

China VTM Mining (893.HK)

Acquisitions conducted on schedule;
Reserve expected to surge

Company Report

Rating: **Buy**→

Price: **HK\$3.77**

TP: **HK\$4.9**→

Upside: **29.9%**

17 November 2010

Event:

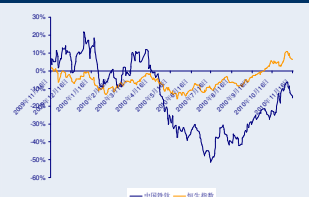
Its wholly-owned subsidiary Sichuan Lingyu fully acquired Aba Mining.

Stock data (HK\$)

52w High (HK\$)	5.70
52w Low (HK\$)	2.22
Market cap (HK\$m)	7,719
No of shares (m)	2,075
Avg daily vol (m)	9.71
1-mth change (%)	3.91
YTD change (%)	-26.77
50d MA	3.62
200d MA	3.65
14-day RSI	53.15

Source: Bloomberg

1-year share price:



Source: Bloomberg

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Summary:

- **The Company acquired Aba Mining and Huili Caitong.** China VTM Mining announced yesterday that Sichuan Lingyu Investment, a wholly-owned subsidiary of the Company, acquired the entire equity interest of Aba Mining held by Chuanwei Group, a connected person to the Company, at a consideration of RMB150m. Lingyu also acquired a 7.23% stake of Huili Caitong held by Chuanwei at a consideration of RMB445m. Upon the acquisition, the Company will hold the entire interest of Huili Caitong.
- **Acquisitions conducted on schedule; reserve expected to surge.** Aba Mining, one of the acquisition targets of the Company, owns 75% stake in Maoling Mine and Yanglongshan Mine located in Wenchuan County of Sichuan with a total iron ore reserve of 78.16m tonnes. Together with the Company's original iron ore reserve of over 80m tonnes, total reserve would jump above 150m tonnes. Maoling Mine has a reserve of 10.5m tonnes, with the average grade reaching 34.47%. The iron ore concentrate produced from the Mine could have a higher grade, and thus a higher selling price when compared to those produced from the Company's existing vanadium and titanium iron ores.
- **Maoling Mine and Yanglongshan Mine will commence production soon.** Maoling Mine will commence trial production in Dec 2010 and we expect 60,000-80,000 iron concentrates to be produced in 2011. Maoling Mine is likely to achieve full production in 2012 and could produce 150,000 tons of iron concentrates per annum. It could commence production of iron ore powder by 2010 with production capacity of 2.30m tons. China VTM Mining just possesses the exploration right of Yanglongshan Mine at the moment and it will develop Yanglongshan Mine upon the completion of subsequent procedures. Yanglongshan Mine is expected to commence production in 2013 with a designated production capacity of 100,000 tons iron concentrates. By then, total iron concentrate production capacity of Aba Mining will increase to 250,000 tons.
- **Iron ore price may rise further in 4Q10.** Domestic iron ore purchase may enter into a peak season in 4Q10 again due to the coming of winter time and growth in iron ore consumption will boost iron ore price further in 4Q10. As the sole HK-listed company principally engaging in iron ore business, China VTM Mining will strongly benefit from higher iron ore price.
- **"Buy" rating maintained.** Taking into account the acquisition of Aba Mining and some equity interests of Huili Caitong, we raised its 2010-2012 EPS to RMB0.26, RMB0.33 and RMB0.41, respectively. "Buy" rating maintained with TP of HK\$4.9, equivalent to 2011F PE 13x.

Valuations

	FY08	FY09	FY10F	FY11F	FY12F
Revenue (RMB m)	791	1,084	1,409	1,774	2,262
YoY growth (%)	115.8%	37.0%	30.0%	25.9%	27.5%
Net profit (RMB m)	249	328	472	601	752
YoY growth (%)	363.2%	31.8%	44.1%	27.2%	25.1%
EPS (RMB)	0.17	0.20	0.26	0.33	0.41
PE		16.8	13.1	10.3	8.2
Net asset per share (RMB)	0.0	1.4	1.6	1.9	2.2
PB		2.4	2.1	1.8	1.6

Source: Company, BOCOM Int'l

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Rating System

Company Rating

Buy: Expect more than 20% upside in 12 months

LT Buy: Expect more than 20% upside but longer than 12 months

Neutral: Expect low volatility

Sell: Expect more than 20% downside in 12 months

Sector Rating

Outperform: Expect more than 10% upside in 12 months

Market perform: Expect low volatility

Underperform: Expect more than 10% downside in 12 months

Analyst Certification

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