

Last Closing : HK\$1.16

Upside: +46.8%

TP: HK\$1.7↓

Metals & Mining Sector

China VTM Mining (893.HK)

Earnings in-line; Revise TP

UP

MP

OP

Valuation Summary

	2010	2011	2012E	2013E	2014E
Revenue (RMB m)	1,554	1,713	1,533	2,054	2,503
Net profit (RMB m)	533	606	410	574	686
Basic EPS (RMB)	0.26	0.29	0.20	0.28	0.33
Core EPS (RMB)	0.26	0.29	0.20	0.28	0.33
Change (%)	30.0%	11.5%	-31.9%	40.1%	19.5%
P/E	3.7	3.2	4.8	3.4	2.8
DPS (RMB)	0.05	0.06	0.04	0.06	0.07
Dividend yield (%)	5.3%	6.3%	4.2%	5.9%	7.0%
NAV per share (RMB)	1.7	1.6	1.7	1.9	2.2
P/B	0.6	0.6	0.5	0.5	0.4

Source: Company, BOCOM Int'l

- Earnings in line with expectation.** Interim revenue fell 8.5% YoY to RMB773.9m, while net profit attributable to shareholders plunged 34.4% YoY to RMB197.1m, representing an EPS of RMB0.09. The major reasons for the sharp fall were: (1) the occasional power suspension and power supply restriction in the Panxi Region since March, which affected production; and (2) the expiry of preferential corporate income tax rates.
- Iron concentrates production below expectation; expiry of preferential corporate income tax rates.** The occasional power suspension and power supply restriction in the Panxi Region since March had affected the company's production of iron concentrates. Production and sales of iron concentrates fell 7.8% and 22.8% YoY to 958,000 tonnes and 543,000 tonnes, respectively, in 1H12. We slightly lift our forecast on the iron concentrates production of Maoling Mine to 40,000 tonnes, and estimate a full-year iron concentrates production of 1.87m tonnes. Meanwhile, Huili Caitong, its major subsidiary, ceased enjoying the tax holiday as a foreign investment enterprise of the PRC and its corporate income tax rate increased from 12.5% to 25.0%.
- Key products saw a slight price decrease; strong sales and stable price of high-grade titanium concentrates.** The ASP of iron concentrates and pellets dropped 8.3% YoY and 5.9% YoY to RMB609/tonne and RMB848/tonne, respectively. While imported iron ore prices in the eastern coastal region has retreated substantially since the beginning of this year, the company's product prices were more stable, due to its inland location and more insulated market. The production volume of its high-grade titanium concentrates increased 21.2% YoY to 69,800 tonnes with the revenue contribution rising to 12.1%. Domestic titanium concentrate prices have remained stable at present and have not seen any substantial increase despite the export restriction in Vietnam. The titanium concentrates business is unlikely to improve the company's profitability in 2H12, in our view.
- Maintain "Neutral" and trim TP to HK\$1.7.** The company's iron concentrates production declined sharply in 2Q12 due to the power curtailment. In addition, iron concentrate prices have shown a moderate downtrend amid the sluggish market. We believe the titanium concentrates segment alone could not improve the company's earnings given its relatively small revenue contribution. We slightly lift our forecast on the iron concentrates production of Maoling Mine to 40,000 tonnes, but cut our forecast on the full-year output of high-grade titanium concentrates to 180,000 tonnes, and adjust its corporate income tax rate to 25%. We maintain our selling price forecasts for 2012/2013. We cut the 2012/2013E EPS by 12.0%/0.4% to RMB0.2/RMB0.28. Maintain "Neutral" but trim its TP from HK\$1.90 to HK\$1.70, corresponding to 2012E P/E of 7.0x.



Focus:

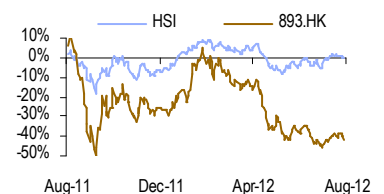
- Iron concentrates production came below expectation on power supply restriction measures.

Stock data

52-week high (HK\$)	2.42
52-week low (HK\$)	1.01
Market Cap (HK\$ m)	2,407.0
No of shares (m)	2,075.0
Avg. daily vol (HK\$ m)	5.0
1-mth change (%)	5.5
YTD change (%)	-23.7
50d MA (HK\$)	1.20
200d MA (HK\$)	1.55
14-day RSI	43.8

Source: Bloomberg

1-yr share price performance



Source: Bloomberg

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Chart 1: Changes in key assumptions

	FY12F			FY13F		
	Original estimate	Current estimate	Change	Original estimate	Current estimate	Change
Iron concentrates ASP (RMB/tonne)	550	550	0.0%	580	580	0.0%
Pellet ASP (RMB/tonne)	850.0	850	0.0%	900.0	900	0.0%
Production volume of iron concentrates (10,000 tonnes)	183.0	187.0	2.2%	240.0	240.0	0.0%
Production volume of pellets (10,000 tonnes)	90.0	90.0	0.0%	120.0	120.0	0.0%
High-grade titanium concentrates (10,000 tonnes)	20.0	18.0	-10.0%	20.0	20.0	0.0%
Revenue (RMB m)	1,530	1,533	0.2%	2,054	2,054	0.0%
Gross Profit (RMB m)	693	692	-0.1%	1,011	1,011	0.0%
Net Profit (RMB m)	465	410	-12.0%	576	574	-0.4%
EPS (RMB)	0.22	0.20	-12.0%	0.28	0.28	-0.4%
NAVS (RMB)	1.74	1.71	-1.3%	1.96	1.94	-1.2%

Source: BOCOM Int'l estimates

Company Background

China VTM Mining (893.HK) is the largest privately-owned iron ore miner in Sichuan Province. Located in the Panzhihua-Xichang area which has the richest vanadium-titanium magnetite resources in China, the company is specialized in the production of vanadium-titanium magnetite and titanium concentrates. Since its listing, it has been committed to aggressively expanding its resource reserves and raising the production capacity of the relevant mineral products. The company plans to achieve vanadium-titanium magnetite concentrate capacity of 5m tonnes and raise its iron ore resources to 600m tonnes in the 12th FYP period.

China VTM Mining (893.HK): Financial Statements

Profit & loss (RMB m)					
Year ended 31 Dec	2010	2011	2012E	2013E	2014E
Sales revenue	1,554	1,713	1,533	054	2,503
Operating costs	724	886	841	1,043	1,248
Gross profit	830	827	692	1,011	1,255
Distribution costs	44	46	38	51	63
Management fee	79	102	92	123	150
Finance costs	18	-21	4	56	112
Pre-tax profit	701	748	557	781	933
Income tax expenses	117	135	139	195	233
Profit in the year	584	613	418	585	7
Profit attributable to the equity holders of the company	533	606	410	574	686
EPS (RMB)	0.26	0.29	0.20	0.28	0.33

Cash flow statement (RMB m)					
Year ended 31 Dec	2010	2011	2012E	2013E	2014E
Net profit	584	613	418	585	700
Finance costs			4	56	112
Depreciations			195	288	435
(Increase in operating costs)			-494	-31	-24
Increase in deferred tax			-2	-3	-
Total cash flow for operational activities	606	688	182	895	1,219
(CAPEX)			-1,200	-1,500	-1,900
Total cash for investment activities	-1,591	-1,046	1,280	-1,580	-1,980
Increase (Decrease) in short-term liabilities			168	610	100
Increase (Decrease) in long-term liabilities			300	200	850
Finance costs			-4	-56	-112
Increase (Decrease) in share capital (Dividend)			0	0	0
Total cash for financing activities	-230	-117	381	637	698
Net cash increase	-1,216	-475	-717	-48	-63
Cash at the beginning of the reporting period	1,890	1,102	947	229	245
Change in cash	-1,216	-475	-717	16	6
Adjustments	427	320	0	0	0
Available cash at the end of the reporting period	1,102	947	229	245	251

Source: Company, BOCOM Int'l

Balance sheet (RMB m)					
Year ended 31 Dec	2010	2011	2012E	2013E	2014E
Cash and bank balances	1,102	947	229	245	251
Trade receivables	208	134	123	164	200
Inventories	70	137	137	137	135
Total current assets	1,473	1,479	797	1,021	1,211
Fixed assets	1,476	1,727	2,732	3,944	5,409
Total assets	3,733	4,458	4,800	6,252	7,919
Short-term borrowings	175	322	49	1,100	1,200
Total current liabilities	813	1,119	828	1,615	1,875
Long-term borrowings	125	101	401	601	1,451
Total liabilities	944	1,238	1,245	2,229	3,336
Share capital	183	183	183	183	183
Reserves	2,775	3,016	3,350	3,819	4,379
Minority interests	14	22	22	22	22
Total equity interests	2,789	3,221	3,555	4,022	4,583
Total liabilities and equity interests	3,733	4,458	4,800	6,252	7,919

Financial ratios					
Year ended 31 Dec	2010	2011	2012E	2013E	2014E
Growth					
Operating revenue	43.4%	10.2%	-10.5%	34.0%	21.8%
Operating profit	65.5%	-0.5%	-16.3%	46.2%	24.1%
Net profit	59.2%	4.9%	-31.8%	40.1%	19.5%
Profitability					
GM%	53.4%	48.3%	45.1%	49.2%	50.1%
NM%	37.6%	35.8%	27.3%	28.5%	27.9%
ROE	20.9%	19.0%	11.8%	14.6%	15.3%
ROIC	17.2%	14.0%	9.5%	11.0%	10.8%
Indemnity					
Gearing ratio	25.3%	27.8%	25.9%	35.6%	42.1%
Interest coverage	39.7	-32.1	138.3	15.0	9.3
Current ratio	1.8	1.3	1.0	0.6	0.6
Quick ratio	1.7	1.2	0.8	0.5	0.6

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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 ("OP"): Expect more than 10% upside in 12 months

Market perform ("MP"): Expect low volatility

Underperform ("UP"): Expect more than 10% downside in 12 months

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