

CCXAP affirms Zhaojin Mining Industry Company Limited's long-term credit rating at BBB_g-; changes outlook to positive.

Hong Kong, 1 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Zhaojin Mining Industry Company Limited (“Zhaojin Mining” or the “Company”) at BBB_g-, rating outlook has changed to positive.

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) recovering gold production; and (3) improving revenue and profitability due to the increase in production volumes.

However, the rating is also constrained by the Company's (1) earnings vulnerability to global economic conditions and gold price volatility; and (2) high debt leverage owing to business expansion.

The rating also reflects Zhaojin Mining's high likelihood of receiving strong support from its parent, Shandong Zhaojin Group Company Limited (“Zhaojin Group”) and Zhaoyuan City Government.

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, and sales of gold, copper and silver, with principal products of standard Au9999 and Au9995 gold bullions. The Company was listed on the Stock Exchange of Hong Kong in 2006 and was jointly established by 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. In November 2022, Zijin Mining Group Co., Ltd. (“Zijin Mining”) acquired 20% of the Company's shares through its subsidiary, and became the Company's second largest shareholder. As of 31 March 2023, Zhaojin Group directly 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 reserve.

Zhaojin Mining has maintained 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 2022, the Company had over 1,100 tons of gold resource reserves and 480 tons of high-grade recoverable reserves, laying a good foundation for its long-term development opportunities with low average production costs.

Recovering gold production, with high production growth potential. In spite of the ongoing in-depth production safety inspection and rectification in Shandong Province and the clean-up and rectification of non-coal mines in Yantai city, the Company has successfully passed various inspections and its production and operation has recovered to normal. The Company's gold production (including mine-producing and processing gold) increased by 15.6% year-on-year ("YoY") to 27.4 tons in 2022, mainly due to the resumption of production and further releasing the production capacity.

Improving revenue and profitability due to the increase in production volume. Zhaojin Mining's revenue has improved, mainly driven by strong gold prices and the growing gold production and sale. In addition, Zhaojin Mining has cost advantages, resulting in its high gross profit of 35.6% in 2022. The Company's profitability has also improved, due to the increase in production volume and the decrease in period costs.

High likelihood of support from its parent and the local government. Zhaojin Mining has high likelihood of receiving strong support from its parent, Zhaojin Group, given its (1) most important status as the sole gold mining subsidiary of Zhaojin Group; and (2) the strong parent-subsidiary linkage with Zhaojin Group. We also believe that Zhaojin Mining has high likelihood of receiving support from Zhaoyuan City Government, given its (1) ultimate ownership by the local government; (2) important position in the local economic development; and (3) track record of government support.

Credit Challenges

Earnings being vulnerable to global economic conditions and gold price volatility. Zhaojin Mining's revenue and earnings are highly susceptible to fluctuations in gold prices. The Company has hedged the price risk of gold via gold forward contracts, which could reduce the impact of commodity price volatilities.

High debt leverage owing to business expansion. Zhaojin Mining's debt leverage remains high owing to its business expansion and upgrade. As of 31 March 2023, the Company's adjusted total debt (including perpetual securities) amounted to RMB26.9 billion, with total capitalization ratio of 64.3%.

Rating Outlook

The change in outlook on Zhaojin Mining's rating to positive from stable reflects the Company's (1) high production growth potential; and (2) relatively strong synergy with Zijin Mining.

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 debt burden rose sharply with aggressive business expansion; 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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