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SD Gold - A/H

First Take: 3Q26 loss on cost spike and high tax-rate question mark

Our First Take: SD Gold's 3Q26 NPAT came in at a loss of Rmb363mn (Rmb488mn loss to common shareholders after perp interest), a miss despite supportive gold prices, with 9M26 NPAT (pre-perp) at Rmb3.18bn (-20% YoY) only tracking c.42-43% of our / Bloomberg FY26E. We believe the 3Q loss was mainly driven by a sharp increase in self-produced gold costs — we estimate 3Q26 mine-produced gold unit COGS exceeded Rmb700/g — and higher-than-expected overseas mine tax payments. 3Q GP margin compressed sharply to 8.3% (-22.5ppt QoQ), despite revenue increasing 75% QoQ. Meanwhile, reported 9M26 mine-produced gold production of 26.2t tracks only 69-73% of the company's already revised-down 36-38t 2026 production target, reinforcing concerns over volume delivery and execution. While we remain constructive on gold prices, SD Gold's challenging production environment and weak earnings conversion support our UW rating.



Asia Basic Materials

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600547.SS, 600547 CH
Underweight
Price (28 Oct 26): Rmb24.99
Price Target (Dec-27): Rmb21.00

1787.HK, 1787 HK
Underweight
Price (28 Oct 26): HK$17.16
Price Target (Dec-27): HK$15.00

Key Positives

- **Topline was supported by higher purchased gold and small gold bar volumes, though margin contribution was limited.** 3Q26 revenue increased 75% QoQ / 37% YoY to Rmb36.9bn, helped by purchased gold sales volume of 13.4t (+21% QoQ) and small gold bar sales volume of 8.2t (+41% QoQ). However, these categories are lower-margin, and the volume strength was insufficient to offset the sharp cost increase in self-produced gold.

Key Negatives/Question Marks

- **3Q earnings turned loss-making as gross margin collapsed on sharply higher self-produced gold costs.** 3Q26 NPAT to shareholders was -Rmb363mn (-117% QoQ, -132% YoY), while NPAT to common shareholders was -Rmb488mn. Gross profit fell to Rmb3.1bn (-53% QoQ, -34% YoY), and GP margin dropped to 8.3% from 30.8% in 2Q26. Mine-produced gold sales volume fell to 8.65t (-16% QoQ, -35% YoY), while implied mine-produced gold production was only c.7.1t in 3Q26. We estimate 3Q26 mine-produced gold unit COGS was above Rmb700/g, significantly higher than prior quarters.
- **Higher tax rate is a key question mark and needs further company guidance.** 3Q26 PBT was still positive at Rmb1.63bn (-64% QoQ, -22% YoY), but NPAT dropped to Rmb498mn (-85% QoQ, -68% YoY), implying an effective tax rate of c.69% versus c.27% in 2Q26 and c.36% for 9M26. Further guidance is needed on whether the 3Q tax rate was driven by overseas mine tax payments, jurisdictional profit mix, one-off items, or other factors, and whether a similarly elevated rate could persist into 4Q.
- **Production remains below the revised target run-rate.** 9M26 mine-produced gold production of 26.2t tracks only c.69-73% of the September-revised 2026 production target, while implied 3Q26 production of c.7.1t suggests the 2H ramp remains challenging. The company had already cut its original 2026 plan from not less than 49t to 36-38t, citing safety inspections,

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tighter safety oversight, fewer production working faces and increased infrastructure / resource-integration works at domestic mines.

- **Cash flow and balance sheet deteriorated.** 3Q26 operating cash flow was Rmb1.6bn (-7% QoQ, -67% YoY), and 9M26 free cash flow fell to only Rmb219mn (-97% YoY). Net debt increased to Rmb55.1bn (+10% QoQ, +14% YoY), with net gearing rising to 82% (+8.2ppt QoQ, +6.1ppt YoY), reducing financial flexibility at a time when production delivery remains uncertain.

Likely Changes to Consensus

We expect downward revisions to SD Gold's earnings as 9M26 earnings only track 42-43% of FY26E BBG consensus.

Expected Stock Reaction

We expect a negative stock reaction.

Table 1: SD Gold – 3Q26 Results Summary

Rmb mn	3Q26	2Q26	QoQ	YoY	9M26	9M25	YoY
Revenue	**36,913**	**21,072**	***75%***	***37%***	**90,501**	**83,783**	***8%***
COGS	33,318	13,928	*139%*	*53%*	73,812	68,691	*7%*
Business tax & surcharges	539	650	*-17%*	*-5%*	1,831	1,396	*31%*
Gross profit	**3,056**	**6,494**	***-53%***	***-34%***	**14,857**	**13,696**	***8%***
GP Margin %	*8.3%*	*30.8%*	*-22.5ppt*	*-8.8ppt*	*16.4%*	*16.3%*	*0.1ppt*
SG&A	1,132	958	*18%*	*-8%*	3,194	3,301	*-3%*
As % of Rev.	*3.1%*	*4.5%*	*-1.5ppt*	*-1.5ppt*	*3.5%*	*3.9%*	*-0.4ppt*
Asset reversal/(impairment)	(1)	4	*n.m.*	*n.m.*	(33)	(68)	*n.m.*
Change in fair value gain/(loss)	11	(857)	*n.m.*	*n.m.*	(825)	(862)	*n.m.*
Investment income/(loss)	83	229	*n.m.*	*n.m.*	208	(498)	*n.m.*
Income from associates	7	7	*9%*	*-8%*	21	31	*-32%*
EBIT	**2,023**	**4,918**	***-59%***	***-22%***	**11,025**	**8,998**	***23%***
EBIT Margin	*5.5%*	*23.3%*	*-17.9ppt*	*-4.1ppt*	*12.2%*	*10.7%*	*1.4ppt*
EBITDA	3,297	6,553	*-50%*	*-20%*	18,140	14,855	*22%*
Finance cost	396	383	*3%*	*-23%*	1,242	1,431	*-13%*
Profit Before Tax	1,626	4,535	*-64%*	*-22%*	9,782	7,568	*29%*
NPAT	**498**	**3,293**	***-85%***	***-68%***	**6,230**	**5,417**	***15%***
Minorities	861	1,196	*-28%*	*118%*	3,050	1,461	*109%*
NPAT to shareholders	**(363)**	**2,097**	***-117%***	***-132%***	**3,181**	**3,956**	***-20%***
Net Margin	*-1.0%*	*10.0%*	*-10.9ppt*	*-5.2ppt*	*3.5%*	*4.7%*	*-1.2ppt*
Net profit attributed to owners of perp	125	124	***1%***	***-5%***	372	381	*-2%*
NPAT to Common Shareholders	**(488)**	**1,973**	***-125%***	***-148%***	**2,809**	**3,576**	***-21%***
Core earnings to Common Shareholders	**(456)**	**1,957**	***-123%***	***-146%***	**3,213**	**3,945**	***-19%***
EPS	**(0.11)**	**0.43**	***-126%***	***-148%***	**0.61**	**0.80**	***-24%***
Mine produced gold							
Sales Volume (kg)	8,650	10,253	*-16%*	*-35%*	28,610	36,816	*-22%*
Purchased gold							
Sales Volume (kg)	13,354	11,063	*21%*	*n.a.*	35,845	51,067	*-30%*
Small Gold Bar							
Sales Volume (kg)	8,202	5,813	*41%*	*n.a.*	19,226	10,720	*79%*
Cash Flow							
Operating Cash Flow	1,555	1,675	*-7%*	*-67%*	9,326	15,196	*-39%*
Free Cash Flow	(1,682)	(1,463)	*15%*	*-195%*	219	6,586	*-97%*
Balance Sheet							
Net debt/(cash)	55,096	49,942	*10%*	*14%*	55,096	48,384	*14%*
Net gearing	82%	74%	*8.2ppt*	*6.1ppt*	82%	76%	*6.1ppt*

Source: Company data, J.P. Morgan.

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Investment Thesis, Valuation and Risks

Shandong Gold - A *(Underweight; Price Target: Rmb21.00)*

Investment Thesis

As China's largest domestic pure gold miner, SD Gold maintains a high-quality asset base and has delivered an 8% self-mined production CAGR from 2022 to 2024. We forecast a 32% earnings CAGR from 2025 to 2028, though this is predominantly price-driven rather than operationally driven, and subject to execution risk as production scales domestically and overseas. Structural headwinds — rising unit COGS, sector-low ROLTA of ~4%, and elevated leverage — weigh on earnings quality, and weaker earnings conversion vs. peers underpins our UW rating.

Valuation

Our Dec-2027 price target of Rmb21 is based on a DCF valuation with a WACC of 6% and a terminal growth rate of 2%. Our PT implies a FY27E P/E multiple of 13x and a FY27E EV/EBITDA multiple of 7x.

Table 2: SD Gold – DCF Valuation

Breakdown	Rmb/shr	% of GAV
Mine produced gold	24.8	61%
Purchased gold	3.2	8%
Small gold bar	1.7	4%
Trade	0.4	1%
Others	10.6	26%
GAV per share	**40.8**	
Net debt/(cash)	(11.4)	
Perp	(3.0)	
Minority	(5.5)	
NAV per share	**21**	

Source: Company data, J.P. Morgan estimates.

Risks to Rating and Price Target

Key downside risks to our rating and price target include: 1) weaker-than-expected gold prices; 2) safety and environmental management risks surrounding the Shandong Province mines; 3) slower-than-expected project progress; 4) higher-than-expected operational costs; and 5) higher-than-expected investment losses exceeding projections.

Upside risks include: 1) Higher-than-expected gold prices; 2) better-than-expected mine production and reserve growth; 3) lower-than-expected mine gold costs; 4) better-than-expected progress in overseas project production ramp-up.



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Investment Thesis, Valuation and Risks

Shandong Gold - H *(Underweight; Price Target: HK$15.00)*

Investment Thesis
As China's largest domestic pure gold miner, SD Gold maintains a high-quality asset base and has delivered an 8% self-mined production CAGR from 2022 to 2024. We forecast a 32% earnings CAGR from 2025 to 2028, though this is predominantly price-driven rather than operationally driven, and subject to execution risk as production scales domestically and overseas. Structural headwinds — rising unit COGS, sector-low ROLTA of ~4%, and elevated leverage — weigh on earnings quality, and weaker earnings conversion vs. peers underpins our UW rating.

Valuation
Our Dec 2027 price target of HK$15 is based on a 62% average 3-month A/H premium on our A-share PT. The price target implies an 8x FY2027E P/E.

Risks to Rating and Price Target
Key downside risks to our rating and price target include: 1) weaker-than-expected gold prices; 2) safety and environmental management risks surrounding the Shandong Province mines; 3) slower-than-expected project progress; 4) higher-than-expected operational costs; and 5) higher-than-expected investment losses exceeding projections.

Upside risks include: 1) Higher-than-expected gold prices; 2) better-than-expected mine production and reserve growth; 3) lower-than-expected mine gold costs; 4) better-than-expected progress in overseas project production ramp-up.