b>89</b>	<b>(17)</b>
<b>Change in cash</b>	-	<b>(144)</b>	<b>(70)</b>	<b>(5)</b>	<b>12</b>
Exchange rate effect	-	0	2	0	0
<b>Free cash flow</b>	-	<b>(147)</b>	<b>(71)</b>	<b>(94)</b>	<b>29</b>

Financial ratios and other					
Year-end: Jun	-	2011	2012	2013E	2014E
<b>Operating ratios</b>					
Gross margin (%)	-	nm	nm	29.9	47.2
EBITDA margin (%)	-	nm	nm	29.9	47.2
EBIT margin (%)	-	nm	nm	19.8	37.2
Net margin adj. (%)	-	nm	nm	13.8	25.6
Effective tax rate (%)	-	0.1	0.0	30.0	30.0
Sales growth (%)	-	-	-	nm	15.9
Net income growth (%)	-	-	nm	nm	115.1
EPS growth (%)	-	-	nm	nm	115.1
EPS growth adj. (%)	-	-	nm	nm	115.1
DPS growth (%)	-	-	-	-	nm
<b>Efficiency ratios</b>					
ROE (%)	-	-	-2.7	4.5	8.6
ROCE (%)	-	-	-2.7	6.0	11.8
Asset turnover (x)	-	-	0.0	0.3	0.3
Op. cash/EBIT (x)	-	0.9	2.2	0.1	1.1
Depreciation/capex (x)	-	0.0	0.0	0.3	0.3
Inventory days	-	-	46.1	3.4	3.9
Accounts receivable days	-	-	nm	29.4	36.4
Accounts payable days	-	-	1,106.4	96.4	74.2
<b>Leverage ratios</b>					
Net gearing (%)	-	-23.0	-2.1	-2.3	-3.3
Debt/capital (%)	-	-	-	-	-
Interest cover (x)	-	nm	nm	27.5	nm
Debt/EBITDA (x)	-	-	-	-	-
Current ratio (x)	-	2.9	0.7	1.4	1.4
<b>Valuation</b>					
EV/sales (x)	-	-	nm	2.2	1.9
EV/EBITDA (x)	-	-	nm	7.3	3.9
EV/EBIT (x)	-	-	nm	11.1	5.0
PER (x)	-	nm	nm	16.5	7.7
PER adj. (x)	-	nm	nm	17.4	8.1
PBR (x)	-	0.1	0.1	0.1	0.1
Dividend yield (%)	-	0.0	0.0	0.0	2.6



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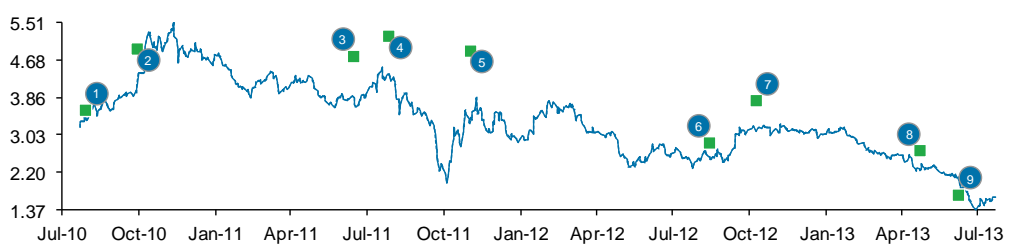
HKD Recommendation and price target history for Zhaojin Mining Industry



Date	Recommendation	Price target	Date	Recommendation	Price target	Date	Recommendation	Price target
1 15 Aug 10	OUTPERFORM	12.69	4 15 Aug 11	OUTPERFORM	23.94	7 6 Oct 12	OUTPERFORM	19.53
2 28 Sep 10	OUTPERFORM	15.00	5 26 Mar 12	OUTPERFORM	23.59	8 26 Mar 13	OUTPERFORM	18.33
3 14 Jun 11	OUTPERFORM	23.49	6 11 Aug 12	OUTPERFORM	13.10	9 20 Apr 13	OUTPERFORM	11.54

Source: FactSet prices, SCB recommendations and price targets

HKD Recommendation and price target history for Zijin Mining Group



Date	Recommendation	Price target	Date	Recommendation	Price target	Date	Recommendation	Price target
1 28 Jul 10	IN-LINE	3.59	4 26 Jul 11	OUTPERFORM	5.23	7 6 Oct 12	OUTPERFORM	3.80
2 28 Sep 10	OUTPERFORM	4.95	5 1 Nov 11	OUTPERFORM	4.90	8 20 Apr 13	OUTPERFORM	2.69
3 14 Jun 11	OUTPERFORM	4.78	6 13 Aug 12	IN-LINE	2.86	9 7 Jun 13	UNDERPERFORM	1.70

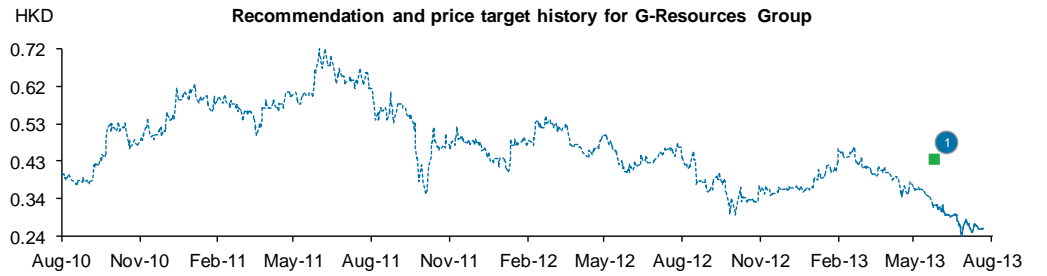
Source: FactSet prices, SCB recommendations and price targets

PHP Recommendation and price target history for Philex Mining Corp



Date	Recommendation	Price target	Date	Recommendation	Price target	Date	Recommendation	Price target
1 9 Nov 10	OUTPERFORM	18.00	4 28 Jul 11	IN-LINE	25.50	7 26 Mar 13	IN-LINE	19.80
2 28 Apr 11	OUTPERFORM	20.00	5 29 Feb 12	IN-LINE	25.00	8 20 Apr 13	IN-LINE	19.00
3 14 Jun 11	OUTPERFORM	23.00	6 31 Aug 12	IN-LINE	20.10			

Source: FactSet prices, SCB recommendations and price targets



Date	Recommendation	Price target	Date	Recommendation	Price target	Date	Recommendation	Price target
1	24 May 13	OUTPERFORM			0.44			

Source: FactSet prices, SCB recommendations and price targets

**Recommendation Distribution and Investment Banking Relationships**

	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
OUTPERFORM	52.6%	14.3%
IN-LINE	34.3%	16.1%
UNDERPERFORM	13.1%	9.0%

As of 30 June 2013

**Research Recommendation**

Terminology	Definitions
OUTPERFORM (OP)	The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months
IN-LINE (IL)	The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months
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SCB uses an investment horizon of 12 months for its price targets.

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