

## Yue Da Mining: Reinforcing resource base

### Recommendation: BUY (initiating coverage) China Resources

Price	HK\$5.05	Year to Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$9.18 (+81.8%)	Dec	RMBm	RMB	Δ %	x	x	x	%	%	%
12 mth range	HK\$2.80-9.00	05A	19.5	0.096	1-Dec	48.4	2.9	26.8	0.5	2.6	4.2 (26.7)
Market cap.	US\$209.8m	06A	10.3	0.047	(51.4)	99.5	2.4	9.2	na	10.8	Cash
Daily t/o, 3 mth	US\$0.85m	07F	75.4	0.249	431.5	18.7	1.5	6.9	na	36.2	4.8 (55.8)
Free float %	32.7%	08F	398.5	1.309	426.4	3.6	1.1	2.6	na	28.9	14.9 (3.2)
Ticker	0629.HK/629 HK	09F	447.4	1.470	12.3	3.2	0.8	2.3	na	33.2	14.1 Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -10.4%, -5.8%, +31.2%

Actual price changes (1 mth, 3 mth, 12 mth): -19.7%, -19.7%, +58.2%

Consensus EPS (05F-06F): HK\$0.200, HK\$1.234

#### Key points:

- Mining - significant earnings contributor.
- Mining output to surge on the elimination of minority interests and capacity expansion.
- Three mines to be acquired to boost resources and earnings base.
- Deep discount to peers' values and our appraised net resources value.
- Pleasant surprises expected in FY12/07F results.
- FY12/08F earnings to soar 428.6% YoY to RMB398.5m.
- Earnings CAGR of 112.8% in FY12/07F-12/10F on higher output.
- Resource prices - the major wild card in our forecasts.

**From toll roads to mining.** Yue Da Mining, a former pure toll road operator, has turned itself into a non-ferrous metal producer with the acquisition of mining assets in Yunnan province between 2006 and 2007 and the disposal of Yancheng Tongda (for HK\$65.0m), an operator of the Xin Fu section of National Highway 204, which links Yantai in Shandong and Shanghai. The group has boosted its profitability and shareholder value by shifting away from toll road operations, with their limited growth potential (few investment opportunities given China's extensive road network), government-regulated tariffs and investment return schemes. Another factor behind the shift was the group's inability to compete with established toll road operators in terms of scale and toll collection rights. In contrast, the mining business offers better growth prospects as the prices of non-ferrous metals are determined by the market, not other producers, and China's rapid economic is fuelling demand for non-ferrous metals.

**Re-rating.** Yue Da's new business alignment has been well received by the market, with the share price surging more than nine-fold since Jan 2005 (when the mining acquisition was announced) and historical P/E multiples expanding from 5.9x for FY12/05A to 129.3x for FY12/06A. We expect the re-rating to continue, given the strong growth momentum of the company's mining division, expansion in its mineral resource base and attractive forward valuation.

**Proven track record in mining.** The group completed the acquisition of 52.0% in the Yuelong mining project (four non-ferrous metal mines) in Yunnan province in June 2006. The mining division generated an operating profit of RMB47.0m after only six months of operation, while the toll road operation reported an operating loss. The mining division was the sole earnings contributor to the group in FY12/06A. In 1H FY12/07F, the mining division reported an operating profit of RMB45.2m, representing 83.8% of the group's gross operating profit before head office expenses and exceptional items. We expect the growth momentum of the mining business to remain strong, driven by the elimination of minority interests in four mines in Yunnan and an increase in the company's daily ore extraction and processing capacity.

**Elimination of minority interests.** In June 2007, the group acquired an additional 48.0% in Feilong (nonferrous metals mine), Puer Feilong (lead and zinc mine) and Yaoan Feilong (lead and silver mine). After the completion of the acquisition, it owns 91.5% of Baoshan Feilong Hetaoping (lead and zinc mine) and Baoshan Feilong

Yongming (zinc mine), as well as 100.0% in Yaoan Feilong and Puer Feilong. The four mines in Yunnan became the group's wholly-owned subsidiaries at the beginning of 2H FY12/07F.

**Processing expansion.** In 1H FY12/07F, the Baoshan Feilong Nonferrous Metal Mine (operating the Hetaoping and Yongming mines) and Yaoan Feilong Mining (operating the Laojiezi Yaoan Mine) expanded the production capacity of their processing plants. Yaoan Feilong's additional processing plant (daily capacity of 600 tons) came on stream in Mar 2007 and Baoshan Feilong's upgraded processing plant (daily capacity of 500 tons) was launched in Apr 2007. We estimate that the processing capacity of the group's mines in Yunnan will expand 86.4% YoY to 3,850t.p.a of ore by end-FY12/08F and boost its metal production volume.

**Full launch of Tengchong in FY12/08F.** The group acquired the entire stake in the Tengchong mining project in Tengchong county, Yunnan, for RMB250.0m in Dec 2006. The project has rich iron and zinc resources but its production was hampered by the company's limited processing capacity between Jan and May 2007. Ore transport was also negatively affected by road-use disputes with local villagers. The situation was further aggravated after the government suspended all local mining activities due to accidents for more than a month in 2H 2007. All these issues have now been resolved. The company also acquired a processing plant, Ruilong, at the mine in May 2007 and upgraded its production facilities expanding capacity. Thus, we expect Tengchong to reach its full scale operations in FY12/08F.

**Resource expansion via acquisitions.** We estimate the company's resources at 281,756.0 tons of lead, 645,913.0 tons of zinc, 8.8m tons of iron and 126.0 tons of silver. The company is in the process of acquiring three mines: 1) 100% in Daqian Mine in Shaanxi for HK\$120.0m (or RMB110.5m) - the mine has 106,642.0 tons of zinc and 47,744.0 tons of lead resources and in the Jan 2005- Aug 2007 period produced 1,076 tons of zinc ore and 16 tons of lead ore; 2) 71.0% in Hong Ling Mine in Inner Mongolia for HK\$901.3m (or RMB830.0m) - the mine has 514,500.0 tons of zinc resources and 17,364.0 tons of lead resources, and according to its profit sharing scheme, the group can get 92.0% of the profit generated by the mine before 2010, 87.0% in 2010-2017 and 71.0% from 2018. Between Jan 2005 and Sep 2007, the mine produced 19,213.0 tons of zinc ore; 3) 90.1% in Weng Qi Mine in Inner Mongolia for HK\$299.0m (or RMB275.3m) - the mine has 165,149.0 tons of zinc and 73,479.0 tons of lead resources. Between Jan 2005 and Sep 2007, it produced 8,930.0 tons of zinc ore and 1,092.0 tons of lead ore. The three deals should be finalized by end-1Q 2008 and boost the group's total lead and zinc resources by 70.1% and 112.6%, respectively, to 479,241.0 tons and close to 1.4m tons.

**Table 1: The group's metal reserves**

Mine (metal tons)	Lead	Zinc	Iron	Silver
Tengchong	na	220,000.0	8,845,700.0	na
Hetaoping	177,772.0	425,913.0	na	na
Yaoan	103,984.0		na	126.0
Daqian	106,642.0	47,744.0	na	na
Hong Ling	17,364.0	514,500.0	na	na
Weng Qi	73,479.0	165,149.0	na	na
Total	479,241.0	1,373,306.0	8,845,700.0	126.0

Source: Company, SBI E2-Capital

**Enhancing shareholder value.** To calculate the gross value of the group's zinc and lead reserves (excluding Daqian, Hong Ling and Weng Qi mines), we base our ASP assumption on the 2007 average monthly spot price of RMB20,182.5/ton for zinc and RMB14,151.8/ton for lead. The gross cash value (including mining, processing and investment costs and taxation) of the reserves in Yunnan is about RMB17.024.0b, while the total acquisition cost of the five mines was RMB780.2m. Assuming the cost of mining lead and zinc at RMB3,225.2/ton and processing at RMB2,773.9/ton, the after-tax net cash value of the reserves comes to RMB7,753.2m. After the acquisition of the three mines (based on the same ASP assumptions) the gross cash value is RMB34,498.9m. After deducting mining and processing costs, acquisition costs (RMB1,215.9m) and taxation (value-added and resource tax), the net cash value is RMB15,482.7m, meaning that the three new mines will boost the value of the group's zinc and lead resources by 99.7%.

**2H results could surprise on the upside.** The group reported a net loss of RMB51.6m in 1H FY12/07F due to one-off items such as the RMB71.5m fair value loss on embedded derivatives of convertible bonds and deferred taxation costs arising from a tax rate change in Mar 2007. In Jun 2006, the group issued a 3.5% CB at a nominal value of HK\$75.0m as the consideration of the acquisition of 52.0% in mining projects in Yunnan. In Jun 2007, 33.3m shares were converted at HK\$1.20 each. The group redeemed the rest of the CB at the total consideration of HK\$69.3m in Jun 2007. Thus, there will be no fair value loss on embedded derivatives of CB anymore, unless the group issues another CB. The group's mining division reported an operating profit of RMB45.2m against a turnover of RMB108.6m. We expect results to improve significantly in 2H FY12/07F due higher contributions

from its mining division, production ramp up in mines and the resumption of normal operations at Tengchong Mine in 4Q 2007. In addition, the group acquired minority interests in four mines in Yunnan and since all the mines are wholly-owned, the group can consolidate all their earnings into its own accounts. We estimate the group's mining net earnings at RMB173.5m in FY12/07F and consolidated net earnings at RMB75.4m, representing an annual growth rate of 629.6%. Our ASP assumption for the FY12/07F are based on the average monthly Shanghai Changjiang zinc, lead and silver spot prices.

**Factors that will affect our earnings forecasts.** Determined by the market, the company's ASPs are the wild card in our earnings forecast. Other variables, such as production volume and product mix can be estimated with a degree of accuracy, based on the group's production capacity and the size of zinc, lead, iron and silver reserves.

**Table 2: Assumptions on mining division**

	2006A	1H07A	2007E	2008F	2009F	2010F
Annual production volume (tpa)						
Zinc ore concentrates	4,131.0	3,822.0	9,329.8	30,741.5	37,491.3	62,269.5
Lead ore concentrates	1,495.0	1,437.0	6,163.7	15,813.3	17,468.1	27,009.7
Silver (Kilograms)	915.0	951.0	8,539.5	9,759.4	9,759.4	14,313.8
Iron ore concentrates	na	52,290.0	68,112.0	110,682.0	119,196.0	127,710.0
ASP assumption (RMB/ton)						
Zinc ore concentrates	20,540.0	20,348.0	21,227.4	20,182.5	20,182.5	20,182.5
Lead ore concentrates	10,628.0	14,398.0	14,884.5	14,151.8	14,151.8	14,151.8
Silver (RMB/grams)	na	na	2.2	2.2	2.2	0.1
Iron ore concentrates	na	532.0	550.0	550.0	550.0	550.0

Source: Company, SBI E2-Capital

**Volume growth forecast.** Output growth in FY12/08F will be driven by: 1) acquisitions of the Daqian Mine in Shaanxi in addition to the Hong Ling Mine and the Weng Qi Mine in Inner Mongolia – to be completed by end-1Q FY12/08F, which means they will provide at least 240 days worth of contribution to the group; 2) contributions from Baoshan Feilong Hetaoping, Baoshan Feilong Yongming, Yaoan Feilong and Puer Feilong after the elimination of minority interests; 3) full-scale operations at the Tengchong Mine after its technological upgrade and removal of transport bottlenecks. We expect the group's FY12/08F output of zinc to surge 229.5% YoY, lead 156.6% YoY, silver 14.3% and iron ore 62.5%. We estimate the group's three-year (FY12/07F-12/10F) output CAGR at 88.3% for zinc concentrate, 63.6% for lead concentrate, 18.8% for silver concentrate and 23.3% for iron ore.

**Reserve mix.** The acquisition of the three mines should boost the company's current reserves of 9.8m tons to 10.7m metal tons, substantially increasing its lead and zinc reserves. Currently, iron ore represents 90.5% of the group's reserve base and 82.7% of the expanded reserve base, in terms of tonnage. Due to its relatively low ASP (RMB550.0/ton in our model, against RMB20,182.5/ton for zinc and RMB14,151.8/ton for lead), it represents 22.0% of the group's reserve gross value and 12.3% of the expanded reserve gross value. Zinc accounts for 58.8% of its reserve gross value and 69.9% of the expanded reserve gross value, making it the most important mineral for the group. We estimate zinc to account for 19.6% of the group's total output in FY12/08F, 21.5% in FY12/09F and 28.7% in FY12/10F. Sales of zinc concentrate are projected at 62.0% of the group's gross revenue of the mining division in FY12/08F, 64.5% in FY12/09F and 69.6% in FY12/10F. Thus, ASP of zinc is the major swing factor in our earnings forecast.

**ASP assumptions.** Our zinc and lead ASP assumptions are based on the 2007 average monthly Shanghai Changjiang spot price. The price of zinc is the major risk factor in our model. Huludao Zinc Industry (000751 CH) is a Shenzhen-listed nonferrous metal smelter producing zinc ingots, copper, sulphuric acid, cadmium, indium and copper sulphate. The company warned of a loss of about RMB270.0m for FY12/07F, against a profit of RMB240.8m for FY12/06A, due to a 46.1% drop in the zinc price in 4Q 2007 from its 4Q 2006 peak. China's excessive smelting capacity, potential abolishment of export value-added tax rebates on high-grade zinc (0# zinc) and slowing economic growth in the US and Europe may further undermine the zinc price in 2008. A 10.0% change in our base-case zinc and lead price will result in a 14.4% change in net earnings of the group's mining division and 11.7% change in the division's EBITDA.

**Table 3: Zinc and lead price sensitive analysis**

Scenario	Zinc ASP assumption (RMB/ton)	Lead ASP assumption (RMB/ton)	FY12/08F EBITDA for mining division (RMBm)	FY12/08F Net profit for mining division (RMBm)
Base case	20,182.5	14,151.8	699.9	446.6
10.0%	22,200.8	15,567.0	782.0	511.0
20.0%	24,219.0	16,982.2	864.2	575.5
30.0%	26,237.3	18,397.4	639.9	946.3
-10.0%	18,164.3	12,736.7	617.7	382.1
-20.0%	16,146.0	11,321.5	535.5	317.6
-30.0%	14,127.8	9,906.3	453.4	253.2

Source: SBI E2-Capital

**Earnings forecasts.** Output expansion will drive growth in FY12/08F, with the mining division's net profit up 157.4% YoY at RMB446.6m and consolidated earnings at RMB398.5m, up 428.6% YoY. Consolidated earnings should grow at a CAGR of 112.8% in FY12/07-12/10F, assuming 1) static product ASPs; 2) three-year output CAGR of 88.3% for zinc and 63.6% for lead.

**Table 4: Mining division P&L**

(RMBm)	2007	2008F	2009F	2010F
Gross revenue	370.8	946.6	1,070.1	1,710.2
VAT	(48.2)	(123.1)	(139.1)	(222.3)
Net revenue	322.6	823.6	931.0	1,487.9
Mining costs	(50.0)	(81.0)	(92.6)	(149.0)
Processing cost	(43.0)	(80.7)	(94.4)	(159.0)
Resources tax	(1.0)	(9.3)	(12.4)	(27.9)
Depreciation	(7.7)	(9.7)	(13.0)	(13.4)
Amortization	(22.0)	(75.8)	(75.8)	(75.8)
Transportation expenses	(11.9)	(19.3)	(20.8)	(22.3)
Cost of sales	(135.4)	(275.8)	(309.0)	(447.3)
Gross profit	187.2	547.8	622.0	1,040.6
SG&A	(11.2)	(24.1)	(26.6)	(45.8)
Interests expenses	0.0	0.0	0.0	0.0
Operating profit	176.0	523.8	595.4	994.8
Taxation	0.0	(65.0)	(93.2)	(194.8)
Minority interests	(2.5)	(12.2)	(31.8)	(68.3)
Net profit	173.5	446.6	470.4	731.7
EBITDA	228.7	699.9	798.5	1,321.2
Capex	(794.0)	(1,226.4)	(751.7)	(729.7)
Change in working capital	0.0	0.0	0.0	0.0
Free cashflow	(565.3)	(526.5)	46.8	591.5

Source: Company, SBI E2-Capital

**Very attractive.** Hong Kong-listed metal mining plays are trading at an average two-year forward P/E of 16.5x. Selected metal mining companies listed in Hong Kong, China, Canada and Australia are trading at average two-year forward P/E of 16.2x. At FY12/08F P/E of 3.6x, the group is trading at a steep discount to its HK-listed and international peers, due to its 1) relatively small reserve base and market capitalization; 2) limited track record. However, given its high growth potential (on resource base and capacity expansion), the group deserves a re-rating. It is also trading at a 78.5% discount to the net value of its metal mineral reserves. To reflect the execution risk of its mining business and the downside risk of our metal price assumptions, we adopt a 60.0% discount to the peer group's average two-year forward P/E and arrive at our target price HK\$9.18. With a potential upside of 81.8%, we initiate coverage with a BUY call.

**Table 5: Peer group comparison**

Company	Ticker	Year End	Currency	Price	Market Cap (US\$m)	P/E (x)	
						1-yr forward	2-yr forward
Jiangxi Copper	358 HK	Dec	HKD	15.28	13,379.0	9.4	9.2
Hunan Non-Ferrous Metal	2626 HK	Dec	HKD	3.91	1,851.1	20.6	15.3
China Molybdenum	3993 HK	Dec	HKD	9.6	6,001.2	17.3	12.2
Zijin Mining	2899 HK	Dec	HKD	9.79	14,200.2	45.7	33.4
Lingbao Gold	3330 HK	Dec	HKD	4.47	443.4	20.2	10.7
Aluminum Corp of China	2600 HK	Dec	HKD	13.1	49,049.4	13.1	13.3
Zhaojin Mining Industry	1818 HK	Dec	HKD	31.45	2,938.1	51.6	32.2
Yunnan Chihong Zinc & Germanium	600497 CH	Dec	CNY	77.92	4,229.6	22.8	21.6
Energy Resources of Australia	ERA AU	Dec	AUD	20.95	3,621.1	33.9	19.0
Minara Resources	MRE AU	Dec	AUD	5.4	2,278.7	8.8	9.2
Mincor Resources	MCR AU	Jun	AUD	3.04	544.9	5.8	4.8
Independence Group	IGO AU	Jun	AUD	8.53	893.9	15.5	17.6
Iluka Resources	ILU AU	Dec	AUD	4.48	983.4	24.0	51.5
CBH Resources	CBH AU	Jun	AUD	0.43	328.3	7.0	6.4
Lundin Mining	LUN CN	Dec	CAD	8.44	3,329.1	6.6	6.9
Cameco Corp	CCO CN	Dec	CAD	33.53	11,605.1	19.0	13.1
<b>Average</b>						<b>19.4</b>	<b>16.2</b>

Source: Bloomberg

**Risks.** 1) Lower-than-estimated metal content in ore; 2) downside risk of our ASP assumptions; 3) acquisition completion hiccups; 4) lower-than-expected ore extraction and processing volume; 5) additional capital needs for the acquisition of the three new mines (debt or equity financing, or both), lifting the net gearing ratio and diluting EPS; 6) possible government policy changes to tackle safety and environmental issues; 7) limited track record.

**Capital injection from major shareholder.** The company's major shareholder, Jiangsu Yue Da Group, sold 20.0m existing shares at HK\$5.40 each to Carlson Fund China Micro Capital and Carlson Fund Equity Asian Small Capital for HK\$104.0m in Jan 2008 and plans to advance the proceeds to Yue Da as an interest-free shareholder loan with a term of no less than 12 months to meet some of its capital requirements. At end-1H FY12/07F, the company was in a net debt position of RMB335.5m. It needs RMB1,219.0m to acquire Daqian, Hong Ling and Weng Qi mines and plans to pay off most of its outstanding debt of about RMB349.2m in this fiscal year. The rest of capital needs will be financed by debt, which will help avoid earnings and shareholder value dilution, in our view.

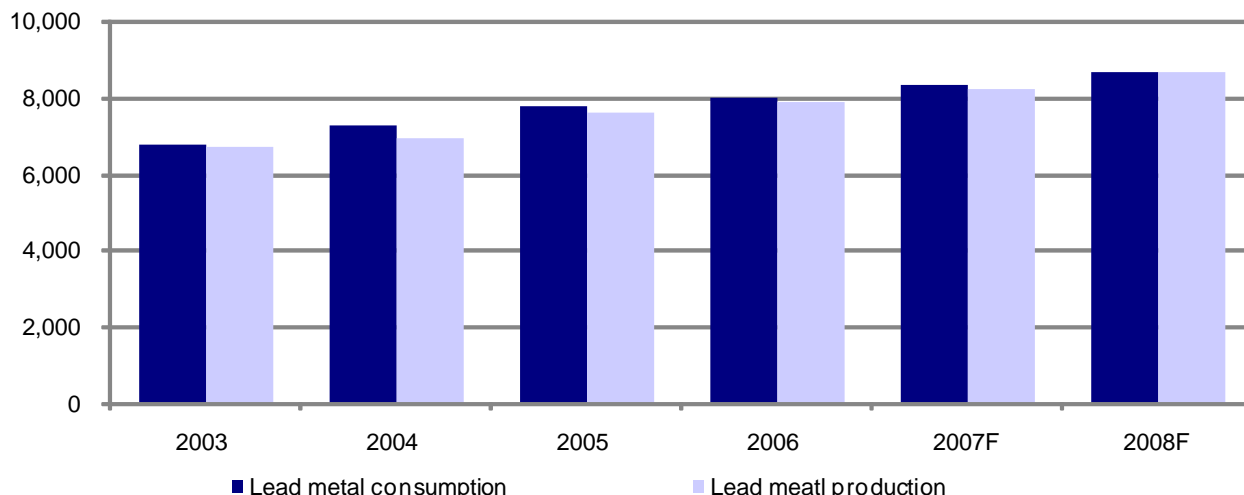
**Fund raising in the past 12 months.** In Jun 2006, the group issued a 3.5% CB at a nominal value of HK\$75.0m. In Jun 2007, 33.3m shares were converted at HK\$1.20 each. The group redeemed the rest of the CB for HK\$69.3m in Jun 2007. In Dec 2007, it raised HK\$128.1m by placing 20.0m shares at HK\$6.63 each.

### Overview of the zinc and lead market

**What is zinc?** Zinc is a metallic chemical element with the symbol Zn and atomic number 30. It is used in: 1) galvanizing – metallurgical bonding of zinc to steel to give it advanced and cost-effective anti-corrosion coating. 2) brass production - copper-zinc alloy, with 10.0-40.0% zinc content, used to make door handles, lighting fixtures and decorative objects; 3) die casting - alloy based on high purity zinc applied to die casting. Given its healing properties, zinc has been increasingly applied in pharmaceutical and cosmetic products (adhesive plasters, antiseptic creams, suntan lotions). It also can be used in rubber production, animal feeds, fertilizer and human nutrition.

**Supply and demand of zinc.** According to the International Lead and Zinc Study Group (ILZSG), between 2003 and 2006, the world's zinc output increased at a three-year CAGR of 2.5% to 10.6m metric tons and consumption 3.8% to 11.0m tons. In Jan-Nov 2007, global zinc output 7.5% YoY to 10.4m tons and consumption 3.5% YoY to 10.4m tons. According to Antaika, global refined zinc output rose 8.7% to 11.6 m tons in 2007 on a production increase in China, India, South Korea, Russia and Spain. Zinc concentrate output increased 9.6% YoY to about 11.3m metric tons in 2007, after high zinc prices prompted a mining rush and boosted production in Bolivia, Australia, Canada, Peru and China. The world's zinc metal consumption is expected to rise 4.6% to 11.5m metric tons in 2007, which suggests that supply outstripped demand by approximately 0.1m tons in 2007.

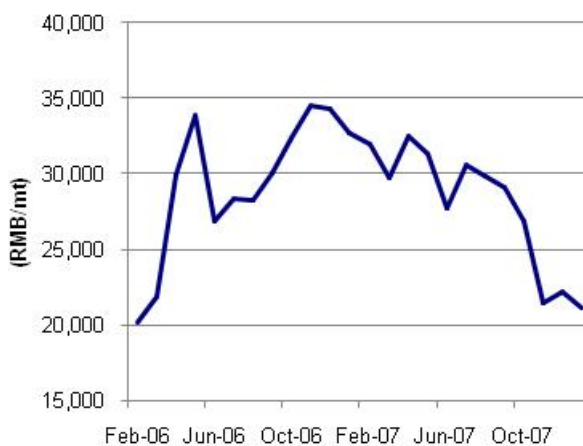
**Chart 1: Global zinc metal consumption and production ('000 tons)**



Source: International Lead and Zinc Study Group (ILZSG), SBI E2 Capital

**Price drop on excessive supply.** The monthly average price of zinc at the London Metal Exchange (LME) dropped 32.6% YoY to US\$18,162.5/mt in Jan 2008 and LME’s zinc weekly inventory increased 10.5% YoY as of 25 January 2008, after rising steadily since Jul 2007. Antaika estimates that global supply and consumption of zinc will increase 8.5% and 5.0% YoY, respectively, to about 12.6m tons and 12.1m tons in 2008, implying that supply will continue outstripping demand. The increase in the supply of zinc concentrate may boost the supply of refined zinc.

**Chart 2: Shanghai Changjiang Zn price (RMB/mt)**



Source: Bloomberg

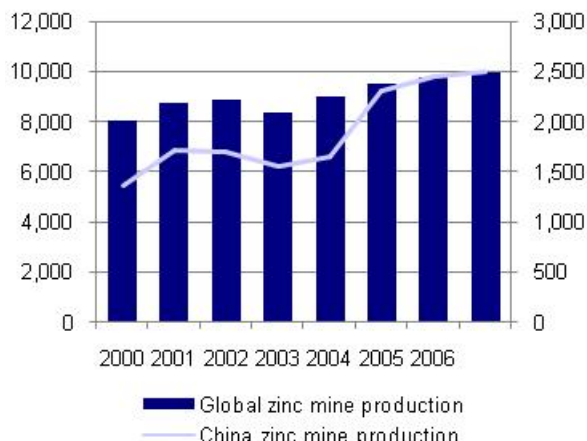
**Chart 3: LME Zn price (US\$/mt)**



Source: SBI E2-Capital

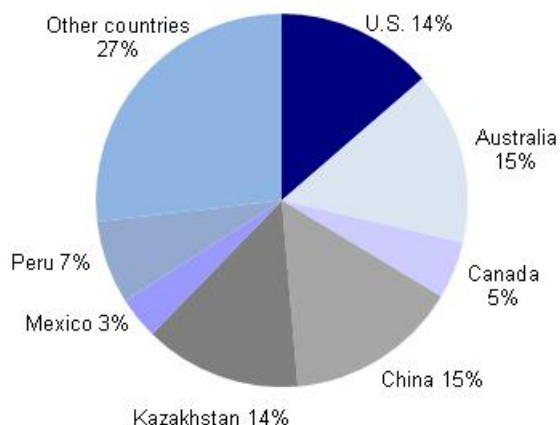
**China – largest zinc producer.** Reserves include only recoverable materials while the reserve base stands for identified resources that meet specified minimum physical and chemical criteria related to current mining and production practices. The reserve base includes resources that are currently economic (reserves), marginally economic (marginal reserves), and some of those that are currently subeconomic (subeconomic resources). According to the US Geological Survey (USGS), world zinc reserves and zinc reserve base stood at 87.0m metric tons and 460.0m metric tons at end-2006. China accounted for 15.0% of the world’s zinc reserves and 20.0% of the reserve base. In 2006, the country produced 2.5m tons of minerals with zinc content, accounting for 25.1% of the world’s zinc ore production, making it the world’s largest zinc ore producer. According to USGS, China zinc ore production increased at a six-year CAGR of 19.6% between 2000 and 2006 and the world’s zinc production increased at a six-year CAGR of 14.7%. China is also the largest consumer of zinc, accounting for 33.0% of the global consumption.

**Chart 4: Zn mine production(000 mt Zn content)**



Source: U.S. Geological Survey (USGS)

**Chart 5: Global zinc reserves distribution**



Source: U.S. Geological Survey (USGS)

**Weak domestic zinc price.** The average monthly Shanghai Changjiang zinc spot price dropped 35.4% YoY to RMB21,155.0/mt in Jan 2008. China’s refined zinc price slipped from its peak of RMB34,482.0/mt in Nov 2006 to RMB21,155.0 in Jan 2008, mainly because of the oversupply of refined zinc and excessive smelting capacity.

**Demand growth lag supply growth.** In the first nine months of 2007, China’s zinc demand increased 9.4% YoY while its refined zinc output rose 20.3% YoY and zinc concentrate output 16.0% YoY. The country’s domestic zinc consumption is expected to increase 7.0% YoY to 3.7m metric tons in 2007, and grow at an average annual rate of 7.6% in 2007-2010 to 4.7m tons by end-2010.

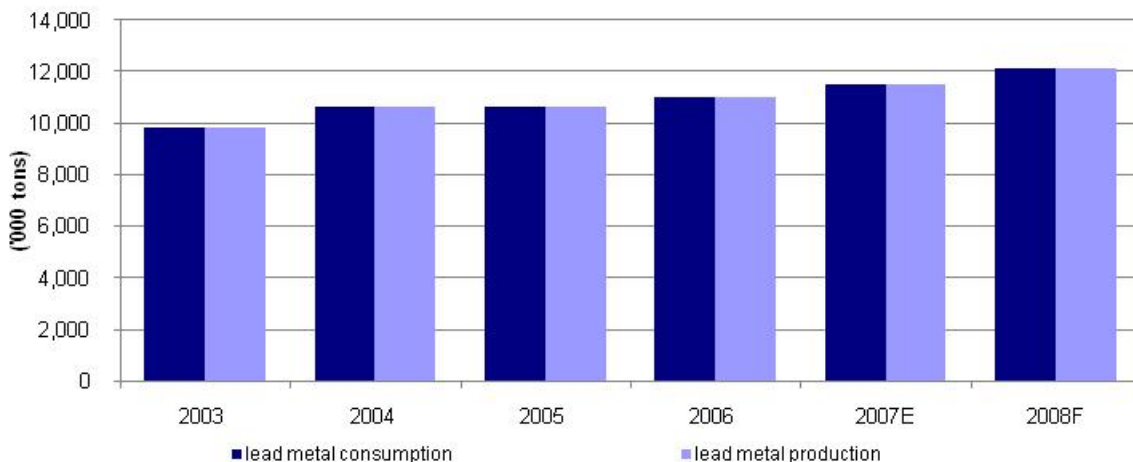
**Excessive smelting capacity.** China’s refined zinc production is estimated at 3.9m metric tons in 2007, implying that its domestic supply outstripped demand by 0.2m metric tons. This trend is expected to continue due to the country’s excessive smelting capacity (4.3m tons in 2006) which is growing at an average annual rate of 12.8% driven by the rising zinc price in 2006, smelter upgrades and government policies that encouraged new projects with an annual production capacity of above 0.1m tons. China is estimated to have added 0.2m tons in capacity in 2007, to be topped up with 0.4m tons by end-2008. By end-2010, the country’s zinc smelting capacity should reach 5.8m tons, up 45.7% from the 2005 level.

**Export tariffs shall boost domestic supply.** The Chinese government increased the export tariff on unwrought zinc from 5.0% to 10.0% in Jun 2007 and to 15.0% in Jan 2008. It has also imposed a 5.0% export tax on (1# zinc). This will reduce exports of refined zinc and increase the country’s domestic supply. Currently, high-grade zinc (0# zinc) still enjoys a 5.0% value-added tax rebate. High-grade zinc represents about 65.0% of China’s zinc exports. If the rebate is abolished and export tariffs hiked, domestic oversupply will be exacerbated.

**What is lead?** Lead is a highly toxic metal. Because of its abundance, low cost, and physical properties, lead and lead compounds have been used in a wide variety of products including paints, ceramics, pipes, solders, gasoline, batteries and cosmetics.

**Global lead market.** Between 2003 and 2006, global lead consumption increased at a three-year CAGR of 5.7%, from 6.8m metric tons to 8.1m metric tons, according to ILZSG, while global production increased at a three-year CAGR of 5.5% from 6.8m metric tons to 7.9m metric tons. ILZSG estimates that global consumption will reach 8.4m tons in 2007 and 8.7m tons in 2008, representing an annual growth rate of 4.1%.

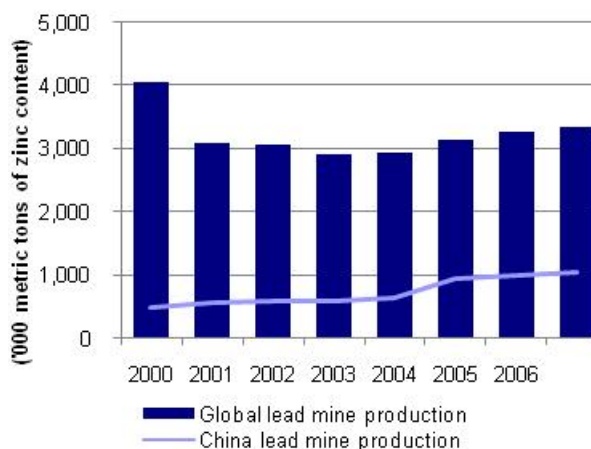
**Chart 6: Lead metal consumption and production ('000 tons)**



Source: International Lead and Zinc Study Group (ILZSG), SBI E2 Capital

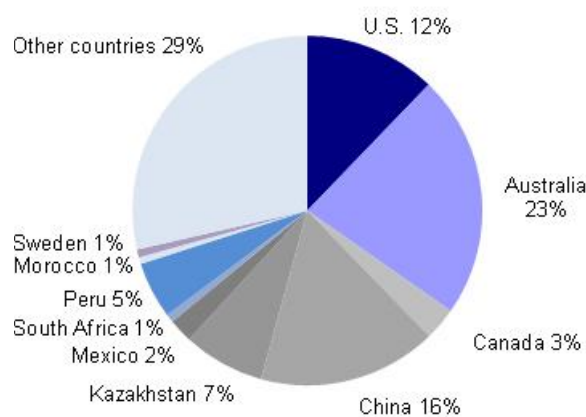
**China - largest lead consumer and producer.** According to the USGS, at end-2006, the world’s total lead reserve and lead reserve base stood at 66.5m tons and 144.1m tons of lead ore, respectively. China had about 16.5% of the total, making it the second largest lead reserve country after Australia. China had 25.0% of the world’s lead reserve base, the largest among lead ore producing countries. In 2006, it produced about 1.0m metric tons of lead ore, or 31.2% of the world’s total, making it the largest producer. ILZSG estimates that China will account for 32.0% of the world’s total lead consumption, with demand driven by its car and battery manufacturing industry. China is also the world’s largest lead metal producer, accounting for 36.0% of the world’s refined lead output.

**Chart 7: Pb mine production(000mt of Pb content)**



Source: U.S. Geological Survey (USGS)

**Chart 8: Global lead reserves distribution**



Source: U.S. Geological Survey (USGS)

**Strong lead price.** The monthly average lead price on LME surged 61.6% YoY to US\$21,386.0/mt, despite the 20.3% YoY increase in weekly inventory to 373,212.9/mt during the week to 25 Jan 2008. The China Shanghai Changjiang monthly average lead spot price surged 58.3% YoY to RMB22,782.0/mt in January.



**Chart 9: Shanghai Changjiang lead price**

Source: Bloomberg

**Chart 10: LME lead monthly spot price**

Source: Bloomberg

**Corporate profile.** Listed on HKEx in 2001, Yue Da Mining (formerly known as Yue Da Holdings Ltd) was originally a toll road operator. In 2006, it acquired five non-ferrous metal mines in Yunnan and disposed of its interest in National Highway 204. Thereafter, it started focusing on non-ferrous metal mining. Currently, the group owns five mines in Yunnan. Its parent, Jiangsu Yue Da Group Co, is a state-owned enterprises engaged in various businesses including pharmaceuticals, car manufacturing, toll road construction and operation, coal mining and transport.

**Management profile. Mr. HU Youlin** - chairman of the board, executive director and founder. He is also the chairman of the board of directors of Jiangsu Yue Da Group Co and Jiangsu Yue Da Investment Co Ltd. He is a senior economist and a graduate of the Beijing Economics and Management Institute for Executives and holds a certificate in economics. Prior to the founding of the Group in 1991, Mr. Hu was involved in the management of various government departments and enterprises. He was awarded the title of “National Model Worker” (全國勞動模範) by the State Council in 1995 and appointed a visiting professor at the Central Party School of Communism (中共中央黨校) in 1997. He is also a member of the Ninth and the Tenth Session of the Chinese People’s Political Consultative Conference (中國人民政治協商會議第九及第十屆全國委員會)

**Mr. DONG Liyong** - joined in 1995 as executive director and deputy managing director of the group. In Jan 2007, Mr. Dong, while remaining an executive director, became vice chairman of the board and CEO. He graduated from the People’s University of China in 1995 with a bachelor degree in economics, majoring in marketing. In May 2005, he graduated from the Haas School of Business, University of California, Berkeley with a master degree in business administration. He is also a director of Yue Da’s subsidiaries such as Fly Ascent Group Ltd, Yue Da Mining Ltd, Yuelong Ltd, Yuelong (Yaoan) Ltd, Yuelong (Puer) Ltd and Yue Da Infrastructure Ltd.

**Mr. CHEN Gang** - joined in Jan 2007 as an executive director and deputy CEO. An economist, he graduated from Hunan University in 2002 with a bachelor degree in finance. He has over 12 years’ experience in finance and corporate management. He served as a master accountant, customer service manager, forex funds transaction department manager and chief trader of the Agricultural Bank of China, Jiangsu branch. He was also a manager and financial controller of Shanghai-listed Chengdu Qianfeng Electronic Co Ltd.



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