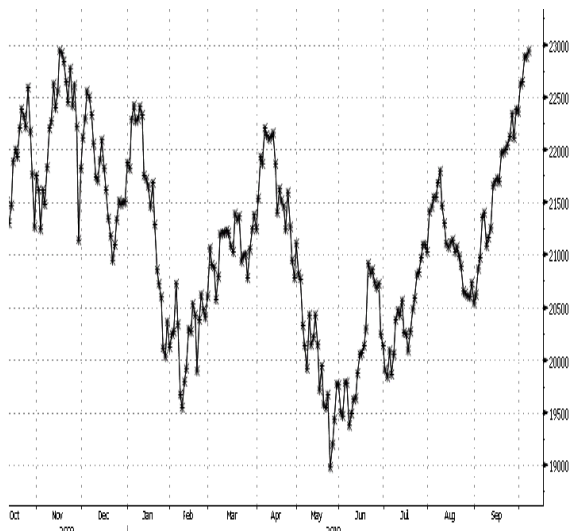


Hang Seng Index Performance



Source: Bloomberg

Index Performance

	Close	Abs Chg	% Change		
		1-Day	1-Day	1-Mth	3-Mth
Hong Kong					
Hang Seng Index	23,457.69	335.99	1.45	8.12	14.09
HSCI	3,322.90	52.15	1.59	8.25	15.44
HSCCI (Red Chips)	4,365.92	73.96	1.72	3.34	12.03
HSCEI (H-Shares)	13,301.49	322.49	2.48	9.61	14.11
Mkt T/O (\$ Mn)	109,242.61	26,102.11	31.40	36.46	131.08
Overseas					
DJIA	11,096.08	75.68	0.69	5.23	7.07
NASDAQ	2,441.23	23.31	0.96	6.80	8.88
Shanghai SE Composite	2,861.36	19.95	0.70	6.43	15.82
Nov Crude Oil (US\$)	83.01	1.34	1.64	7.54	7.60
Dec Gold (US\$)	1376.40	6.00	0.44	8.37	14.04
USD / Euro	1.4040	0.0091	0.65	7.92	10.07
Yen / USD	81.520	-0.2868	-0.35	-1.83	-7.79

	HSCEI	HSI
20-Day MA	12,464.96	22,408.61
50-Day MA	12,054.46	21,630.87
9-Day RSI	88.22	85.42

Market Outlook

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Hang Seng Index closed up 1.5% at 23,457. HSCEI rose 2.5%. Market turnover expanded to \$109.2 billion. **HSBC (5)** and **China Mobile (941)** both advanced 0.9%. Hong Kong property stocks ended lower because potential land supply will be larger-than-expected in the medium-to-long term. **SHK Properties (16)**, **Hang Lung Properties (101)** and **New World Development (17)** tumbled 0.6%-1.3%. Among the constituents of the HSCEI, cement, banking, insurance and property stocks outperformed the HSCEI reflecting an inflow of hot money into laggards. **Anhui Conch (914)** and **CNBM (3323)** surged 7.8%-10.1% thanks to government's favorable subsidy policy. **CMB (3968)** soared 6.2% as the company announced that earnings for the first nine months of 2010 had increased more than 50% yoy. **ICBC (1398)**, **CCB (939)** and **BOC (3988)** also rose 2.0%-2.6%. **China Life (2628)** and **Ping An Insurance (2318)** added 3.1% and 7.0% respectively. Ten largest Chinese property developers increased 2.7%-12.5% with an average gain of 6.4%.

Corporate News

CVTM (893, \$3.43)

6M Target \$4.10

BUY

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Event: A good timing to accumulate CVTM.

- CVTM's share price has corrected 33% year-to-date and is still slightly 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 PRC iron ore player in Hong Kong, CVTM is the a 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 10.1mnt 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 12.3x 2010 PER and 8.9x 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

KC Hutchison Call (24268, \$0.53)

Underlying asset	Hutchison Whampoa
Exercise price	78.88
Gearing	14.4
Premium	10.3%
Implied volatility	35.2%
Expiry date	18 February 2011

KC Hutchison Put (24165, \$0.34)

Underlying asset	Hutchison Whampoa
Exercise price	70.0
Gearing	22.5
Premium	12.8%
Implied volatility	35.9%
Expiry date	14 February 2011

RSI Indicator

Overbought (9-day RSI > 80)	10, 13, 20, 28, 38, 53, 73, 159, 196, 199, 221, 222, 256, 337, 386, 388, 393, 450, 655, 659, 663, 665, 691, 700, 743, 806, 808, 823, 857, 868, 931, 934, 939, 988, 1020, 1033, 1055, 1062, 1088, 1124, 1171, 1393, 1628, 1633, 1698, 1898, 2002, 2228, 2233, 2268, 2318, 2800, 2801, 2823, 2827, 2828, 2829, 2833, 2846, 2898, 2899, 3300, 3311, 3330, 3333, 3383, 3823, 3833, 3968
Oversold (9-day RSI <20)	381, 508