

Standard Chartered: China VTM Mining – 1H production and earnings affected by drought as guided; on track to deliver full-year target

(China VTM; 893.HK; OUTPERFORM; last close HK\$2.95, fair value HK\$4.2)

Yan Chen (Y.Chen@sc.com) +852 3983 8518

Wei Ouyang (Wei.Ouyang@sc.com) +852 3983 8519

China VTM, an iron ore producer based in Sichuan Province, reported its 1H 2010 interim result on 22 August.

- **Strong growth in 1H was driven both by volume and price.** Net profit of RMB234m was up a strong 75% YoY, driven by both production growth (+16.5% YoY) and selling price increase (14.1% YoY for iron concentrate and 20% YoY for iron pellet). To some extent, the strong price increase was due to a low base in 1H 2009.
- **Earnings were slightly behind schedule due to weak production, which was well guided.** 1H net profit was about 46% of our full-year estimate of RMB504m for 2010, mainly because of weaker production in the half, which was affected by the severe drought during Jan–April in southwestern China, as guided by the company in May. The 1H production of iron concentrate of 866kt represents 46% of our full-year estimate of 1,874kt. Other than the production hiccup, the 1H financials were pretty straightforward.
- **Rapid expansion.** The company spent about RMB1.2bn in 1H on capex, the main ones being the acquisitions of the Cizhuqing Mine exploration right (RMB120m), Hailong Processing Plant (RMB189.5m), Heigutian Processing Plant (RMB547.6m) and the Yanqueqing Mine mining right (RMB200m). By the end of 1H, the company still had a net cash of RMB905m (down from RMB1,784m as of end-2009).
- **Bullish outlook.** Management was very positive on the business outlook, highlighting that there will be c.10.1mt of new steel capacity by 2012 in Sichuan, which should push up crude steel production in Sichuan by 66% from 2009.
- **Maintain OUTPERFORM.** China VTM is trading on 10.7x PER for FY10E and 8.4x for FY11E.

Highlights of key financials

RMBm	1H 2010	1H 2009	YoY %
Revenue	686	486	41.1%
Gross profit	360	210	71.6%
Gross margin	52.4%	43.1%	
SG&A	48	25	95.8%
SG&A / revenue %	7.0%	5.0%	
EBIT	312	185	68.5%
EBIT margin	45.4%	38.1%	
Profit before tax	307	180	71.1%
Tax	(52)	(30)	74.3%
Tax rate	16.8%	16.5%	
Net profit	256	150	70.5%
Net margin	37.3%	30.8%	
Minority interest	22	16.4	34.1%
Net profit attributable to shareholders	234	134	75.0%
EPS (RMB per share)	0.113	0.090	25.1%

Source: Company, Standard Chartered Research estimates



Regards,
Yan

Yan Chen

Asia Head of Metals and Mining
Equity Research

Standard Chartered Bank (Hong Kong) Limited

Direct: +852 3983 8518

Fax: +852 3983 8529

Email: y.chen@sc.com

Address: 1201-1204, 12/F, Two International Finance Centre, Central, Hong Kong

Website: <http://www.standardchartered.com>



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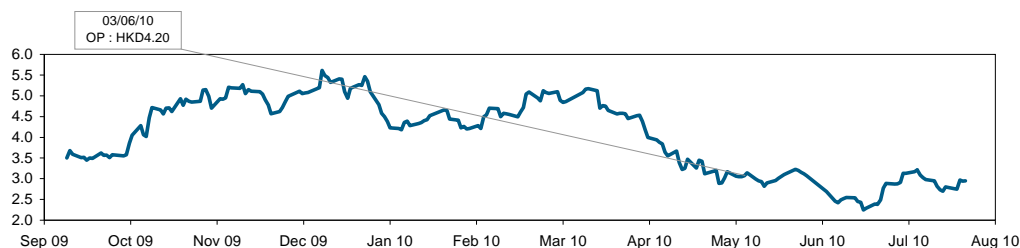
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Company China Vanadium

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SCB has managed or co managed a public offering for this company with the past 12 months, for which it received fees.

China Vanadium - current rating is: **OUTPERFORM**



Source: FactSet prices / SCB ratings and fair values

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Research Recommendation

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