



Rating
Buy

Asia
China

Resources
Metals & Mining

Company
**China VTM Mining
Alert**

Reuters 0893.HK Bloomberg 893 HK Exchange HSI Ticker 0893

Date
28 August 2012

Results

Price at 27 Aug 2012 (HKD)	1.16
Price target - 12mth (HKD)	2.10
52-week range (HKD)	2.31 - 1.03
HANG SENG INDEX	19,799

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Disappointing earnings but could be in the price already

Disappointing 1H12 results – NPAT 34% YoY decline

China VTM announced its 1H12 results over night (It had announced, on 13 July, an earnings warning about no more than 40%YoY NPAT decline). China VTM's 1H12 top-lines at RMB774m have an 8% YoY decline and achieved 48% of FY12 DB estimates and 44% of 2012FY Bloomberg market consensus. Its GP drops 22% YoY and achieves 45% of 2012FY DB estimates. The company's OP also has 24% YoY decline and achieves 43% and 37% of 2012FY DB estimates and consensus respectively. Its NPAT at RMB197bn decreases 34% YoY and achieves 41% of FY12 DB estimates and 36% of FY12 market consensus. DB and market's 2012FY estimates look too high. See Figure 1.

Contribution of disappointments – low production volume and weak ASP

The main contributor of disappointing 1H12 NPAT is production volume decline. There was a 6%YoY volume decline for China VTM's iron ore concentrate production and that's resulting from a temporary power supply restrictions in the Panxi region of Sichuan Province. Yet, this was flagged when the company published profit warning in July. In the mean time, the company's ASP for iron ore concentrate in 1H12 was RMB631/t, 1% lower DBE 2012 full year ASP forecast. Weak ASP and low production volume have made the company's 1H12 GPM 2.5 percentage points lower than DBE 2012FY GPM estimate at 46.2%. Operational data are shown in the table on the right.

Cautious on recent sentiment – dramatic iron ore price drop recently

China VTM will host an analyst meeting on Aug 28 and we will then review our forecasts. Seaborne iron ore price has dropped c.26% since June 31 from US\$134/t to current US\$99/t. Our recent check with domestic iron ore traders let us believe iron ore price might be hovering around US\$100/t level in 2H12. We will then also need to factor in new iron ore price assumptions. Based on our previous estimates, the stock is trading at 4.1x 2012DBE EPS and 0.55x 2012DBE BVPS. We believe the awfully low valuation might imply potential earnings' downside risks already in the price.

Figure 1: China VTM's 1H2012 results

RMB mn	1H12 Actual	FY12 DBE	FY12 Cons.	% of FY12 DBE	% of FY12 Cons.	1H2011	YoY %
Revenue	774	1,623	1,779	48%	44%	845	-8%
Gross profit	338	749	851	45%	40%	431	-22%
Operating profit	270	608	724	44%	37%	356	-24%
NP (post-minor'y)	197	476	552	41%	36%	301	-34%
GPM	43.7%	46.2%	47.8%			51.0%	
OPM	34.9%	37.5%	40.7%			42.1%	
NPM	25.5%	29.3%	31.0%			35.6%	

Source: Deutsche Bank estimates, Bloomberg Finance LP

Stock data	
Market cap (HKDm)	2,407
Market cap (USDm)	310
Shares outstanding (m)	2,075.0
Major shareholders	Trisonic International (57.5%)
Avg daily value traded (USDm)	0.7
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	4.1	3.6
Yield (net) (%)	2.8	4.8	5.6

Operational data			
	1H12	% of FY12 DBE	YoY%
ASP (RMB/t)			
Concentrate	631	99%	-5%
Pellet	848	101%	-6%
High-grade titanium concentrate	1,291	113%	14%
Sales (mt)			
Concentrate	564	41%	-20%
Pellet	382	59%	14%
High-grade titanium concentrate	72	43%	26%
Concentrate output (mt)	980	48%	-6%

Deutsche Bank AG/Hong Kong

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