



Rating
Buy

Asia
China

Resources
Metals & Mining

Company
**China VTM Mining
Alert**

Reuters
0893.HK

Bloomberg
893 HK

Exchange
HSI

Ticker
0893

Date
2 November 2012

Company Update

Price at 1 Nov 2012 (HKD)	1.59
Price target - 12mth (HKD)	1.60
52-week range (HKD)	2.18 - 1.08
HANG SENG INDEX	21,822

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Trading suspended due to privatization consideration

Trading suspended due to privatization proposal

Trading in China VTM has been suspended since 9:00am this morning. According to a management announcement, the suspension is due to a potential privatization proposal from China VTM's major shareholders. The company is now waiting for HKex's approval to announce the privatization proposal. The major shareholder, Mr. Wang Jin, via Trisonic Int'l Ltd and Sapphire Corp. Ltd., is holding 57.7% of the company. The free float of the company is thus about 42%. Therefore, Mr. Wang should offer to buy back the 42% in the public market.

Proposal price likely a premium to current share price

We believe Mr. Wang is likely to offer a price with premium to current share price at HK\$1.6 (right before its suspension). For reference, DB's price target for the company is right at HK\$1.6 based on life-of-mine DCF models. The street's average price target for the company is HK\$1.8, implying 13% to current share price. The company is now trading at 7.2x of 2013DBe EPS. Historically, the average 12-month forward PEx for the stock is 9.6x, implying a value of HK\$2.1 per price and 33% premium to current share price.

Shouldn't be a difficult transaction for major shareholder

We believe it would not be difficult for the major shareholder to find funding for this deal. Assuming a transaction price of HK\$2 per share, the total cash to buy back all the free float will be about RMB1.43bn (HKD1.76bn). As China VTM will be holding net cash of over RMB500m at end-2012 and generating operating cash at RMB400m to RMB700m per year, it should not be difficult for the major shareholder to find bank loans to fund this gap of less than RMB1bn. We believe the privatization makes strategic sense, and thus we believe the major shareholder will pursue it.

Share price should climb once suspension is lifted

As with most deals, we believe China VTM's share price will rise to the major shareholder's proposal price at day one after the suspension. Based on the references we mentioned above, we believe a 15-20% premium to the last closing price is likely.

Stock data

Market cap (HKDm)	3,299
Market cap (USDm)	426
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	1,534	1,750
Net Profit (CNYm)	605.9	368.1	371.1
DB EPS (CNY)	0.29	0.18	0.18
PER (x)	7.3	7.2	7.2
Yield (net) (%)	2.8	2.8	2.8

Deutsche Bank AG/Hong Kong

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