

## CCXAP upgrades Zhaojin Mining Industry Company Limited's long-term credit rating to BBB<sub>g</sub>, with stable outlook

Hong Kong, 25 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Zhaojin Mining Industry Company Limited (“Zhaojin Mining” or the “Company”) to BBB<sub>g</sub> from BBB<sub>g-</sub>, with stable outlook.

The rating upgrade is based on the high production growth potential from continuous investment and robust implementation of gold mining projects. It also reflects the Company's strong synergy with Zijin Mining Group Co., Ltd. (“Zijin Mining”).

The BBB<sub>g</sub> long-term credit rating of Zhaojin Mining Industry Company Limited (“Zhaojin Mining” or the “Company”) is underpinned by the (1) good market position in the gold mining industry; (2) high production growth potential through continuous investment; (3) improving profitability due to rising gold prices and good cost management; and (4) strengthened debt repayment ability. However, the rating is also constrained by the Company's (1) earnings vulnerable to global economic conditions and gold price volatility; and (2) high debt leverage due to large capital expenditure.

The rating also reflects Zhaojin Mining's high likelihood of receiving strong support from its parent, Shandong Zhaojin Group Company Limited (“Zhaojin Group”), given its (1) most important status as the sole gold mining subsidiary of Zhaojin Group; and (2) strong parent-subsidiary linkage with Zhaojin Group. It also reflects Zhaojin Mining's 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 receiving government support.

### 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 Shandong Zhaojin Group Company Limited (“Zhaojin Group”), Shanghai Fosun Industrial Investment Co., Ltd, Shanghai Yuyuan Tourism Mart Co., Ltd, Shenzhen Guangxin Investment Co., Ltd and Shanghai Lao Miao Gold Co., Ltd. As of 31 March 2024, 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.** Over the past few years, Zhaojin Mining has maintained its good market position in the gold mining industry through internal exploration, as well as mergers and acquisitions of external resources, laying the foundation for long-term performance growth. The Company indirectly owns 70% equity interests of Haiyu Gold Mine



through its major subsidiary Shandong Ruiyin Mining Industry Development Co., Ltd. ("Shandong Ruiyin"). Haiyu Gold Mine is the largest single gold mine in China, with gold resource reserves of 562.4 tons as of end-2023. Since 2023, the Company has further expanded the oversea business to achieve its internationalization strategy, including the acquisition of Tietto Minerals Limited, and the acquisition of Komahun gold mine in West Africa.

**High production growth potential through continuous investment.** With the continuous investment and robust implementation of gold mining projects, we expect the Company has high production growth potential. Haiyu Gold Mine has entered into the fast track of full-scale construction, with a designed annual gold production capacity of 15-20 tons, which is expected to commence production in 2025 and serves as main production growth generator. Besides, Zhaojin Mining's internationalization strategy also supplements production growth potential.

**Strong synergy with Zijin Mining.** Given that both the Company and Zijin Mining are large gold enterprises in China with rich experience in mine operation and management, we believe that strong synergy can be generated effectively between both parties, improving the operation quality and management efficiency of the Company.

**Improving profitability due to rising gold prices and good cost management.** Zhaojin Mining's revenue has further improved in 2023, mainly driven by the rising gold prices. The Company's total revenue increased from RMB8.3 billion in 2022 to RMB8.9 billion in 2023, representing 6.5% YoY growth. Supported by the high metal prices, along with its good cost management, the Company maintains a good profitability. We expect that, underpinned by high gold prices and good cost management, the Company will continue to demonstrate competitive profitability for the next 12 to 18 months.

**Strengthened debt repayment ability.** Zhaojin Mining's credit metrics slightly improved given its strong profitability. The Company's total debt/EBITDA ratio slightly decreased to 9.4x in 2023 from 10.8x in 2022, and its EBIT/interest coverage ratio strengthened to 1.9x from 1.6x over the same period. Furthermore, benefited from the increase in gold sales, the Company's operating cash flow has increased greatly. Zhaojin Mining has good access to capital, supported by its sufficient standby liquidity and active funding raising.

#### Credit Challenges

**Earnings vulnerable to global economic conditions and gold price volatility.** Considering that non-ferrous metal mining is a cyclical industry, gold 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. 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.

**High debt leverage due to large capital expenditure.** Zhaojin Mining's debt leverage remains high due to the continuous external acquisitions and ongoing project investment. The Company's adjusted total debt (including perpetual securities) increased from RMB24.1 billion



at end-2022 to RMB28.6 billion at end-2024Q1, while its total capitalization ratio increased from 61.8% to 65.7% over the same period.

### **Rating Outlook**

The stable outlook on Zhaojin Mining's rating reflects our expectation that the Company will maintain its good business position in China's gold mining industry, with increasing production volumes 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 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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