

# Company Update



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## ■ AT A GLANCE

SELL	★★★ BUY	HK\$5.50
		Target price
Up/downside	+88%	
Current price	HK\$2.93	
Market capitalization	US\$0.8bn	
Shares outstanding (float)	2.08bn (38%)	
52 week high-low	HK\$5.61-2.89	
Bloomberg	893 HK	
One year performance	1M	6M 12M
China Vanadium	-17%	-42% NA
Hang Seng China Ent	-2%	-13% +6%

## ■ SAMSUNG vs THE STREET

### No sellers!

Target price vs Consensus	-2%
1yr fwd EPS vs Consensus	-16%
Recommendation distribution	100% Buy 0% Hold 0% Sell

- The stock is not yet widely followed.

## China Vanadium (893 HK)

# Developing a solid track record

### WHAT'S THE STORY?

**Events:** We maintain our BUY rating on China Vanadium and our DCF-based price target of HK\$5.50 per share.

### Impact:

#### Developing a successful acquisition track record in iron ore resources...

Since its IPO in October 2009, China Vanadium has made several acquisitions, boosting both its iron ore resources and its production capacity. Notably, the company acquired the mining rights of Yangqueqing mine (Rmb200m), boosting iron ore resources by ~18m tonnes and giving the company access to a neighbouring area with up to 82m tonnes in additional resources. In February 2010, the company obtained exploration rights for Cizhuqing mine (Rmb120m) which has some ~25.6m tonnes of resources. All in all, we estimate that China Vanadium now has iron ore resources of ~350m tonnes, up ~47% since its IPO. Management is still actively looking for further opportunities to expand.

**...and in processing capacity:** The company bought the Heigutianshe 800k tpa iron concentrates line and a 120k tpa high-grade titanium concentrates line near Baicao in March 2010 for Rmb550m, effectively buying-out a third party contractor. In February 2010, the company acquired the 300k tpa Hailong iron concentrates line near the Cizhuqing mine for Rmb190m.

**Management plans to produce more iron pellets:** The company plans to construct a new 1.0m tpa iron pelletizing plant close to the Xiushuihe mine with capex of ~Rmb104m. We expect China Vanadium to sell ~1.1m tonnes of iron concentrates and ~708k tonnes of pellets in 2010. There is ready demand for pellets from steel makers; the expansion should enable the company to gain market share. Bringing production in-house should also enable better cost controls. It is worth noting that iron pellets are typically a lower margin product than iron concentrates, meaning the gross margin may decline.

**Realized selling prices above contract price floor:** In March 2010, the company realized iron concentrates selling prices of Rmb605/t, higher than the Rmb589/t price floor set through contracts. The upside the company can enjoy from a strong international iron ore market is limited by two factors. First, the iron ore market in Sichuan is not as sensitive to the international market as China's coastal areas. Second, under the terms of the company's sales contracts, the company can only participate in 50% of the price gap between spot prices and contract prices. We expect the company to realize an iron concentrates selling price of Rmb605/t for 2010.

**Action:** We think the stock looks cheap, especially in terms of EV/EBITDA. We maintain our BUY recommendation and price target of HK\$5.50.

### 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	15.1	12.8	11.6	9.4	7.9
EV/EBITDA	9.1	7.4	4.7	3.2	1.8
Div Yld	0.0%	0.5%	1.7%	2.1%	2.5%
P/B	6.2	2.0	1.8	1.5	1.3
ROE	56%	20%	16%	17%	17%

Source: Company data, Samsung Securities

## 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
Revenue	791	1,084	1,368	1,601	2,169	PER (x)	15.1	12.8	11.6	9.4	7.9
COGS	364	582	674	752	1,057	Price to book (x)	6.2	2.0	1.8	1.5	1.3
<b>Gross profit</b>	<b>427</b>	<b>502</b>	<b>694</b>	<b>849</b>	<b>1,111</b>	Price to sales (x)	4.7	3.9	3.9	3.3	2.5
Gross profit margin	54%	46%	51%	53%	51%	EV/EBITDA (x)	9.1	7.4	4.7	3.2	1.8
Operating expenses	55	64	92	107	145	EV/Sales (x)	(0.2)	5.9	2.2	1.6	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%	1.7%	2.1%	2.5%
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 Intl 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