

Analyst: Kelvin Li

Main Board Listing – Research

中國鈮鈦磁鐵礦業有限公司

China Vanadium Titano-Magnetite Mining Company Limited [Stock Code: 00893]

Sole Global Coordinator and Sole Sponsor	:	Citi	
Joint Bookrunners and Joint Lead Managers	:	Citi	Deutsche Bank
Sector	:	Materials	
Business	:	Iron ore mining and processing	

Total share offer: <i>588,800,000 shares (29.4% of the enlarged share capital) (comprising 500 million new shares and 88.8 million sale shares)</i> Public Offer: 58,880,000 shares (10%) Placing: 529,920,000 shares (90%) Greenshoe: 88,320,000 shares	<u>Business of China Vanadium Titano-Magnetite Mining ("China VTM Mining")</u> <p>China VTM Mining was the second largest and the top privately non-state owned iron ore mine operator in Sichuan province, in terms of output volumes in 2008 and the first half of 2009.</p> <p>The Group currently owns and operates two mines, namely Baicao Mine (白草礦場) (90.5% owned) and Xiushuihe Mine (秀水河礦場) (86.0% owned), both of which are located in Huili County (會理縣) of the Panxi Region (攀西地區), Sichuan province. The ore in the Group's mines is vanadium-bearing titano-magnetite ore, which the Group uses to produce iron ore products and titanium products.</p> <p>In addition to iron ore mining, the Group is also engaged in the operation of two processing plants and an iron pelletizing plant nearby its Baicao and Xiushuihe Mines.</p> <p>During the Track Record Period (2006-1H2009), the Group hired an independent 3rd-party mining contractor to carry out all the ore extraction work at its mines. Besides, the Group has also outsourced part of its processing and pelletizing operations since 2007.</p>
Price: HK\$3.12 – HK\$3.86 per share Market Cap: HK\$6.24 billion – HK\$7.72 billion Pro forma fully diluted FY09E P/E: 17.1x – 21.2x Company guidance on FY09E total comprehensive income attributable to shareholders: not less than RMB321.8 million Adjusted NTA per share: HK\$1.02 – HK\$1.20 Staffing: 928 (as of 30 th June 2009)	
HK Public Offer period: 24 th Sep 2009 – 29 th Sep 2009 noon Receiving bank: Bank of Communications (HK) Standard Chartered (HK) Share registrar: Computershare Hong Kong Investor Services Limited. Listing date: 8 th October 2009	

Shareholders after Listing (Assuming the over-allotment option is not exercised)

Trisonic International*	59.7%
Green Globe, a corporate investor and the Selling Shareholder in the Global Offering [^]	10.9%
Public shareholders	29.4%
	<u>100.0%</u>

Remarks: (*) Trisonic International has the following shareholders: Mr. WANG Jin (30.6%) (a non-executive director), Kingston Grand (40.0%) (60% owned by Mr. WANG Jin and 40% by Sapphire Corp Ltd (a SGX-listed company)), Mr. LI Hesheng (3.0%), Mr. WU Wendong (6.0%), Mr. YANG Xianlu (6.0%), Mr. SHI Yinjun (7.2%) and Mr. ZHANG Yuangui (7.2%). The individuals named above are all founders of China VTM Mining, who are acting in concert; (^) Green Globe's ultimate parent company AL Safat Investment Company is listed on the Kuwait Stock Exchange.

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.



Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1.64 billion (based on an offer price of HK\$3.49, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised)

	HK\$ million
To finance the acquisition or consolidation of other mines.	1,018.4
To finance the expansion of the mining boundaries of Xiushuihe Mine.	131.4
To finance the construction of two titanium slag production lines.	131.4
To finance the construction of a new iron concentrates production line and a new high-grade titanium concentrates production line.	164.3
To finance the upgrade of medium-grade titanium concentrates production line.	65.8
General working capital.	131.4

Financial Highlights

	Year ended 31 st Dec			6 months ended	
	2006	2007	2008	30 th Jun 2008	30 th Jun 2009
	RMB million	RMB million	RMB million	RMB million	RMB million
Turnover	211.1	366.7	791.2	315.3	486.0
Gross profit	111.0	178.9	427.0	178.3	209.5
Operating profit	51.2	77.6	351.9	149.0	181.7
Profit attributable to shareholders	85.9	166.0	376.0	164.5	267.4
Gross profit margin	52.6%	48.8%	54.0%	56.5%	43.1%
Operating profit margin	24.3%	21.2%	44.5%	47.3%	37.4%
Net profit margin	40.7%	45.3%	47.5%	52.2%	55.0%
	31/12/2006	31/12/2007	31/12/2008	30/6/2008	30/6/2009
Net debt to Equity	36.3%	7.8%	Net cash	N/A	Net cash

Breakdown of turnover in terms of product types

	Year ended 31 st Dec						6 months ended			
	2006		2007		2008		30 th Jun 2008		30 th Jun 2009	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Iron concentrates	75.2	35.6%	190.2	51.9%	495.6	62.6%	168.7	53.5%	239.4	49.3%
Iron pellets	113.9	54.0%	165.1	45.0%	252.3	31.9%	115.1	36.5%	240.5	49.5%
Medium-grade Titanium concentrates	7.5	3.5%	11.3	3.1%	43.3	5.5%	31.6	10.0%	6.1	1.3%
Sale of 3 rd -party materials	15	6.9%	0	0.0%	-	-	-	-	-	-
Total	211.1	100.0%	366.7	100.0%	791.2	100.0%	315.3	100.0%	486.0	100.0%

Average selling prices of the Group's products

	Year ended 31 st Dec			6 months ended	
	2006	2007	2008	30 th Jun 2008	30 th Jun 2009
	RMB/tonne	RMB/tonne	RMB/tonne	RMB/tonne	RMB/tonne
Iron concentrates	450.8	477.8	621.9	644.5	516.7
Iron pellets	670.2	646.0	826.1	848.0	723.3
Medium-grade titanium concentrates	295.9	176.3	199.7	229.3	94.4

**Strengths/Opportunities**

- ✓ Sichuan province, where the Group's operations are located, is a net importer of iron ore. Under-supply of iron ore in Sichuan province means the Group need not to sell its products to a distant customer for a higher transportation cost.
- ✓ China VTM Mining will be the first iron ore mining company to be listed in HK.
- ✓ The Group obtained a two-year exploration permit on 8th July 2009 to conduct exploration activities in the adjacent areas to the west of the Xiushuihe Mine (area under the current mining rights). The permit will cover the whole Xiushuihe deposit of 1.7 sq km, including an unexplored area of 1.2 sq km. The unexplored area is estimated to contain total iron ore resources of more than 78 million tonnes, compared with the Group's existing proved and probable reserve of 18.7 million tonnes in the explored area of the Xiushuihe Mine.
- ✓ Besides organic growth strategy, the Group also entered into five option agreements this year giving it the right to purchase mining rights and related assets of five respective iron ore mines, including the 3rd largest privately owned iron producer (Huli Xiaoba Jingzhi) in Sichuan. The five mines are estimated to contain total iron ore resources of 126.2 million tonnes.
- ✓ In late 2007, the Group entered into sales contracts for 2008, 2009 and 2010 with nine independent third-party customers, of which the contracted sales volume would account for 100% or more of the Group's estimated annual output of iron ore product for the period. In June 2009, the Group entered into supplemental agreements with these contract customers to set minimum sales prices for the contracted sales in 2H2009 and 2010. In addition, the Group could adjust the sales price upward to reflect 50% of the difference between market price and sales price if market price is higher. These sales contracts set out both the sales volume and prices, securing a significant portion of the Group's revenue in 2009 and 2010.
- ✓ The Group plans to upgrade its medium-grade titanium concentrates production lines to produce high-grade titanium concentrates. The Group expects it will cease old production lines by 2010 and start producing high-grade titanium concentrates since then, with total planned annual output capacity of 140,000 tonnes in the Baicao plant and 160,000 tonnes in the Xiushuihe plant. Besides, the Group also plans to produce other titanium downstream products like titanium slag.

Weaknesses/Threats

- × The Group hired only one independent 3rd-party contractor to carry out all the mining work in its Baicao and Xiushuihe mines. Besides, the Group also engages two 3rd-party contractors to carry out more than one-third of its iron ore processing during the first half of 2009. Any breakdown of cooperative relationship with these 3rd-party contractors will lead to severe disruption of the Group's business operation.
- × The useful life of Group's Baicao Mine stood at 14.0 years as of the end of June 2009. However, the useful life of the Group's Xiushuihe Mine was short at only 5.8 years by the end of 1H09. In 2008, ore output volume of Xiushuihe Mine accounted for 39% of the Group's total, while that of Baicao Mine comprised 61% of the total. In order to secure long-term sustainable growth, the Group needs to strengthen its exploration work in its Xiushuihe Mine and acquire ore resources from other mines.
- × The Group signed sales contracts with 3rd-party customers for 2008-2010. In fact, most of the customers did not purchase the total amount they obliged to do so under the sales contract in 2008. The Group did not make any legal claims against breach of contract, as most of the customers purchased more than 80% of their respective contract sales volume. In order to maintain good working relationship with its customers, the Group may not be able to exercise its full right under these sales contracts.

Recommendation: **Neutral**



Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.