

China VTM Mining (0893.HK)

Roadshow takeaways

Sector Report

Rating : Buy →

Price : HK\$1.47

TP : HK\$2.8 →

Upside : 90.5%

1 December 2011

Event:

Roadshow takeaways

Special views:

(1) China VTM Mining's iron ore business remains solid, as its product price decline has been much smaller than that in the east China markets.

(2) The prices of titanium concentrates remain resilient. The company should see a large increase in output of titanium concentrates next year.

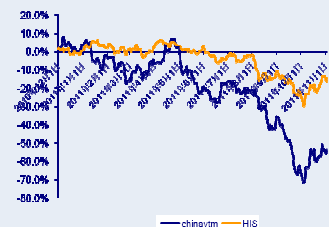
(3) The stock is undervalued and presents a LT investment opportunity, in our view.

Share Information (HK\$)

52-week high (HK\$)	3.95
52-week low(HK\$)	1.01
Market cap (HKD m)	3,050
Issued shares (m)	2,075
Avg daily vol (m)	4.44
1 month change (%)	-10.37
YTD change (%)	-60.27
50d MA (HKD)	1.50
200d MA(HKD)	2.57
14-day RSI	48.74

Source: Bloomberg

1-year share price performance



Source: Bloomberg

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Event:

We hosted several investor meetings and a luncheon for China VTM Mining (893.HK) in Hong Kong during 29-30 Nov.

Summary:

- **Prices of vanadium-bearing iron concentrates edged down, but overall profit still solid.** The company's vanadium-bearing iron concentrate prices fell slightly by about 10% HoH in 2H2011 to around RMB580/ton, due to a recent decline in domestic steel prices. Iron ore demand has fallen recently as more steel companies started overhaul. Growth of VTM ore demand in Xichang has also been weaker than expected as the production start of Pangang's 2nd steel base there was delayed from Oct to Dec. Nevertheless, the price decline is much less than that in eastern China. The company's profitability remains stable. It forecasts a VTM ore output growth of about 9.6% YoY to 2.2m tons in 2011.
- **Titanium concentrates prices to stay at high levels.** The company's capacity of high-grade titanium concentrates (TiO₂46%) has reached 280,000 tons. 2011 output is expected to reach 100,000 tons. The ASP of titanium concentrates has exceeded RMB1,000/ton. As titanium concentrates remain undersupplied, we expect further price upside in 2012. The company plans to lift its titanium concentrates output to 200,000 tons in 2012. With the GP of high-grade titanium concentrates at around RMB500/ton, we conservatively estimate the additional 100,000-ton output to add about RMB50m in gross profit to the company.
- **Eagerly acquiring resources.** The company has seven iron ore mines and over 400m tons of iron ore resources in Sichuan. It is also acquiring overseas mines. It has invested in a low-cost iron sand ore mine in Indonesia, which produces a type of iron concentrates similar to the company's existing one. The company will sell 20% of the mine's output to coastal steel companies of China. The Indonesian mine will start production in 1H2012. The company said its vision is to secure 2m tons of iron sand resources in the long-term.
- **Maintain Buy.** Since the company's mines are situated in a relatively insulated regional market and given the special properties of the products, its product prices are less correlated to international iron ore prices, implying higher profit stability. This, coupled with its proactive resource acquisition, should ensure stable earnings growth in the next two years, though the growth might be slower than our expectation. We revise down our 2011E/2012E EPS forecasts by 13.9%/20.6% to RMB0.28/0.30, on lower forecasts for its vanadium-bearing iron concentrate ASP in 2011 and 2012. The company is trading at only 4.5x/4.0x 2011E/2012E P/E. Maintain Buy and TP of HK\$2.8, corresponding to 7.5x 2012E P/E.

Valuation

	FY09	FY10	FY11F	FY12F	FY13F
Revenue (RMB m)	1,084	1,554	1,626	2,249	3,196
Net profit (RMB m)	328	533	575	625	753
EPS-basic (RMB)	0.20	0.26	0.28	0.30	0.36
EPS-core (RMB)	0.20	0.26	0.28	0.30	0.36
Change (%)	17.6	30.0	6.5	8.8	20.5
P/E	6.3	4.7	4.5	4.0	3.3
DPS (RMB)	0.00	0.05	0.06	0.06	0.07
Div. yield (%)	0.0	4.2	4.5	5.0	6.0
Net asset per share (RMB)	1.3	1.7	1.6	1.8	2.1
P/B	1.01	0.72	0.78	0.66	0.56

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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