



## Real Gold Mining (246.HK)

## Gold miner enjoying low production costs; Valuations undemanding

Company Report

Rating: **Buy** →

Price: **HK\$12.16**

TP: **HK\$17.8** →

Upside: **46.4%**

11 March 2011

### Event:

**Comment on 2010 earnings result**

### Stock data (HK\$)

52w High (HK\$)	15.78
52w Low (HK\$)	10.36
Market cap (HK\$m)	11,069
No of shares (m)	9.09
Avg daily vol (m)	4.07
1-mth change (%)	7.22
YTD change (%)	-10.04
50d MA	12.52
200d MA	12.83
14-day RSI	53.50

Source: Bloomberg

### 1-year share price



Source: Bloomberg

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### Summary:

- **2010 earnings beat expectation.** Revenue and net profit attributable to shareholders of the Company were RMB1.368bn and RMB798m, respectively, representing increases of 35.3% and 51.5% when compared to 2009. EPS was RMB0.95 and a final dividend of HK\$0.05 per share was recommended. The results beat our expectation as the Company expanded its production capacity in 4Q10.
- **Gold mining company growing steadily with low production costs.** Gold production in 2010 reached 136,100 ounces or 4.23 tonnes, up 16.5% YoY. Real Gold Mining is a mid-sized gold manufacturer in China possessing two quality gold mines, namely Nantaizi Gold Mine and Luotuochang Gold Mine, in Chifeng Municipality. Upon capacity expansion in 2010, the two gold mines currently possess a daily production capacity of 2580 tonnes with production costs of only around US\$300/ounce, far below the industry average in the country. GM and net profit margin in 2010 were 77.3% and 58.3%, respectively, topping the industry.
- **Expansion of gold resources.** The company took initiatives in acquiring high-quality gold mines in China in the recent years. It acquired Jiangxi's Daping Gold Mine and Guangxi's Yantang Gold Mine and Yandan Gold Mine in 2010. Current gold reserves and gold reserves/resource volume reaches 85 tons and 127 tons respectively. Daping Gold Mine (Jiangxi) and Fuyuan Gold Mine (Yunnan) will commence production in 2H11, while Yantang Gold Mine in Guangxi will commence production in early 2012. The company will have new mining capacity of around 2.5 tons and its total gold output may exceed 6 tons. The company possesses ample cash in hand with a cash balance of RMB2.965bn, having strength in large-scale acquisition of gold resources.
- **Associated metals could increase earnings.** The company's existing gold mine products contain ample associated metals such as silver, copper, lead and zinc. Associated metals contributed 35.9% of its total revenue in 2010. Given significant increase in the prices of copper, lead and zinc since 2011, we expect the associated metals will contribute a larger percentage of total revenue and increase the earnings of the company.
- **"Buy" rating maintained on attractive valuation.** The gold reserves and production scale of the company increased markedly through the expansion of existing mines and acquisition of foreign mine sites in recent years. Meanwhile, rising gold price will boost its profit level steadily. We estimate the FY11F/FY12F EPS to be RMB1.10/RMB1.42, equivalent to FY11F/FY12F P/E of 9.3x/7.2x. We maintain "Buy" rating with TP of HK\$17.8 on attractive valuation far behind industry average.

### Valuations

	FY09	FY10	FY11F	FY12F	FY13F
Revenue (RMB m)	1,011	1,368	1,871	2,402	2,551
YoY growth (%)	223.8%	35.3%	36.7%	28.4%	6.2%
Net profit (RMB m)	527	798	997	1,284	1,408
YoY growth (%)	406.9%	51.5%	24.9%	28.8%	9.6%
EPS (RMB)	0.79	0.95	1.10	1.42	1.55
PE	13.3	11.0	9.3	7.2	6.6
NAVS (RMB)	3.7	5.2	6.1	7.3	8.6
PB	2.8	2.0	1.7	1.4	1.2

Source: BOCOM Int'l

**Chart 1: Estimates on income statement items (Unit: RMB m)**

	2009	2010	2011F	2012F	2013F
Sales revenue	1,011	1,368	1,871	2,402	2,551
Costs of principle operations	263	311	548	688	692
Gross margin	749	1,057	1,323	1,714	1,859
Distribution costs	0	0	4	5	5
Management fee	48	34	37	48	51
Finance costs	0	0	-89	-104	-132
Pre-tax profit	736	1,108	1,371	1,766	1,935
Income tax expenses	193	299	343	441	484
Profit in the year	543	809	1,028	1,324	1,451
Profit attributable to equity holders of the company	527	798	997	1,284	1,408

Source: BOCOM Int'l

**Chart 2: Estimates on balance sheet items (Unit: RMB m)**

	2009	2010	2011F	2012F	2013F
Cash and bank balances	1,958	2,965	3,787	4,812	5,871
Trade receivables	460	45	37	48	51
Inventory	6	8	8	8	8
Total current assets	2,424	3,018	3,869	4,916	5,980
Fixed assets	378	457	633	786	943
Total assets	3,078	4,910	5,872	7,008	8,176
Short-term borrowings	0	0	150	200	200
Total current liabilities	540	167	300	392	404
Long-term borrowings	0	0	10	0	0
Total liabilities	557	184	324	401	408
Share capital	675	796	796	796	796
Reserves	1,808	3,794	4,462	5,323	6,266
Minority interests	37	135	135	135	135
Total shareholders' equity	2,521	4,725	5,548	6,607	7,768
Total liabilities and shareholders' equity	3,078	4,910	5,872	7,008	8,176

Source: BOCOM Int'l

Chart 3: Estimates on key financial ratios

	2009	2010	2011F	2012F	2013F
Growth rate					
Revenue	223.8%	35.3%	36.7%	28.4%	6.2%
Profit of principle operations	223.1%	41.2%	25.1%	29.6%	8.4%
Net profit	406.9%	51.5%	24.9%	28.8%	9.6%
Profitability					
GM%	74.0%	77.3%	70.7%	71.4%	72.9%
NM%	52.1%	58.3%	53.3%	53.5%	55.2%
ROE	20.9%	16.9%	18.0%	19.4%	18.1%
ROIC	20.8%	16.2%	16.8%	18.3%	17.0%
Indemnity					
Gearing ratio	18.1%	3.8%	5.5%	5.7%	5.0%
Current ratio	4.5	18.1	12.9	12.5	14.8
Quick ratio	4.5	18.0	12.9	12.5	14.8

Source: BOCOM Int'l

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**Rating System**

**Company Rating**

Buy: Expect more than 20% upside in 12 months

LT Buy: Expect more than 20% upside but longer than 12 months

Neutral: Expect low volatility

Sell: Expect more than 20% downside in 12 months

**Sector Rating**

Outperform: Expect more than 10% upside in 12 months

Market perform: Expect low volatility

Underperform: Expect more than 10% downside in 12 months

**Analyst Certification**

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