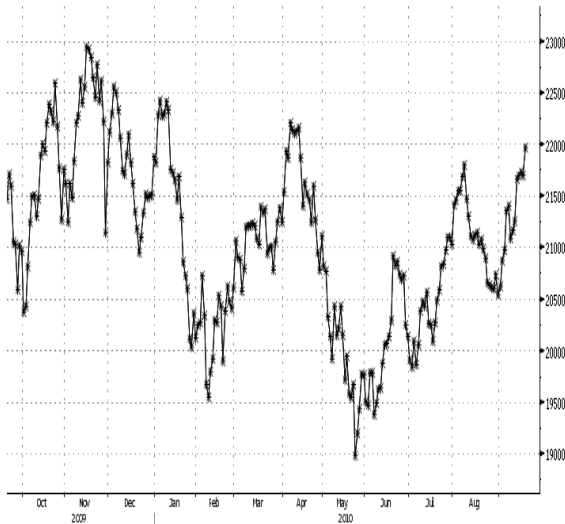


Hang Seng Index Performance



Source: Bloomberg

Index Performance

	Close	Abs Chg		% Change	
		1-Day	1-Day	1-Mth	3-Mth
Hong Kong					
Hang Seng Index	21,970.86	279.41	1.29	4.71	8.30
HSCI	3,107.40	43.10	1.41	5.11	9.27
HSCCI (Red Chips)	4,251.05	45.46	1.08	5.92	10.99
HSCEI (H-Shares)	12,171.19	169.78	1.41	3.32	4.72
Mkt T/O (\$ Mn)	78,854.24	9,459.84	13.63	68.59	61.50
Overseas					
DJIA	10,607.85	13.02	0.12	3.86	1.50
NASDAQ	2,315.61	12.36	0.54	6.23	0.25
Shanghai SE Composite	2,598.69	-3.78	-0.15	-1.65	3.40
Oct Crude Oil (US\$)	73.66	-0.91	-1.22	-2.78	-4.08
Oct Gold (US\$)	1277.00	1.10	0.09	4.02	1.49
USD / Euro	1.3045	-0.0006	-0.05	2.66	5.53
Yen / USD	85.734	-0.1178	-0.14	0.13	-5.48

HSCEI

20-Day MA	11,765.27
50-Day MA	11,792.13
9-Day RSI	66.35

HSI

21,107.18
21,022.18
76.38

Market Outlook

Eric Yuen – ericyuen@guoco.com (852) 2218 2865

Hang Seng Index closed up 1.3% at 21,970 last Friday. HSCEI rose 1.4% although Shanghai Composite Index dropped 0.2%. Heavily weighted **HSBC (5)** and **China Mobile (941)** edged up 1.1%-1.3%. **Hutchison (13)** surged 4.5% with an exceptionally high trading volume. **Belle (1880)** added 4.7%. Hong Kong property stocks such as **Wharf (4)**, **New World Development (17)** and **SHK Properties (16)** advanced 2.6%-4.3%. Automobile, cement and power stocks outperformed the HSCEI. **BYD Company (1211)** jumped 10.7%. **Dongfeng Motor (489)**, **Anhui Conch (914)**, **CNBM (3323)**, **Huaneng Power (902)** and **Datang Power (991)** soared 2.5%-5.6%. **CCB (939)** and **China Pacific Insurance (2601)** climbed 2.4%-2.6% but all other Chinese banks and insurers underperformed the HSCEI. Ten largest Chinese property developers, except for **China Overseas Land (688)**, all increased with an average gain of 2.0%. We believe laggard blue chips such as **China Life (2628)** and **China Mobile (941)** will outperform the market in coming two weeks.

Corporate News

CVTM (893, \$3.35)

6M Target \$4.10

BUY

Becky Yuen – becky.yuen@guoco.com (852) 2218 2872

Event: A good timing to accumulate CVTM.

- CVTM's share price has corrected 34% year-to-date and is 4% below its IPO price of \$3.50 in October 2009 amid the downturn of downstream steel industry starting in 2Q10. Given the company's high earnings visibility, low production cost and strong earnings growth, we believe the stock is undervalued. Current level provides investors a good entry opportunity, in our view.
- As the second largest iron ore producer in Sichuan area and the only major listed iron ore player in Hong Kong, CVTM is the beneficiary of the 'Great Western Development Plan' and robust demand from steel mills in Sichuan. Post-earthquake reconstruction and urbanization in Sichuan have been the driving force of steel demand in the region. According to company guidance, there will be approximately 10.1mmt of new crude steel production capacity in Sichuan area by 2012, up 66% from 2009 level. This in turn will drive demand of iron ore and support iron ore price in the area as it is costly to transport iron ore from coastal areas to inland.
- Company recorded a 41% and 75% yoy growth in revenue and net profit to RMB 686mn and RMB 234mn respectively in 1H10. Gross margin expanded largely from 43.1% in 1H09 to 52.4% in 1H10 thanks to 1)

increase in ASP which outpaced the surge of average unit cost and 2) increase in sales volume of iron concentrates and pellets by 9% and 13% respectively.

- Iron concentrates output was up 16% yoy in 1H10 to 866kt, which only accounted for around 44% of company's full year target. This was mainly due to the drought in Sichuan which has interrupted the water and power supplies earlier this year. As company has commenced iron concentrates production in two new processing facilities in 1H10, it is highly likely that company can achieve its full year target of 1.95mnt of iron concentrates.
- Realized ASP of iron concentrate and pellets in 1H10 were RMB 665/t and RMB 880/t, up 29% and 21% yoy respectively and were 9% and 1% above the floor contract price they signed with their customers. Even though domestic iron ore price may face short-term pressure amid the recent steel production cut to meet provinces' energy reduction target, we believe earnings risk of CVTM remains low as it has already signed sales agreement with its major customers for 2010 with floor contract price.
- Meanwhile, company has continued to expand its capacity through acquisition of two processing plants and two iron ore mining rights in the area. While the iron ore mines it acquired are still at exploration stages, the two processing plants it acquired have lifted its production capacity of iron concentrates from 1.2mnt to 2.3mnt in 1H10. With another iron concentrate production line being completed by September 2010, its iron concentrates capacity can reach 2.6mnt by year-end. It is also constructing a new pellet production line that will lift its pellet production capacity from current level of 360kt to 1,360kt by 2H11.
- Assuming that CVTM will sell its products at contract floor price in 2H10 and achieving its full-year production target, we estimate that company will earn RMB 501mn (EPS RMB 0.24) in 2010. Meanwhile, assuming that 1) ASP of iron concentrates and iron pellets up 9% and 3% respectively; 2) production capacity up by 23% and 3) production cost increases by 3% in 2011, we estimate it will record a net profit of RMB 685mn (EPS RMB 0.33) in 2011, implying a EPS CAGR of 28% between 2009 and 2011.
- CVTM is trading at 12.4x 2010 PER and 9.0x 2011 PER that we think is undervalued given its high earnings momentum, strong organic growth and potential acquisition pipeline.
- We rate it a BUY with a 6-month target price of \$4.10, implying an 11x 2011 PER. Key downside risks are production disruption due to natural disasters or dispute with its mining contractor and lower than expected steel demand in Sichuan region.

Warrant of the day

SG China Life Call (23623, \$0.143)

Underlying asset	China Life Insurance
Exercise price	33.4
Gearing	21.6
Premium	12.7%
Implied volatility	29.3%
Expiry date	23 February 2011

MB China Life Put (24645, \$0.131)

Underlying asset	China Life Insurance
Exercise price	28.0
Gearing	23.6
Premium	13.6%
Implied volatility	31.6%
Expiry date	3 March 2011

RSI Indicator

Overbought (9-day RSI > 80)	19, 64, 87, 120, 124, 129, 142, 200, 220, 221, 226, 271, 302, 315, 340, 354, 375, 388, 425, 440, 486, 494, 527, 551, 581, 631, 632, 678, 687, 733, 866, 868, 880, 902, 910, 970, 973, 1049, 1071, 1114, 1199, 1208, 1383, 1666, 2128, 2222, 2309, 2318, 2356, 2366, 2369, 2688, 2689, 2722, 2836, 3311
Oversold (9-day RSI < 20)	934