



Key Data

| | |
|-----------------------------------|-----------|
| Share price (HK\$) | 138.7 |
| 52Wk H/L(HK\$) | 206 / 125 |
| Issued shares (mn) | 3,256.7 |
| Market cap (HK\$mn) | 735,312 |
| 30-day avg vol (HK\$mn) | 0.27 |
| Major shareholder (%): Valepar | 52.7 |

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY1H12 (%)

| | |
|----------------------|------|
| Ferrous minerals | 70.3 |
| Coal | 2.8 |
| Base metals | 15.1 |
| Fertilizer nutrients | 7.5 |
| Logistics services | 3.5 |
| Others | 0.8 |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 5.8 | (1.8) |
| 3-mth | (11.8) | (16.5) |
| 6-mth | (23.3) | (24.5) |

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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VALE Common-DRS (6210 HK) – Unrated Metals and Mining Industry

Key takeaways from 1 to 1 meeting with Vale

We foresee the iron ore prices would stabilize in US\$110/ton while Vale is more optimistic. The latest China manufacturing PMI suggested demand for base metals remains weak.

Stabilized iron ore prices. We foresee iron ore prices would average in US\$110/ton in 4Q. The weak iron ore price forces iron ore miners to scale down their production output or cancel some of mining projects. According to the Metallurgical Mines' Association of China, 40% of domestic iron ore mine output has been halted. High cost marginal suppliers would set a cap on iron ore prices. On the other hand, Vale anticipated iron ore prices would average in US\$110-120/ton in the foreseeable future. As the world's largest iron ore producer, its tones are more positive.

Weak iron ore demand in 4Q. We expect a weak iron ore demand in 4Q. China manufacturing PMI was 49.8 in September, below expectations of 50.1. The signals given by the China manufacturing PMI pointed to weaker industrial output in 4Q. No bottoming signal of steel products is observed. We expect profit margins of steel producers to contract. Moreover, a China steel producer, China Oriental (581 HK) announced a profit warning. It expects to post net loss in 3Q and foresees the performance in 4Q will not improve significantly if steel prices and operational environment for the steel manufacturing further deteriorate or do not improve.

Oct 25 may give us a hope. Date of Oct 18 and Oct 25 should be noted as Vale would announce their production and 3Q12 results respectively. Their data and results would give investors an outlook updates for the mining sector.

Risk factors: Decrease in selling prices of its iron ore; currency risks, possible sharp increase in raw material cost.

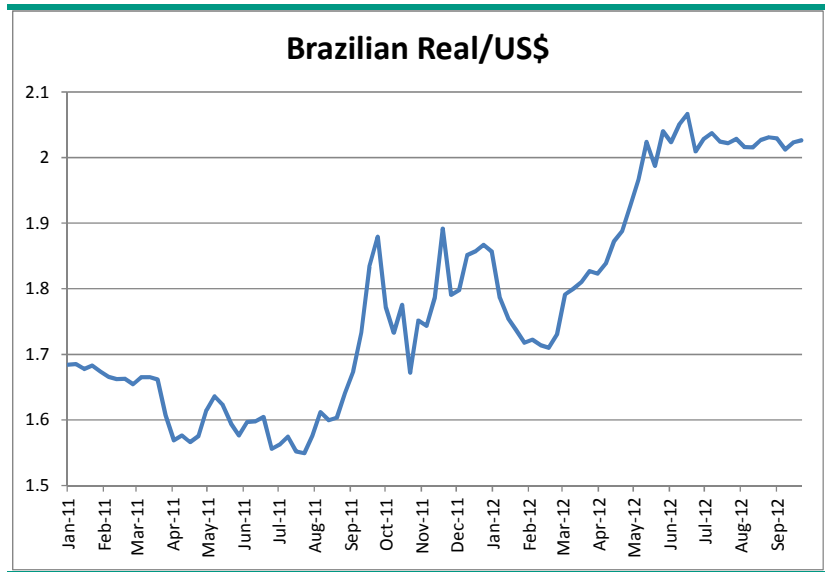
Results and Valuation

| FY ended Dec 31 | FY07A | FY08A | FY09A | FY10A | FY11A |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Revenue (Brl mn) | 62,738 | 68,746 | 46,557 | 83,225 | 103,195 |
| Chg (% YoY) | 46.7 | 9.6 | (32.3) | 78.8 | 24.0 |
| Gross Profit (Brl mn) | 30,704 | 36,342 | 19,353 | 49,469 | 62,706 |
| Chg (% YoY) | 48.4 | 18.4 | (46.7) | 155.6 | 26.8 |
| Net Income (Brl mn) | 23,010 | 24,279 | 10,683 | 30,070 | 37,814 |
| Chg (% YoY) | 62.0 | 5.5 | (56.0) | 181.5 | 25.8 |
| EPS (US\$) | 2.41 | 2.58 | 0.97 | 3.23 | 4.33 |
| Chg (% YoY) | - | 7.1 | (62.4) | 233.0 | 34.1 |
| PE (x) | - | - | - | - | 4.1 |
| PB (x) | - | - | - | - | 1.7 |
| Yield (%) | - | - | - | - | 8.3 |
| ROA (%) | 17.2 | 16.9 | 5.9 | 15.3 | 16.6 |
| ROE (%) | 44.5 | 34.9 | 10.8 | 28.5 | 29.6 |
| Net debt/total equity (%) | 50.2 | 12.3 | 19.5 | 25.3 | 28.3 |

Source: Company, Bloomberg, ABCI Securities estimates



Brazilian Real / US\$



Source: Bloomberg



Disclosures

Analyst Certification

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Definition of equity rating

| Rating | Definition |
|--------|---|
| Buy | Stock return \geq Market return rate |
| Hold | Market return - 6% \leq Stock return < Market return rate |
| Sell | Stock return < Market return - 6% |

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

| Rating | Definition |
|-----------|--|
| Very high | $2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$ |
| High | $1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$ |
| Medium | $1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$ |
| Low | $180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$ |

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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