

Company Update



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■ AT A GLANCE



Target price	HK\$5.50 (+67%)		
Current price	HK\$3.29		
Bloomberg code	893 HK		
Market cap	US\$833m		
Shares out (float)	2.08bn (42%)		
52-week high/low	HK\$5.17/2.25		
ADT (3M)	US\$5.30m		
One year performance	1M	6M	12M
China Vanadium	-6%	-3%	-30%
Hang Seng China Ent	+2%	+4%	+5%

■ KEY CHANGES

	New	Old	Chg%
Recommendation	Buy	Buy	
Target price (HK\$)	5.50	5.50	0%
EPS 12-10 (Rmb)	0.26	n.a.	n.a.
EPS 12-11E (Rmb)	0.30	0.27	+11%
EPS 12-12E (Rmb)	0.38	0.32	+17%

■ SAMSUNG vs THE STREET

No. of I/B/E/S estimates	4
Target price vs I/B/E/S mean	+5%
Estimates up/down (4 weeks)	0/0
1yr fwd EPS vs I/B/E/S mean	-11%
Estimates up/down (4 weeks)	0/1
I/B/E/S recommendation	Sbuy (1.40)

China Vanadium (893 HK)

Solid growth prospects

WHAT'S THE STORY?

Event: We raise our net income forecasts for China Vanadium by 11% to Rmb632m in 2011e and by 17% to Rmb787m in 2012e, mainly driven by our higher production volume forecasts.

Impact: We expect China Vanadium to deliver rapid production and sales volume growth over the next few years. We forecast the company will produce 3.3m tonnes of iron concentrates by 2012e, representing a CARG of 28% over 2010-2012e.

Action: We maintain our BUY rating and DCF-based share price target of HK\$5.50. The stock looks attractive trading at 9.1x 2011e P/E and 3.0x 2011e EV/EBITDA.

THE QUICK VIEW

China Vanadium has built a successful track record in acquisitions, increasing its resources by ~150% since its IPO in late 2009. It remains very much on a buying spree and aims to increase resources by at least ~23% in 2011e.

We forecast that China Vanadium will achieve production volume CAGR of 28% over 2010-2012e backed by its strong resources growth prospects.

After locking in selling prices for 1H11, China Vanadium may shift to spot market pricing from 2H11. Management expects an upswing in prices in 2H11 as new steel making capacities come on stream in Sichuan. We think this would enable the company to participate more fully in the strong iron ore market, something we think would be positive.

We maintain our BUY rating and 12-month price target of HK\$5.50 on the solid growth prospects. We think China Vanadium offers good value trading at 9.1x 2011e P/E.

We view the main risk for China Vanadium as costs escalating more rapidly than expected as a result of fast expansions.

■ SUMMARY FINANCIAL DATA

	12-08	12-09	12-10E	12-11E	12-12E
Revenue (Rmb m)	791	1,084	1,554	1,869	2,634
EBITDA	398	480	601	1,060	1,233
Net Inc	249	328	533	632	787
EPS (Rmb)	0.17	0.20	0.26	0.30	0.38
P/E	na	19.8	10.8	9.1	7.3
EV/EBITDA	na	15.6	8.3	3.0	1.9
Div Yld (%)	na	0.3	1.9	2.2	2.7
P/B	na	3.7	2.1	1.7	1.4
ROE (%)	67	21	20	20	21

Source: Company data, Samsung Securities

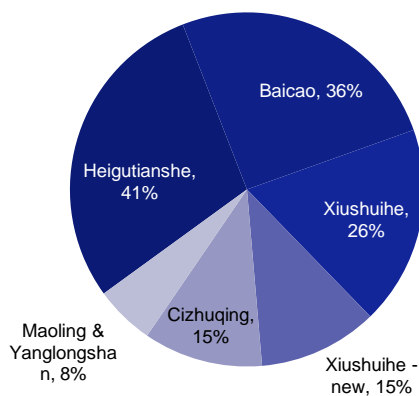
China Vanadium (893 HK)

Raising earnings estimates...

We raise our net income forecast for China Vanadium 11% to Rmb632m in 2011e and 17% to Rmb787bn in 2012e on increased production volume. We have made eight main changes to our earnings forecasts:

Iron concentrates capacity: We increase our effective iron concentrates capacity estimate from 2.60m tpa to 2.75m tpa for 2011e, thanks to the acquisition of the Maoling and Yanglongshan mines in 2H10. The two mines have production capacity of 150k tpa for non-vanadium bearing iron concentrates.

Figure 226: Iron concentrates capacity breakdown, 2011e



Source: Samsung Securities

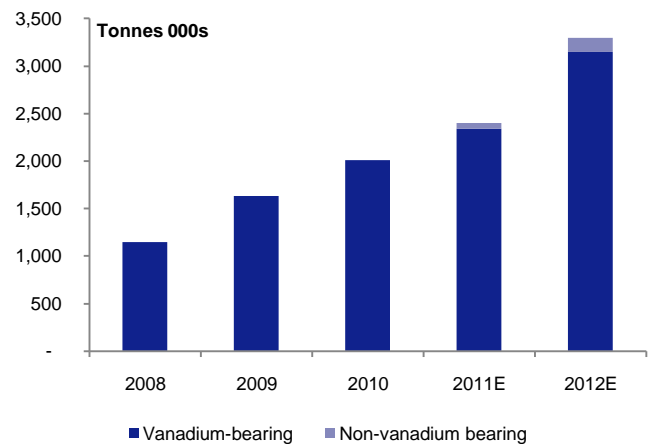
Iron pellets capacity: We increase effective iron pellets capacity assumption in 2011e from 760k tpa to 1,260k tpa, driven by the Xiushuihe plant with a capacity of 1.0m tpa. We expect this plant to come on stream in mid 2011e.

High-grade titanium capacity: We increase effective titanium capacity estimate from 300k tpa to 420k tpa for 2011e. The increase is driven by the Heigutian plant, which the company acquired in 2H10.

Iron concentrates production volume: We increase vanadium-bearing iron concentrates production volume estimate by 15% to 2.3m tonnes in 2011e and by 19% to 3.2m tonnes in 2012e. The increase is driven by production from the Heigutianshe and Cizhuqing mines.

We forecast that the company will produce 60,000 tonnes of such concentrates in 2011e and 150,000 tonnes in 2012e.

Figure 227: Iron concentrate production



Source: Company data, Samsung Securities

Iron pellets production volume: We increase our estimate of iron pellet production volume by 21% to 904,000 tonnes in 2011e to account for the production contribution from the Xiushuihe plant.

High-grade titanium production volume: We lower our estimate for titanium production volume from 200,000 tonnes to 150,000 tonnes in 2011e.

Selling prices: We reduce selling prices for vanadium-bearing iron concentrates by 5% to Rmb605/t in 2011e, assuming China Vanadium will sell at a contract price of Rmb600/t in 1H11e and spot price of ~Rmb610/t in 2H11e.

We forecast that selling prices for non-vanadium bearing iron concentrate will be Rmb1,100/t in 2011e, and raise our estimated selling price for high-grade titanium concentrates by 27% to Rmb800/t in 2011e, factoring in current market prices.

Production costs: We raise production costs forecasts for vanadium-bearing iron concentrates by 3% to Rmb272/t in 2011e and to Rmb281/t in 2012e. We raise production costs forecasts for iron pellets by 6% to Rmb462/t in 2011e and to Rmb476/t in 2012e.

We forecast production costs for non-vanadium-bearing iron concentrates will be Rmb500/t in 2011e and Rmb515/t in 2012e, in line with recent costs at the Maoling and Yanglongshan mines. The high costs are mainly driven by the small production scale.

China Vanadium (893 HK)

Figure 228: Earnings changes

(Rmb m)	Old			New			Change		
	2010e	2011e	2012e	2010	2011e	2012e	2010e	2011e	2012e
Revenues	n.a.	1,601	2,169	1,554	1,869	2,634	n.a.	17%	21%
Net income	n.a.	567	671	533	632	787	n.a.	11%	17%
EPS, Rmb	n.a.	0.27	0.32	0.26	0.30	0.38	n.a.	11%	17%

Source: Samsung Securities

...and maintain BUY

We maintain our BUY rating and DCF-based target price of HK\$5.50. We think the company has excellent growth prospects over the next few years. One catalyst is selling prices should rise in 2H11e as new steel capacities in the Sichuan region come on stream.

Maoling and Yanglongshan acquisitions

China Vanadium announced the acquisition of the Maoling and Yanglongshan mines for ~Rmb150m in 2H10 and plans to complete the acquisition by April. These mines are located in the Aha region in Sichuan and have iron ore resources of ~78.2m tonnes. As a result, China Vanadium will increase its resources by 23% to 414m tonnes by April.

Figure 229: Iron ore resources, tonnes m

At IPO, Oct 2009	133
Xiushuihe expansion	78
Yangqueqing mine	18
Yangqueqing additional zone	82
Cizhuqing mine	26
Maoling and Yanglongshan	78
By Apr 2011	414

Source: Company data, Samsung Securities

The Maoling and Yanglongshan mines have non-vanadium bearing iron concentrates production capacity of 150k tpa. We forecast production at these mines will be 60,000 tonnes in 2011e and 150,000 tonnes from 2012e.

We understand that non-vanadium-bearing iron concentrates are actually more expensive than vanadium-bearing concentrates. Management thinks this is because of the different grades and low demand for vanadium-bearing concentrates for the moment. The company expects the prices to converge as steel plants in Sichuan use more vanadium-bearing concentrates over the next few years.

More M&A plans

China Vanadium plans to accelerate M&As over the next 1-2 years aiming to increase resources to more than 600m tonnes over the next 3-5 years.

Management estimates that Sichuan will have more than ~10.0m tpa of new steel capacities by 2013e, among which ~4.0m tpa will come on stream in 2H11e. These capacities should boost the demand for iron ore. Management thinks

that the next 1-2 years is a good time to acquire resources before acquisition cost becomes too high.

The company is in late negotiations with three other vanadium-bearing mines and in talks with two non-vanadium-bearing mines. China Vanadium may not acquire the Jingzhi mine because of some issues with the mining rights.

China Vanadium had Rmb796m of net cash by the end of 2010 - plenty of cash for future acquisitions.

Figure 230: Cash and debt balances at Dec 31, 2010

	(Rmb m)
Cash and cash equiv.	1,096
Short-term debt	175
Long-term debt	125
Net cash	796

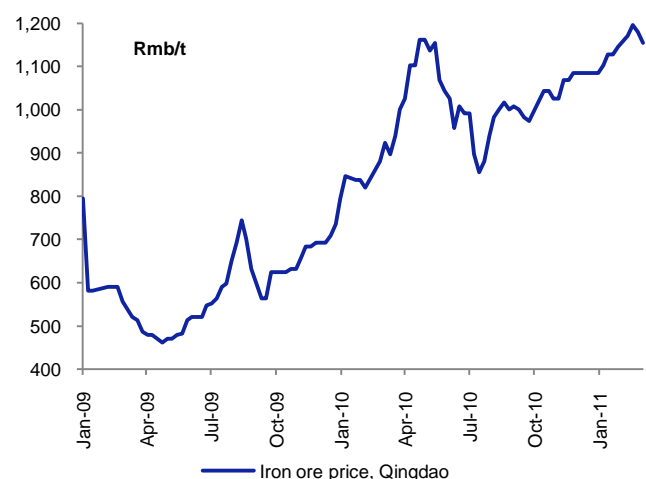
Source: Samsung Securities

Switching to spot pricing in 2H11e

China Vanadium has signed contracts to sell iron concentrates at ~Rmb585/t in 1H11e. Management believes market price for iron concentrates should be relatively flat in 1H11e and it is in the company's best interest to lock in sales through contracts.

Management expects an increase in iron ore prices in 2H11e driven by the new steel capacities. As a result, China Vanadium will switch from contract pricing to spot pricing in 2H11e. We forecasts iron concentrates selling prices will average ~Rmb610/t in 2011e.

Figure 231: Spot iron ore price, Qingdao



Source: Bloomberg, Samsung Securities

China Vanadium (893 HK)

Figure 232: Financial summary

	12-08	12-09	12-10	12-11E	12-12E
Profit & Loss (Rmb m)					
Revenue	791	1,084	1,554	1,869	2,634
COGS	-364	-582	-724	-905	-1,315
Gross profit	427	502	830	964	1,319
Gross profit margin (%)	54	46	53	52	50
Selling, general & admin	-55	-64	-124	-125	-176
Operating profit	372	438	707	839	1,142
Operating margin (%)	47	40	45	45	43
Interest expense	-3	-4	-15	-8	-4
Interest income	0	0	3	19	46
Others	-20	3	6	-5	-5
Profit before tax	349	437	701	845	1,180
Taxation	-30	-70	-117	-135	-295
Minorities	-70	-39	-51	-78	-97
Net income	249	328	533	632	787
Net income margin	31	30	34	34	30
Adjusted net income	249	328	533	632	787
Adjusted EPS, Rmb	0.17	0.20	0.26	0.30	0.38
DPS, Rmb	0.00	0.01	0.05	0.06	0.08
Dividend payout ratio (%)	0	6	20	20	20
EBITDA	398	480	601	1,060	1,233
EBITDA margin (%)	50	44	39	57	47

	12-08	12-09	12-10	12-11E	12-12E
Balance Sheet (Rmb m)					
Current assets	406	2,233	1,473	3,208	4,240
Cash and cash equivalents	133	1,884	1,096	2,668	3,478
Trade receivables	88	137	208	205	289
Inventory	66	71	70	124	180
Other current assets	119	141	100	211	293
Fixed assets	357	496	1,476	1,117	1,276
Other non-current assets	188	344	784	294	286
Total assets	951	3,073	3,733	4,619	5,803
Current liabilities	-290	-461	-813	-896	-1,353
Borrowings due in <1 year	0	-100	-175	-50	-50
Trade payables	-108	-86	-255	-223	-324
Other current liabilities	-182	-275	-383	-623	-978
Long-term liabilities	-57	-6	-131	-55	-55
Borrowings due >1 year	-57	-6	-131	-55	-55
Other long-term liabilities	0	0	0	0	0
Total liabilities	-347	-467	-944	-951	-1,408
Shareholders' equity	539	2,514	2,775	3,446	4,076
Total debt and sh. equity	951	3,073	3,733	4,619	5,803

	12-08	12-09	12-10E	12-11E	12-12E
Cash Flow (Rmb m)					
Pre-tax profit	349	437	701	845	1,180
Depreciation & amortisation	27	43	-105	221	91
Increase in working capital	72	-106	249	46	234
Others	-24	-31	-328	-403	-628
Net cash from operating activities	423	342	517	709	876
Capex	-173	-239	601	-1,338	-250
Associates & investments	0	0	0	0	0
Others	-94	-89	-440	491	8
Net cash in investing	-267	-328	161	-848	-242
Dividends paid	0	-24	-20	-107	-126
New debts / debts (repaid)	-30	100	75	-125	0
Issue of shares	0	1,662	387	-387	0
Others	0	0	258	163	302
Net cash in financing	-30	1,737	700	-456	176
Net increase in cash	126	1,751	1,378	-594	810

	12-08	12-09	12-10E	12-11E	12-12E
Ratio Analysis					
PER (x)	na	19.8	10.8	9.1	7.3
Price to book (x)	na	3.7	2.1	1.7	1.4
Price to sales (x)	na	6.0	3.7	3.1	2.2
EV/EBITDA (x)	na	15.6	8.3	3.0	1.9
EV/Sales (x)	na	6.9	3.2	1.7	0.9
Dividend yield (%)	na	0.3	1.9	2.2	2.7
Revenues growth (%)	116	37	43	20	41
EBITDA growth (%)	338	21	25	76	16
EPS growth (%)	363	18	28	18	25
ROE (%)	67.0	21.5	20.2	20.3	20.9
ROA (%)	32.2	16.3	15.7	15.1	15.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Net debt to total capital (%)	net cash	net cash	net cash	net cash	net cash
Total debt to equity (%)	9.5	4.1	11.0	2.9	2.4
Interest cover (x)	128.1	110.9	61.5	nm	nm
Interest and current liabs cover (x)	1.3	0.9	0.9	0.9	0.9
Current assets/current liabilities	1.4	4.8	1.8	3.6	3.1
Curr asset less cash/curr liab	0.9	0.8	0.5	0.6	0.6

	12-08	12-09	12-10E	12-11E	12-12E
Effective capacity, tonnes 000s	2,148	2,906	3,511	4,430	4,704
Sales volume, tonnes 000s					
Iron concentrates	797	950	1,280	1,420	1,900
Iron pellets	305	693	708	904	1,229
Titanium concs - medium grade	217	167	110	0	0
Titanium concs - high grade	0	0	70	150	250
Selling prices, Rmb/t					
Iron concentrates	622	558	605	605	605
Iron pellets	826	775	868	911	911
Titanium concs - medium grade	200	102	100	100	100
Titanium concs - high grade	0	0	598	800	800
Cost of sales, Rmb000/t					
Iron concentrates	228	258	267	272	281
Iron pellets	454	429	453	462	476
Titanium concs - medium	202	239	250	255	263
Titanium concs - high	0	440	453	467	481

Shareholding Structure			
Shareholders	Code	No. of shares	%
Trisonic Int'l Ltd	893 HK	1,007	49%
Other public shares	893 HK	1,068	51%
Total shares in issue		2,075	100%

Source: Company data, Samsung Securities