

Credit Opinion

25 July 2024

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

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Zhaojin Mining Industry Company Limited

Surveillance credit rating report

CCXAP upgrades Zhaojin Mining Industry Company Limited's long-term credit rating to BBB_g, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Zhaojin Mining Industry Company Limited ("Zhaojin Mining" or the "Company") to BBB_g from BBB_g-, 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_g 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 Zhao Yuan 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.

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.

Rating Drivers

- Good market position in the gold mining industry with sufficient resource reserves
- High production growth potential through continuous investment
- Earnings vulnerable to global economic conditions and gold price volatility
- Improving revenue and profitability due to rising gold prices and good cost management
- High debt leverage due to large capital expenditure
- Good track record of support from Zhaojin Group and the local government

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 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.

Key Indicators

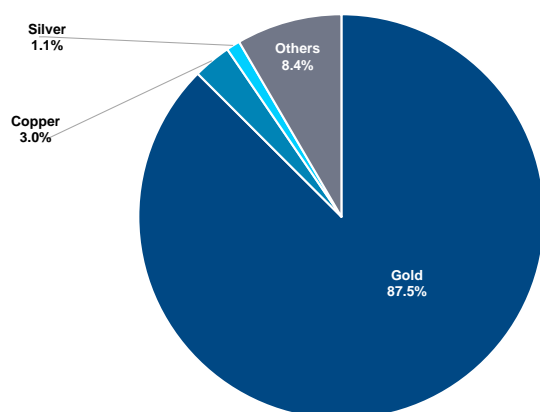
	2021FY	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	42.9	45.8	46.7	49.0
Total Equity (RMB billion)	19.7	20.0	22.2	22.0
Total Revenue (RMB billion)	7.3	8.3	8.9	2.0
Net Profits (RMB billion)	0.2	0.5	0.8	0.3
EBIT/Revenue (%)	14.1	15.0	19.6	-
EBIT/Average Assets (%)	2.4	2.8	3.7	-
Total Debt/Total Capital (%)	58.1	61.8	63.1	65.7
Total Debt/EBITDA (x)	10.9	10.8	9.4	-
EBIT/Interest (x)	1.3	1.6	1.9	-
(CFO-Dividend)/Total Debt (%)	7.7	-1.2	2.2	-

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

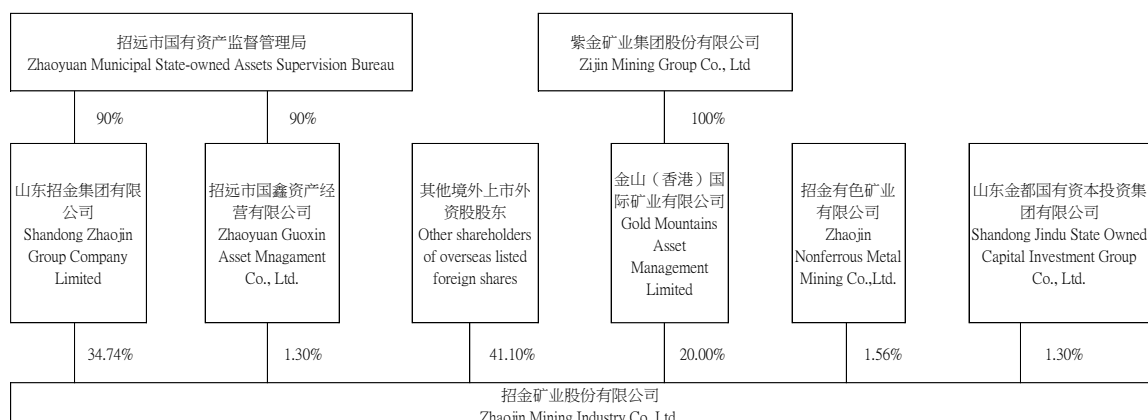
Source: Company data, CCXAP research

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.

Exhibit 1. Revenue structure in 2023

Source: Company data, CCXAP research

Exhibit 2. Shareholding and organization chart as of 31 March 2024

Source: Company information, CCXAP research

Rating Considerations

Good market position in the gold mining industry with sufficient resource reserves

Following the Company realization of “Half for Shandong, half for outside Shandong” development strategy, Zhaojin Mining has set an internationalization strategy of “Half for China, half for outside China”, aiming to become a world-class gold mining company. 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. As of 31 December 2023, the Company had around 1,185 tons of gold resource reserves and 472 tons of high-grade recoverable reserves, laying sound foundation for its industry position. 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 overseas business to achieve its internationalization strategy, including the acquisition of Tietto Minerals Limited, and the acquisition of Komahun gold mine in West Africa. Tietto Minerals Limited owns 88% equity of Abuja Gold Mine, which held gold reserves

of approximately 119 tons, while Zhaojin Mining owns 60% equity of Komahun Gold Mine, which held gold reserves of approximately 22 tons. These acquisitions also significantly increased the gold resource reserve of the Company.

High production growth potential through continuous investment

Influenced by the decrease in buyout gold, the Company's gold production (including mine-producing and processing gold) slightly decreased by 9.8% year-on-year ("YoY") to 24.7 tons in 2023. In addition, the Company's copper production increased from 4.3 thousand tons in 2022 to 5.0 thousand tons in 2023, mainly due to the gradual recovery of copper business production.

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

	2021	2022	2023
Gold (tons)	23.7	27.4	24.7
Mine-producing gold (tons)	12.6	19.2	17.6
Processing gold (tons)	11.0	8.1	7.1
Copper (thousand tons)	7.2	4.3	5.0

Source: Company information, CCXAP research

Moreover, 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. The Komahun Gold Mine has designed annual gold production volume of 2.3 tons and Abujar Gold Mining has designed annual gold production volume of 5.3 tons, which will further increase total gold production. Furthermore, the Company's several key mining construction projects, such as expansion of Dayingezhuang Gold Mine, and the infrastructure construction of Caogoutou Mining Area of Jintingling Mining, will further increase its gold production capacity. Overall, we believe the continuous investment and robust implementation of gold mining projects provides an enormous support for the company's future performance growth.

Strong synergy with Zijin Mining

In 2022, Zijin Mining acquired 20% equity interests of Zhaojin Mining with total consideration of HKD4.4 billion, becoming the second largest shareholder of the Company. According to Forbes' Global 2000 in 2023, Zijin Mining ranked the 1st among global gold mining companies. Participated in the Haiyu Gold Mine project, Zijin Mining holds 30% equity of the project and develops the project collectively with Zhaojin Mining, unleashing advantages of both sides. 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. In addition, Zijin Mining's abundant experience in international mergers and acquisitions also provides a solid support to the Company in achieve its internationalization strategy.

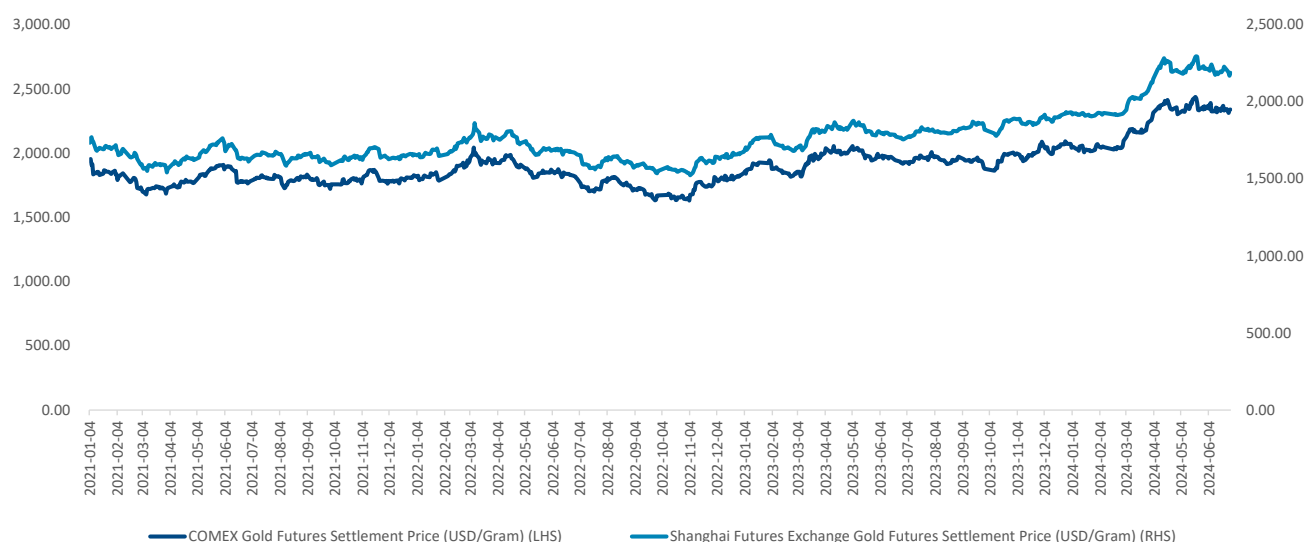
Earnings vulnerable to global economic conditions and gold price volatility

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. 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.

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. The price range of the forward commodity contracts is closely monitored by management. Accordingly, we expect that a reasonable fluctuation in commodity prices would have no significant impact on the Company's profit and equity.

Exhibit 4. Gold Futures Price from January 2021 to June 2024



Source: Wind, CCXAP research

Improving revenue and 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. In addition, Zhaojin Mining has cost advantages, resulting in its high gross profit of 41.9% in 2023. Supported by the high metal prices, along with its good cost management, the Company maintains a good profitability. In 2023, the Company's EBIT margin and return on average assets were 19.1% and 3.7%, increasing from 14.8% and 2.8% in 2022, respectively. The total period expense has slightly increased from RMB1.7 billion to RMB1.8 billion, with period expense ratio dropped from 20.5% in 2022 to 19.8% in 2023. 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.

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. Zhaojin Mining paid RMB5.2 billion for investment activities in 2023, and paid RMB180 million for acquiring Komahun Gold Mine project and USD500 million for acquiring Tietto Minerals Limited in 2024. 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. However, its debt maturity structure has shown an improving trend. The Company's short-term debt to its total debt decreased from 49.4% at end-2022 to 41.6% at end-2024Q1, remaining at a relatively high level. The Company had cash reserves of RMB5.1 billion and cash to short-term debt of 0.4x as of 31 March 2024.

However, Zhaojin Mining has large future capital needs on Haiyu Gold Mine project, which may further push up the debt scale. As of 31 March 2024, the Company had invested RMB4.0 billion into its flagship projects, with uninvested amount of RMB3.6 billion. Given Zhaojin Mining's internationalization strategy, we expect the Company will continue to increase the investment in high-quality gold mining projects around the world through mergers and acquisitions, which may rely on debt financing. Considering the Company's relatively large capital expenditure, we expect its debt leverage to remain relatively high level over the next 12 to 18 months.

Strengthened debt repayment ability and good access to capital

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. In 2023, the Company's net cash flow from operation ("CFO") rose by 164.4% YoY to RMB1.8 billion. As a result, its adjusted CFO to total debt ratio increased from -1.2% in 2022 to 2.2% in 2023. We believe that with the continuous high level of gold price and rising gold sales, the Company's operating cash flow will increase, further strengthening its debt repayment ability.

Zhaojin Mining has good access to capital, supported by its sufficient standby liquidity and active funding raising. The Company has sufficient credit liquidity, mainly from large state-owned banks. As of end-2024Q1, the Company had total credit facilities of RMB35.5 billion and available credit facilities of RMB23.7 billion. Meanwhile, as a H-share listed company and a frequent bond issuer, Zhaojin Mining has a diversified and smooth access to funding. From 2023 to 2024Q1, the Company had raised RMB11.5 billion in onshore bond market, with low coupon rates between 1.95% and 3.55%. In April 2024, the Company completed the placement of 132 million shares, raising HKD1.7 billion in total.

External Support

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, considering its (1) ultimate ownership by the local government; (2) important position in the local economic development; and (3) track record of government support.

Zhaojin Group has the most important position in the gold production of Zhaoyuan City. It is the City's leading enterprise and the largest gold producer, playing key role in local economic development. The financial impact of Zhaojin Group's default is also very strong, accounting for over 70% of the total assets of state-owned enterprises in Zhaoyuan City, and it has received continued support from the government in terms of capital injections and subsidies. In addition, as Zhaojin Mining is the only gold mining subsidiary of Zhaojin Group, it holds the majority of Zhaojin Group's mining assets, demonstrating strong parent-subsidiary linkage. Zhaojin Group continues to provide support in terms of asset injection, talent, technology, and financing. Zhaojin Group has injected a number of mining assets into the Company and provided guarantees for the Company's debt financing. As the key gold mining company in Zhaoyuan City, Zhaojin Mining also regularly receives financial support from the local government. From 2021 to 2023, the Company had received government subsidies of RMB185.0 million.

We believe that Zhaojin Mining will remain a core subsidiary of Zhaojin Group, and the strong willingness to support the Company from the local government and Zhaojin Group is unlikely to change in the near to medium term.

Rating Methodology

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

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