

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	23,976.37	-326.70	-1.34	3.13	-1.08
HSCI	3,368.53	-43.89	-1.29	4.25	-1.06
HSCCI (Red Chips)	4,364.11	-44.22	-1.00	7.98	2.28
HSCEI (H-Shares)	13,437.53	-246.53	-1.80	5.38	1.93
Mkt T/O (\$ Mn)	82,358.95	-1,000.18	-1.20	4.53	-8.75
Overseas					
DJIA	12,263.58	-117.53	-0.95	1.82	4.32
NASDAQ	2,744.79	-26.72	-0.96	1.07	0.27
Shanghai SE Composite	3,021.37	-1.38	-0.05	2.98	6.85
May Crude Oil (US\$)	106.25	-3.67	-3.34	5.03	15.67
Apr Gold (US\$)	1,455.70	2.50	0.17	2.41	4.98
USD / Euro	1.4493	0.0008	0.06	4.43	8.52
Yen / USD	83.886	0.3015	0.36	2.49	1.30

	HSCEI	HSI
20-Day MA	13,074.01	23,335.43
50-Day MA	12,758.02	23,306.72
9-Day RSI	59.49	59.21

Market Outlook

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

Concerns about Japan's nuclear crisis triggered a long-waiting correction on Hong Kong shares. Hang Seng Index closed down 1.3% at 23,976. Heavily weighted **HSBC (5)** fell 0.8%. Local banks including **Hang Seng Bank (11)**, **BOC Hong Kong (2388)** and **Bank of East Asia (23)** tumbled 2.2%-2.4% since the HKMA warned that a rapid credit growth in the first two months of 2011 is unsustainable. **Tencent (700)** declined 3.3%. **Belle (1880)** climbed 2.5% after release of better than expected operational data for 1Q11. HSCEI dropped 1.8% led by oil, telecom and banking stocks. **CNOOC (883)**, **PetroChina (857)** and **China Oilfield Services (2883)** shrank 2.9%, 4.9% and 5.7% respectively on falling oil price. **China Telecom (728)** sank 5.2%. **ICBC (1398)**, **BOC (3988)**, **ABC (1288)** and **CITIC Bank (998)** retreated 2.0%-2.6%. **Air China (753)**, the best performing constituent of the HSCEI, added 1.9%. Ten largest Chinese property developers decreased by an average of 1.4%.

Corporate News

CVTM (893, \$3.41)

6M Target \$4.40

BUY

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

Event: Valuation of CVTM is attractive to long-term investors.

- Share price of CVTM has surged 6% since its 2010 results announcement, while Hang Seng Index surged 3% during the same period. Yet trading at 8.5x 2011 PER, CVTM is still undervalued in our view given its strong earnings momentum. Thus we believe this is a good entry point for long-term investors.
- Thanks to a higher than expected sales volume of iron concentrates, CVTM reported a better than expected 2010 earnings of RMB 533.4mn, up 63% yoy. EPS up 28% to RMB 0.26. Company declared a dividend of RMB 0.052 per share for the first time, implying a payout ratio of 20% that was in line with company's dividend policy stated in the listing prospectus.
- Revenue grew 43% to RMB 1,554mn, mainly driven by 1) sales volume of iron concentrates surged 39% yoy; 2) ASP of iron concentrates up 13% yoy and 3) selling of high-grade titanium concentrates in 2010. Meanwhile, costs of sales only increased 24%. This resulted in a gross margin expansion from 46% in 2009 to 53% in 2010.
- Output of iron concentrates soared 23% yoy to 2.0mnt, in line with our estimates. Company targeted to lift its 2011 output by 15% to 2.3mnt that we think is highly achievable given that its full -year production capacity has reached 2.5mnt (including 200kt of contracted capacity) as at end-2010 following the acquisition of Heiguitian processing plant and Hailong processing plant in 2010.

- Company's iron concentrates ASP was RMB 631 per tonne in 2010, up 13% yoy and was 7% higher than the contract floor price of RMB 590 per tonne it settled with its customers. This reflected CVTM's ability to adjust their selling price upward if the market price surpasses the contract floor price.
- CVTM did an impressive job in acquisition since its IPO listing, with its resources base up 153% to 335.9mnt as at end-2010. Upon the completion of Aba Mining acquisition in April 2011, amount of resources will further increase by 23% to 414.1mnt. Company's financial position remained healthy, with a net cash position of RMB 795mn as at end-2010. This allows the company to further expand its resources base in Sichuan via M&A.
- Company has settled sales contract for 1H11 with all its customers based on a contract floor price of RMB 600 per tonne (2010: RMB 590). Meanwhile, it is optimistic on the 2H11 iron ore price in the region following the commencement of Pangang's 4.2mnt steel production base. On the cost side, company expects that unit production costs of iron ore concentrates to surge less than 5% in 2011 thanks to the economies of scale.
- Looking forward, we remain bullish on iron ore demand in Sichuan region. Steel mills in the region have expanded their capacity aggressively amid the 'Great Western Development Plan'. It is estimated that 10mnt of new crude steel production capacity will be released by 2013 against current capacity of 15mnt. Being the second largest iron ore producer in Sichuan area, CVTM will be the major beneficiary of the robust demand of iron ore from the area, as it is costly to transport iron ore from coastal area to inland.
- We maintained our 2011 earnings forecast at RMB 710mn (EPS RMB 0.34), up 33% yoy, based on assumption of a 15% volume growth, 11% raise in ASP and 5% increase in unit production costs for iron ore concentrates in 2011.
- CVTM is trading at 8.5x 2011 PER that we think is undervalued given its high earnings momentum, strong organic growth and potential acquisition pipeline.
- Reiterate BUY with a 6-month target price of \$4.40, implying an 11x 2011 PER.

Exceptional Turnover & Price Movements

Pacific Plywood (767)	Share price up 13.9%, turnover =	5.1x 3-month average
Huiyin Household Appliances (1280)	Share price up 8.4%, turnover =	11.2x 3-month average
Loudong General Nice Res (988)	Share price up 8.2%, turnover =	4.2x 3-month average
China Southern Airlines (1055)	Share price up 7.2%, turnover =	2.6x 3-month average
Huadian Power (1071)	Share price up 6.8%, turnover =	8.1x 3-month average
China Eastern Airlines (670)	Share price up 6.8%, turnover =	4.7x 3-month average
China Glass (3300)	Share price up 6.8%, turnover =	3.9x 3-month average
Fulbond Holdings (1041)	Share price up 6.2%, turnover =	2.3x 3-month average
Phoenix Satellite Television (2008)	Share price up 5.7%, turnover =	3.0x 3-month average
Thunder Sky Battery (729)	Share price up 4.5%, turnover =	3.4x 3-month average
Datang Intl Power Gen (991)	Share price up 4.3%, turnover =	2.4x 3-month average
Soundwill Holdings (878)	Share price up 4.1%, turnover =	3.0x 3-month average
Sino-Tech International (724)	Share price up 3.9%, turnover =	2.4x 3-month average
China All Access (633)	Share price up 3.2%, turnover =	2.1x 3-month average

RSI Indicator

Overbought (9-day RSI > 80)	67, 189, 276, 312, 538, 571, 605, 681, 723, 773, 809, 860, 988, 1029, 1041, 1108, 1393, 1700, 1880
Oversold (9-day RSI <20)	438

Warrant of the day

UB Hutchison Whampoa Call (28124, \$0.285)

Underlying asset	Hutchison Whampoa
Exercise price	98.88
Gearing	32.1
Premium	10.9%
Implied volatility	33.1%
Expiry date	11 July 2011

ML Hutchison Whampoa Put (27857, \$0.098)

Underlying asset	Hutchison Whmapoa
Exercise price	89.99
Gearing	9.3
Premium	12.5%
Implied volatility	38.3%
Expiry date	10 October 2011

Upcoming Events

Apr 14	525	Guangshen Railway	Quarter
Apr 18	1094	China Public Procurement	Final
Apr 18	914	Anhui Conch	Quarter
Apr 18	3311	China State Construction	Quarter
Apr 19	688	China Overseas Land	Quarter
Apr 26	1138	China Shipping Development	Quarter
Apr 27	338	Sinopec Shanghai	Quarter
Apr 27	1055	China Southern Airlines	Quarter
Apr 28	386	Sinopec	Quarter

HSI & HSCEI Constituents Performance

		Price Change (%)				Outperform	Steel, Telecom, Airlines, Power				
Index		5 D	1 M	3 M	vs 3M High	Underperform	Cement, Oilfield Services				
Hang Seng Index		-1	3	-1	-2	Mixed	Banking (PRC), Coal, Consumer, Global Play, Oil				
Hana Sena China Ent Index		-2	5	2	-2						
		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
168	Tsingtao Brew	9	10	5	-2	941	China Mobile	-1	-2	-7	-7
762	China Unicom	8	11	30	-1	939	CCB	-1	5	2	-2
489	Dongfeng Group	5	-1	-6	-10	16	SHK Prop	-1	1	-9	-9
1880	Belle Int'l	4	12	10	0	1398	ICBC	-1	7	10	-3
916	Longyuan Power	4	18	8	-4	291	China Resources	-1	9	0	-2
753	Air China	3	4	-21	-21	2899	Zijin Mining	-1	-1	-8	-8
347	Angang Steel	3	8	-11	-11	728	China Telecom	-1	8	9	-5
19	Swire Pacific 'A'	1	7	-8	-8	3	HK & China Gas	-1	5	3	-2
2328	PICC P&C	1	3	-10	-11	1199	COSCO Pacific	-2	-2	2	-2
494	Li & Fung	1	-10	-14	-23	13	Hutchison	-2	1	-1	-4
688	China Overseas	1	22	7	-1	4	Wharf (Hldgs)	-2	9	-5	-7
101	Hang Lung Prop	1	8	0	-1	3988	Bank of China	-2	5	3	-2
388	HKEx	1	9	-4	-4	1919	China COSCO	-2	-4	-15	-17
2038	FIH	1	-13	-19	-19	2318	Ping An	-2	3	-1	-2
1088	China Shenhua	0	9	6	-1	2628	China Life	-2	-1	-9	-9
293	Cathay Pac Air	0	3	-14	-16	2238	GAC	-2	-3	-10	-10
6	Power Assets	0	1	7	0	12	Henderson Land	-2	13	-4	-4
386	Sinopec Corp	0	5	4	-7	267	CITIC Pacific	-2	13	10	-2
902	Huaneng Power	0	3	8	-3	11	Hang Seng Bank	-2	-2	-5	-7
836	China Resources Power	0	9	7	-5	358	Jiangxi Copper	-3	14	-2	-3
1288	ABC	0	10	10	-3	763	ZTE	-3	-1	6	-9
2	CLP Hldgs	0	2	0	0	390	China Railway	-3	-14	-25	-25
1988	Minsheng Bank	0	11	8	0	1109	China Res Land	-3	19	-1	-4
17	New World Dev	0	1	-12	-12	2388	BOC Hong Kong	-3	-1	-9	-12
66	MTR Corporation	-1	1	-1	-2	23	Bank of E Asia	-3	-2	-3	-7
1	Cheung Kong	-1	4	-3	-6	857	PetroChina	-3	9	12	-5
83	Sino Land	-1	2	-14	-14	330	Esprit Hldgs	-3	-6	-3	-15
3328	BOCOM	-1	7	5	-1	914	Anhui Conch	-3	23	30	-3
1800	China Comm Cons	-1	5	9	-1	1186	China Rail Cons	-4	-15	-26	-27
5	HSBC Hldgs	-1	2	-1	-8	883	CNOOC	-4	12	3	-5
3968	CM Bank	-1	5	4	-4	2777	R&F Properties	-4	10	-7	-10
144	China Mer Hldgs	-1	4	1	-4	1138	China Ship Dev	-5	1	-16	-16
1898	China Coal	-1	-8	-18	-18	3323	CNBM	-5	25	38	-5
2601	China Pacific Insurance	-1	7	0	-2	700	Tencent	-6	-11	4	-14
2600	CHALCO	-1	3	2	-3	1171	Yanzhou Coal	-6	24	13	-6
998	CITIC Bank	-1	7	6	-3	2883	China Oilfield	-7	5	0	-10
1099	Sinopharm	-1	-4	-3	-7	1211	BYD	-8	-20	-34	-34

GuocoCapital Ltd.
12/F, The Center
99 Queen's Road Central
Hong Kong
Tel: (852) 2218 2865
Fax: (852) 2285 3160

<http://www.guococap.com>

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