

## Credit Opinion

31 May 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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## Zijin Mining Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Zijin Mining Group Co., Ltd.'s BBB<sub>g</sub>+ long-term credit rating, with stable outlook.**

### Summary

The BBB<sub>g</sub>+ 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

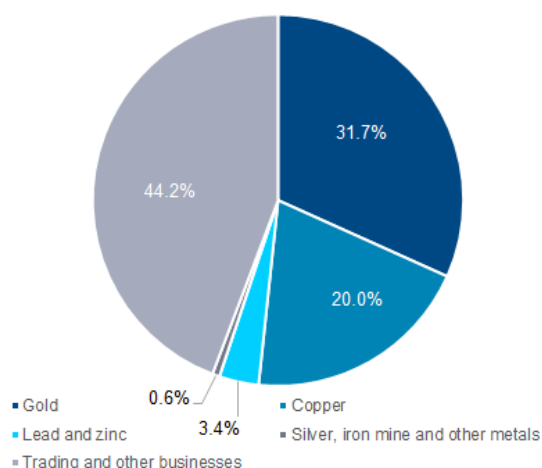
	2020FY	2021FY	2022FY
Total Assets (RMB billion)	182.3	208.6	306.0
Total Equity (RMB billion)	74.6	92.9	124.5
Total Revenue (RMB billion)	171.5	225.1	270.3
Net Profits (RMB billion)	8.5	19.6	24.8
EBIT/Revenue (%)	7.5	12.0	12.4
EBIT/Average Assets (%)	8.4	13.8	13.0
Total Debt/Total Capital (%)	53.7	46.4	51.0
Total Debt/EBITDA (x)	4.0	2.3	3.0
EBIT/Interest (x)	5.3	10.4	8.5
(CFO-Dividend)/Total Debt (%)	10.6	23.3	13.3

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

Source: 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 2022, 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 2022**

Source: Company data, CCXAP research

**Exhibit 2. Shareholding chart as of 31 December 2022**

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 2022, the Company ranked the 1<sup>st</sup> among global gold mining companies and the 7<sup>th</sup> 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 2022, the Company had over 3,100 tons of gold resources, over 73 million tons of copper resources, and over 11 million tons of zinc and lead resources, with more than 46% of gold and copper resources and more than 80% of its zinc and lead resources obtained by self-initiated exploration. Over the past three years, the Company focused on counter-cyclical mergers and acquisitions, and has acquired gold resources of 1,106.7 tons, copper resources of 6.8 million tons, and zinc and lead resources of 0.1 million tons.

The Company has also proactively entered the new energy and advanced material industry. In 2022, the Company successfully finished the acquisitions of the Tres Quebradas Salar in Argentina, the Xiangyuan Hard Rock Lithium Polymetallic Mine in Dao County, China, and the Lakkor Tso Salar in Tibet, China, forming “two lakes, one mine” layout. The overall lithium carbonate equivalent resources of the Company have exceeded 12 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, zinc, and lithium carbonate, which could reduce the impact of any single commodity and support its business strength. Besides, its 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 2022, the Company owned major mining projects consisting of copper, gold, zinc, 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, refi-ning 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 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 2022, the production volume of mine-produced gold of the Company amounted to 56.4 tons, increasing by 18.8% year-on-year (“YoY”). With the increase in production, the sales volume of mine-produced gold also increased by 33.2% YoY to 60.8 tons in 2022. We believe that the Company’s mine-produced gold production will continue to increase, after the Porgera Gold Mine in Papua New Guinea fully resumes operation in 2023, and the technological upgrade and expansion projects of the Rosebel Gold Mine in Suriname and the intellectualized mining and processing of Shanxi Zijin, as well as the Haiyu Gold Mine complete construction and reach the designated production capacity, further consolidating its position in gold mining industry.

Zijin Mining’s copper production also expanded rapidly in 2022, mainly driven by the commencement of production of three world-class copper mines, including Curaku Peki Copper and Gold Mine in Serbia, Kamoakakula Copper Mine in the DR Congo, and Julong Copper Mine in China. The Company’s annual mine-produced copper production significantly increased from 584.2 thousand tons in 2021 to 877.3 thousand tons in 2022, representing 48.7% YoY increase. With the increase in production, the sales volume of mine-produced copper also increased by 39.7% YoY to 738.7 thousand tons in 2022. The Company is implementing phase 2 of the Julong Copper Mine project and the technological upgrade and expansion project at the Lower Zone of the Curaku Peki Copper and Gold Mine, which is expected to further boost its mine-produced copper production.

### Exhibit 3. Production volume of major mine-produced products from in 2020-2022

	2020	2021	2022
Gold (tons)	40.5	47.5	56.4
Copper (thousand tons)	453.4	584.2	877.3
Zinc (thousand tons)	342.1	396.4	402.3

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

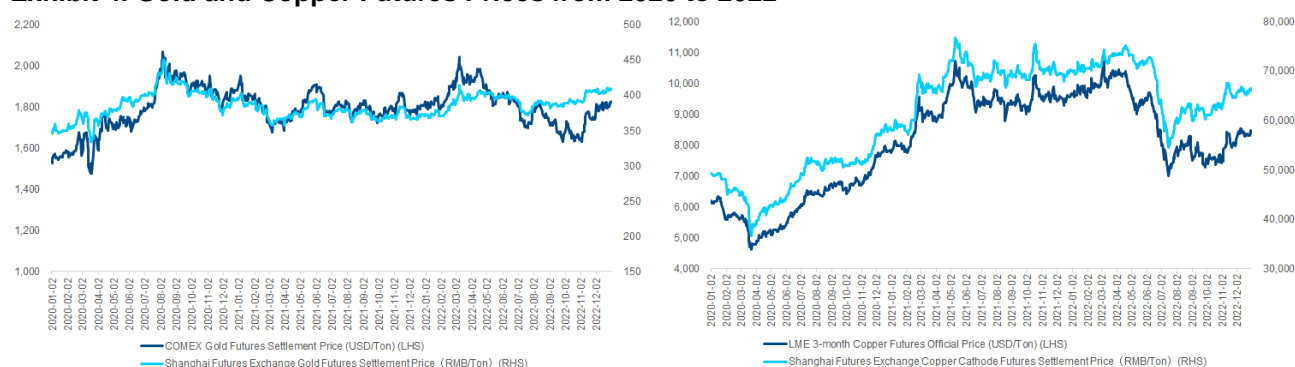
Considering that non-ferrous metal mining is a cyclical industry, metal prices have shown a strong correlation with global economic cycles, resulting in large price volatility during the economic downturn and recovery period in recent years. Both gold and copper prices showed fluctuation in high price level in 2022.

In early 2022, the investors' risk aversion increased due to the conflicts between Russia and Ukraine, resulting in a significant increase in gold prices. However, since mid-2022, the Fed has initiated a series of aggressive monetary policies such as rate hike and balance sheet tapering, suppressing the gold prices. We expect that with the Fed's slowdown in the pace of rate hike, the downward pressure on gold prices will be reduced, but volatility will continue in the gold prices.

The copper prices rose and hit a record high in 2022Q1 due to the conflicts between Russia and Ukraine. However, with the Fed's aggressive rate hike and the global economic slowdown, copper prices significantly dropped in 2022Q2, and regained its upward momentum since mid-2022. We expect that the low copper inventories and the Fed's slowdown in the pace of rate hike can provide a relatively strong support to copper prices in the short term. However, considering that the economic slowdown in US may lead to a mild recession in the global economy, and the economic recovery in China may also fall short of expectations, the global economic activities are expected to slow down, which may exert pressure on commodity prices.

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.

#### Exhibit 4. Gold and Copper Futures Prices from 2020 to 2022



Source: 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 2022, the Company's overseas assets accounted for 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. In 2022, the Company spent more than RMB30 billion in 10 large acquisitions in the area of lithium carbonate, molybdenum, and gold production. As of 31 March 2023, the Company's total estimated investment in major construction in progress was RMB71.9 billion, with uninvested amount of RMB50.7 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 2022 mainly driven by the growing volumes of production and sale. The Company's total revenue increased from RMB225.1 billion in 2021 to RMB270.3 billion in 2022, representing 20.1% YoY growth. Moreover, due to the declined copper prices, the Company's gross profit margin for metal mining business slightly decreased to 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 slightly increased to 12.4% in 2022 from 12.0% in 2021, while return on average assets slightly decreased to 13.0% from 13.8% for the same period. 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.

### **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 RMB129.7 billion at end-2022 from RMB80.6 billion at end-2021, while its total capitalization ratio increased to 51.0% from 46.4% 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 increased to 3.0x in 2022 from 2.3x in 2021, while EBIT/interest ratio decreased to 8.5x from 10.4x over the same period. Nevertheless, the Company's debt structure has been improved, with its short-term debt accounting for 27.4% (2021: 35.7%) of total debt at end-2022. The total investment expenditure for project construction (including technological upgrade) in 2023 is expected to be RMB29.3 billion. Given the Company's large expenditure pressure from the construction projects in the pipelines, 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 2022, it had credit facilities of RMB257.0 billion, with undrawn amount of RMB146.5 billion. Meanwhile, as an A+H share listed company and a frequent bond issuer, Zijin Mining has a diversified and smooth access to funding. From 2021 to 2022, the Company had raised RMB22.0 billion in onshore bond market, with low coupon rates between 1.84% and 3.87%. In addition, with the business expansion and the good profitability, the Company's operating cash flow continued to increase. In 2022, the Company's net cash flow from operation (CFO) increased by 10% YoY to RMB28.7 billion. However, with the increase in total debt, its adjusted CFO to total debt ratio declined from 23.3% in 2021 to 13.3% in 2022. Besides, the Company also has sufficient cash reserves. As of 31 December 2022, its cash reserves amounted to RMB20.2 billion, approximately 0.6x (2021: 0.5x) relative to its short-term debt.

Considering Zijin Mining's sufficient operating cash inflow and cash reserves, 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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