

## Another attractive deal

## China Mining

### Yue Da (629 HK, HK\$4.11)

### Not Rated

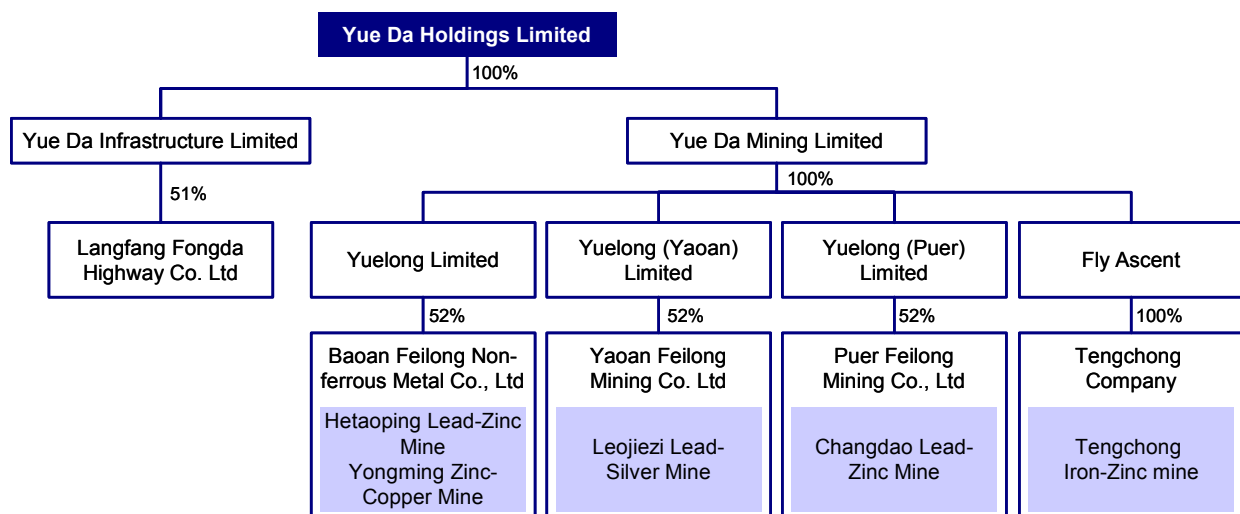
**Adding a new mine.** Yue Da Holdings announced that it has acquired a new Iron and Zinc mine (100% interests) from Feilong Holdings (China) for RMB250m. Previously, Yue Da has already acquired four mines from Feilong Holding. The newly acquired mine is located at the Tengchong County of Yunnan Province. So far, all of the mines acquired by Yue Da are located in the same province. The proximity of the mines should make management easy for Yue Da. Management suggests that the new mine has a reserve of around 10~12m tons of mineral bodies (or ores) with a weighted average grade of around 43% as to iron and a weighted average grade of 2.2% as to zinc. The acquisition is subject to the approval from the HKEX.

**Attractiveness of the mine.** The attractive points of the mine are that it is easy for excavation (given it is regularly and densely deposited) and has low operation costs (i.e. the mining and processing are outsourced). The new mine is still in its early production stage but will be in full operation in the foreseeable future. Management believes the demand for zinc and iron ore concentrate to remain strong in 2007 and ASP will also stay high. The unaudited net asset value of the mine (mainly mining equipment) amounted to around RMB10m. For the period from Jan 2002 to April 2006, the mine incurred an un-audited loss of RMB0.32m as a result of administration expenses.

**Positive impact on earnings.** Yue Da is very positive about this acquisition and we understand that the payback period for this mine could be as short as 3 years. We estimate that the new mine will generate an annual revenue of RMB207m with a net profit of RMB89m in 2007. In short, the new mine is acquired at 2.8x 2007 P/E and it will enhance Yue Da's FY07 earnings by 78% to RMB182m.

**Toll road disposal.** Meanwhile, Yue Da has disposed of one of its two toll roads. Before entering into the mining business, Yue Da used to focus on two toll-road operation. The disposal was mainly prompted by traffic diversion and overhaul issues. The 66.7%-owned National Highway 204 (namely Xin Fu Section in Jiangsu Province) is now sold back to its parent company (i.e. Jiangsu Yue Da) for RMB65m. Yue Da now only holds 51% of the National Highway 106 (e.g. Langfang Fongda Highway at Wen An Section in Hebei Province).

### Chart 1: Business structure after the new acquisition and disposal



Source: Company data

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**Table 1: Earnings estimates for the new Tengchong Iron-Zinc mine**

	<b>2007</b>
<b>Daily ore production (tons per day)</b>	
Tengchong Iron-Zinc Mine	1,200
<b>Annual output (tons)</b>	
Iron ore concentrate	232,200
Zinc ore concentrate	5,069
<b>Selling price per tons (RMB) (excluding tax)</b>	
Iron ore concentrate	487
Zinc ore concentrate	18,584
<b>Total revenue contribution from mining (RMBm)</b>	
Iron ore concentrate	113
Zinc ore concentrate	94
<b>Total costs (RMBm)</b>	
Mining costs	15
Processing costs for Iron ore concentrate	21
Processing costs for Zinc ore concentrate	15
Transportation costs for iron ore concentrate	46
Other operating expenses	20
<b>Net profit (RMBm)</b>	<b>89</b>

Source: SBI E2-Capital

**Fund-raising likely in the near term.** Management said the acquisition consideration will be paid by cash. Net gearing for Yue Da was around 10.6% at the end of June 2006. Although the company will receive some funding from the toll road disposal, we expect the company still needs some extra funding to complete the acquisition. Also, capex for the expansion of the existing four mines is expected to be around RMB30m in 2006.

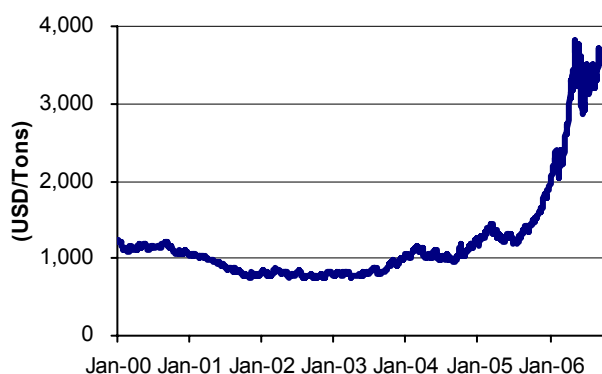
**Valuation.** After taking into account of the new mine, we estimate that Yue Da will generate a net profit of RMB182m in 2007F. The stock currently trades at 20.3x FY12/06F P/E and 5.8x FY12/07F P/E on a fully diluted basis (assuming no new fund-raising).

**Table 2: Peer group comparisons**

Company	Stock code	Currency	Price	Market cap. (US\$m)	P/E	
					2006F	2007F
Yue Da	629 HK	HKD	4.11	109	20.3	5.8
Korea Zinc	010130 KS	KRW	79,900	1,650	5.1	5.7
Zinifex	ZFX AU	AUD	11.36	4,173	3.8	5.6
Eurozinc Mining Corp.	EZM CN	CAN	2.73	1,374	6.5	4.6
Oxiana Ltd.	OXR AU	AUD	2.94	3,053	7.7	9.9
<b>Average</b>					<b>8.7</b>	<b>6.3</b>

Source: IBES and SBI E2-Capital

Chart 2: Price trend of zinc



Source: Bloomberg

Chart 3: Price trend of lead



Source: Bloomberg

Table 3: Earnings assumptions

	2004A	2005A	2H06F*	2007F
<b>Daily ore Production (tones per day)</b>				
Hetaoping Lead-Zinc Mine		600	800	1,300
Copper mine of Yongming Plant				200
Laojiezi Lead Mine, Yaoan				1,200
Changdong Copper-Zinc Mine, Puer				200
Tengchong Iron-Zinc Mine				1,200
<b>Annual output (tons)</b>				
Zinc ore concentrate	5,733	8,163	4,792	16,069
Lead ore concentrate	1,135	1,468	1,371	4,000
Copper ore concentrate				336
Silver ore concentrate (gram)				99,369
Iron ore concentrate				232,200
<b>Selling price per tons (RMB) (excluding tax)</b>				
Zinc ore concentrate	4,300	8,196	17,699	18,584
Lead ore concentrate	1,500	4,292	6,195	6,195
Copper ore concentrate				44,248
Silver ore concentrate (per gram)				1.7
Iron ore concentrate				487
Revenue contributions from mining (RMBm)	26.8	73.2	93.3	451.5
Operating cost (RMB/ ton)	4,857	4,500	4,500	4,500
Net profit from mining (RMBm)	(0.8)	17.3	65.6	251
<b>Yue Da (Year to Dec)</b>				
Attributable profit from mining (RMBm)			34.1	173.4
Attributable profit from toll road business (RMBm)	13.8	19.5	18.0	9.0
<b>Net profit (RMBm)</b>	<b>13.8</b>	<b>19.5</b>	<b>52.1</b>	<b>182.4</b>
EPS (RMB)	0.055	0.078	0.21	0.73

\* Yue Da acquired 52% of four mines in June and 100% of Tengchong in Sept.

Source: Company data and SBI E2-Capital