中誠信亞太
CCXAP

CCXAP assigns first-time long-term credit rating of BBB_g- to Zhaojin Mining Industry Company Limited, with stable outlook.

Hong Kong, 28 July 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time BBB_g- long-term credit rating to Zhaojin Mining Industry Company Limited ("Zhaojin Mining" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of Zhaojin Mining is underpinned by the Company's (1) good market position in the gold mining industry with sufficient resource reserves; (2) cost advantage in gold production; (3) good access to funding; (4) proven track record of support from Zhaojin Group and the local government.

However, the rating is also constrained by the Company's (1) earnings vulnerability to global economic conditions and gold price volatility; (2) weaker profitability due to increased operating expenses; (3) high debt leverage owing to debt-driven business expansion; and (4) modest liquidity profile with reliance on short-term financing.

Corporate Profile

Founded in 2004, Zhaojin Mining (Stock Code: 1818.HK) is one of the leading gold mining companies in China engaged in the exploration, mining, smelting, trading, and sales of gold, copper and silver. The Company was listed on the Stock Exchange of Hong Kong in 2006 and was jointly established by Shandong Zhaojin Group Company Limited ("Zhaojin Group"), Shanghai Fosun Industrial Investment Co., Ltd, Shanghai Yuyuan Tourist Mart (Group) Co, Ltd., Shenzhen Guangxin Investment Co., Ltd. and Shanghai Laomiao Gold Co., Ltd. As of 31 December 2021, Zhaojin Group held 34.74% of the equity interest in Zhaojin Mining, and the Zhaoyuan Municipal State-owned Assets Supervision Bureau is the Company's ultimate controller.

Rating Rationale

Credit Strengths

Good market position in the gold mining industry with sufficient resource reserves. Zhaojin Mining has established a good position in China's gold mining industry, ranking 4th among Chinese gold mining companies in terms of production volume. As of 31 December 2021, the Company had over 1,200 tons of gold resource reserves and 490 tons of high-grade recoverable reserves, respectively, laying a good foundation for its long-term development with low average production costs.

Good access to funding. Given its state-owned background, sufficient standby liquidity cushion and good access to capital markets, the Company could partially offset its liquidity risks. At the same time, Zhaojin Mining is a listed company with good access to equity capital markets. It also has good access to debt markets. We expect Zhaojin Mining's refinancing pressure to be manageable over the next 12-18 months given its diversified funding resources.

Proven track record of support from Zhaojin Group and the local government. Zhaojin Mining has a high likelihood of receiving strong support from Zhaojin Group and Zhaoyuan Municipal Government in times of need. Zhaojin Mining is the core subsidiary of Zhaojin Group, which is owned and ultimately controlled by the Zhaoyuan Municipal State-owned Assets Supervision Bureau. We believe that Zhaojin Mining will remain a core subsidiary of Zhaojin Group. We also expect strong willingness to support the Company from the local government and Zhaojin Group, which is unlikely to change in the near to medium term.

Credit Challenges

Earnings being vulnerable to global economic conditions and gold price volatility. Affected by inflation expectations, interest rates, market supply and demand, and hedging needs, gold prices have shown a strong correlation with the global economic cycles. Zhaojin Mining's revenue and earnings are highly susceptible to fluctuations in gold prices. We expect the Company's revenue and earnings to maintain moderate growth in the next 12 to 18 months, given the gradual recovery in production from local security inspection activities and high gold prices.

Weaker profitability due to the increase in operating expenses. Zhaojin Mining's profitability had weakened compared with the previous year, due to (1) the decrease in production volume because of the local mining suspension in 2021, which eroded its overall gross profit; (2) operating expenses had increased from RMB1.2 billion to RMB1.5 billion. The Company's EBIT margin and return on average assets were 12.1% and 2.1% in 2021, decreasing from 24.8% and 5.1% in 2020, respectively.

High debt leverage owing to debt-driven business expansion. Zhaojin Mining conducted business expansion mainly through self-owned funds or debt funding for acquisition and capital expenditures to ramp up the output of these newly acquired mining projects. Future investment in projects under construction may further push up the debt scale. As of 31 March 2022, the Company reported total debt of RMB23.8 billion, while its total capitalization ratio increased to 60.7%. Considering the Company's relatively large expenditure pressure over the next 12 to 18 months, we expect that its debt leverage to remain relatively high.

Modest liquidity profile with reliance on short-term financing. Zhaojin Mining's balance-sheet is relatively illiquid because of its high proportion of short-term debt. As of 31 December 2021, the Company had a cash reserve of RMB3.4 billion, which is approximately 0.3x relative to its short-term debt. The proportion of the Company's short-term debt to its total debt was as high as 54.0%, compared to 62.7% at end-2020.

Rating Outlook

The stable outlook on Zhaojin Mining's rating reflects our expectation that the Company will maintain a good market position in China's gold mining industry and resume production substantially over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) commodity prices rise substantially, further boosting the Company's profits; (2) the Company's market position strengthens with material increase in product output; and (3) the Company demonstrates lower debt leverage and improved credit metrics.

What could downgrade the rating?

The rating could be downgraded if (1) commodity prices fell sharply, adversely affecting the Company's earnings; (2) the Company's total debt level rose sharply; or (3) the Company demonstrates deteriorated credit metrics and weakened liquidity profile.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Mining Industry (December 2017).

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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