

BUY
26% **↑ side**

Target price: HK\$1.60

Prior TP: HK\$1.40

1164 HK

Price: HK\$1.27

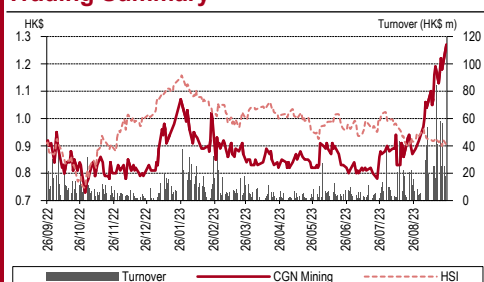
TP basis: SOTP

Sector rating: NOT RATED

Forecast Revisions (%)

Year ended 31 Dec	23E	24E	25E
Revenue	(28.2)	(39.4)	(23.4)
Core EPS	(8.5)	11.9	14.2

Source: BOCI Research estimates

Trading Summary


(%)	YTD	1M	3M	12M
Absolute	56.8	46.0	53.0	35.1
Relative to HSI	74.9	47.8	63.0	36.7

Shares outstanding (m)	7,601
Free float (%)	32
Market cap. (HK\$ m)	9,653
3M avg. daily turnover (HK\$ m)	16
Net debt/equity (%) (2023E)	22
Major shareholder (%)	
China Uranium Development	58
China SOE Mixed Ownership Reform Fund	10

Source: Company data, FactSet, BOCI Research

Closing prices are as of 25 September 2023

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CGN Mining

Uranium price hits post-Fukushima high

Uranium price underwent one of the strongest rallies in recent years, driven by the supply-side disruptions we discussed earlier. Spot price hiked by 17% MTD to almost \$70 for the first time since Fukushima accident in 2011, raising risk appetite for global uranium miners. While CGN Mining (CGNM) is not perfectly exposed to the rapid rise in spot prices, it remains the key beneficiary of the uranium boom market within our coverage universe. We lift CGNM's 2024-25 earnings forecasts by 12-14% to factor in our higher price assumptions. Reiterate **BUY** with a higher TP of HK\$1.60, implying 11x 2024E P/E.

Key Factors for Rating

- **Spot uranium price surge.** It took almost 5 years for uranium to rebound from \$20/lb to \$40/lb from 2016-21, but less than three quarters to hike from \$50/lb to \$70/lb. As we previously discussed, recent supply-disruption events such as geopolitical turmoil and supply cuts, have tightened utilities' awareness. The re-escalation of Nagorno-Karabakh region conflict, which stands in the way of alternative westbound route of Kazakhstani uranium export, did not help in cooling the sentiment.
- **CGNM is highly elastic to spot price movement, though not perfectly.** As spot price already surpassed the fixed portion (40%) of sales price to CGNM's parentco of \$61.78/lb for 2023, CGNM may incur moderate gross losses on consolidated levels going forward according to the pricing formula. But it will remain perfectly elastic to spot price increase at JV/associate level, according to the arrangement. Netting the two factors, CGNM is roughly 60% exposed to spot price movements.
- For its trading arm, the quick rise in prices could make it difficult for CGNM to match supply/demand pairs in the near term. This could drive down CGNM's trading revenue and also lead to short-term accounting losses due to the timing mismatch between realised revenue (with lower prices) and inventory build-up (at higher prices). We cut CGNM's 2023-25E revenue by 23-39% to reflect potentially muted spot trading activities in the next few years.

Key Risks for Rating

- Unexpected disruption in JV/asso production/delivery; higher-than-expected production costs; unexpected nuclear accident.

Valuation

- **Reiterate BUY rating.** We lift CGNM's 2024-25 earnings estimates by 12-14% respectively mainly to reflect our higher uranium price assumptions (\$69/\$73 for 2024/25 respectively). Our new SOTP-based TP of HK\$1.60 implies 11x 2024E P/E, which we deem reasonable for an upcycle metal miner. Note that the current forward curve implies higher ASPs for 2024-25, which could offer further upside to CGNM, in our view.

Investment Summary

Year ended 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (HK\$ m)	3,860	3,649	5,558	5,290	7,749
Reported net profit (HK\$ m)	178	515	658	1,120	1,328
Core EPS (HK\$)	0.027	0.072	0.087	0.147	0.175
Fully diluted EPS (HK\$)	0.027	0.072	0.087	0.147	0.175
Core P/E (x)	47.0	17.7	14.7	8.6	7.3
Fully diluted P/E (x)	47.0	17.7	14.7	8.6	7.3
EV/EBITDA (x)	61.7	82.0	24.0	484.7	295.7
P/B (x)	3.9	2.7	2.4	1.9	1.6
ROE (%)	8.5	18.7	17.8	24.8	23.8

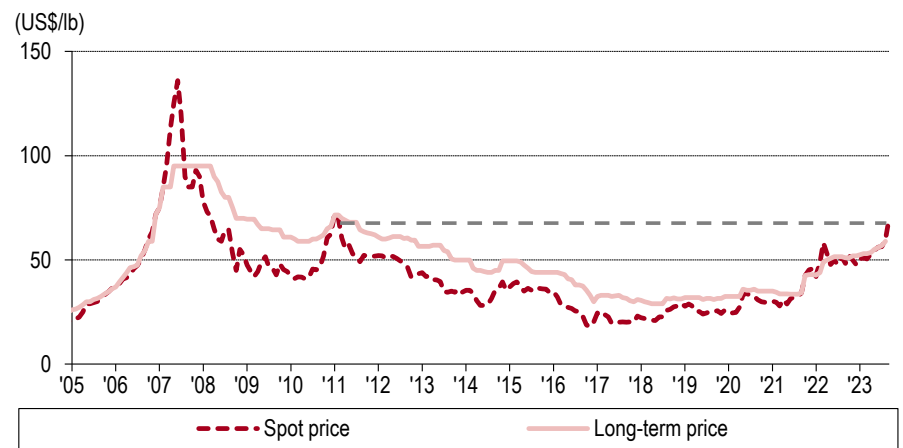
Source: Company data, BOCI Research estimates

Figure 1. Spot Uranium Price Has Risen by 44% YTD...



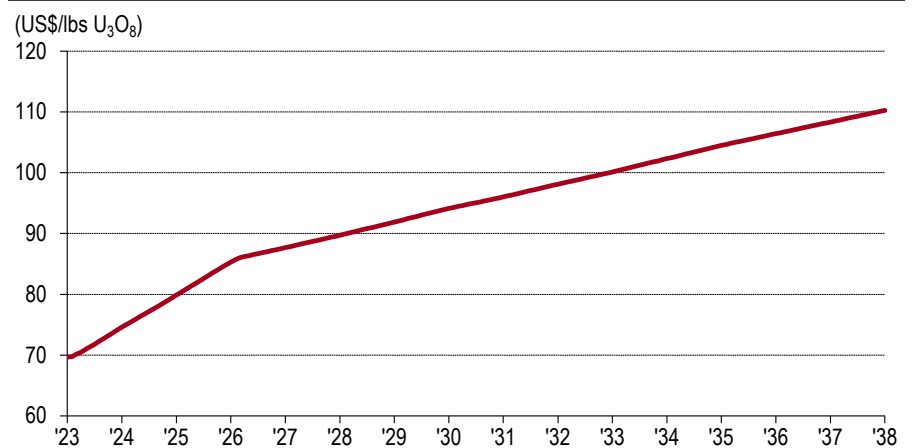
Source: Numerco, BOCI Research

Figure 2. ...And Reached Post-Fukushima High After 12 Years...



Source: Cameco, Numerco, BOCI Research

Figure 3. ... While The Forward Curve Points to Even Higher Pricing In the Future

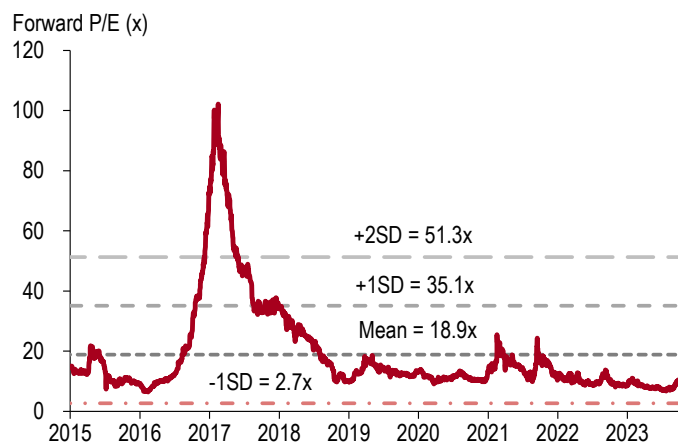


Source: Numerco, BOCI Research

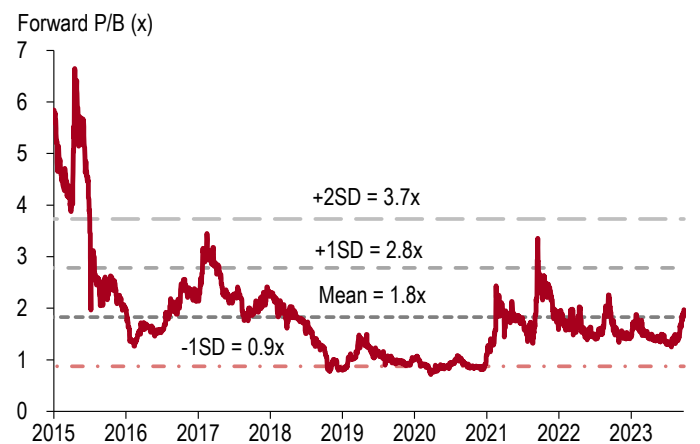
Figure 4. CGNM's Updated SOTP Valuation

Semizbay - U	HK\$ m	3,539
Ortalyk	HK\$ m	8,151
Attributable stake in Kazakh mines	HK\$ m	11,690
2024 EBITDA from offtake sales	HK\$ m	(23)
EV/EBITDA multiples	x	7.0
Offtake EV		(158)
13.75% Fission stake @ market cap	HK\$ m	515
Holding company discount	%	20
Discounted Fission equity value	HK\$ m	412
CGN GU @ acquisition	HK\$ m	66
Equity value	HK\$ m	12,010
Shares outstanding	m	7,601
Equity value per share	HK\$/share	1.58
BOCI TP	HK\$/share	1.60

Source: BOCI Research estimates

Figure 5. CGNM's Forward P/E Bands


Source: Bloomberg, BOCI Research

Figure 6. CGNM's Forward P/B Bands


Source: Bloomberg, BOCI Research

Income Statement (HK\$ m)

Year ended 31 Dec	2021	2022	2023E	2024E	2025E
Revenue	3,860	3,649	5,558	5,290	7,749
Cost of sales	(3,728)	(3,549)	(5,119)	(5,269)	(7,713)
Operating exp.	(2)	(2)	(2)	(2)	(2)
EBITDA	131	99	439	22	35
Depr & amortisation	2	2	2	2	2
Operating profit (EBIT)	129	98	437	20	33
Net interest inc./(exp.)	(48)	(56)	(110)	(98)	(85)
Other gains/(losses)	115	525	472	1,397	1,615
Pre-tax profit	197	567	798	1,318	1,563
Tax on profit	(18)	(52)	(140)	(198)	(234)
Min. int./others	0	0	0	0	0
Net profit	178	515	658	1,120	1,328
Core net profit	178	515	658	1,120	1,328
EPS (HK\$)	0.027	0.072	0.087	0.147	0.175
Core EPS (HK\$)	0.027	0.072	0.087	0.147	0.175
Revenue YoY %	34.8	(5.5)	52.3	(4.8)	46.5
EBIT YoY %	(7.9)	(24.5)	347.1	(95.5)	68.9
EBITDA YoY %	(7.9)	(24.2)	340.7	(95.0)	62.6
Core net profit YoY%	15.0	188.5	27.8	70.3	18.6
Fully diluted EPS YoY%	15.0	165.6	20.5	70.3	18.6

Source: Company data, BOCI Research estimates

Cash-flow Statement (HK\$ m)

Year ended 31 Dec	2021	2022	2023E	2024E	2025E
Pre-tax profit	197	567	798	1,318	1,563
Depr. & amortisation	2	2	2	2	2
Net interest expenses	48	56	110	98	85
Chg. in working capital	234	24	1,167	65	(251)
Tax paid	(19)	(30)	(140)	(198)	(234)
Other operating activ's	(204)	(520)	(705)	(1,397)	(1,615)
CF from operations	258	98	1,232	(111)	(450)
CAPEX	(0)	(1)	(0)	0	0
Depr./(incr.) in invest.	(3,374)	0	0	0	0
Other investing activ's	38	434	533	354	879
CF from investing	(3,337)	434	533	354	879
Net incr. in equity	-	776	-	-	-
Net incr. in debt	1,085	(623)	67	0	0
Dividends paid	(33)	0	0	(132)	(224)
Other financing activ's	929	(703)	(264)	(120)	(120)
CF from financing	1,981	(550)	(197)	(252)	(344)
Change in cash	(1,098)	(18)	1,568	(9)	84
Cash at start of year	1,175	81	52	1,586	1,577
Free cash flow to firm	(3,079)	532	1,765	243	428
Free cash flow to equity	(2,047)	(159)	1,749	123	308

Source: Company data, BOCI Research estimates

Balance Sheet (HK\$ m)

As at 31 Dec	2021	2022	2023E	2024E	2025E
Cash & cash equiv.	81	52	1,586	1,577	1,661
Receivables	99	343	131	129	231
Inventories	1,743	2,048	1,312	1,288	1,943
Other current assets	9	2	4	4	4
Total current assets	1,933	2,447	3,033	2,998	3,839
Fixed assets	1	1	1	1	1
Total long-term assets	4,416	4,419	4,523	5,585	6,354
Total assets	6,350	6,866	7,556	8,583	10,193
Creditors	1,103	1,044	963	1,001	1,507
Short-term debt	2,637	1,005	1,073	1,073	1,073
Other current liabs.	14	14	46	46	46
Total current liabs.	3,754	2,064	2,081	2,120	2,625
Long-term borrowings	388	0	0	0	0
Other long-term liabs.	52	1,454	1,442	1,442	1,442
Share capital	66	76	76	76	76
Reserves/others	2,089	3,272	3,956	4,945	6,049
Shareholders' equity	2,155	3,348	4,032	5,021	6,125
M.I./Pref. shr/Oth	0	0	0	0	0
Total liabs. & equity	6,350	6,866	7,556	8,583	10,193
Per share (HK\$)					
Book value	0.3	0.5	0.5	0.7	0.8
Tangible assets	0.3	0.5	0.5	0.7	0.8
Net debt/(cash)	0.4	0.3	0.1	0.1	0.1

Source: Company data, BOCI Research estimates

Key Ratios

Year ended 31 Dec	2021	2022	2023E	2024E	2025E
Profitability (%)					
EBITDA margin	3.4	2.7	7.9	0.4	0.5
EBIT margin	3.4	2.7	7.9	0.4	0.4
Pre-tax margin	5.1	15.5	14.4	24.9	20.2
Net profit margin	4.6	14.1	11.8	21.2	17.1
Liquidity (x)					
Current ratio	0.5	1.2	1.5	1.4	1.5
Interest coverage	2.6	1.6	3.7	0.2	0.3
Net debt to equity (%)	136.7	70.2	21.9	17.8	13.2
Quick ratio	0.1	0.2	0.8	0.8	0.7
Valuation (x)					
P/E	47.0	17.7	14.7	8.6	7.3
Core P/E	47.0	17.7	14.7	8.6	7.3
Core P/E @ target price	59.2	22.3	18.5	10.9	9.2
P/B	3.9	2.7	2.4	1.9	1.6
P/FCF	32.5	93.2	7.8	NM	NM
EV/EBITDA	61.7	82.0	24.0	484.7	295.7
Activity ratios					
Inventory days	171.8	195.0	119.8	90.1	76.4
Accounts receivables days	21.9	22.1	15.6	9.0	8.5
Accounts payables days	61.8	110.4	71.5	68.0	59.3
Returns (%)					
Dividend payout ratios	0	0	0	0	0
Return on equity	8.5	18.7	17.8	24.8	23.8
Return on assets	2.2	1.3	5.0	0.2	0.3
Return on capital employed	3.0	2.2	9.4	0.7	1.0

Source: Company data, BOCI Research estimates

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