

CGN Mining (1164 HK)

New pricing formula for off-take agreement a big surprise

CGN Mining released a new pricing mechanism for the off-take agreement (2026-28) with its parent company. Under the new mechanism, the proportion of fixed pricing will be reduced to 30% from 40% currently. Most importantly, the fixed price in 2026E is set at US\$94.22/lb (with 4.1% increment per year in 2027E/28E), which is way higher than the US\$61.78/lb in 2023 (with annual increment of 3.5% in 2024/25) under the current mechanism. Besides, the new pricing is also ~18% higher than the latest industry contract price published by **Cameco (CCJ US, NR)**. We see this as a big surprise to the market and also help remove the major overhang about the uncertain pricing mechanism. We revise up our 2026E-27E earnings forecast by 17%/23%, after revising our off-take agreement pricing based on the new formula. Accordingly, we revise up our NPV-based TP to HK\$2.61 from HK\$2.18. Maintain **BUY**.

■ **Existing pricing formula:** Under the existing offtake agreement (2023-25), the uranium that CGN Mining sold to the parent company is based on 40% fixed price (US\$61.78/lb in 2023, 3.5% increment per year in 2024/25) plus 60% spot price based on the average quote in "Nuclear Market Review" by TradeTech and "Ux Weekly" by UxC. The annual inflation assumptions for fixed price in 2024-25 were set at 3.5%. The minimum quantity of uranium was 1.2kt per year.

■ **What is new?** Under the new agreement (2026-28), the fixed price proportion will be reduced to 30% but the fixed price will be increased to US\$94.22/lb in 2026. The annual inflation assumption for the fixed price is set at 4.1%, implying US\$98/lb and US\$102/lb in 2027 and 2028 respectively. The minimum quantity of uranium will remain unchanged. The new agreement is subject to shareholders' approval in EGM, but we do not anticipate any issue given the favourable terms.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	7,363	8,624	9,376	11,108	12,371
YoY growth (%)	101.8	17.1	8.7	18.5	11.4
Adjusted net profit (HK\$ mn)	497.1	526.7	487.2	834.2	985.7
YoY growth (%)	(3.5)	6.0	(7.5)	71.2	18.2
EPS (Adjusted) (HK\$ cents)	6.54	6.93	6.41	10.98	12.97
Consensus EPS (HK\$ cents)	na	0.00	8.60	12.97	15.45
P/E (x)	25.4	36.9	25.9	15.1	12.8
P/B (x)	3.3	3.2	2.9	2.5	2.1
Yield (%)	0.0	0.6	0.8	1.3	1.6
ROE (%)	13.8	8.8	11.8	17.7	18.0
Net gearing (%)	18.8	9.5	(21.7)	(16.5)	(28.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$2.61**
 (Previous TP) **HK\$2.18**
Up/Downside **57.5%**
Current Price **HK\$1.66**

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Stock Data

Mkt Cap (HK\$ mn)	12,617.1
Avg 3 mths t/o (HK\$ mn)	98.3
52w High/Low (HK\$)	2.94/1.24
Total Issued Shares (mn)	7600.7

Source: FactSet

Shareholding Structure

China General Nuclear Power Corporation	56.9%
China Chengtong Holding Group	10.0%

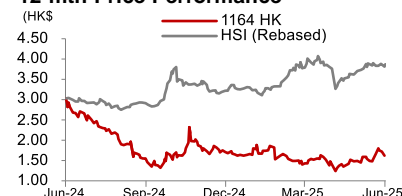
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.4%	6.6%
3-mth	16.1%	13.6%
6-mth	-2.9%	-18.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Uranium price

Figure 1: Industry uranium spot price vs contract price



Source: Cameco, CMBIGM

Figure 2: UxC Uranium U308 weekly spot price (US\$/lb)



Source: Bloomberg, CMBIGM

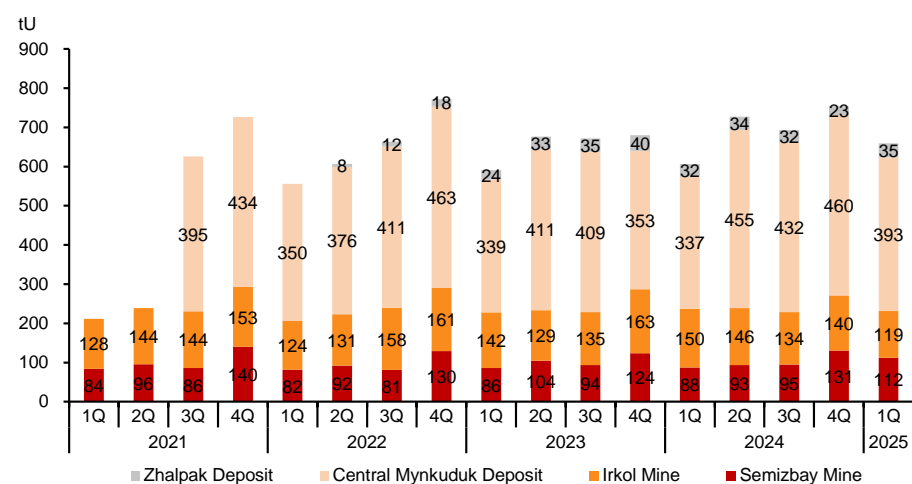
Operating data and assumptions

Figure 3: Change in key assumptions

	Old			New			Change		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue (HK\$ mn)									
Natural uranium trading	9,376	10,969	12,158	9,376	11,108	12,371	0.0%	1.3%	1.8%
Gross margin									
Natural uranium trading	-0.2%	0.7%	-0.3%	-0.2%	1.9%	1.4%	0.0	ppt 1.2	1.7
Key expense ratios									
S&D expenses	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0	0.0	0.0
Administrative expenses	0.7%	0.7%	0.6%	0.7%	0.7%	0.6%	0.0	0.0	0.0
Expected credit losses of financial & contract assets, net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0
(RMB mn)									
Net finance expense	-87	-69	-63	-87	-67	-58	0.0%	-2.4%	-9.1%
Share of profit of JV and associates (Mining operation)	742	909	1,108	742	909	1,108	0.0%	0.0%	0.0%
Reported net profit	487	716	800	487	834	986	0.0%	16.5%	23.1%
Core net profit	487	716	800	487	834	986	0.0%	16.5%	23.1%

Source: Company data, CMBIGM estimates

Figure 4: CGN Mining's quarterly uranium sales volume



Source: Company data, CMBIGM

Figure 5: Key operating assumptions

	2022	2023	2024	2025E	2026E	2027E
JV and associates						
Semizbay Mine-U						
Production volume (tU)	959	976	976	986	996	1,006
Change (YoY)	-1.6%	1.8%	0.0%	1.0%	1.0%	1.0%
Implied ASP (US\$/lb)	49	61	83	75	83	91
Change (YoY)	29.3%	26.0%	36.0%	-10.0%	10.0%	10.0%
Semizbay Mine (until 2031)						
Production volume (tU)	385	407	407	411	415	419
Change (YoY)	-5.4%	5.7%	0.0%	1.0%	1.0%	1.0%
Unit cost (US\$/lb)	24	27	32	36	36	36
Change (YoY)	-	11.5%	18.5%	12.0%	0.0%	1.0%
Irkol Mine (until 4 Mar 2030)						
Production volume (tU)	574	569	569	575	580	586
Change (YoY)	1.1%	-0.9%	0.0%	1.0%	1.0%	1.0%
Unit cost (US\$/lb)	17	23	24	27	27	27
Change (YoY)	-	34.7%	4.3%	12.0%	0.0%	1.0%
Ortalyk						
Production volume (tU)	1,639	1,644	1,783	1,884	2,084	2,295
Change (YoY)	2%	0%	8%	6%	11%	10%
Implied ASP (US\$/lb)	48	64	83	75	83	91
Change (YoY)	163%	33%	30%	-10%	10%	10%
Central Mynkuduk (until 2033)						
Production volume (tU)	1,600	1,513	1,663	1,680	1,696	1,713
Change (YoY)	-	-5%	10%	1%	1%	1%
Unit cost (US\$/lb)	14	17	22	25	25	26
Change (YoY)	-	23%	29%	12%	2%	2%
Zhalpak (until 2042)						
Production volume (tU)	39	131	120	204	388	581
Change (YoY)	-	236%	-8%	70%	90%	50%
Unit cost (US\$/lb)	25	27	31	35	35	36
Change (YoY)	-	9%	15%	12%	1%	2%

Source: Company data, CMBIGM estimates

Valuation

We apply NPV methodology to value CGN Mining. Based on the life of the mines or relevant licenses, future cash flow (mainly from JVs dividends) is discounted to the present value. Our target multiple of NPV (3x) is to reflect the potential conversion from resources to reserves amid the uptrend of uranium price. Our long-term assumptions include: (1) uranium price increasing 1.5% p.a. from US\$91/lb during 2027-31, (2) a stabilized price at US\$96 thereafter, and (3) production costs rising 1% p.a. during 2027-42 to reflect inflation.

Figure 6: New NPV assumptions

	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E-42E
NPV projection								
(HK\$ mn)								
EBIT	(81.2)	139.5	108.9	131.1	109.4	95.5	96.3	
Dividend from JV/associates	741.5	909.2	1,108.3	1,160.4	945.5	947.8	974.0	
Adjusted EBIT	660.4	1,048.7	1,217.3	1,291.5	1,055.0	1,043.3	1,070.3	
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
EBIT*(1-t)	561.3	891.4	1,034.7	1,097.8	896.7	886.8	909.8	
D&A	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Working cap	1,031.7	(686.2)	176.5	(237.0)	324.4	(368.4)	247.5	
FCFF	1,593.3	205.6	1,211.6	861.1	1,221.5	518.8	1,157.6	3,228.4
PV of FCFF	1,494.1	180.8	999.0	665.9	885.7	352.8	738.1	1,569.3
Enterprise Value	6,886							
Net cash / (net debt)	-371							
Minority interest	0							
Equity Value	6,515							
P/NPV (x)	-							3
Fair value (HK\$/shr)	-							2.57
Proportionate market cap of Paladin Energy (2.61% interest)	322							0.04
Target price (HK\$/shr)	-							2.61
Assumptions								
Risk free rate	4.3%							
Risk premium	5.0%							
Beta	0.8							
Cost of equity	8.3%							
After tax cost of debt	0.0%							
Debt/total capital	20.0%							
WACC	6.6%							

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Revenue	3,649	7,363	8,624	9,376	11,108	12,371
Cost of goods sold	(3,501)	(7,231)	(8,690)	(9,396)	(10,896)	(12,194)
Gross profit	148	132	(66)	(20)	212	177
Selling expense	(13)	(19)	(15)	(9)	(11)	(12)
Admin expense	(49)	(52)	(57)	(66)	(78)	(74)
Others	(3)	(6)	0	0	0	0
Other income	16	12	17	14	17	19
Share of (losses)/profits of associates/JV	523	606	1,016	742	909	1,108
EBITDA	101	69	(119)	(81)	140	109
Depreciation	2	2	1	0	0	0
EBIT	100	67	(120)	(81)	140	109
Interest income	6	18	40	55	75	87
Interest expense	(62)	(131)	(122)	(142)	(142)	(144)
Net Interest income/(expense)	(56)	(114)	(82)	(87)	(67)	(58)
Pre-tax profit	567	559	814	573	981	1,160
Income tax	(52)	(62)	(287)	(86)	(147)	(174)
Minority interest	0	0	(185)	0	0	0
Net profit	515	497	342	487	834	986
Adjusted net profit	515	497	527	487	834	986

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Current assets	2,447	2,214	3,440	3,977	4,807	5,559
Cash & equivalents	52	1,017	1,154	2,515	2,459	3,323
Account receivables	343	462	80	587	143	671
Inventories	2,048	697	2,158	828	2,157	1,518
Other current assets	2	38	48	48	48	48
Non-current assets	4,419	4,536	4,402	4,534	4,690	4,872
PP&E	1	1	1	0	0	(0)
Right-of-use assets	2	1	5	5	5	5
Investment in JVs & assos	4,369	4,495	4,040	4,173	4,329	4,511
Other non-current assets	46	39	356	356	356	356
Total assets	6,866	6,750	7,842	8,512	9,497	10,431
Current liabilities	2,064	1,391	3,732	3,990	4,239	4,354
Short-term borrowings	958	349	1,520	1,570	1,620	1,670
Account payables	1,044	999	797	1,005	1,204	1,268
Tax payable	11	12	4	4	4	4
Other current liabilities	50	30	1,409	1,409	1,409	1,409
Lease liabilities	2	1	2	2	2	2
Non-current liabilities	1,454	1,479	188	188	188	188
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	1,454	1,479	188	188	188	188
Total liabilities	3,518	2,870	3,921	4,179	4,428	4,542
Total shareholders equity	3,348	3,880	3,922	4,333	5,070	5,888
Minority interest	0	0	0	0	0	0
Total equity and liabilities	6,866	6,750	7,842	8,512	9,497	10,431

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	567	559	814	573	981	1,160
Depreciation & amortization	2	2	1	0	0	0
Tax paid	(15)	(35)	(287)	(86)	(147)	(174)
Change in working capital	24	989	(1,282)	1,032	(686)	177
Others	(465)	(476)	(934)	(654)	(842)	(1,051)
Net cash from operations	113	1,040	(1,689)	865	(694)	112
Investing						
Capital expenditure	(1)	(0)	0	0	0	0
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	419	499	784	664	827	1,013
Net cash from investing	419	499	784	664	827	1,013
Financing						
Dividend paid	0	0	0	(76)	(97)	(167)
Net borrowings	570	(609)	1,171	50	50	50
Proceeds from share issues	776	0	0	0	0	0
Others	(1,896)	27	(122)	(142)	(142)	(144)
Net cash from financing	(550)	(582)	1,049	(168)	(189)	(261)
Net change in cash						
Cash at the beginning of the year	81	52	1,017	1,154	2,515	2,459
Exchange difference	(11)	8	(7)	0	0	0
Cash at the end of the year	52	1,017	1,154	2,515	2,459	3,323
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(5.5%)	101.8%	17.1%	8.7%	18.5%	11.4%
Gross profit	67.7%	(10.9%)	na	na	na	(16.4%)
EBITDA	145.1%	(32.1%)	na	na	na	(21.9%)
EBIT	151.8%	(32.7%)	na	na	na	(21.9%)
Net profit	188.5%	(3.5%)	(31.2%)	42.5%	71.2%	18.2%
Adj. net profit	188.5%	(3.5%)	6.0%	(7.5%)	71.2%	18.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	4.1%	1.8%	(0.8%)	(0.2%)	1.9%	1.4%
EBITDA margin	2.8%	0.9%	(1.4%)	(0.9%)	1.3%	0.9%
Adj. net profit margin	14.1%	6.8%	6.1%	5.2%	7.5%	8.0%
Return on equity (ROE)	18.7%	13.8%	8.8%	11.8%	17.7%	18.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.7	0.2	0.1	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.2	1.6	0.9	1.0	1.1	1.3
Receivable turnover days	22.1	20.0	11.5	13.0	12.0	12.0
Payable turnover days	111.9	51.6	37.7	35.0	37.0	37.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	23.1	25.4	36.9	25.9	15.1	12.8
P/B	3.8	3.3	3.2	2.9	2.5	2.1
Div yield (%)	0.0	0.0	0.6	0.8	1.3	1.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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