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COMPANY ALERT

China VTM Mining

China VTM: iron ore mine acquisition; Buy

Breaking News

Buy

Reuters:0893.HK Exchange:HSI Ticker:0893

Price (HKD)	5.18
Price target (HKD)	6.10
52-week range (HKD)	5.61 - 3.45
Market cap (USDm)	1,385
Shares outstanding (m)	1,595.8
Net debt/equity (%)	-72.9
Book value/share (CNY)	1.34
Price/book (x)	3.4

FYE 12/31	2008A	2009E	2010E
Sales (CNYm)	791	1,084	1,495
Net Profit (CNYm)	248.7	336.2	547.7
DB EPS (CNY)	0.17	0.16	0.26
PER (x)	-	28.1	17.3
Yield (net) (%)	-	0.0	1.2

China VTM has just announced to acquire Yangqueqing Iron ore mine at a consideration of RMB200mn. Yangqueqing mine currently has 17.92mn tonnes iron ore resources. The implied acquisition cost is RMB11/tonne, FY09 PBR of 1x.

This is the Company's first delivery of iron mine acquisition since listing, convincing us of the management's credibility. We believe the acquisition is positive for the Company because:

This acquisition would enable China VTM to expand its current mining area and to explore at a low cost the neighboring iron ore resources, which is estimated to be up to 81.6mt.

This would significantly increase the iron ore resources of China VTM. The Company currently has 120.7mn tonnes iron ore resources. After completion of the acquisition, the Company could increase its resources immediately by 15% and potentially by 68%.

This would further reduce the Company's per tonne production cost as Yangqueqing Mine is located next to the Company's existing Baicao Mine such that the Company could capitalize on the economies of scale and leverage on its existing infrastructure.

As an open pit mine, the Yangqueqing mine currently has 150ktpa iron ore production capacity. This acquisition would offer China VTM an immediate 10% annual production increase. **Assuming deal completed on 01 Jan 2010, the acquisition would increase FY10e earnings by 7% to RM-B585m (implied FY10e PER of 16x).**

We anticipate China VTM to complete more mine acquisitions in the rest of this year. Reiterate Buy with a target price of HK\$6.1.

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