

Equities

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China Vanadium Titano-Magnetite Mining (0893.HK)

Alert: Key takeaways from Citi's Jan Commodities Conference

- **BUY China VTM and take an advantage of the recent sell-off** – We see a mismatch between operations & trading flows. Sapphire, the financial investor who entered the company before the IPO, sold its shares two weeks ago and triggered a sell-off. The stock came off 14% in the past two weeks. Management presented at our conference and showed strong confidence on operations. The weak stock performance provides a good chance to BUY. Target price maintained at HK\$ 5.1/s.
- **Product mix improves with volume growing steadily** – The Company sold 2Mt iron ore concentrate/pellet and 70Kt Ti concentrate in 10E. It aims at selling 40 Mt more iron ore and doubling its Ti volume. At the same time, the proportion of pellet should rise from 35% to 42%, generating higher profit per ton.
- **Floor price set at Rmb 610/t for 1H11 & expecting higher price in 2H** – Management expects Panzhihua Iron and Steel (PIS) to launch the new production centre with 4 Mt capacity in Xichang by 2H11, which could drive the local ore price up. It set floor price at Rmb 610/t tentatively for 1H11, Rmb 20 higher than that of last year.
- **Panzhihua was shortlisted as national key reserve centre** – China VTM is highly possible to be assigned for local consolidation. Ministry of Land and Resources announced two major iron ore reserve centres, Baima where PIS is located and Panzhihua where China VTM is sited. Equipped with strong local connections, China VTM could become a consolidator from the private side, and PIS should be nominated as a consolidator on the SOE side.
- **M&A may crystallize** – The Company has multiple targets on the radar screen. Management considers an acquisition cost of Rmb 10-15/t as reasonable.
- **Plans to double its resources in medium to long term** - China VTM will try to expand resources from the current 440Mt to 600-800Mt in the next 3-5 years through M&A. The Company targets to increase capacity to 5Mt for vanadium ore concentrate, 2Mt for pellet, 1.5Mt for magnetite concentrate, and 500Kt for Ti concentrates, matching the resource expansion plan.

China Vanadium Titano-Magnetite Mining (0893.HK; HK\$3.24; 1L)

Company Update

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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China Vanadium Titano-Magnetite Mining

Valuation

We value China VTM at HK\$5.1/s. Our target price is derived by applying 5x 2011E EV/EBITDA to the standalone assets for a resulting value of HK\$4.5/share, to which we add HK\$0.65/share in M&A option value for the Panzhuhua Jingzhi asset. Our fair value for the operations equates to 14.0x 2010E earnings and 9.7x 2011E earnings, which are below respective multiples for the peer group and sector. We think discounts to selected regional iron ore and coking coal peers are warranted to adjust for earnings risks, the lack of a track record, and industry dynamics. To value the Jingzhi asset, we have conservatively assumed Baicao Mine's inferior core quality and costs, a debt-equity structure of 50-50% and the same target P/E as we use for China VTM's existing business.

Risks

We rate China VTM shares Low Risk, which differs from the default Speculative Risk assigned by our quantitative risk-rating system to stocks that have a history of less than 260 days. Our rating considers downside risks of the commodity are limited, and the company's fundamentals have locked in floor prices for 2010. Key downside risks that could prevent the shares from reaching our target price include the risk of geological forecasts not matching reality, higher-than-expected production costs, weather, and a slower-than-expected recovery in China's economy.

Appendix A-1

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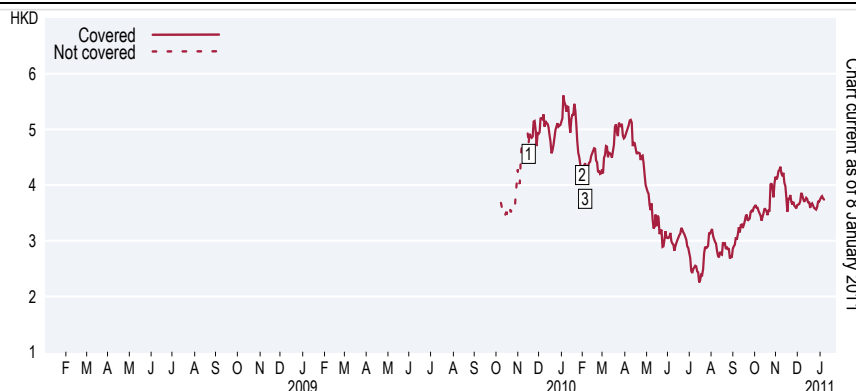
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China Vanadium Titano-Magnetite Mining (0893.HK)

Ratings and Target Price History Fundamental Research

Analyst: Thomas P Wrigglesworth
Covered since November 17 2009



	Date	Rating	Target Price	Closing Price
1	17-Nov-09	*1L	*5.90	4.77

	Date	Rating	Target Price	Closing Price
2	1-Feb-10	1L	*4.91	4.21

	Date	Rating	Target Price	Closing Price
3	4-Feb-10	1L	*5.10	4.39

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

China Vanadium Titano-Magnetite Mining (0893.HK)

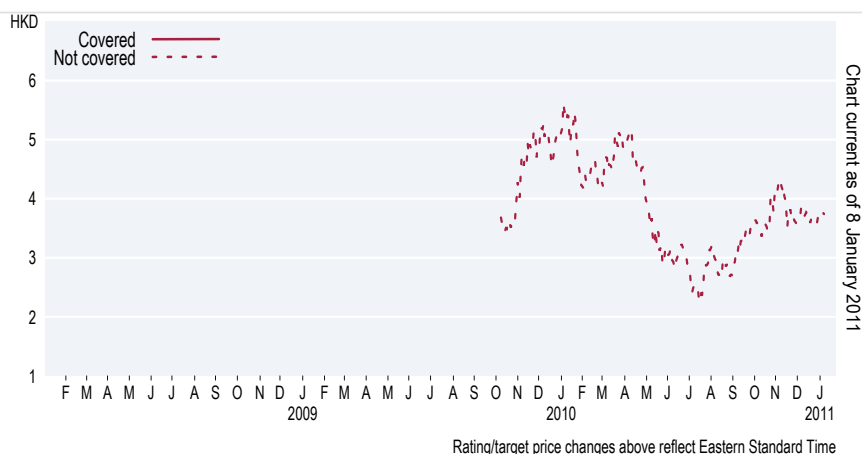
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

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