

China / Hong Kong Company Update

China Molybdenum Co Ltd

Bloomberg: 3993 HK Equity | 603993 CH Equity | Reuters: 3993.HK | 603993.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

17 Jan 2022

H: BUY

Last Traded Price (14 Jan 2022):HK\$4.28(HSI : 24,383)

Price Target 12-mth: HK\$7.50 (75.2% upside)

A: BUY

Last Traded Price (14 Jan 2022):RMB5.62(CSI300 Index : 4,727)

Price Target 12-mth: RMB8.00 (42.3% upside)

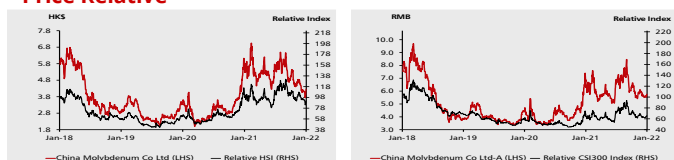
Analyst

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What's New

- TFM10K project commences, driving growth prospects
- Cobalt consumption to remain solid in near term
- Revised up net estimate of a 5% CAGR during FY21F and FY23F
- Reiterate BUY and TP at HK\$7.5

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	112,981	134,012	141,612	146,033
EBITDA	8,340	11,624	12,413	12,693
Pre-tax Profit	2,876	6,527	6,867	7,133
Net Profit	2,329	4,748	5,099	5,297
Net Pft (Pre Ex) (core profit)	2,329	4,748	5,099	5,297
Net Profit Gth (Pre-ex) (%)	25.4	103.9	7.4	3.9
EPS (RMB)	0.11	0.22	0.24	0.25
EPS (HK\$)	0.13	0.27	0.29	0.30
EPS Gth (%)	25.4	103.9	7.4	3.9
Diluted EPS (HK\$)	0.13	0.27	0.29	0.30
DPS (HK\$)	0.04	0.08	0.09	0.09
BV Per Share (HK\$)	2.20	2.47	2.76	3.06
PE (X)	32.4	15.9	14.8	14.3
P/Cash Flow (X)	8.9	14.5	10.0	9.1
P/Free CF (X)	nm	nm	nm	17.6
EV/EBITDA (X)	12.3	9.1	8.5	8.0
Net Div Yield (%)	0.9	1.9	2.1	2.1
P/Book Value (X)	1.9	1.7	1.5	1.4
Net Debt/Equity (X)	0.4	0.5	0.5	0.4
ROAE(%)	5.8	11.5	11.0	10.3
Earnings Rev (%)		(0)	(5)	New
Consensus EPS (RMB)		0.24	0.28	0.30
Other Broker Recs:		B:13	S:1	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

New projects support growth outlook

Investment Thesis

Contribution from TFM10K project. CMOc's expansion project development is progressing smoothly. The project has commenced successfully after a trial run since 3Q21. This project would provide additional output for new cathode copper and cobalt hydroxide from 2022 onwards, offsetting the depleting production due to ageing of the mines.

Overdone concerns from cobalt-free production. On the contrary, we expect the consumption outlook to remain solid in the near term. Cobalt would remain the core material for battery production. We foresee global annual demand for cobalt for use in lithium-ion batteries to still grow at a CAGR of 7.4% between 2021 and 2030.

Earnings revision. We have revised up our net earnings estimate for FY21F on a better GP and cut FY22F in anticipation of a lower copper market price. After all, we estimate net earnings growth of a 5% CAGR during FY21F and FY23F. We see upside potential from its Kisanfu mine development.

Valuation:

Our H-share TP is HK\$7.5, pegged to a 2.8x FY22F P/B, which is at +1SD of its five-year historical average, against ROE that is expected to maintain at >10% in 2022-2023. Our A-Share TP of RMB8.0 is based on a 3.5x P/B, in line with the historical mean and consistent with the historical price spread of the dual-listed counter.

Where we differ:

We are more optimistic than the street on CMOc's cobalt copper projects expansion.

Key Risks to Our View:

A market collapse on an unexpected shift in market dynamics and/or geopolitical/China policies swing.

At A Glance

Issued Capital - H shares (m shs)	3,933
- Non H shrs (m shs)	17,666
H shs as a % of Total	18
Total Mkt Cap (HK\$/US\$m)	141,084 / 18,109
Major Shareholders (%)	
Cathay Fortune Corp.	30.2
Luoyang Mining Group Co., Ltd.	30.2
Major H Shareholders (As % of H shares)	
Cathay Fortune Corp.	7.7
GIC Private Limited	7.1
H Shares-Free Float (%)	85.2
3m Avg. Daily Val. (US\$m)	16.47
GICS Industry: Materials / Metals & Mining	

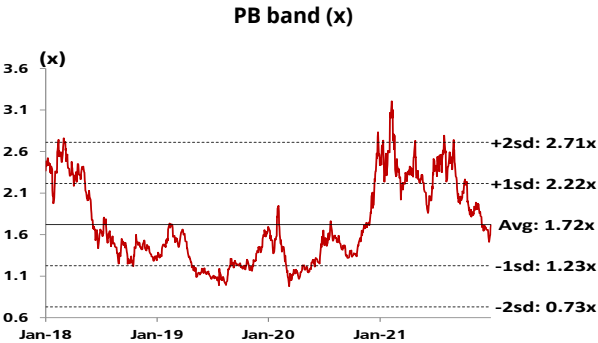
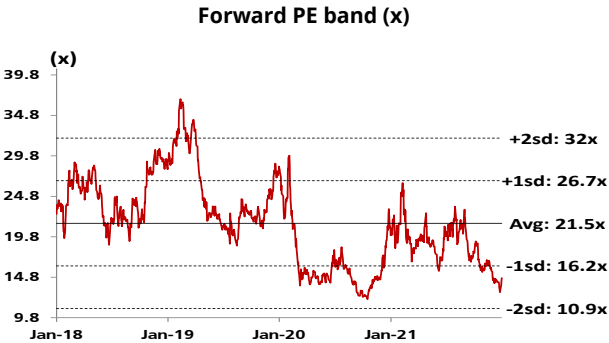


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Live more, Bank less

China Molybdenum Co Ltd

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Molybdenum Co Ltd

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Cathode copper ASP (USD/t)	6,005.0	6,186.0	9,285.0	9,000.0	9,000.0
Metallic cobalt ASP (USD/lb)	11.3	10.8	15.0	21.0	21.0
NPM copper sales volume (tonne)	29,191.0	27,157.0	19,600.0	28,000.0	40,000.0
Tenke copper sales volume (tonne)	159,116.0	185,680.0	193,000.0	200,000.0	200,000.0
Cobalt sales volume (tonne)	15,130.0	17,333.0	14,400.0	16,000.0	17,000.0

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Molybdenum, tungsten and related products	4,505	3,551	3,641	3,752	3,752
Niobium related products	5,099	5,195	3,206	3,206	3,206
Copper, cobalt and related products	9,654	9,730	14,281	15,180	15,977
Others	241	435	0	0	0
Trading	49,177	94,070	112,884	119,473	123,098
Total	68,677	112,981	134,012	141,612	146,033
Gross Profit (RMB m)					
Molybdenum, tungsten and related products	2,986	1,249	1,329	1,421	1,420
Niobium related products	1,342	1,498	924	924	924
Copper, cobalt and related products	805	2,072	5,945	6,625	7,019
Others	(1,397)	(722)	0	0	0
Trading	(1,478)	2,734	4,147	4,147	4,147
Total	2,258	7,553	12,346	13,118	13,510
Gross Profit Margins (%)					
Molybdenum, tungsten and related products	66.3	35.2	36.5	37.9	37.8
Niobium related products	26.3	28.8	28.8	28.8	28.8
Copper, cobalt and related products	8.3	21.3	41.6	43.6	43.9
Others	(580.6)	(166.1)	N/A	N/A	N/A
Trading	(3.0)	2.9	3.7	3.5	3.4
Total	3.3	6.7	9.2	9.3	9.3

Source: Company, DBS HK

China Molybdenum Co Ltd

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	68,677	112,981	134,012	141,612	146,033
Cost of Goods Sold	(66,418)	(105,428)	(121,666)	(128,494)	(132,523)
Gross Profit	2,258	7,553	12,346	13,118	13,510
Other Opng (Exp)/Inc	(1,324)	(1,404)	(1,665)	(2,059)	(2,124)
Operating Profit	934	6,149	10,681	11,058	11,386
Other Non Opg (Exp)/Inc	2,654	(1,938)	(2,298)	(2,429)	(2,505)
Associates & JV Inc	22	(12)	(3)	47	47
Net Interest (Exp)/Inc	(1,251)	(1,323)	(1,853)	(1,809)	(1,796)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,358	2,876	6,527	6,867	7,133
Tax	(593)	(398)	(1,632)	(1,717)	(1,783)
Minority Interest	91	(150)	(147)	(52)	(54)
Preference Dividend	0	0	0	0	0
Net Profit	1,857	2,329	4,748	5,099	5,297
Net Profit before Except.	1,857	2,329	4,748	5,099	5,297
EBITDA	7,234	8,340	11,624	12,413	12,693
Growth					
Revenue Gth (%)	164.5	64.5	18.6	5.7	3.1
EBITDA Gth (%)	(37.6)	15.3	39.4	6.8	2.3
Opg Profit Gth (%)	(87.9)	558.5	73.7	3.5	3.0
Net Profit Gth (%)	(59.9)	25.4	103.9	7.4	3.9
Margins & Ratio					
Gross Margins (%)	3.3	6.7	9.2	9.3	9.3
Opg Profit Margin (%)	1.4	5.4	8.0	7.8	7.8
Net Profit Margin (%)	2.7	2.1	3.5	3.6	3.6
ROAE (%)	4.5	5.8	11.5	11.0	10.3
ROA (%)	1.7	1.9	3.8	3.9	3.9
ROCE (%)	0.7	5.3	7.8	7.7	7.7
Div Payout Ratio (%)	50.0	30.5	30.5	30.5	30.5
Net Interest Cover (x)	0.7	4.6	5.8	6.1	6.3

Source: Company, DBS HK

China Molybdenum Co Ltd

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	24,440	23,328	28,084	32,348	32,584
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	38,245	41,873	41,873	41,873	41,873
Cash & ST Invt	15,648	16,948	14,716	12,688	15,363
Inventory	20,731	21,170	24,217	25,578	26,379
Debtors	2,630	2,379	2,970	3,139	3,237
Other Current Assets	15,169	16,743	16,743	16,743	16,743
Total Assets	116,862	122,441	128,604	132,369	136,179
ST Debt	18,589	20,464	21,607	21,607	21,607
Creditors	3,762	3,104	3,969	4,192	4,323
Other Current Liab	12,224	18,789	18,789	18,789	18,789
LT Debt	16,279	15,360	16,218	16,218	16,218
Other LT Liabilities	16,512	17,388	17,388	17,388	17,388
Shareholder's Equity	40,803	38,892	43,640	48,739	54,035
Minority Interests	8,693	8,443	6,993	5,436	3,818
Total Cap. & Liab.	116,862	122,441	128,604	132,369	136,179
Non-Cash Wkg. Capital	22,543	18,399	21,173	22,479	23,247
Net Cash/(Debt)	(19,220)	(18,877)	(23,109)	(25,137)	(22,462)
Debtors Turn (avg days)	18.4	8.1	8.1	8.1	8.1
Creditors Turn (avg days)	13.7	12.0	12.0	12.0	12.0
Inventory Turn (avg days)	76.1	73.2	73.2	73.2	73.2
Asset Turnover (x)	0.6	0.9	1.1	1.1	1.1
Current Ratio (x)	1.6	1.4	1.3	1.3	1.4
Quick Ratio (x)	0.5	0.5	0.4	0.4	0.4
Net Debt/Equity (X)	0.4	0.4	0.5	0.5	0.4
Net Debt/Equity ex MI (X)	0.5	0.5	0.5	0.5	0.4
Capex to Debt (%)	14.6	45.1	21.2	21.2	10.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,766	2,479	4,748	5,099	5,297
Dep. & Amort.	3,625	4,140	3,244	3,737	3,764
Tax Paid	159	159	(1,632)	(1,717)	(1,783)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(6,163)	191	(2,774)	(1,306)	(768)
Other Operating CF	2,318	1,524	1,632	1,717	1,783
Net Operating CF	1,705	8,492	5,218	7,529	8,292
Capital Exp.(net)	(5,095)	(16,140)	(8,000)	(8,000)	(4,000)
Other Invt.(net)	(2,719)	(7,622)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	5,135	14,357	0	0	0
Net Investing CF	(2,679)	(9,405)	(8,000)	(8,000)	(4,000)
Div Paid	(4,203)	(2,679)	(1,450)	(1,557)	(1,617)
Chg in Gross Debt	720	4,104	2,000	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(6,764)	(1,003)	0	0	0
Net Financing CF	(10,247)	422	550	(1,557)	(1,617)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(11,222)	(490)	(2,232)	(2,028)	2,675
Opg CFPS (RMB)	0.36	0.38	0.37	0.41	0.42
Free CFPS (RMB)	(0.16)	(0.35)	(0.13)	(0.02)	0.20

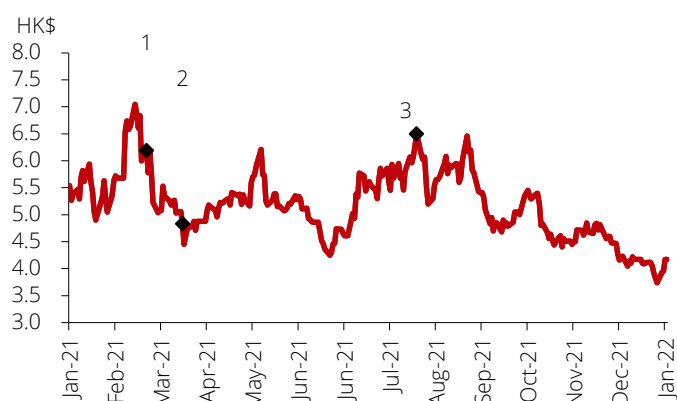
Source: Company, DBS HK

China Molybdenum Co Ltd

Company Background

China Molybdenum Co Ltd ("CMoC") is a global diversified mining production company and is the world's second largest producer of cobalt, the fifth largest producer of molybdenum, and a leading copper producer. In 2020, the company's sales volumes of cobalt and copper were 17,333 tons and 212kt respectively, based on metal tonnage.

H Share - Target Price & Ratings History

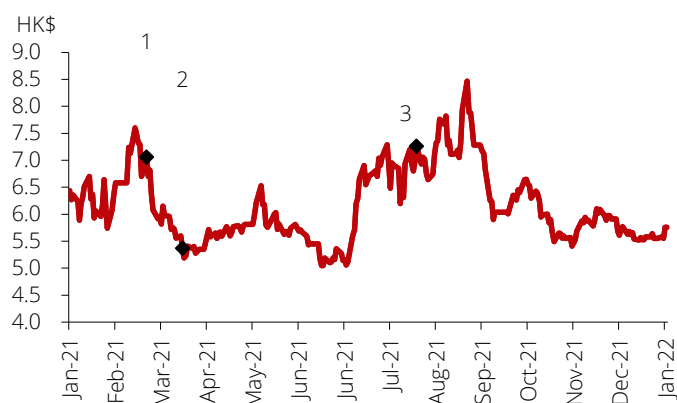


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-21	HK\$6.84	HK\$7.00	Hold
2:	23-Mar-21	HK\$4.83	HK\$7.00	Buy
3:	13-Aug-21	HK\$6.27	HK\$7.50	Buy

Source: DBS HK

Analyst: Duncan CHAN

A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-21	RMB7.30	RMB7.00	Fully Valued
2:	23-Mar-21	RMB5.37	RMB7.00	Buy
3:	13-Aug-21	RMB6.98	RMB8.00	Buy

Source: DBS HK

Analyst: Duncan CHAN

China Molybdenum Co Ltd

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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China Molybdenum Co Ltd

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