

# Company Update



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## ■ AT A GLANCE

SELL	★★★	<b>BUY</b>	<b>HK\$5.50</b>
			Target price
Upside/downside		<b>+93%</b>	
Current price		<b>HK\$2.85</b>	
Market capitalization		US\$761m	
Shares outstanding (float)		2.08bn (27%)	
52-week high-low		HK\$5.61-2.25	
Bloomberg		893 HK	
One-year performance		1M	6M 12M
China Vanadium		-1%	-33% NA
Hang Seng China Ent		-2%	+0% +2%

## ■ SAMSUNG vs THE STREET

No sellers!

No. of I/B/E/S estimates	<b>3</b>
Target price vs I/B/E/S mean	<b>+8%</b>
Estimates up/down (4 weeks)	<b>0/0</b>
1-yr fwd EPS vs I/B/E/S mean	<b>-21%</b>
Estimates up/down (4 weeks)	<b>1/0</b>
I/B/E/S recommendation	<b>Buy (1.50)</b>

- The stock is not yet widely followed

## China Vanadium (893 HK)

# Strong 1H10 results—buying spree to continue

### WHAT'S THE STORY?

**Event:** China Vanadium posted strong 1H10 results on Aug 22, with net income of Rmb234m (+75% YoY) and representing 51% of our full-year forecast. We attended China Vanadium's analysts' meeting Aug 23.

**Impact:** The strong 1H10 results and management's positive outlook for 2H10 should be taken positively by the market. Management is confident of achieving its full year 2010 profit forecast. At the analysts' meeting, management reiterated that China Vanadium is still actively looking at opportunities to expand both its resources base and its production capacity. We think the company has excellent growth prospects over the next few years.

**Action:** China Vanadium is trading at estimated P/Es of 11.3x in 2010E and 9.1x in 2011E, and EV/EBITDA multiples of 4.5x in 2010E and 3.1x in 2011E. We maintain our BUY rating and share price target of HK\$5.50.

The 1H10 results were in line with forecasts—there were no surprises—and management expects stable operations through 2H10. In particular, management is confident of achieving sales volumes of 1.95m tonnes of iron-ore products this year (vs our forecast of 1.80m tonnes).

The company remains very much on a buying spree and aims to secure additional resources and production facilities in Sichuan province. At the analysts' meeting management mentioned three mines that could be acquired in the next nine months (including two in 2010) that together could raise resources by another third or so from current levels. With a cash balance of ~Rmb1.2bn (~US\$175m) there is plenty of scope to scoop up resources.

After locking in selling prices for 2010, China Vanadium is considering shifting some sales to the spot market from next year. Although iron ore prices in Sichuan are not as volatile as in the coastal ports, this would enable the company to participate more fully in the strong iron ore market, something we think would be positive.

## ■ SUMMARY FINANCIAL DATA

Year to Dec	2008	2009	2010E	2011E	2012E
Revenue (Rmb m)	791	1,084	1,368	1,601	2,169
EBITDA	398	480	650	802	1,034
Net Inc	249	328	459	567	671
EPS (Rmb)	0.17	0.20	0.22	0.27	0.32
P/E	14.7	12.4	11.3	9.1	7.7
EV/EBITDA	8.8	7.1	4.5	3.1	1.6
Div Yield	0.0%	0.5%	1.8%	2.2%	2.6%
P/B	6.0	2.0	1.7	1.5	1.2
ROE	56%	20%	16%	17%	17%

Source: Company data, Samsung Securities

# Company Update – China Vanadium

## Key points from the analysts' meeting

**Stable operations likely in 2H10:** Management expects both selling prices and production costs to remain stable in 2H10 and is confident of achieving its full-year sales volume of ~1.95m tonnes of iron-ore products (vs our forecast of ~1.80m tonnes).

**More acquisitions to come:** China Vanadium's total resources reached ~366m tonnes at end-June. This represents an increase of 125% compared to the level at the time of the IPO in Oct 2009.

**Figure 1: Iron ore resources, tonnes m**

Resources at IPO, Oct 2009	162
Xiushuihe expansion	78
Yangqueqing mine	18
Yangqueqing additional zone	82
Cizhuqing mine	26
<b>Current</b>	<b>366</b>

Source: Company data

At the analysts' meeting, management outlined plans to acquire three new mines which could boost resources by another third or so, and said that it is considering another ten mines in Panxi, Sichuan. Management hopes to complete the acquisitions of the Maoling mine (~10.0m t resources) and the Yanglongshan mines (resources not disclosed) by the end-2010. Further, they hope to acquire the Jingzhi Mine (~100m t resources) by May 2011.

At the end of June, China Vanadium had a cash balance of ~Rmb1.2bn (~Rmb905m net cash); there's plenty of cash available for further M&A.

**Figure 2: Cash and debt balances at Jun 30, Rmb m**

Cash and cash equiv.	1,205
Short-term debt	150
Long-term debt	150
Net cash	905

Source: Company data

**Considering a shift to spot-market pricing:** China Vanadium is considering selling more on spot-market terms in 2011 after locking in selling prices for 2010. Management believes the iron-ore market will remain strong and that its realized selling prices would be higher if it sold on spot terms. We expect management to make a decision regarding the spot/contract split for 2011 sales in 4Q10.

## 1H10 results at a glance

On Aug 22, China Vanadium posted strong 1H10 results, with net income of Rmb234m (+75% YoY) and representing 51% of our full-year forecast.

**Figure 3: Results at a glance, Rmb m**

	1H09	2H09	1H10	YoY	HoH
Revenue	486	598	686	41%	15%
Cost of sales	277	306	326	18%	7%
Gross profit	210	292	360	72%	23%
Gross margin	43%	49%	52%		
Selling & distribution expenses	13	16	17	36%	11%
Admin expenses	12	24	31	161%	29%
Operating profit	185	253	312	68%	23%
Operating margin	38%	42%	45%		
Interest expenses	(2)	(2)	(11)	394%	471%
Interest income	0.1	0.3	0.8	1227%	213%
Others	(3)	6	6	n.a.	1%
Profit before tax	179	257	307	71%	19%
Tax expenses	(30)	(40)	(52)	74%	28%
Tax rate	16%	16%	17%		
Minority interest	16	23	22	34%	-3%
Net income	133	194	234	75%	20%
Net margin	27%	33%	34%		

Source: Company data, Samsung Securities

Revenues came in at Rmb686m in 1H10 (+41% YoY), driven by both stronger sales volumes and higher selling prices. Revenues in 1H10 represented 50% of our full-year forecast.

Iron concentrates and iron pellets accounted for 97% of total revenues; the titanium business is still very small. The company produced 866k t of iron concentrates in 1H10 (+17% YoY) and sold 507k t (+9% YoY). Iron pellets production reached 362k t in 1H10 (+15% YoY) and sales were 376k t (+13% YoY). All production and sales figures were within 47-53% of our full year estimates.

China Vanadium's average selling price for iron concentrates rose by 29% YoY to Rmb665/t, and the average selling price for iron pellets rose by 21% YoY to Rmb877/t. Selling prices for the iron-based products were slightly higher than we had expected, but prices for titanium products were slightly lower.

Overall, gross margin in 1H10 was 52%, slightly above our forecast for the full year of 51% and way above the 43% achieved in 1H09.

## Company Update – China Vanadium

## Financial Summary

Profit and Loss (Rmb m) Year to Dec	2008	2009	2010E	2011E	2012E	Ratio Analysis	2008	2009	2010E	2011E	2012E
<b>Revenue</b>	<b>791</b>	<b>1,084</b>	<b>1,368</b>	<b>1,601</b>	<b>2,169</b>	PER (x)	14.7	12.4	11.3	9.1	7.7
COGS	364	582	674	752	1,057	Price to book (x)	6.0	2.0	1.7	1.5	1.2
<b>Gross profit</b>	<b>427</b>	<b>502</b>	<b>694</b>	<b>849</b>	<b>1,111</b>	Price to sales (x)	4.6	3.8	3.8	3.2	2.4
Gross profit margin	54%	46%	51%	53%	51%	EV/EBITDA (x)	8.8	7.1	4.5	3.1	1.6
Operating expenses	55	64	92	107	145	EV/Sales (x)	(0.2)	5.9	2.1	1.5	0.8
<b>Operating profit</b>	<b>372</b>	<b>438</b>	<b>603</b>	<b>742</b>	<b>966</b>	Dividend yield	0.0%	0.5%	1.8%	2.2%	2.6%
Operating margin	47%	40%	44%	46%	45%	Revenues growth	116%	37%	26%	17%	35%
Interest expense	(3)	(4)	(5)	(4)	(4)	EBITDA growth	338%	21%	35%	23%	29%
Interest income	0	0	21	26	48	ROE	56%	20%	16%	17%	17%
Others	(20)	3	(5)	(5)	(5)	ROA	48%	22%	18%	18%	20%
<b>Profit before tax</b>	<b>349</b>	<b>437</b>	<b>613</b>	<b>759</b>	<b>1,005</b>	Net debt to equity	net cash	net cash	net cash	net cash	net cash
Taxation	30	70	98	121	251	Net debt to total capital	net cash	net cash	net cash	net cash	net cash
Minority interests	(70)	(39)	(57)	(70)	(83)	Total debt to equity	0%	4%	2%	1%	1%
<b>Net income</b>	<b>249</b>	<b>328</b>	<b>459</b>	<b>567</b>	<b>671</b>	Interest cover (x)	122	102	115	212	276
Net income margin	31%	30%	34%	35%	31%	Interest and current liabs cover (x)	1.3	0.9	0.9	1.0	0.9
EPS, Rmb	0.17	0.20	0.22	0.27	0.32	Current assets/current liabilities	1.4	4.8	4.0	4.2	3.7
DPS, Rmb	0.00	0.01	0.04	0.05	0.06	Curr asset less cash/curr liabs	0.9	0.8	0.6	0.6	0.6
Dividend payout ratio	0%	6%	20%	20%	20%						
EBITDA	398	480	650	802	1,034						
EBITDA margin	50%	44%	47%	50%	48%						
Balance Sheet (Rmb m) As at 31 Dec	2008	2009	2010E	2011E	2012E	Key Assumptions	2008	2009	2010E	2011E	2012E
<b>Current assets</b>	<b>406</b>	<b>2,233</b>	<b>2,723</b>	<b>3,247</b>	<b>4,191</b>	<b>Effective capacity, tonnes 000s</b>	<b>2,148</b>	<b>2,906</b>	<b>3,511</b>	<b>3,660</b>	<b>4,434</b>
Cash	133	1,884	2,316	2,788	3,567	<b>Sales volume, tonnes 000s</b>					
Trade and notes receivable	88	137	150	175	238	Iron concentrates	797	950	1,110	1,251	1,405
Inventory	66	71	92	103	145	Iron pellets	305	693	708	747	1,229
<b>Fixed assets</b>	<b>357</b>	<b>496</b>	<b>736</b>	<b>839</b>	<b>871</b>	Titanium concs - medium grade	217	167	110	-	-
<b>Other non-current assets</b>	<b>188</b>	<b>344</b>	<b>302</b>	<b>294</b>	<b>286</b>	Titanium concs - high grade	-	-	120	200	250
<b>Total assets</b>	<b>951</b>	<b>3,073</b>	<b>3,761</b>	<b>4,380</b>	<b>5,348</b>	<b>Selling prices, Rmb/t</b>					
<b>Current liabilities</b>	<b>290</b>	<b>461</b>	<b>676</b>	<b>771</b>	<b>1,119</b>	Iron concentrates	622	558	605	635	635
Bank loans due in <1 year	-	100	50	50	50	Iron pellets	826	775	868	911	911
Trade and notes payable	20	444	670	839	915	Titanium concs - medium grade	200	102	100	100	100
Accruals and other payables	140	199	270	301	423	Titanium concs - high grade	-	-	598	628	628
<b>Long-term liabilities</b>	<b>57</b>	<b>6</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>Cost of sales, Rmb000/t</b>					
Long-term borrowings	-	-	-	-	-	Iron concentrates	228	258	260	265	273
Other long-term liabilities	57	6	55	55	55	Iron pellets	454	429	429	437	450
<b>Total Debt</b>	<b>347</b>	<b>467</b>	<b>731</b>	<b>826</b>	<b>1,174</b>	Titanium concs - medium	202	239	250	255	263
<b>Shareholders' equity</b>	<b>604</b>	<b>2,607</b>	<b>3,030</b>	<b>3,554</b>	<b>4,174</b>	Titanium concs - high	-	440	453	467	481
<b>Total debt and sh. equity</b>	<b>951</b>	<b>3,073</b>	<b>3,761</b>	<b>4,380</b>	<b>5,348</b>						
Cash Flow (Rmb m) Year to Dec	2008	2009	2010E	2011E	2012E	Shareholding Structure					
<b>Profit before tax</b>	<b>349</b>	<b>437</b>	<b>613</b>	<b>759</b>	<b>1,005</b>	<b>Shareholders</b>	<b>Code</b>	<b>No. of shares</b>	<b>%</b>		
Depreciation	27	43	47	60	68	Trisonic Int'l Ltd	893 HK	1,193	57%		
Increase in working capital	72	(106)	207	44	183	AL Safat Investment	893 HK	204	10%		
Net interest paid	(3)	(7)	(4)	16	22	Other public shares	893 HK	677	33%		
Tax paid	(27)	(32)	(70)	(98)	(121)	<b>Total shares in issue</b>		<b>2,075</b>	<b>100%</b>		
Others	5	8	(219)	(279)	(436)						
<b>Net cash from operating activities</b>	<b>423</b>	<b>342</b>	<b>575</b>	<b>501</b>	<b>721</b>						
Capex	(173)	(239)	(288)	(164)	(100)						
Others	(94)	(89)	43	8	8						
<b>Net cash in investing</b>	<b>(267)</b>	<b>(328)</b>	<b>(245)</b>	<b>(156)</b>	<b>(92)</b>						
Dividends paid	-	(24)	(20)	(92)	(113)						
Net debt movement	(30)	100	(50)	-	-						
Equity Issue	0	1,662	-	-	-						
Others	(0)	-	172	219	264						
<b>Net cash in financing</b>	<b>(30)</b>	<b>1,737</b>	<b>102</b>	<b>127</b>	<b>150</b>						
<b>Net increase in cash</b>	<b>126</b>	<b>1,752</b>	<b>432</b>	<b>472</b>	<b>779</b>						
Adjustments	-	-	-	-	-						
<b>Change in cash</b>	<b>126</b>	<b>1,752</b>	<b>432</b>	<b>472</b>	<b>779</b>						

Source: Company data, Samsung Securities

# Company Update – China Vanadium

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