



Market Outlook

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Hang Seng Index closed down 0.3% at 23,779. HSCEI was unchanged. Market turnover increased slightly to \$70.0 billion. Telecom and port companies rallied. **China Mobile (941)**, **China Unicom (762)** and **China Telecom (728)** surged 0.9%, 2.9% and 4.4% respectively. **China Merchants (144)** and **Cosco Pacific (1199)** advanced 6.1% and 3.0% respectively. Ten largest Chinese property stocks all decreased with an average loss of 4.1% after the State Council announced a new round of property measures to curb investment demand. Chinese banks, insurance and shipping companies underperformed the HSCEI. Eight largest Chinese banks, except for **ABC (1288)**, all declined with an average loss of 1.0%. Both **PICC P&C (2328)** and **China Shipping Development (1138)** dropped 2.6%. Automobile and non-ferrous metal stocks ended higher. **Jiangxi Copper (358)** and **BYD Company (1211)** added 3.0%-3.1%. We recommend investors to accumulate stocks if the Hang Seng Index dips below 23,700.

Corporate News

CVTM (893, \$3.39)

6M Target \$4.60

BUY

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Event: CVTM issued positive profit alert.

- CVTM issued positive profit alert expecting its 2010 net profit to have a significant increase compared to that of 2009. While the news is not a big surprise (company's 2010 earnings will increase by more than 53% yoy based on our estimates), we believe the news will still act as a positive catalyst to company's share price given that share price has dropped 8% year-to-date on rumour that its major shareholder has reduced its stake.
- We believe the major shareholder's action had nothing to do with CVTM's operation, and the positive profit alert would help to restore investors' confidence. We believe the recent share price consolidation creates a great buying opportunity for long-term investors given that current valuation is undemanding.
- CVTM announced to acquire two assets from its connected party Chuan Wei in mid-November. The acquisition of Aba Mining (which include Maoling and Yanglongshan mining assets in Sichuan) is expected to increase company's iron ore resources by 78.2mnt (or 40% of existing resources if excluding the 81.6mnt potential resources in the neighboring area of Yangqueqing Mine). Production of Maoling mine is expected to recommence in 1Q11 whilst production capacity will reach 150kt by 2012, which is equivalent to around 8% of its 2010 output. Meanwhile, production of Yanglongshan Mine is expected to commence production in 2013 with a production capacity target of 250kt per year.

- 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 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. At the same time, CVTM's net cash position (RMB 900mn net cash in hand as at 1H10) allows the company to further boost its reserve base via M&A.
- We maintained our 2010 earnings estimates at RMB 501mn (EPS RMB 0.24). Meanwhile, on the back of a 23% volume growth, we estimated that company's 2011 earnings will reach RMB 743mn (EPS RMB 0.36). This implies a strong EPS CAGR of 34% between 2009 and 2011.
- CVTM is trading at 12.1x 2010 PER and 8.1x 2011 PER that we think is undervalued given its high earnings momentum, strong organic growth and potential acquisition pipeline.
- Reiterate BUY with unchanged 6-month target price of \$4.60, 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 Tencent Call (26105, \$0.176)

Underlying asset	Tencent
Exercise price	208.0
Gearing	11.4
Premium	12.9%
Implied volatility	38.7%
Expiry date	18 July 2011

MB Tencent Put (25865, \$0.087)

Underlying asset	Tencent
Exercise price	180.0
Gearing	23.0
Premium	14.3%
Implied volatility	37.6%
Expiry date	2 June 2011

Exceptional Turnover & Price Movements

Zhongtian International (2379)	Share price up 18.2%, turnover =	2.6x 3-month average
ITC Corp (372)	Share price up 15.0%, turnover =	29.4x 3-month average
SMI Corp (198)	Share price up 9.2%, turnover =	2.4x 3-month average
Wing Hing International (621)	Share price up 7.8%, turnover =	2.0x 3-month average
CIL Holdings (479)	Share price up 7.6%, turnover =	6.3x 3-month average
Anton Oilfield Services (3337)	Share price up 6.7%, turnover =	13.5x 3-month average
China Overseas Grand Oceans (81)	Share price up 6.1%, turnover =	5.2x 3-month average
Ck Life Sciences Int'l (775)	Share price up 5.1%, turnover =	6.4x 3-month average
China Telecom (728)	Share price up 4.4%, turnover =	2.8x 3-month average
China Agri-Industries (606)	Share price up 3.8%, turnover =	2.2x 3-month average
Ming Fai Int'l (3828)	Share price up 3.7%, turnover =	5.0x 3-month average
Nagacorp (3918)	Share price up 3.6%, turnover =	3.4x 3-month average
Dongfang Electric (1072)	Share price up 3.2%, turnover =	4.0x 3-month average
CSR Corp (1766)	Share price up 3.0%, turnover =	2.1x 3-month average
China Unicom (762)	Share price up 2.9%, turnover =	2.5x 3-month average

RSI Indicator

Overbought (9-day RSI > 80)	81, 136, 593, 636, 762, 775, 976, 2337
Oversold (9-day RSI < 20)	104, 235, 595, 802, 828, 853, 858, 1333, 1863, 2228, 2899, 3968, 3998

Upcoming Events

Feb 1	2007	Country Garden	Final
Feb 10	945	Manulife	Final
Feb 14	435	Sunlight REIT	Interim
Feb 17	981	SMIC	Quarter
Feb 28	775	CK Life Sciences	Final

HSI & HSCEI Constituents Performance

		Price Change (%)				Outperform	Cement, Conglomerate (PRC), Ports				
Index		5 D	1 M	3 M	vs 3M High	Underperform	Airlines, Gold, Shipping				
Hang Seng Index		-1	4	3	-5	Mixed	Consumer, Banking (HK), Property (HK)				
Hana Sena China Ent Index		-2	2	-5	-11						
		Price Change (%)						Price Change (%)			
Stock Code	Company Name	5 D	1 M	3 M	vs 3M High	Stock Code	Company Name	5 D	1 M	3 M	vs 3M High
762	China Unicom	7	15	15	0	1988	Minsheng Bank	-1	1	-8	-12
144	China Mer Hldgs	5	17	29	0	11	Hang Seng Bank	-2	1	14	-3
489	Dongfeng Group	5	9	-15	-22	12	Henderson Land	-2	3	-4	-9
267	CITIC Pacific	5	12	4	-4	1199	COSCO Pacific	-2	13	23	-4
2238	GAC	4	6	-17	-25	19	Swire Pacific 'A'	-2	0	11	-10
728	China Telecom	4	18	14	0	3	HK & China Gas	-2	-4	-5	-8
291	China Resources	3	-1	-4	-9	358	Jiangxi Copper	-2	2	15	-7
386	Sinopec Corp	3	13	12	0	763	ZTE	-2	-6	-7	-8
3323	CNBM	3	10	2	-6	1398	ICBC	-2	3	-4	-14
700	Tencent	2	15	12	-1	883	CNOOC	-2	3	18	-4
494	Li & Fung	2	10	25	-3	939	CCB	-2	2	-2	-14
914	Anhui Conch	2	1	12	-8	16	SHK Prop	-2	4	2	-8
902	Huaneng Power	2	5	-1	-4	388	HKEx	-2	2	3	-9
1	Cheung Kong	2	13	13	0	2628	China Life	-2	-2	-11	-16
1099	Sinopharm	1	3	-10	-11	66	MTR Corporation	-3	2	-2	-8
23	Bank of E Asia	1	9	7	-1	3328	BOCOM	-3	-2	-16	-17
13	Hutchison	1	18	23	-1	1211	BYD	-3	-6	-16	-23
1186	China Rail Cons	1	4	3	-6	390	China Railway	-3	2	-11	-11
101	Hang Lung Prop	1	-4	-11	-13	2318	Ping An	-3	-5	-6	-16
330	Esprit Hldgs	1	-1	-11	-14	3988	Bank of China	-3	1	-7	-17
4	Wharf (Hldgs)	1	10	20	-1	1800	China Comm Cons	-3	-3	-15	-16
2600	CHALCO	1	10	6	-1	2601	China Pacific Insurance	-3	3	-7	-9
168	Tsingtao Brew	0	-7	-9	-15	688	China Overseas	-3	2	-8	-13
998	CITIC Bank	0	5	-8	-17	3968	CM Bank	-4	-4	-15	-21
836	China Resources Power	0	-2	-10	-11	83	Sino Land	-4	4	-6	-18
6	HK Electric	0	1	2	-4	2777	R&F Properties	-4	4	5	-7
2883	China Oilfield	0	-1	35	-9	753	Air China	-4	-3	-24	-27
941	China Mobile	0	1	-2	-7	2328	PICC P&C	-4	-10	-14	-20
2	CLP Hldgs	0	1	2	-1	2899	Zijin Mining	-4	-11	-17	-25
5	HSBC Hldgs	0	8	7	-3	1898	China Coal	-4	-4	-18	-20
916	Longyuan Power	-1	4	-11	-14	1138	China Ship Dev	-5	-4	-15	-26
1288	ABC	-1	1	-4	-14	17	New World Dev	-5	4	-3	-14
347	Angang Steel	-1	-3	-5	-11	1919	China COSCO	-5	6	-2	-11
2038	FIH	-1	4	-4	-6	1880	Belle Int'l	-5	1	-3	-11
1088	China Shenhua	-1	-1	-9	-14	2388	BOC Hong Kong	-5	0	5	-10
1109	China Res Land	-1	-1	-8	-14	1171	Yanzhou Coal	-6	0	2	-10
857	PetroChina	-1	7	11	-3	293	Cathay Pac Air	-9	-6	-3	-16

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