

BUY **32% ↑side**
Target Price: HK\$13.75
Prior TP: HK\$15.37

246 HK
Price: HK\$ 10.40
TP Basis: 1.3x P/ NAV
Sector Rating: OVERWEIGHT

Real Gold Mining

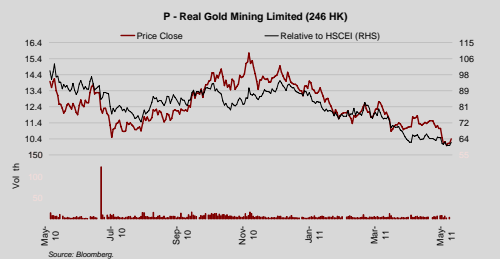
1Q11 results in line; further delays in commencement of new mines

Real Gold's 1Q11 net profit jumped 40% YoY to RMB178m, in line with our expectation and representing 18% and 17% of our original and consensus full-year forecasts. The increase in earnings was driven by a 22% YoY rise in the realised gold price and a 14% YoY increase in sold equivalent gold. While the 1Q11 results came as expected, we respectively cut our 2011E and 2012E earnings by 11% and 2% to factor in the further delays in the commencement of the Yangchangbian (Yunnan) and Daping (Guangxi) gold mines. We trim our target price by 11% to HK\$13.75, based on 1.3x P/NAV.

Where are we Different?

- Our 2011E - 2013E earnings are 8-13% below consensus.
- We factor in a further 6-month delay at the Yangchangbian gold mine.

Trading Summary



	YTD	1M	3M	12M
Absolute (%)	-23.2	-12.2	-12.3	-22
Relative to HSCEI (%)	-25.3	-6.9	-19.6	-34.6

Shares outstanding	908.8
Free float	49.0%
Market cap. (HK\$ m)	9,451
Daily turnover (3M avg.)	HK\$44.70m
Net debt / Equity	Net cash
Major shareholders	
Lead Honest	53%

Metals Price Forecasts

	2011E	2012E	2013E	2014E
Gold (US\$/oz)				
BOCI	1,420	1,380	1,300	1,200
Consensus	1,444	1,331	1,231	1,159
Copper (US\$/t)				
BOCI	9,000	8,700	8,500	8,400
Consensus	9,760	10,175	8,542	8,189

Source: Bloomberg, BOCI Research estimates

BOCI Research Limited China: Metals and Mining

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Key Points

- **1Q11's operational data in line:** Shirengou-Nantaizi operated 56.5 days in 1Q11 while Luotuochang operated 59.4 days (vs. estimated 57 days for both). Shirengou-Nantaizi maintained an average gold grade of 9.0g/t (recovery rate of 84%) and Luotuochang processed gold at an average grade of 3.0g/t (recovery rate of 87%). 1Q11 operational data were closely in line with our expectation with no real surprises.
 Shirengou-Nantaizi and Luotuochang produced 27.7koz and 14.1koz of equivalent gold, representing 20% of our full-year forecast of 139koz and 73koz, respectively.
- **Exploration activities at new mines nearly complete:** Exploration works at Yangchangbian, Daping and Yandan (Guangxi) are almost done and exploration results were in line with management's expectations. Real Gold will announce the details regarding the resource/reserves once they are ready.
- **Daping gold mine to expect further delays of 4-6 months:** Daping was originally scheduled to commence production in October this year but has now been pushed back to 1Q12 as the company needs to build a new tailing pool at a different location due to the more stringent government safety requirements. Work on the new site is currently in progress.
- **Yangchangbian gold mine may be delayed:** The mine may expect further delays as the local government has submitted an application to the central government to promote the areas surrounding the mine as a national tourist attraction. Real Gold's application for the mining permit will not be processed until the use of surrounding areas is decided. The mine was originally scheduled to commence production in July this year, and as the company disclosed that production may be deferred without stating a timeframe, we factor in a further six-month delay for the project.

Investment Summary

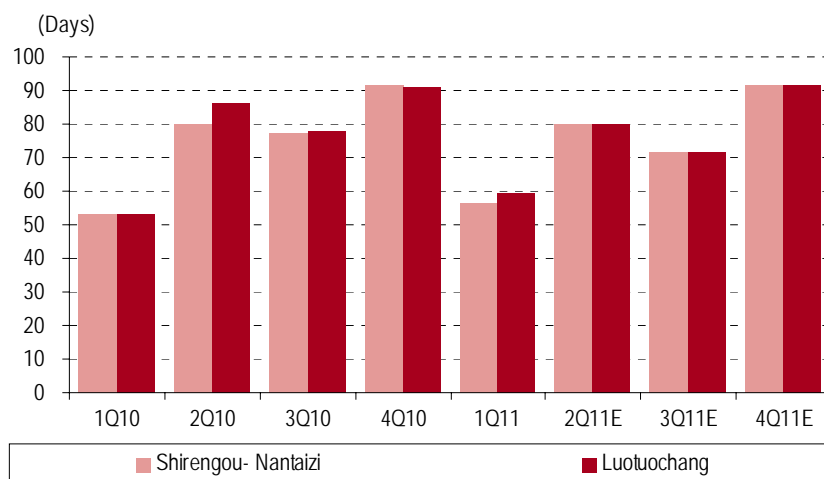
	12-09	12-10	12-11E	12-12E	12-13E
Total turnover (RMB m)	1,011	1,368	1,559	1,990	2,032
Revenue growth	0.0%	35.3%	13.9%	27.7%	2.1%
Net profit (RMB m)	527	798	860	1,019	974
Fully diluted EPS (RMB)	0.79	0.95	0.95	1.12	1.07
FD P/E (x)	11.06	9.13	9.18	7.75	8.11
FDEPS growth	0.0%	21.1%	(0.6%)	18.5%	(4.4%)
Previous EPS (RMB)	0	0	0	0	0
Consensus EPS (RMB)			1.08	1.19	1.17
EPS vs Consensus			(12.6%)	(6.0%)	(8.0%)
Recurrent CPS (RMB)	0.94	1.04	1.03	1.24	1.20
P/CF (x)	9.27	8.35	8.46	7.01	7.26
EV/EBITDA (x)	5.50	4.22	3.72	2.49	1.87
Dividend/share (RMB)	0	0	0	0	0
Dividend yield	0%	0%	0%	0%	0%
ROE	14.9%	22.6%	17.1%	17.1%	14.0%

Source: Company data, Bloomberg data, BOCI Research estimates. Closing prices are as of 11 May 2011.

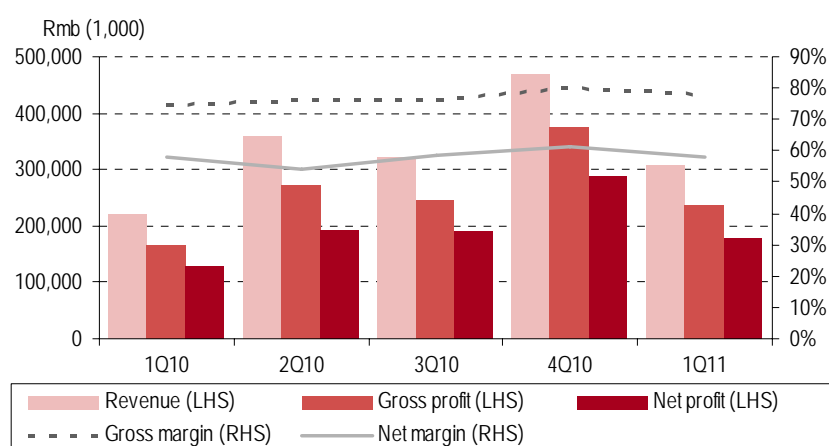
Figure 1. 1Q11 Operational Data

	January	February	March	1Q11	1Q10	YoY
Shirengou-Nantaizi processing plant						
Average daily capacity (t/day)	1,480	1,480	1,480	1,480	1,480	
Utilisation rate (%)	100.7	100.7	100.0	100.3	99.7	
Production days (days)	22.6	7.6	26.3	56.5	53.0	7%
Ore processed (kt)	33.7	11.3	38.9	83.9	78.2	7%
Average gold grade (g/t)	9.0	8.9	9.1	9.0	9.1	
Average recovery rate (%)	84.3	83.7	83.9	84.0	84.2	
Payable gold (koz)	8.2	2.7	9.5	20.4	19.2	6%
Equivalent gold (koz)	11.0	3.7	13.0	27.7	25.5	9%
Luotuochang processing plant						
Average daily capacity (t/day)	1,100	1,100	1,100	1,100	1100	
Utilisation rate (%)	98.5	99.8	98.1	98.3	98.8	
Production days (days)	24.7	7.7	27.0	59.4	53.0	12%
Ore processed (kt)	26.7	8.4	29.1	64.2	57.6	11%
Average gold grade (g/t)	3.0	3.0	3.0	3.0	3.0	
Average recovery rate (%)	86.7	86.4	86.6	86.6	86.4	
Payable gold (koz)	2.3	0.7	2.4	5.4	4.9	10%
Equivalent gold (koz)	6.0	1.9	6.2	14.1	12.9	9%
Total payable gold (koz)						
Total payable gold (koz)	10.5	3.4	11.9	25.8	24.1	7%
Total produced equivalent gold (koz)	17.0	5.6	19.2	41.8	38.4	9%
Total sold equivalent gold (koz)	16.8	1.1	24.9	42.8	37.6	14%

Source: Company data

Figure 2. Projected Working Days – Shirengou-Nantaizi/Luotuochang

Source: Company data, BOCI Research estimates

Figure 3. Quarterly Results Comparison

Source: Company data

Figure 4. DCF Valuation

	31-Dec-11 2011E	31-Dec-12 2012E	31-Dec-13 2013E	31-Dec-14 2014E	31-Dec-15 2015E
EBIT	1,182.5	1,401.8	1,337.7	1,203.1	754.9
Tax on EBIT	(319.5)	(378.8)	(361.5)	(325.1)	(204.0)
Change in working capital	15.9	23.2	14.7	12.4	12.3
Depreciation and amortisation	57	82	100	115	118
Operating cash flow	936	1,128	1,090	1,005	681
Capex	(417)	(292)	(100)	(100)	(100)
Net borrowings	0.0	0.0	0.0	0.0	0.0
Free cash flow to equity	518.4	836.5	990.5	905.3	581.1
Period (years)	1.0	2.0	3.0	4.0	5.0
Discount factor	0.92	0.82	0.72	0.64	0.57
Present value of cash flow	479.3	684.3	717.0	579.9	329.4

Cost of equity (Ke)

Risk-free rate	2.6%
Risk premium	8.0%
Beta	1.30
Cost of equity	13.0%

FCF to equity

Cumulative present value of free cash flow to firm	4,760
Present value of residual value	
Net cash	3,532
Minority interests	(144)
Shareholder value	8,149
Number of shares	908.8
NPV per share (RMB)	8.97

NPV per share (HK\$)	P/NAVx	10.58
NPV per share (HK\$)	1.3	13.75

Source: BOCI Research estimates



Income Statement (RMB m)

	12-09	12-10	12-11E	12-12E	12-13E
Total turnover	1,011	1,368	1,559	1,990	2,032
Cost of sales	(263)	(311)	(440)	(657)	(750)
Total operating costs	(15)	43	64	69	55
Operating EBITDA	767	1,138	1,239	1,484	1,437
Deprec. and amort.	(33)	(38)	(57)	(82)	(100)
Operating EBIT	734	1,100	1,182	1,402	1,338
Net interest income	2	8	8	9	11
Exchange gains	-	-	-	-	-
Other recurring income	-	-	-	-	-
Associates' profit	-	-	-	-	-
Exceptional income	-	-	-	-	-
Pre-tax profit	736	1,108	1,190	1,411	1,348
Taxation	(193)	(299)	(322)	(381)	(364)
Minority interests	(17)	(10)	(9)	(10)	(10)
Preferred dividends	-	-	-	-	-
Net profit	527	798	860	1,019	974
Recurring net profit	527	798	860	1,019	974

Per Share Values (RMB)

	12-09	12-10	12-11E	12-12E	12-13E
Earnings per share	0.79	0.95	0.95	1.12	1.07
Dividend/share	-	-	-	-	-
Book value per share	3.2	5.1	6.0	7.1	8.2
Tangible BVPS	2.9	3.5	5.0	6.0	7.6
Net cash/(debt) per share	2.5	3.3	3.9	4.9	6.0

Balance Sheet (RMB m)

	12-09	12-10	12-11E	12-12E	12-13E
Total cash and equivalents	1,958	2,965	3,532	4,426	5,424
Accounts receivable	33	45	51	66	67
Inventories	6	8	11	16	19
Other current assets	427	0	0	0	0
Total current assets	2,424	3,018	3,595	4,507	5,509
Net fixed assets	378	457	1,270	1,343	1,807
Total investments	-	-	-	-	-
Intangible assets	270	1,429	927	1,013	549
Other assets	6	6	6	6	5
Total long-term assets	654	1,892	2,202	2,362	2,362
Total assets	3,078	4,910	5,797	6,869	7,872
Trade creditor	46	62	87	129	148
Short-term debt	-	-	-	-	-
Other current liabilities	494	106	106	106	106
Total current liabilities	540	168	192	235	254
Total long-term debt	-	-	-	-	-
Other liabilities	17	17	17	17	17
Shareholders' equity	2,484	4,590	5,444	6,463	7,437
Minority interests	37	135	144	154	164
Total liabilities & equity	3,078	4,910	5,797	6,869	7,872

Growth

	12-09	12-10	12-11E	12-12E	12-13E
Revenue growth		35.3%	13.9%	27.7%	2.1%
Operating EBITDA growth		48.4%	8.9%	19.7%	(3.1%)
Operating EBIT growth		49.9%	7.5%	18.5%	(4.6%)
Pretax profit growth		50.5%	7.4%	18.5%	(4.4%)
Net profit growth		51.5%	7.7%	18.5%	(4.4%)

Source: Company data, Bloomberg data, BOCI Research estimates



Cash-flow Statement (RMB m)

	12-09	12-10	12-11E	12-12E	12-13E
Pre-tax profit	736	1,108	1,190	1,411	1,348
Depreciation	23	26	47	72	90
Goodwill & other amort.	10	13	10	10	10
Net interest	(2)	(8)	(8)	(9)	(11)
Change in working capital	54	34	16	23	15
Tax paid	(193)	(299)	(322)	(381)	(364)
Other operating cash flow	-	-	-	-	-
Operating cash flow	628	873	934	1,126	1,088
Capex	(174)	(201)	(417)	(292)	(100)
Cash flow from disposals	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-
Others	(0)	(1,133)	82	93	51
Cash flow from investing	(174)	(1,333)	(336)	(199)	(49)
Shares repurchased	-	-	-	-	-
Debt issued	-	-	-	-	-
Proceeds from issue of shares	1,459	1,460	-	-	-
Interest received	2	8	8	9	11
Dividends paid	-	-	(38)	(43)	(51)
Interest paid	0	0	0	0	0
Other cash flow from funding	(0)	(0)	(0)	(0)	(0)
Cash flow from financing	1,462	1,467	(31)	(34)	(40)
Total cash generated	1,915	1,007	567	893	998
Free cash flow to firm	456	(452)	606	936	1,049
Free cash flow to equity	456	(452)	606	936	1,049

Key Ratios

	12-09	12-10	12-11E	12-12E	12-13E
Profitability					
EBITDA margin	75.9%	83.2%	79.5%	74.6%	70.7%
EBIT margin	72.6%	80.4%	75.9%	70.4%	65.8%
Pre-tax margin	72.8%	81.0%	76.4%	70.9%	66.3%
Net profit margin	52.1%	58.3%	55.2%	51.2%	47.9%
Liquidity					
Current ratio	4.5	18.0	18.7	19.2	21.7
Interest coverage ratio	(73,403.7)	(110,018.6)	(118,245.1)	(140,176.1)	(133,774.0)
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Quick ratio	4.5	18.0	18.6	19.1	21.7
Valuation					
P/E (x)	11.1	9.1	9.2	7.7	8.1
Core P/E (x)	11.1	9.1	9.2	7.7	8.1
P/B (x)	2.7	1.7	1.5	1.2	1.1
P/CF (x)	9.3	8.3	8.5	7.0	7.3
EV/EBITDA (x)	5.5	4.2	3.7	2.5	1.9
Activity ratios					
Inventory days	8.6	9.0	9.0	9.0	9.0
Accounts receivables days	11.8	12.0	12.0	12.1	12.0
Accounts payables days	64.1	72.5	72.0	72.2	72.0
Returns					
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	14.9%	22.6%	17.1%	17.1%	14.0%
ROAA	13.2%	20.0%	16.1%	16.1%	13.2%
ROACE	20.3%	30.6%	23.1%	23.1%	19.0%

Source: Company data, Bloomberg data, BOCI Research estimates

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