

Credit Opinion

24 May 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

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Zijin Mining Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Zijin Mining Group Co., Ltd.'s BBB_g+ long-term credit rating, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Zijin Mining Group Co., Ltd. (“Zijin Mining” or the “Company”) reflects the Company’s (1) leading market position in gold and copper mining with sufficient reserves; (2) increasing scale of production and sales; (3) good business mix and product diversification; (4) ongoing revenue growth and good profitability; and (5) good liquidity profile.

However, the rating is also constrained by the Company’s (1) earnings vulnerable to global economic conditions and metal price volatility; (2) increasing overseas business risks and large capital expenditure pressure; and (3) elevated debt leverage and moderate credit metrics.

The stable outlook on Zijin Mining’s rating reflects our expectation that the Company will maintain its leading market position in the mining industry, with steady growth in its production scale over the next 12-18 months.

Rating Drivers

- Leading market position in gold and copper mining with sufficient reserves
- Growing operating scale with good product diversification
- Earnings vulnerable to global economic conditions and metal price volatility
- Increasing overseas business risks and large capital expenditure pressure
- Ongoing revenue growth and good profitability
- Elevated debt leverage and moderate credit metrics

Rating Sensitivities

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 a material increase in products production; 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 decline sharply, adversely affecting the Company's earnings; (2) the Company's overseas operations encounter operating, geopolitical or environmental issues; or (3) the Company indicates deteriorated credit metrics and weakened liquidity profile.

Key Indicators

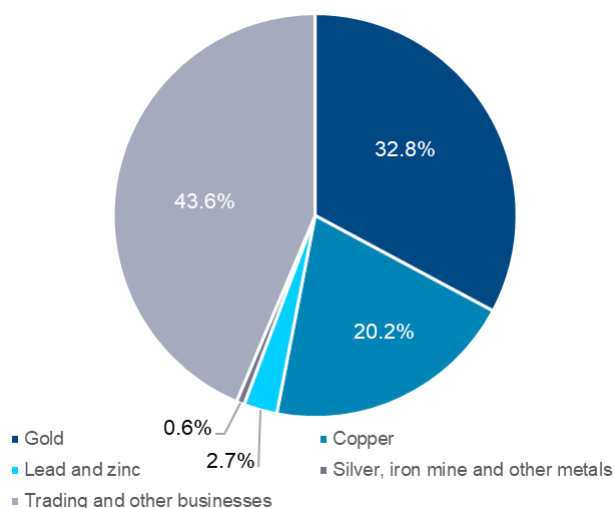
	2021FY	2022FY	2023FY
Total Assets (RMB billion)	208.6	306.0	343.0
Total Equity (RMB billion)	92.9	124.5	138.4
Total Revenue (RMB billion)	225.1	270.3	293.4
Net Profits (RMB billion)	19.6	24.8	26.5
EBIT/Revenue (%)	12.0	12.4	12.3
EBIT/Average Assets (%)	13.8	13.0	11.2
Total Debt/Total Capital (%)	46.1	50.8	51.3
Total Debt/EBITDA (x)	2.3	3.0	3.1
EBIT/Interest (x)	10.4	8.5	6.3
(CFO-Dividend)/Total Debt (%)	28.4	18.0	20.6

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data; CCXAP research

Corporate Profile

Founded in 2000, Zijin Mining (Stock Code: 2899.HK & 601899.SH) is a leading mining company of gold and base metals in China. The Company principally engages in the exploration, mining, smelting, refining, trading and sale of gold, copper, and zinc, as well as other mineral resources globally. As of 31 December 2023, Minxi Xinghang State-owned Assets Investment Company Limited ("Minxi Xinghang") directly held 23.11% of the equity interest in Zijin Mining, and the Finance Bureau of Shanghang County, Fujian Province is the Company's ultimate controller.

Exhibit 1. Revenue structure in 2023

Source: Company data, CCXAP research

Exhibit 2. Shareholding chart as of 31 December 2023

福建省上杭县财政局 Finance Bureau of Shanghang County, Fujian Province	100%
闽西兴杭国有资产投资经营有限公司 Minxi Xinghang State-Owned Assets Investment Co., Ltd.	23.11%
紫金矿业集团股份有限公司 Zijin Mining Group Co., Ltd.	

Source: Company information, CCXAP research

Rating Considerations**Leading market position in gold and copper mining with sufficient reserves**

Zijin Mining has maintained a leading position in China's mining industry, ranking as one of the top Chinese mining companies in terms of the mineral reserves and production volume of gold, copper, zinc, and lithium carbonate. According to Forbes' Global 2000 in 2023, the Company ranked the 1st among global gold mining companies and the 6th among the global metal mining companies, in terms of comprehensive strength (including sales, profits, assets and market value).

Zijin Mining has diversified and sufficient resource reserves of gold and copper, currently ranking as one of the top 10 major global mining companies. These resources are obtained by self-initiated exploration as well as merger and acquisition. As of 31 December 2023, the Company had around 3,000 tons of gold resources, over 74 million tons of copper resources, and over 10 million tons of zinc and lead resources, with more than 50% of gold and copper resources and more than 90% of its zinc and lead resources obtained by self-initiated exploration. In addition, most of the mines have more than 10 years of remaining mine life, indicating sufficient reserves.

The Company has also proactively entered the new energy and advanced material industry, of which lithium carbonate is the strategic focus of the Company, and achieved lithium carbonate production of 2,903 tons. In 2023, the Company has further strengthened its “two lakes, two mine” layout by the implementation of the development of northeast of the Manono Lithium Mine project in the Democratic Republic of Congo. As of end-2023, the overall lithium carbonate equivalent resources of the Company have exceeded 13 million tons, ranking one of the top 10 major global lithium companies in terms of resources owned.

Good business mix and product diversification

Zijin Mining has a wide product mix, mainly including gold, copper, and zinc, which could reduce the impact of any single commodity and support its business strength. The Company also proactively develop potential mineral products, such as lithium, molybdenum, and silver, which are critical metals for the global energy transition. Besides, Zijin Mining’s metal mines are globally diversified. Since 2018, the Company has acquired several high-quality overseas mining projects when metal prices were relatively low, geographically diversifying the location of its mines and expanding its overseas mining operations. As of 31 December 2023, the Company owned major mining projects consisting of gold, copper, zinc, lithium carbonate, and other metals in 16 countries across Asia, Europe, Africa, Australia, South America, and China. Rely on the main business of mine development, the Company also extends into the auxiliary industries such as smelting, refining and processing, environmental protection, as well as trading, generating synergies between the upstream and downstream in industrial chains.

Increasing scale of production and sales

As the technological upgrade, projects acquisition, and expansion projects were constructed and progressed in an orderly manner, the production capacity of major minerals such as copper and gold has continued to increase. In 2023, the production volume of mine-produced gold of the Company amounted to 67.7 tons, increasing by 20.2% year-on-year (“YoY”). With the increase in production, the sales volume of mine-produced gold also increased by 9.7% YoY to 66.7 tons in 2023. We believe that the Company’s mine-produced gold production will continue to increase, after the technological upgrade and expansion projects of the Rosebel Gold Mine in Suriname (expected annual production: 10 tons), the completion of the intellectualized mining and processing of Shanxi Zijin in 2023 (expected annual production: 3-4 tons), as well as the completion of Haiyu Gold Mine in 2025 (designated annual production: 15-20 tons), further consolidating its position in gold mining industry.

Zijin Mining’s copper production also expanded rapidly in 2023, mainly driven by the higher output of copper mines from DR Congo, Serbia and Tibet. The Company’s annual mine-produced copper production increased to around 1 million tons in 2023, representing 10.5% YoY increase. It has become the only enterprise in Asia with a copper production exceeding one million tons. With the increase in production, the sales volume of mine-produced copper also increased by 9.8% YoY to 810.8 thousand tons in 2023. Major copper projects include the technological upgrade and expansion projects of the Lower Zone of the Čukaru Peki Copper (Gold) Mine and the Bor Copper Mine in Serbia with production capacity to reach 300 thousand tons by 2025, and phase 2 upgrade and expansion project of Julong Copper in Tibet with production capacity surpassing 300 thousand tons upon completion.

Exhibit 3. Production volume of major mine-produced products from in 2021-2023

	2021	2022	2023
Gold (tons)	47.5	56.4	67.7
Copper (thousand tons)	584.2	877.3	1,007.3
Zinc (thousand tons)	396.4	402.3	421.9
Silver (tons)	387.5	395.8	412.0

Source: Company information, CCXAP research

According to the Zijin Mining's development plan, the production of mine-produced gold, copper, zinc, and lithium carbonate by 2025 will be as high as 90 tons, 1.17 million tons, 480 thousand tons and 120 thousand tons, respectively. We believe that the Company's mine production will continue to increase in the medium term along with the completion of construction projects, further expanding its operating scale and diversifying its product mix, which is credit positive.

Earnings vulnerable to global economic conditions and metal price volatility

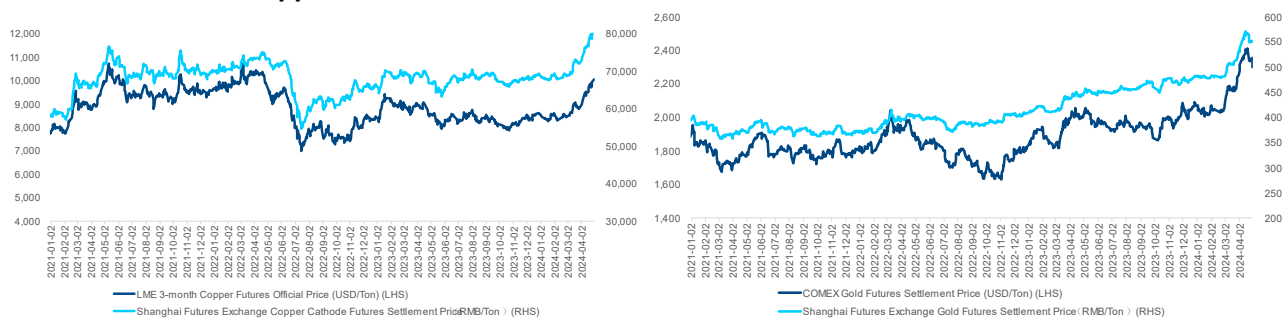
Considering that non-ferrous metal mining is a cyclical industry, metal prices have shown a strong correlation with global economic cycles, resulting in large price volatility during the economic downturn and recovery period in recent years. Both gold and copper prices showed fluctuation in high price level in 2023.

In early 2023, gold price experienced a sudden drop following the Fed's rate hike decision on Feb meeting. Starting from March 2023, given a wave of bank credit events in the US market, expectations of interest rate cut by the Federal Reserve, and increasing gold reserves given geopolitical tension, the gold price has been maintaining at an upward momentum and hits a record high. Given the uncertainties in geopolitical tension, fiscal policy, and monetary policy, as well as the solid demands from central banks, the gold prices are expected to remain high and volatile in the future.

The price of copper recorded a small decline in 2023 partly due to the lower-than-expected economic recovery and unexpected rate hike by the Fed. However, the copper prices experienced a rebound due to the expectations of interest rate cut, and the implementation of economic stimulation policies from Chinese Government. We expect the demand for copper remains robust, and the stimulation policies provide a cushion against downside risks. However, the global economic activities and interest rate policies also brings a certain uncertainty.

Zijin Mining's revenue and earnings are vulnerable to fluctuations of metal prices, especially copper and gold. The Company's exposure to metal price volatility could be partially mitigated by its (1) mining product diversification, as gold and base metal prices are less correlated given their different supply and demand dynamics; and (2) integrated business operations, which cover upstream mining, midstream smelting, and refining, as well as downstream trading and sale of mineral products. Moreover, we believe the macro environment in 2024 would provide certain support to the prices of copper and gold, which could alleviate the inherent volatility of its metal price-dependent revenue model.

Exhibit 4. Gold and Copper Futures Prices from 2021 to 2024Q1



Source: Wind, CCXAP research

Increasing overseas business risks and large capital expenditure pressure

Since 2018, Zijin Mining has continued to expand its global footprint through mergers and acquisitions with self-raised funds. As of 31 December 2023, the Company's overseas assets accounted for 42.0% (2022: 32.1%) of its total assets. Although the increasing proportion of overseas business can enlarge its operating scale and improve its geographic diversification, it may increase its exposure to exchange rate risk and overseas operating risk, especially in high-risk countries. Besides, the Company's global operation and management are becoming more difficult due to the risen geopolitical risks since earlier 2022.

In addition, Zijin Mining's capital expenditure pressure is high driven by the acquisitions since 2018 and the consequent extensive projects under construction. As of 31 December 2023, the Company's total estimated investment in major construction in progress was RMB48.3 billion, with uninvested amount of RMB10.8 billion. We expect the Company will continue to rely on external financing to meet its large capital needs. Nonetheless, the Company's good profitability and cash generation ability can partially reduce its financing pressure.

Ongoing revenue growth and good profitability

Zijin Mining's revenue continued to grow in 2023 mainly driven by the growing volumes of production and sale, as well as the increasing gold price. The Company's total revenue increased from RMB270.3 billion in 2022 to RMB293.4 billion in 2023, representing 8.5% YoY growth. Moreover, due to the increasing operation and production cost, the Company's gross profit margin for metal mining business slightly decreased to 49.1% in 2023 from 54.3% in 2022, but still at a relatively high level compared with its peers in China. Supported by the high metal prices, along with its good cost management, the Company maintains a good profitability. Its EBIT margin remained stable at 12.3% in 2023 (2022: 12.4%), while return on average assets slightly decreased to 11.2% from 13.0% for the same period. Due to the fluctuation of exchange rates and the increasing foreign currency financing cost, the Company's period expense ratio (including management fee, marketing fee and finance cost) slightly increased from 3.7% in 2022 to 4.5% in 2023. We expect that the Company's revenue and earnings will maintain moderate growth in the next 12 to 18 months, given the continuous increase in production from the construction projects and its cost advantages of mine assets.

Elevated debt leverage and moderate credit metrics

Due to the large expenditure pressure from the acquisitions and the ongoing investment in projects under construction, Zijin Mining's total debt increased to RMB145.5 billion at end-2023 from RMB128.5 billion at end-2022, while its total capitalization ratio increased to 51.3% from 50.8% over the same period. Additionally, due to the large number of acquisitions, Zijin Mining's debt servicing ability slightly weakened, but remaining at a fairly good level. The Company's total debt/EBITDA ratio slightly increased to 3.1x in 2023 from 3.0x in 2022,

while EBIT/interest ratio decreased to 6.3x from 8.5x over the same period. Meanwhile, the Company's debt structure is healthy, with its short-term debt accounting for 29.3% (2022: 27.7%) of total debt at end-2023. Given the Company's large expenditure pressure from the construction projects in the pipelines and its acquisition appetite, we expect that its debt leverage will remain at a relatively high level in the next 12 to 18 months.

Good liquidity profile

Zijin Mining maintains a good liquidity profile. The Company has sufficient standby liquidity. As of 31 December 2023, it had bank credit facilities of RMB285.7 billion, with undrawn amount of RMB160.7 billion. Meanwhile, as an A+H share listed company and a frequent bond issuer, Zijin Mining has a diversified and smooth access to funding. In 2023, the Company had raised RMB67.5 billion in onshore bond market, with low coupon rates between 2.8% and 3.7%. In addition, with the business expansion and the good profitability, the Company's operating cash flow continued to increase. In 2023, the Company's net cash flow from operation (CFO) increased by 28.5% YoY to RMB36.9 billion. Meanwhile, the strong operating performance partly offset the increase in total debt, as its adjusted CFO to total debt ratio slightly increased from 18.0% in 2022 to 20.6% in 2023. However, the Company faces certain short-term repayment pressure. As of 31 December 2023, its cash reserves amounted to RMB18.4 billion, approximately 0.4x (2022: 0.6x) relative to its short-term debt.

Fortunately, given Zijin Mining's sufficient operating cash inflow, good liquidity buffer, and diversified financing channels, we believe that the Company can generate sufficient funds to fulfil the capital needs from daily operation, debt repayments, construction projects, and acquisitions.

Rating Methodology

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

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