

China

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China VTM Mining

893.HK / 893 HK

BUY

Initiate coverage

HK\$3.28 (Sep 16, 10)

Target price: HK\$4.70 (Up: 43%)
HSI: 21,691.45 (Sep 16, 10)

Leading iron ore producer focusing on Sichuan

- **China VTM Mining** is the second largest operator overall and the largest non state-owned operator of iron ore mines in Sichuan. The company has maintained rapid growth since 2006 and was listed in Hong Kong on 8 October 2009. The company's products are broadly categorized into iron concentrates, iron pellets and titanium concentrates, which respectively accounts for 49%, 48% and 3% of 1H10 total sales.
- **Stable ASP growth in an isolated local market** - ASP for iron concentrates reached RMB665/t in 1H10 from RMB451/t in 2006 with CAGR of 12%. ASP for iron pellets went up to RMB877/t with CAGR of 8% since 2006. Contract price for 2011 has not been set yet and the management is considering shifting some sales to the spot market starting next year, which we believe would be positive considering the strong demand in the local market.
- **Continuous expansion drives future growth** – The company currently has ~366mt of resources with 17 years of mining life. Production capacity of iron concentrates and iron pellets respectively amounts to 2,300kt and 760kt and will be raised to 2,600kt and 1,360kt by the end of 2011.
- **Initiate BUY** - Using DCF model for valuation, WACC of 13.3% and a terminal growth rate of 2%, we set the target price of the company at HK\$4.70 per share. With 43% upside potential, we initiate coverage with a BUY recommendation.

Share Data

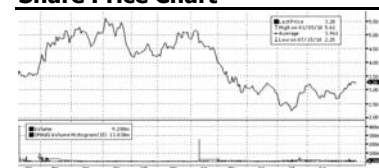
| | |
|-------------------------|-----------|
| 52week Hi/Lo (HK\$) | 5.70/2.22 |
| Avg. daily t/o (US\$m) | 4.8 |
| Market cap. (US\$m) | 876 |
| Total issued shares (m) | 2075 |
| Public float (%) | 30% |
| Major shareholder: | |
| Trisonic International | 48.5% |
| Sapphire Corporation | 9.5% |
| JPMorgan | 6.0% |
| Schroder Investment | 6.0% |

Source: HKEx & Bloomberg

Company Profile

China VTM Mining is primarily engaged in mining, ore processing, iron pelletising and the sale of iron concentrates, iron pellets and titanium concentrates to steel producers and downstream users of titanium-related products.

Share Price Chart



Source: Bloomberg

Earnings Forecasts

| Year ended 31 Dec | 2008A | 2009A | 2010F | 2011F | 2012F |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales (RMB'm) | 791 | 1,084 | 1,430 | 1,741 | 1,962 |
| EBITDA (RMB'm) | 371 | 477 | 785 | 1,030 | 1,178 |
| Net profit (RMB'm) | 249 | 328 | 500 | 619 | 681 |
| EPS (RMB) | N/A | 0.201 | 0.241 | 0.298 | 0.327 |
| YoY change (%) | N/A | N/A | 19.8 | 23.8 | 9.6 |
| Consensus EPS (RMB) | | | 0.254 | 0.331 | 0.367 |
| PE (x) | N/A | 14.2 | 11.8 | 9.6 | 8.7 |
| EV/EBITDA (x) | N/A | 8.7 | 5.8 | 4.1 | 3.1 |
| DPS (RMB) | N/A | - | 0.05 | 0.06 | 0.07 |
| Yield (%) | N/A | - | 1.7 | 2.1 | 2.3 |
| ROE (%) | 67.0 | 21.5 | 18.3 | 19.2 | 18.2 |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

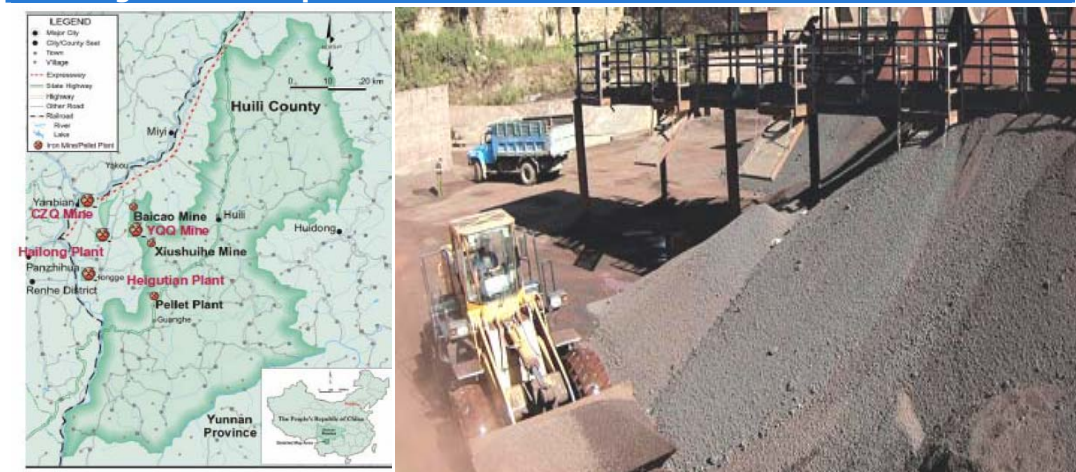
Source: Company data, Kingsway Research estimates

A brief look at the company

Largest private operator of iron ore mines in Sichuan, listed in HK in Oct 2009.

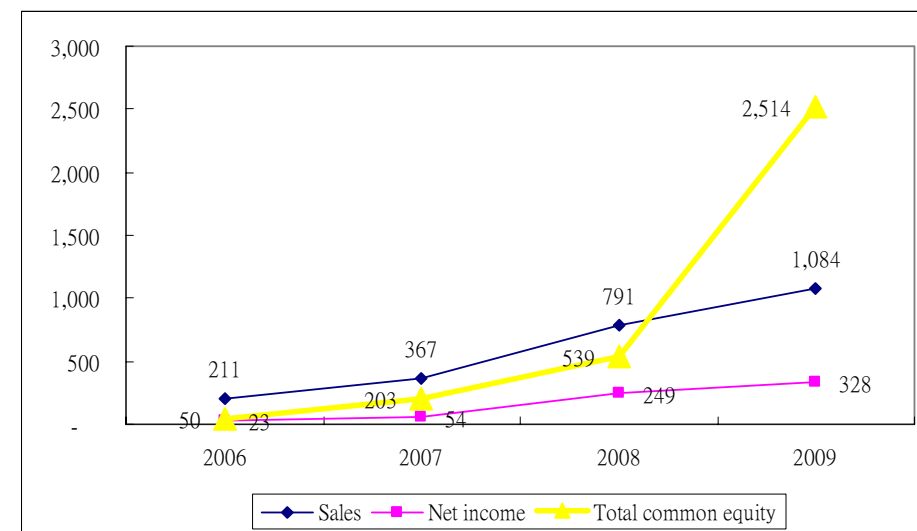
China VTM Mining was the second largest operator overall and the largest non state-owned operator of iron ore mines in Sichuan in 2008 and 2009 in terms of actual output volume of iron ore, according to the records of the Sichuan Metallurgy Economic Commission. The company primarily engages in mining, ore processing, iron pelletizing and the sale of iron concentrates, iron pellets and high-grade titanium concentrates. The company's principal customers are steel producers and downstream users of titanium-related products. It owns and operates four vanadium-bearing titanomagnetite mines (the Baicao Mine, the Xiushuihe Mine, the Yangqueqing Mine and the Cizhuqing Mine) and five production facilities (the Baicao processing Plant, the Xiushuihe processing Plant, the Hailong production facility, the Heigutian production facility and one iron pelletizing plant), all located in Sichuan's Panxi region, a region with ~75% of the total vanadium-bearing titanomagnetite reserve in China. The company has maintained fast growth since 2006 and was listed in Hong Kong on 8 October 2009.

Existing mines and operations



Source: Company data

Rapid growth since 2006 (in RMBm)



Source: Company data



Major products of the company

Iron concentrates and iron pellets are the major products.

China VTM's products are broadly categorized into iron concentrates, iron pellets and titanium concentrates, which respectively accounts for 49%, 48% and 3% of 1H10 total sales.

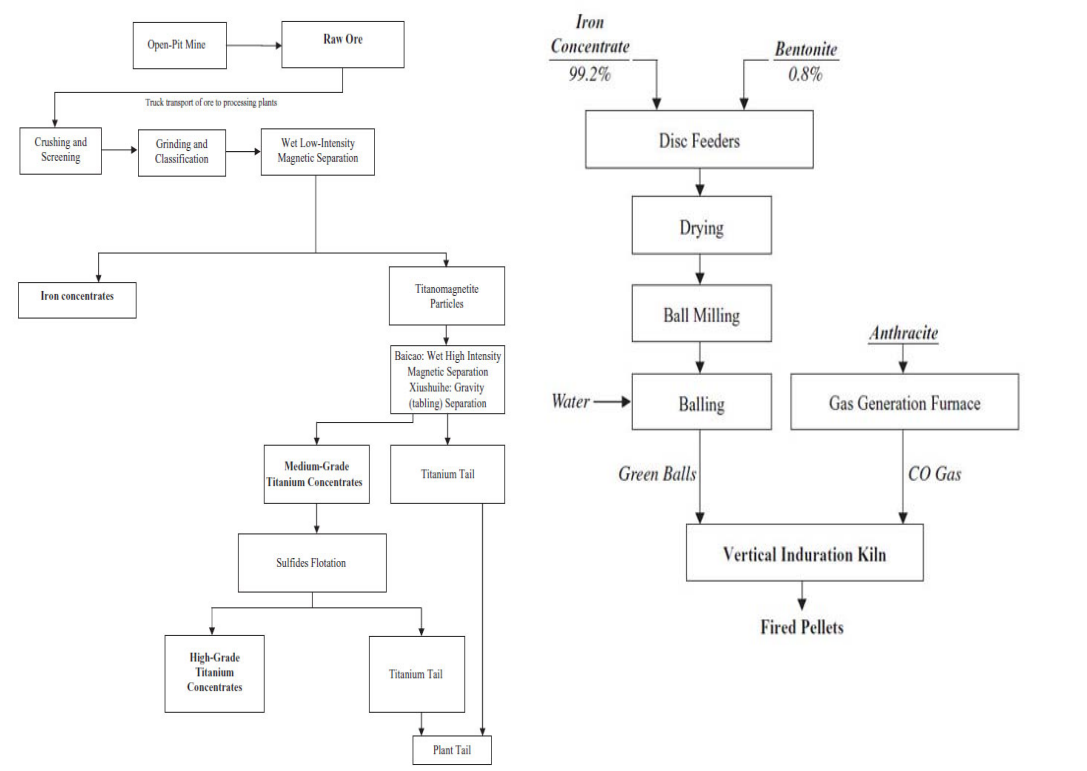
The company's iron ore contains an average of 0.23% vanadium pentoxide. The addition of vanadium to steel is necessary to improve the strength, hardness and malleability of steel. Strength of steel containing 0.1% vanadium can be improved by 10% to 20% over that not containing vanadium.

Iron ore is graded as fines or lumps depending on whether the majority of individual particles have a diameter of less or more than six millimeters. Iron ore concentrates are the valuable fines that are separated commercially from crude iron ore in the format of rock with gangue by crushing, grinding, and beneficiation and can be agglomerated before being used in an iron making blast furnace or a direct reduction furnace. Iron ore concentrates are the iron ore that is actually counted and traded worldwide. The company's iron concentrates are mainly for sale or self used for iron pellets production.

The company's iron pellets are mainly for steel production, having an average strength between 1,200N to 1,400N. The pellets are made from iron concentrates mixed with bentonite clay.

The company's titanium concentrates are mainly used for titanium-related downstream products, such as titanium slag. The company began to produce high-grade titanium concentrates this year and plans to stop middle grade production next year.

Production procedures



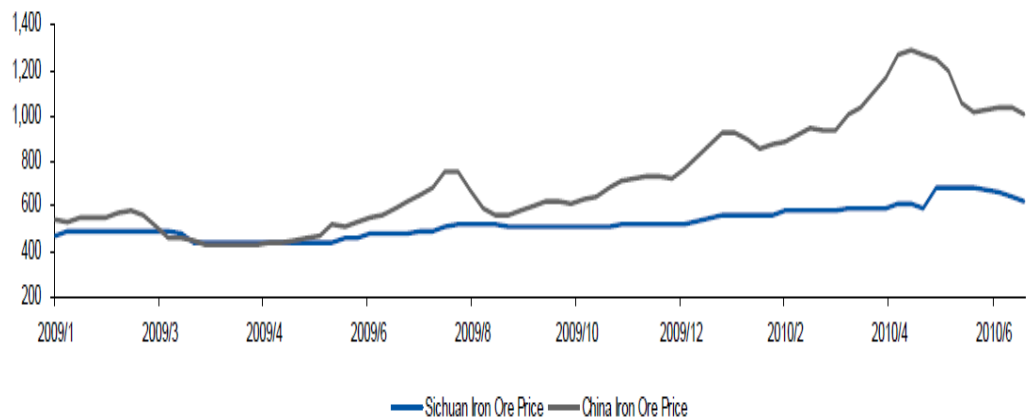
Source: Company data

Local iron ore price is lower but more stable than in other parts of China.

Stable growth of ASP in an isolated local market

The Chengdu-Kunming railway is the only railway connecting the province to other parts of China. The railway has already reached full capacity, making it hard to transport additional iron ore to-and-from Sichuan and hence, isolating the local market. The local market price is mainly negotiated and determined by major iron ore producers and steel manufacturers, which is usually lower than and not seriously influenced by the spot price of other parts of China. The price gap is mainly due to the difference in quality of the iron ore. However, on the other hand, the local price is not as volatile. The construction of the multiple tracking of the Chengdu-Kunming railway started in 2009 and will be completed in 2014. We believe the transport capacity in Sichuan will then be greatly improved and the local price of iron ore could be in line with that of the domestic market, which may also increase the margins of the company.

Iron ore price in Sichuan vs. other parts of China (in RMB/t)



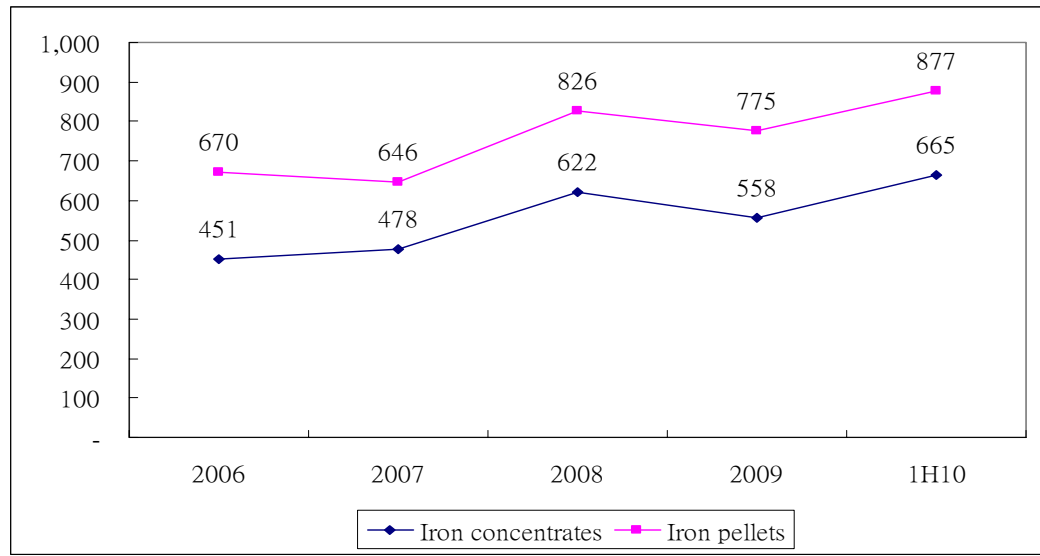
Note: China: Fe grade is 63.5%, CFR price of major ports, dry basis. Sichuan: Fe grade is 60%, dry basis.
Source: Company data

ASP has maintained stable growth since 2006 and we expect it to continue

ASP for iron concentrates reached RMB665/t in 1H10 from RMB451/t in 2006 with CAGR of 12% and ASP for iron pellets went up to RMB877/t with CAGR of 8% since 2006. The company signed contracts for the selling price in previous years. According to the contract, if the market price falls below the contract price, the contract price remains unchanged but if the market price rises above the contract price, the contract price may be adjusted to a higher amount equal to the sum of the contract price and an amount to be agreed not more than 50% of the increase in the market price above the contract price. The contract price for 2011 has not been set yet and management is considering shifting some sales to the spot market starting from next year. We believe this would be positive considering the strong demand in the local market.



Stable growth in ASP (in RMB/t)



Source: Company data

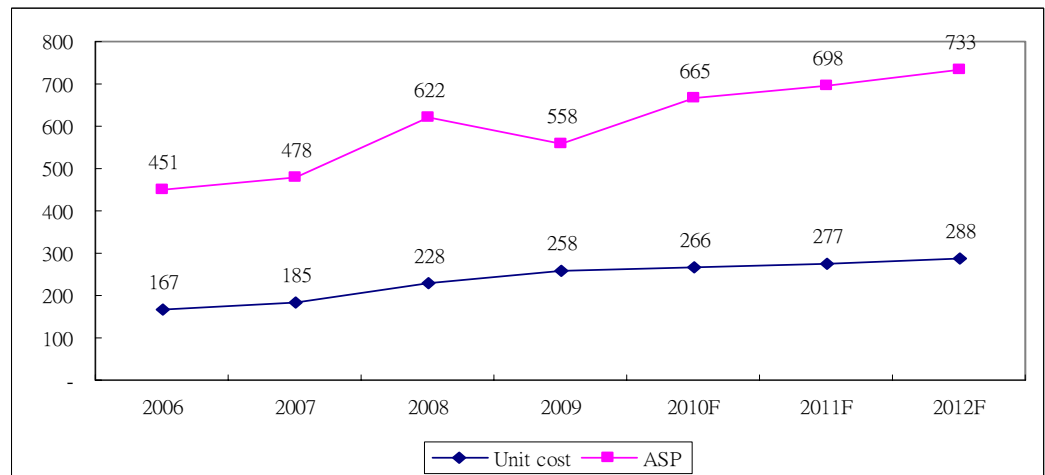
Unit cost growth in line with ASP

The unit cost grew in line with ASP and we expect margins to improve steadily

The unit cost for iron concentrates and iron pellets has grown 14% and 10% YoY respectively since 2006, in line with its ASP growth. As a result, the company has maintained a high gross margin of around 50% since 2006, with profit margin increasing from 30% to 34% since the IPO.

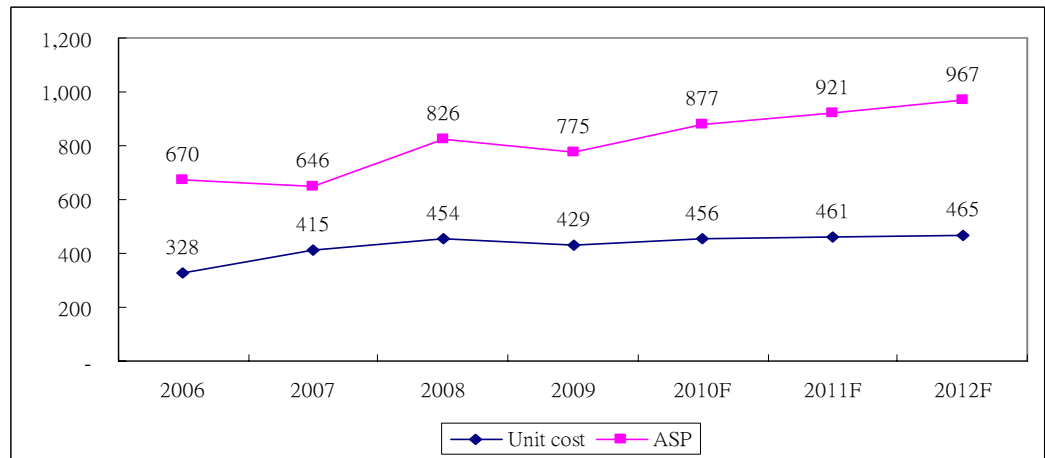
The company used to hire a third party to produce iron concentrates (700k t out of total 1,900kt for 2009) due to lack of in-house production capacity while the company has stopped the outsourcing since 1H10 after the capacity expansion. This is also the case for iron pellets production. The company outsourced 400k t out of 760k t to a third party in 1H10 and we expect the outsourcing to pause in 2011 due to new capacity coming in. Hence, we anticipate the margin will improve steadily in the future years as outsourcing costs RMB20/t more than self production, according to the management.

Unit cost vs ASP growth for iron concentrates (in RMB/t)



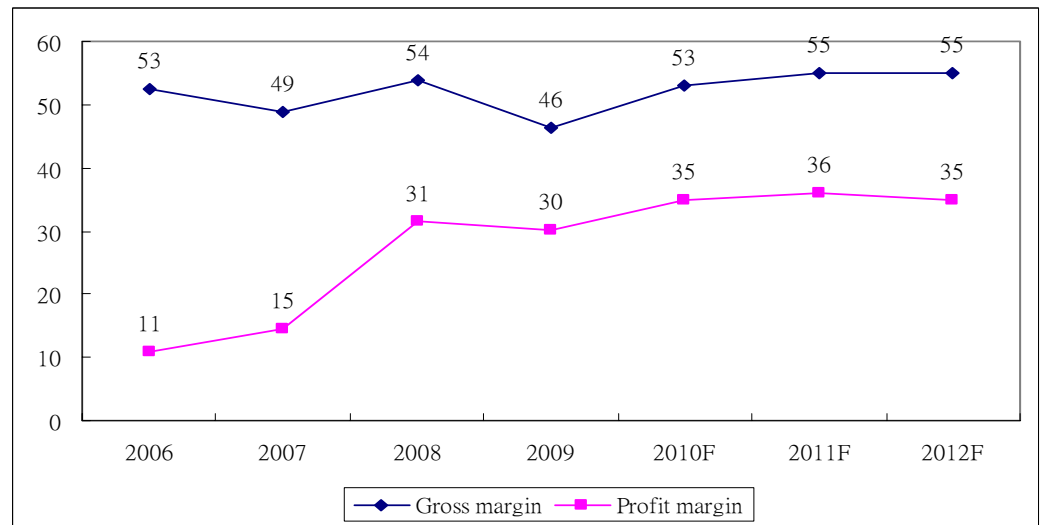
Source: Company data and Kingsway Research estimates

Unit cost vs ASP growth for iron pellets (in RMB/t)



Source: Company data and Kingsway Research estimates

Margins to improve (in %)



Source: Company data and Kingsway Research estimates

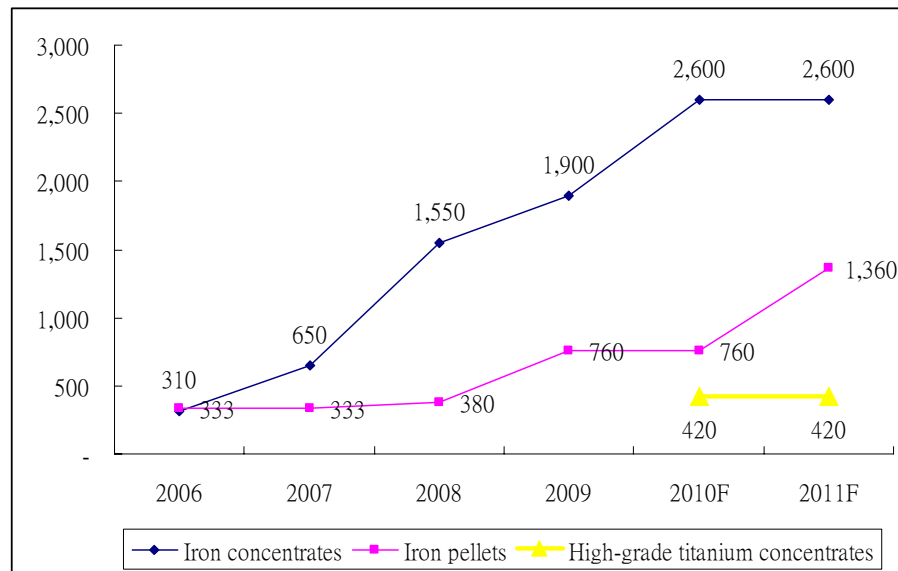
Continuous expansion to drive future growth

Capacity of iron concentrates and iron pellets will be raised to 2,600kt and 1,360kt respectively in 2011.

Capacity expansion has long been one of the company's key focuses for sustainable development. As at 30 June 2010, production capacity of iron concentrates and iron pellets (including the 400k t production capacity for pellets allocated to the company by the subcontractors) amounted to 2,300k t and 760k t, respectively.

The company intends to construct a new iron pelletizing plant in Ailang Town, Huili County, which is ~5.5km from the Xiushuihe mine, with capacity of up to 1,500k t. Management anticipates Phase I, with capacity of 1,000k t, will start production by 30 June 2011. Furthermore, the expansion of the Xiushuihe plant will add 300k t of capacity for iron concentrates and is estimated to be completed by this September. Regarding to high-grade titanium concentrates, management plans to increase the capacity to 420k t from 160k t by the end of this year.

Capacity expansion (in kt)



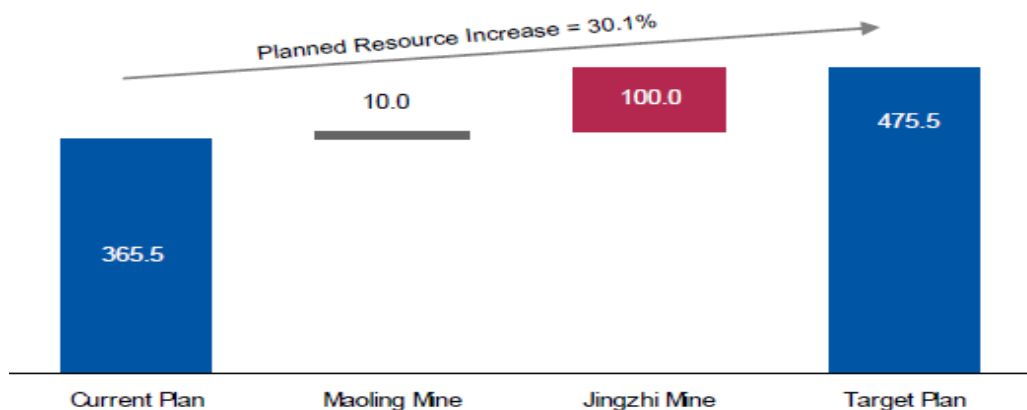
Source: Company data and Kingsway Research estimates

The company currently has ~366mt of resources with 17 years of mining life.

The company has total resources of ~366m t under Chinese Standard as of 30 June 2010, which translates to ~17 years of mining life based on the projected capacity of 2.6m t in 2011F from our estimates.

Forging ahead, the company is determined to further expand its mineral resources through active acquisitions as well as expanding the boundaries of its own mining concessions. The company has extended the option period in relation to the acquisition of the Xiaoheiqing Jingzhi mine by an additional year to 11 May 2011. Furthermore, the company has agreed with Aba Mining Co., Ltd. that it shall proceed with the acquisition of the Maoling mine, which has resources of 10mt and mining area of 1.9 sq km, on the condition that all necessary governmental approvals to recommence the mining operations and processing activities are obtained by the end of this year. In addition, the parties shall enter into an option agreement to grant the company an option to acquire the exploration rights for the Yanglongshan mine.

Resources expansion (in mt)



Source: Company data

Product demand supported by policy and market

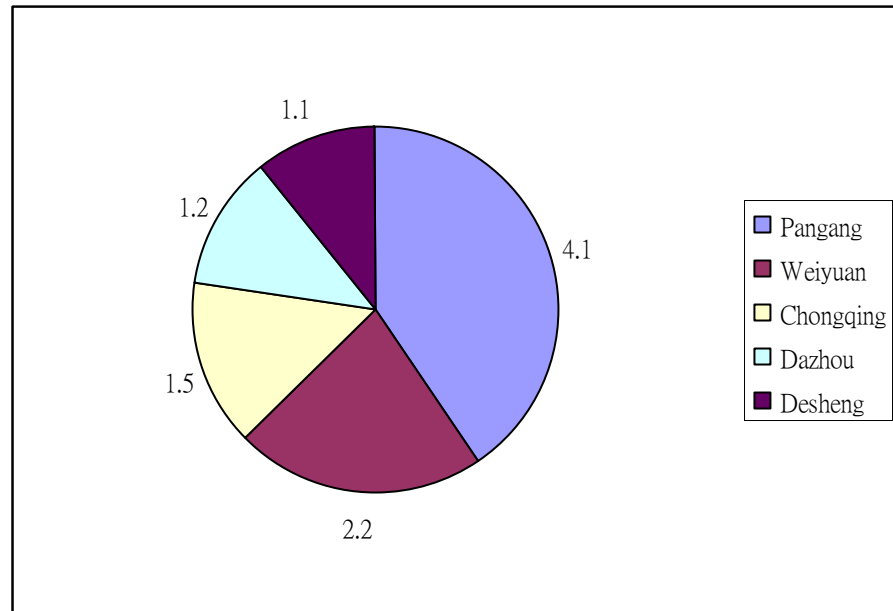
Product demand will be supported by the government policy as well as the new steel capacity in the local market

Importance for vanadium has increased due to PRC policy developments specifically requiring the use of high-strength steel in construction. On March 30, 2009, the Chinese government announced the "Adjustment and Revitalization Plan for the PRC Steel Industry" that promotes the use of reinforced steel of 400mpa (Megapascal) or above in construction and has set the target of increasing the consumption of high-strength steel products of 400mpa or above to over 60% of the hot rolled ribbed steel bars consumed in China by 2011.

Besides, driven by the post-earthquake construction and new round of development in western regions, approximately 10.1m t of new steel production capacity will be added in Sichuan by 2012, calculated based on the expansion plans of several large local steel manufacturers, according to the management. This will translate to additional demand of ~18m t for iron ore.

We believe the above two factors will stimulate product demand for the company.

Expansion plan of local steel makers by 2012 (in mt)



Source: Company data

Earnings forecast and valuation

We initiate a BUY with 43% upside potential.

We believe the company will maintain rapid growth and have a 3-year EPS CAGR of 18%, mainly attributable to its continuous expansion in capacity and huge demand for its products in the local market. The future success of the company depends on its plans for further mergers and acquisitions. The company has not disclosed its expansion plan after 2012, while with forecasted net cash of ~Rmb2.24b at the end of 2012, we think there is plenty of scope for the company to scoop up resources to drive future growth.

We used the DCF model for valuation which values the company at HK\$4.70 per share. We used a WACC of 13.3% with terminal growth rate of 2%. The current price implies 9.6x FY11F PER, which is a bit higher than the global industry's average of 7.1x but much lower than its HK peers' average of 15.3x. Additionally, the valuation is attractive considering the company's 3 year EPS CAGR of 18%. With 43% upside potential, we initiate coverage with a BUY recommendation.

| Key assumptions and earning forecasts | | | |
|--|--------------|--------------|--------------|
| | 2010F | 2011F | 2012F |
| Sales | | | |
| RMBm | | | |
| Iron concentrates | 738 | 893 | 784 |
| Iron pellets | 635 | 737 | 1,053 |
| Titannium concentrates | 58 | 111 | 125 |
| Median grade | 6 | - | - |
| High grade | 51 | 111 | 125 |
| Total | 1,430 | 1,741 | 1,962 |
| Sales volume | | | |
| Kt | | | |
| Iron concentrates | 1,110 | 1,280 | 1,070 |
| Iron pellets | 723 | 800 | 1,088 |
| Titannium concentrates | 175 | 210 | 231 |
| Median grade | 75 | - | - |
| High grade | 100 | 210 | 231 |
| Total | 2,008 | 2,290 | 2,389 |
| ASP | | | |
| RMB/t | | | |
| Iron concentrates | 665 | 698 | 733 |
| Iron pellets | 877 | 921 | 967 |
| Titannium concentrates | | | |
| Median grade | 86 | N/A | N/A |
| High grade | 512 | 527 | 543 |
| Unit cost | | | |
| RMB/t | | | |
| Iron concentrates | 266 | 277 | 288 |
| Iron pellets | 456 | 461 | 465 |
| Titannium concentrates | | | |
| Median grade | 239 | N/A | N/A |
| High grade | 300 | 309 | 318 |
| Net profit (RMBm) | 503 | 625 | 688 |
| Gross margin | 53% | 55% | 55% |
| Net margin | 35% | 36% | 35% |

Source: Kingsway Research estimates

| Sensitivity analysis | | | | | |
|-------------------------------|-------------|-------------|------------------|-------------|-------------|
| ASP in FY11 (RMB/t) | -10% | -5% | Base case | +5% | +10% |
| Iron concentrates | 628 | 663 | 698 | 733 | 768 |
| Iron pellets | 829 | 875 | 921 | 967 | 1,013 |
| Effect on FY11 P&L | | | | | |
| Revenue (RMBm) | 1,578 | 1,659 | 1,741 | 1,822 | 1,904 |
| % chg from base case | -9.4 | -4.7 | N/A | 4.7 | 9.4 |
| Net profits (RMBm) | 508 | 563 | 619 | 674 | 730 |
| % chg from base case | -17.9 | -9.0 | N/A | 9.0 | 17.9 |
| EPS (RMB) | 0.245 | 0.272 | 0.298 | 0.325 | 0.352 |
| % chg from base case | -17.9 | -9.0 | N/A | 9.0 | 17.9 |
| DCF value (HKD/share) | 4.05 | 4.37 | 4.70 | 5.03 | 5.36 |
| % chg from base case | -13.8 | -7.0 | N/A | 7.0 | -13.8 |

Source: Kingsway Research estimates

| DCF model | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| DCF | 2011F | 2012F | 2013F | 2014F | 2015F | 2016F |
| EBITDA | 1,030 | 1,178 | 1,254 | 1,391 | 1,528 | 1,669 |
| Chg in working cap | (11) | (7) | (25) | (7) | (7) | (9) |
| Adjusted tax | (153) | (191) | (198) | (217) | (235) | (253) |
| Capex & product dev | (435) | (392) | (425) | (455) | (483) | (521) |
| Unleveraged FCF | 432 | 587 | 606 | 713 | 803 | 887 |
| YoY% | | 36 | 3 | 17 | 13 | 10 |
| DCF 12-16 | 2,443 | | | | | |
| PV (Terminal value) | 4,286 | | | | | |
| EV (End-11) | 6,729 | | | | | |
| Cash from options/warrants conv | - | | | | | |
| Yer-end net cash/(debts) | 1,748 | | | | | |
| Fully diluted equity value (End-11) | 8,477 | | | | | |
| Fully diluted no. of shares (m) | 2,075 | | | | | |
| Fully diluted equity value/share (RMB) | 4.09 | | | | | |
| HKD/RMB | 1.15 | | | | | |
| Fully diluted equity value/share (HKD) | 4.70 | | | | | |
| Risk-free rate | 4% | | | | | |
| Risk premium | 8% | | | | | |
| Unleveraged industry beta | 1.30 | | | | | |
| Gearing | - | | | | | |
| Tax | 18% | | | | | |
| Beta | 1.30 | | | | | |
| Cost of equity | 14.5% | | | | | |
| Cost of debt | 6.0% | | | | | |
| Tax rate | 18% | | | | | |
| After-tax cost of debt | 4.9% | | | | | |
| Debt to total capital | 12.5% | | | | | |
| WACC | 13.3% | | | | | |
| Terminal growth | 2.0% | | | | | |

Source: Kingsway Research estimates

Risk factors

- 1) Uncertainty of mine reserves
- 2) Approval for mining rights
- 3) Fluctuations in iron ore price
- 4) Unable to set contract price for future years
- 5) Subject to extensive regulations and affected by government policies
- 6) All mines are located in the Panxi Region which are vulnerable to natural disasters or accidents that may close transportation networks
- 7) Future success depends on further capital expenditure projects which may require significant capital investments and the company may not achieve the intended economic benefits



Peers Comparison

| Company | Ticker | Price | Mkt cap (US\$m) | 3-mth avg t/o (US\$m) | PER Hist (x) | PER FY1 (x) | PER FY2 (x) | EPS FY1 YoY% | EPS FY2 YoY% | 3-Yr EPS Cagr (%) | PEG (x) | Div yld Hist (%) | Div yld FY1 (%) | P/B Hist (x) | P/B FY1 (x) |
|----------------------------------|----------|--------|-----------------|-----------------------|--------------|-------------|-------------|--------------|--------------|-------------------|-------------|------------------|-----------------|--------------|-------------|
| China VTM Mining | 893 HK | 3.28 | 876 | 4.8 | 14.2 | 11.8 | 9.6 | 19.8 | 23.8 | 18.2 | 0.65 | N/A | 1.7 | 2.13 | 2.00 |
| Iron ore - global | | | | | | | | | | | | | | | |
| Adj. sector average* | | | | | 24.0 | 8.4 | 7.1 | 119.2 | 20.1 | 45.0 | 0.19 | 1.6 | 0.9 | 5.31 | 3.08 |
| Bhp Billiton Ltd | BHP AU | 38.75 | 189,234 | 705.4 | 18.1 | 10.2 | 9.2 | 55.0 | 10.8 | 18.8 | 0.55 | 3.5 | 2.4 | 4.60 | 3.24 |
| Rio Tinto Ltd | RIO AU | 73.79 | 126,312 | 250.6 | 28.5 | 10.1 | 8.8 | 146.7 | 14.7 | 39.8 | 0.25 | 2.0 | 1.3 | 2.97 | 2.47 |
| Fortescue Metals | FMG AU | 4.86 | 14,147 | 49.4 | 27.5 | 8.7 | 7.3 | 176.4 | 20.2 | 51.2 | 0.17 | N/A | 0.0 | 9.58 | 4.49 |
| Mount Gibson Iro | MGX AU | 1.81 | 1,825 | 9.9 | 14.7 | 5.4 | 4.0 | 171.5 | 35.6 | 53.6 | 0.10 | N/A | 0.9 | 2.31 | 1.49 |
| Vale Sa | VALE3 BZ | 48.08 | 142,815 | 72.0 | 24.5 | 10.3 | 7.3 | 137.4 | 40.6 | 56.7 | 0.18 | 1.9 | 2.6 | 2.41 | 2.13 |
| Mmx Mineracao | MMXM3 BZ | 13.35 | 3,663 | 26.4 | N/A | 84.5 | 19.1 | N/A | 342.4 | (218.3) | N/A | N/A | 0.1 | 7.93 | 6.18 |
| Nmdc Ltd | NMDC IN | 261.30 | 22,396 | 3.3 | 30.1 | N/A | N/A | N/A | N/A | N/A | N/A | 0.7 | 1.3 | 7.25 | N/A |
| Sesa Goa Ltd | SESA IN | 327 | 6,080 | 52.3 | 10.1 | 6.5 | 5.9 | 54.0 | 11.0 | 24.9 | 0.26 | 1.0 | 1.2 | 3.43 | 2.22 |
| Kumba Iron Ore L | KIO SJ | 34,893 | 15,800 | 2,171.8 | 1,594.7 | 8.3 | 7.6 | 93.1 | 8.5 | 31.5 | 0.26 | 6.0 | 0.1 | 9.74 | 8.17 |
| Cliffs Natural R | CLF US | 63.28 | 8,571 | 319.7 | 38.6 | 7.8 | 6.5 | 395.3 | 19.3 | 83.4 | 0.09 | 0.7 | 0.7 | 2.86 | 2.42 |
| Metals & minings - HK | | | | | | | | | | | | | | | |
| Adj. sector average* | | | | | 30.7 | 18.1 | 15.3 | 88.3 | 23.3 | 36.2 | 0.47 | 1.4 | 1.5 | 2.24 | 1.94 |
| Aluminum Corp-H | 2600 HK | 6.67 | 17,295 | 27.4 | N/A | 46.6 | 21.1 | N/A | 121.0 | (207.0) | N/A | N/A | 0.6 | 1.54 | 1.45 |
| Zijin Mining Grp | 2899 HK | 5.83 | 12,681 | 25.8 | 21.0 | 14.5 | 12.7 | 45.4 | 14.0 | 19.4 | 0.74 | 2.0 | 2.7 | 3.78 | 3.55 |
| Jiangxi Copper-H | 358 HK | 17.90 | 10,816 | 30.5 | 19.6 | 12.4 | 10.2 | 58.4 | 22.1 | 26.8 | 0.46 | 0.6 | 1.5 | 2.06 | 1.76 |
| Zhaojin Mining-H | 1818 HK | 21.30 | 4,053 | 4.3 | 35.5 | 21.5 | 18.5 | 66.4 | 16.0 | 31.3 | 0.67 | 1.2 | 1.9 | 5.68 | 4.90 |
| China Molybdenum | 3993 HK | 5.09 | 3,195 | 3.6 | 44.1 | 15.6 | 11.8 | 183.0 | 31.8 | 56.3 | 0.28 | 1.8 | 2.4 | 1.96 | 1.76 |
| Real Gold Mining | 246 HK | 12.38 | 1,443 | 10.5 | 13.6 | 11.9 | 11.0 | 14.5 | 8.8 | 6.7 | 1.77 | N/A | 0.0 | 3.32 | 2.33 |
| Hunan Non-Ferr-H | 2626 HK | 2.78 | 1,322 | 2.0 | N/A | 33.5 | 20.8 | N/A | 61.1 | (215.1) | N/A | N/A | 0.5 | 2.19 | 1.91 |
| Xinxin Mining-H | 3833 HK | 4.17 | 1,187 | 0.8 | 35.1 | 15.8 | 12.4 | 121.4 | 28.1 | 60.1 | 0.26 | 1.4 | 2.0 | 1.50 | 1.44 |
| Minmetals Resour | 1208 HK | 4.09 | 1,067 | 2.0 | 45.7 | 20.0 | 19.0 | 129.3 | 4.9 | 53.0 | 0.38 | N/A | N/A | 1.54 | 1.28 |

| Company | Rev Hist (US\$m) | Rev FY1 (US\$m) | NP Hist (US\$m) | NP FY1 (US\$m) | Net gearing Hist (%) | Net gearing FY1 (%) | Unlev beta | Gross margin Hist (%) | Net margin Hist (%) | Net margin FY1 (%) | ROE Hist (%) | ROE FY1 (%) | Sh px 1-mth % | Sh px 3-mth % | |
|----------------------------------|------------------|-----------------|-----------------|----------------|----------------------|---------------------|-------------|-----------------------|---------------------|--------------------|--------------|-------------|---------------|---------------|--|
| China VTM Mining | 161 | 212 | 49 | 75 | 0.0 | 0.0 | N.A | 46.3 | 30.2 | 35.2 | 21.5 | 18.4 | 18.8 | 9.0 | |
| Iron ore - global | | | | | | | | | | | | | | | |
| Adj. sector average* | | | | | 14.2 | 2.9 | 1.22 | 31.9 | 26.5 | 33.3 | 24.7 | 33.8 | 3.1 | 6.5 | |
| Bhp Billiton Ltd | 52,798 | 65,192 | 12,722 | 19,863 | 6.7 | 0.0 | 1.32 | N/A | 24.1 | 30.5 | 28.8 | 35.2 | (3.1) | (1.2) | |
| Rio Tinto Ltd | 41,825 | 52,734 | 4,872 | 13,420 | 39.9 | 11.9 | 0.94 | N/A | 11.6 | 25.4 | 15.1 | 26.6 | 4.2 | 3.4 | |
| Fortescue Metals | 3,220 | 4,672 | 581 | 1,603 | 117.8 | 8.1 | N.A | 34.0 | 18.0 | 34.3 | 49.9 | 61.0 | 8.2 | 13.8 | |
| Mount Gibson Iro | 576 | 982 | 141 | 385 | 0.0 | 0.0 | 2.67 | 33.7 | 24.6 | 39.2 | 15.5 | 30.6 | 5.9 | 10.7 | |
| Vale Sa | 28,138 | 43,470 | 5,947 | 14,667 | 28.4 | N/A | 0.77 | 42.8 | 21.1 | 33.7 | 10.7 | 22.4 | (2.8) | (0.5) | |
| Mmx Mineracao | 210 | 584 | (124) | 43 | N/A | 68.6 | N.A | 35.5 | (59.2) | 7.4 | N/A | 18.9 | 8.1 | 14.1 | |
| Nmdc Ltd | 1,350 | N/A | 746 | N/A | 0.0 | N/A | 1.26 | N/A | 55.3 | N/A | 26.6 | N/A | 1.6 | (0.3) | |
| Sesa Goa Ltd | 1,255 | 2,069 | 569 | 949 | 0.0 | 0.0 | 1.22 | N/A | 45.3 | 45.9 | 41.6 | 41.0 | 1.5 | (7.7) | |
| Kumba Iron Ore L | 3,296 | 5,332 | 982 | 1,885 | 37.7 | 0.0 | 0.74 | 78.6 | 29.8 | 35.4 | 98.6 | 132.6 | 2.7 | 8.7 | |
| Cliffs Natural R | 2,347 | 4,939 | 205 | 1,106 | 0.9 | 0.0 | 2.32 | 13.4 | 8.7 | 22.4 | 9.5 | 34.6 | 4.6 | 10.0 | |
| Metals & minings - HK | | | | | | | | | | | | | | | |
| Adj. sector average* | | | | | 17.2 | 13.5 | 1.36 | 21.9 | 11.5 | 15.8 | 5.5 | 13.5 | 7.4 | 10.3 | |
| Aluminum Corp-H | 10,441 | 14,335 | (690) | 257 | 104.1 | 109.0 | N.A | 1.7 | (6.6) | 1.8 | (8.8) | 3.2 | 3.1 | 6.0 | |
| Zijin Mining Grp | 3,004 | 3,674 | 528 | 747 | 0.6 | 0.0 | 1.53 | 32.5 | 17.6 | 20.3 | 20.7 | 25.6 | 8.0 | 1.7 | |
| Jiangxi Copper-H | 7,642 | 9,897 | 354 | 575 | 32.6 | 5.0 | 1.24 | 9.7 | 4.6 | 5.8 | 10.9 | 15.3 | 8.4 | 20.1 | |
| Zhaojin Mining-H | 416 | 605 | 112 | 186 | 0.0 | 0.0 | 1.17 | 51.8 | 27.0 | 30.7 | 17.5 | 24.9 | 13.4 | 28.7 | |
| China Molybdenum | 453 | 783 | 75 | 199 | 0.0 | 0.0 | 1.67 | 27.3 | 16.5 | 25.4 | 4.5 | 11.1 | 6.9 | 11.1 | |
| Real Gold Mining | 150 | 205 | 78 | 117 | 0.0 | 0.0 | N.A | 74.0 | 52.1 | 57.0 | 35.3 | 22.7 | 2.0 | (2.2) | |
| Hunan Non-Ferr-H | 2,680 | 2,652 | (53) | 39 | 128.7 | 75.9 | N.A | 7.7 | (2.0) | 1.5 | (8.2) | 4.2 | 16.3 | 6.5 | |
| Xinxin Mining-H | 105 | 209 | 34 | 74 | 0.0 | N/A | 1.46 | 40.6 | 32.1 | 35.5 | 4.3 | 8.5 | 0.7 | 10.6 | |
| Minmetals Resour | 800 | 972 | 23 | 52 | 0.0 | N/A | 1.07 | 3.9 | 2.9 | 5.4 | 3.0 | 6.5 | 29.0 | 52.6 | |

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Kingsway Research estimates for China VTM Mining & Zhaojin Mining and Bloomberg for others



Financial forecasts

| Year ended 31 Dec | 2008 | 2009 | 2010F | 2011F | 2012F |
|---------------------------------|--------------|--------------|----------------|--------------|--------------|
| Income Statement (RMBm) | | | | | |
| Iron concentrates | 496 | 530 | 738 | 893 | 784 |
| Iron pellets | 252 | 537 | 635 | 737 | 1,053 |
| Titanium concentrates | 43 | 17 | 58 | 111 | 125 |
| Turnover | 791 | 1,084 | 1,430 | 1,741 | 1,962 |
| YoY% | 116 | 37 | 32 | 22 | 13 |
| COGS | (364) | (582) | (673) | (787) | (887) |
| Gross profit | 427 | 502 | 757 | 954 | 1,074 |
| Gross margin | 54.0% | 46.3% | 52.9% | 54.8% | 54.8% |
| Other income | 17 | 41 | 46 | 51 | 56 |
| Selling & distribution | (22) | (28) | (37) | (45) | (51) |
| Admin | (33) | (36) | (47) | (57) | (64) |
| Other opex | (37) | (33) | (43) | (53) | (60) |
| Total opex | (92) | (97) | (128) | (155) | (175) |
| Operating profit (EBIT) | 352 | 446 | 675 | 849 | 955 |
| Operating margin | 44.5% | 41.1% | 47.2% | 48.7% | 48.7% |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Finance costs | (3) | (9) | (13) | (19) | (19) |
| Profit after financing costs | 349 | 437 | 662 | 829 | 936 |
| Associated companies & JVs | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 349 | 437 | 662 | 829 | 936 |
| Tax | (30) | (70) | (113) | (149) | (187) |
| Minority interests | (70) | (39) | (49) | (61) | (67) |
| Net profit | 249 | 328 | 500 | 619 | 681 |
| YoY% | 363 | 32 | 52 | 24 | 10 |
| Net margin | 31.4% | 30.2% | 35.0% | 35.5% | 34.7% |
| EBITDA | 371 | 477 | 785 | 1,030 | 1,178 |
| EBITDA margin | 46.8% | 44.0% | 54.9% | 59.2% | 60.0% |
| EPS (RMB) | N/A | 0.201 | 0.241 | 0.298 | 0.327 |
| YoY% | N/A | N/A | 20 | 24 | 10 |
| DPS (RMB) | 0.000 | 0.000 | 0.048 | 0.060 | 0.065 |
| Year ended 31 Dec | 2008 | 2009 | 2010F | 2011F | 2012F |
| Cash Flow (RMBm) | | | | | |
| EBITDA | 371 | 477 | 785 | 1,030 | 1,178 |
| Chg in working cap | 72 | (106) | (31) | (11) | (7) |
| Others | 10 | 10 | 0 | 0 | 0 |
| Operating cash | 452 | 381 | 754 | 1,020 | 1,171 |
| Interests paid | (3) | (7) | (13) | (19) | (19) |
| Interests received | 0 | 0 | 1 | 1 | 1 |
| Tax | (27) | (32) | (70) | (113) | (149) |
| Net cash from operations | 423 | 342 | 672 | 888 | 1,003 |
| Capex | (271) | (328) | (1,000) | (435) | (392) |
| Investments | 4 | (1) | 0 | 0 | 0 |
| Dividends received | 0 | 0 | 0 | 0 | 0 |
| Sales of assets | 0 | 1 | 0 | 0 | 0 |
| Investing cash | (267) | (328) | (1,000) | (435) | (392) |
| FCF | 156 | 14 | (328) | 453 | 611 |
| Issue of shares | 0 | 1,773 | 0 | 0 | 0 |
| Buy-back | 0 | 0 | 0 | 0 | 0 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | (24) | (50) | (112) | (130) |
| Net change in bank loans | (30) | 100 | 214 | 0 | 0 |
| Others | 0 | (111) | 0 | 0 | 0 |
| Financing cash | (30) | 1,737 | 164 | (112) | (130) |
| Net change in cash | 126 | 1,751 | (164) | 341 | 481 |
| Opening cash | 8 | 133 | 1,884 | 1,720 | 2,061 |
| Closing cash | 133 | 1,884 | 1,720 | 2,061 | 2,542 |

| Year ended 31 Dec | 2008 | 2009 | 2010F | 2011F | 2012F |
|--------------------------------|-------------|--------------|--------------|--------------|--------------|
| Ratios | | | | | |
| Gross margin (%) | 54.0 | 46.3 | 52.9 | 54.8 | 54.8 |
| Operating margin (%) | 44.5 | 41.1 | 47.2 | 48.7 | 48.7 |
| Net margin (%) | 31.4 | 30.2 | 35.0 | 35.5 | 34.7 |
| Selling & dist'n exp/Sales (%) | 2.8 | 2.6 | 2.6 | 2.6 | 2.6 |
| Admin exp/Sales (%) | 4.2 | 3.3 | 3.3 | 3.3 | 3.3 |
| Payout ratio (%) | N/A | 0.0 | 20.0 | 20.0 | 20.0 |
| Effective tax (%) | 8.6 | 16.0 | 17.0 | 18.0 | 20.0 |
| Total debt/equity (%) | 12.9 | 4.4 | 10.9 | 9.3 | 8.1 |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current ratio (x) | 1.40 | 4.85 | 3.43 | 3.49 | 3.75 |
| Quick ratio (x) | 1.17 | 4.69 | 3.30 | 3.36 | 3.62 |
| Inventory T/O (days) | 66 | 44 | 45 | 45 | 45 |
| AR T/O (days) | 40 | 46 | 46 | 46 | 46 |
| AP T/O (days) | 108 | 54 | 54 | 54 | 54 |
| Cash conversion cycle (days) | (2) | 37 | 37 | 37 | 37 |
| Asset turnover (x) | 1.02 | 0.54 | 0.41 | 0.41 | 0.40 |
| Financial leverage (x) | 2.08 | 1.32 | 1.27 | 1.32 | 1.32 |
| EBIT margin (%) | 44.5 | 41.1 | 47.2 | 48.7 | 48.7 |
| Interest burden (x) | 0.99 | 0.98 | 0.98 | 0.98 | 0.98 |
| Tax burden (x) | 0.71 | 0.75 | 0.76 | 0.75 | 0.73 |
| Return on equity (%) | 67.0 | 21.5 | 18.3 | 19.2 | 18.2 |
| Year ended 31 Dec | 2008 | 2009 | 2010F | 2011F | 2012F |
| Balance Sheet (RMBm) | | | | | |
| Fixed assets | 384 | 675 | 1,573 | 1,835 | 2,013 |
| Intangible assets | 141 | 142 | 133 | 124 | 115 |
| Associated companies & JVs | 0 | 0 | 0 | 0 | 0 |
| Long-term investments | 0 | 0 | 0 | 0 | 0 |
| Other non-current assets | 21 | 23 | 23 | 23 | 23 |
| Non-current assets | 546 | 840 | 1,730 | 1,983 | 2,151 |
| Inventories | 66 | 71 | 83 | 97 | 109 |
| AR | 88 | 137 | 181 | 221 | 249 |
| Prepayments & deposits | 89 | 91 | 143 | 174 | 196 |
| Other current assets | 30 | 50 | 50 | 50 | 50 |
| Cash | 133 | 1,884 | 1,720 | 2,061 | 2,542 |
| Current assets | 406 | 2,233 | 2,177 | 2,603 | 3,146 |
| AP | 108 | 86 | 99 | 116 | 131 |
| Tax | 30 | 70 | 113 | 149 | 187 |
| Accruals & other payables | 140 | 199 | 262 | 319 | 360 |
| Bank loans | 0 | 100 | 150 | 150 | 150 |
| Finance leases | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 12 | 6 | 10 | 10 | 10 |
| Current liabilities | 290 | 461 | 634 | 745 | 838 |
| Bank loans | 0 | 0 | 150 | 150 | 150 |
| Other payables | 57 | 6 | 16 | 16 | 16 |
| Deferred tax | 0 | 0 | 0 | 0 | 0 |
| MI | 65 | 93 | 142 | 203 | 271 |
| Non-current liabilities | 122 | 99 | 308 | 369 | 437 |
| Total net assets | 539 | 2,514 | 2,964 | 3,471 | 4,022 |
| Shareholder's equity | 539 | 2,514 | 2,964 | 3,471 | 4,022 |
| Share capital | 0 | 183 | 183 | 183 | 183 |
| Reserves | 539 | 2,331 | 2,781 | 3,288 | 3,839 |
| Book NAV (RMB) | N/A | 1.21 | 1.43 | 1.67 | 1.94 |
| Total debts | 70 | 110 | 324 | 324 | 324 |
| Net cash/(debts) | 63 | 1,774 | 1,396 | 1,737 | 2,218 |

Source: Company data, Kingsway Research estimates



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