

## Company

23 February 2010 | 7 pages

# China Vanadium Titano-Magnetite Mining (0893.HK)

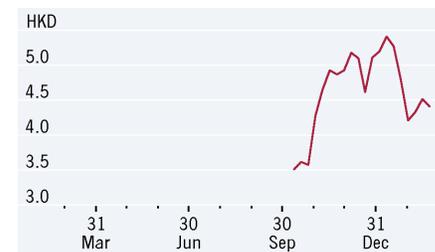
 Equity 

## Buy: '09 Results Broadly In-line; Higher Finance Costs and SG&A

- 2009 results broadly in-line, 2% below consensus and 4% below Citi** – China VTM announced '09 results with net income of RMB328m, up 32% YoY. This was 4% below our estimates. Gross profit came in at RMB502m; in line with our estimates and higher-than-expected finance costs and SG&A were the main reasons for the bottom line difference.
- Higher-than-expected output** – China VTM produced 1.634Mt of iron ore concentrate in 2009, 2.1% higher than our estimate of 1.6Mt.
- Higher finance costs and SG&A were the major difference** – The company incurred RMB9m of finance costs for the full year, vs our estimate of RMB2m. SG&A and others were RMB2m above our forecasts.
- Maintain Buy: attractive organic growth outlook** – With the sector wind-beaten with macroeconomic and US dollar developments, we think that stock-specific drivers become increasingly attractive. Organic growth and potential M&A are the attractions for China VTM.
- Management presentation today at 4:15pm** – The chairman, CEO, CIO and CFO will host a presentation with English interpretation at the Island Shangri-la in Hong Kong.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (22 Feb 10)	HK\$4.41
Target price	HK\$5.10
Expected share price return	15.6%
Expected dividend yield	1.1%
<b>Expected total return</b>	<b>16.8%</b>
Market Cap	HK\$9,151M US\$1,179M

### Price Performance (RIC: 0893.HK, BB: 893 HK)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(RmbM)	(Rmb)	(%)	(x)	(x)	(%)	(%)
2007A	54	0.036	133.0	108.4	28.7	42.5	0.0
2008A	249	0.166	363.2	23.4	10.8	67.0	0.0
2009E	341	0.164	-0.9	23.6	3.2	22.4	0.0
2010E	578	0.279	69.5	13.9	2.7	21.1	1.3
2011E	835	0.402	44.4	9.6	2.2	25.1	1.9

Source: Powered by dataCentral

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## 2009AR Results Overview

Figure 1. Results overview – Operational data

Operational data		2006	2007	2008	2009A	2009E	Diff vs CIRA	Diff as %
Iron Ore Concentrate	ktpa	287	519	1,164	1,634	1,600	34	2.1%
YoY			81%	124%	40%	37%		
<b>Sales volume</b>								
Iron Ore Conc.	ktpa	167	398	797	950	994	(44)	-4.5%
Iron Pellets	ktpa	170	256	305	639	594	45	7.6%
Med. Grade TiO2	ktpa	25	64	217	167	155	13	8.3%
High Grade TiO2	ktpa	0	0	0	0	16	(16)	-100.0%
<b>ASP</b>								
ASP - iron conc.	RMB/t	451	478	622	558	560	(2)	-0.4%
ASP - iron pellet	RMB/t	670	646	826	840	826	14	1.7%
ASP - Med grade TiO2	RMB/t	296	176	200	102	118	(16)	-13.8%

Source: Citi Investment Research and Analysis, Company Reports

Figure 2. Results overview – Income statement

Income Statement		2006	2007	2008	2009A	2009E	Diff vs CIRA	Diff as %
Revenue	RMB m	211	367	791	1,084	1,075	9	0.8%
COGS	RMB m	(100)	(188)	(364)	(582)	(575)	(7)	1.2%
<b>Gross Profit</b>	<b>RMB m</b>	<b>111</b>	<b>179</b>	<b>427</b>	<b>502</b>	<b>500</b>	<b>2</b>	<b>0.4%</b>
SG&A and others	RMB m	(60)	(103)	(92)	(56)	(58)	2	-3.4%
EBITDA	RMB m	62	89	378	544	512	32	6.3%
EBIT	RMB m	51	77	352		458		
Finance costs	RMB m	(2)	(2)	(3)	(9)	(2)	(7)	364.6%
PBT	RMB m	49	76	349	437	456	(19)	-4.2%
Income tax	RMB m	(17)	(1)	(30)	(70)	(68)	(1)	1.9%
Effective tax rate		35%	2%	9%	16%	15%		
<b>Net income</b>	<b>RMB m</b>	<b>23</b>	<b>54</b>	<b>249</b>	<b>328</b>	<b>341</b>	<b>(13)</b>	<b>-3.9%</b>
<b>Margin</b>								
GP	%	53%	49%	54%	54%	46%		
EBITDA	%	29%	24%	48%	48%	48%		
EBIT	%	24%	21%	44%	44%	43%		
<b>Net income</b>	<b>%</b>	<b>11%</b>	<b>15%</b>	<b>31%</b>	<b>31%</b>	<b>32%</b>		
<b>YoY</b>								
Revenue	%		74%	116%	37%	36%		
EBITDA	%		44%	325%	44%	35%		
<b>Net income</b>	<b>%</b>		<b>133%</b>	<b>363%</b>	<b>32%</b>	<b>37%</b>		

Source: Citi Investment Research and Analysis, Company Reports

## China Vanadium Titano-Magnetite Mining

### Company description

China VTM Mining mines and processes iron ore in Huili County, the Panxi region of Sichuan Province, South West China. Its mining assets are two open pit vanadium-bearing titano-magnetite iron ore mines, with mine lives of 14 years and 5.8 years. As of 30 June 09, total JORC reserves (2P) were 78.7Mt, with the potential to increase the shorter of the two mine lives based on an extension of the mining area. A function of the ore type, the mines produce iron concentrate and a titanium concentrate. These are sold or the iron concentrate is further processed into iron pellets. The company has options to acquire five mines in the region, with estimated resources at 126.2Mt.

## Investment strategy

We rate China VTM Mining shares Buy / Low Risk (1L). The stock is a pure Chinese iron-ore play and is growing through organic expansion, exploration and acquisitions. We have a positive view on the iron-ore market for 2010 but acknowledge the near-term challenges faced by the sector, including weak steel prices and a weak winter season. We believe the risk/reward looks favorable at current valuations.

## Valuation

We value China VTM at HK\$5.1/s. Our target price is derived by applying 5x 2011E EV/EBITDA to the standalone assets for a resulting value of HK\$4.5/share, to which we add HK\$0.65/share in M&A option value for the Panzihua Jingzhi asset. Our fair value for the operations equates to 14.0x 2010E earnings and 9.7x 2011E earnings, which are below respective multiples for the peer group and sector. We think discounts to selected regional iron ore and coking coal peers are warranted to adjust for earnings risks, the lack of a track record, and industry dynamics. To value the Jingzhi asset, we have conservatively assumed Baicao Mine's inferior core quality and costs, a debt-equity structure of 50-50% and the same target P/E as we use for China VTM's existing business.

## Risks

We rate China VTM shares Low Risk, which differs from the default Speculative Risk assigned by our quantitative risk-rating system to stocks that have a history of less than 260 days. Our rating considers downside risks of the commodity are limited, and the company's fundamentals have locked in floor prices for 2010. Key downside risks that could prevent the shares from reaching our target price include the risk of geological forecasts not matching reality, higher-than-expected production costs, weather, and a slower-than-expected recovery in China's economy.

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Covered since November 17 2009

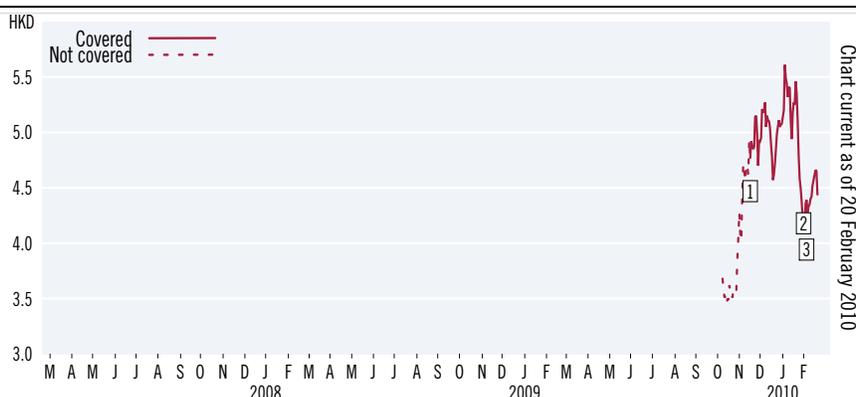


Chart current as of 20 February 2010

Date	Rating	Target Price	Closing Price
1 17-Nov-09	*1L	*5.90	4.77

\* Indicates change

Date	Rating	Target Price	Closing Price
2 1-Feb-10	1L	*4.91	4.21

Date	Rating	Target Price	Closing Price
3 4-Feb-10	1L	*5.10	4.39

Rating/target price changes above reflect Eastern Standard Time

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