



Rating
Buy

Asia
China

Resources
Metals & Mining

Company
**China VTM Mining
Alert**

Reuters
0893.HK

Bloomberg
893 HK

Exchange
HSI

Ticker
0893

Date
13 July 2012

Results

Price at 13 Jul 2012 (HKD)	1.18
Price target - 12mth (HKD)	2.10
52-week range (HKD)	2.87 - 1.03
HANG SENG INDEX	19,093

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Negative profit warning; while inexpensive valuation

Profit warning for 1H2012: earnings decline of no more than 40%

China VTM (893 HK) announced a profit warning on 13 July 2012. The company expects to record a substantial decline in profit – it indicated no more than 40% – for 1H2012 as compared with profit in 1H2011 (RMB300.6mn). Our forecast for the FY2012 bottom line is RMB476mn (a 21%YoY decline) and market consensus is currently RMB576mn (a 5%YoY decline).

Volume declines, weaker price and higher cost

The company attributed the profit decline to the following factors: 1) Sales volume of iron concentrates decreased in 1H2012, primarily due to lower production. The company estimates no more than 150,000 tonnes volume decrease in 1H2012 compared to 1H2011, mainly a result of the periodic power suspension/supply restriction measures in the Panxi region of Sichuan, the region where the Group's major processing plants are located. 2) Market prices of iron ore products declined during 1H2012 compared to those for 1H2011. 3) Production costs rose in 1H2012 vs. 1H2011.

Valuation would look inexpensive even in a worst-scenario scenario

Assuming a worst-case 40%YoY drop in 1H2012, based on the company's indication of "no more than 40%", would suggest a bottom line of about RMB180mn in the first half year of 2012. Proportionally, we calculate that its whole year profit would be around RMB360mn assuming a scenario in which the operating environment sees no improvement in 2H2012. Based on a worst-case scenario of RMB360mn in FY2012E, the stock is trading at 0.58x 2012E PB and 5.5x 2012E PE, roughly 30% and 20% below its one-standard deviation below historical average PBx and PEx at 0.86x and 6.7x, respectively, which we see as really inexpensive.

We prefer iron ore over steel players; Maintain BUY

We maintain our view that iron ore names such as China VTM are preferred plays over steel names such as Angang (347.HK, HKD4.14, Hold) and Maanshan (323.HK, HKD1.69, Hold), exposed to Chinese steel demand recovery (*more details in China Iron Ore Sector – Cyclical headwinds; secular tailwinds published on February 2012*). The stock currently trades at 0.56x 2012E PB, assuming a 14% ROAE in 2012; we maintain our Buy rating on the shares.

Stock data	
Market cap (HKDm)	2,448
Market cap (USDm)	316
Shares outstanding (m)	2,075.0
Major shareholders	Trisonic International (57.5%)
Avg daily value traded (USDm)	0.9
Free float(%)	42

Key data			
FYE 12/31	2011A	2012E	2013E
Sales (CNYm)	1,713	1,623	1,912
Net Profit (CNYm)	605.9	476.2	551.6
DB EPS (CNY)	0.29	0.23	0.27
PER (x)	7.3	4.2	3.7
Yield (net) (%)	2.8	4.7	5.5

Deutsche Bank AG/Hong Kong

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