



Key Data

H-share price (31/7/2012)	HK\$1.63
Price target	HK\$1.86
Upside potential	14%
52Wk H/L(HKS)	2.95 / 1.25
Issued shares (mn)	19,110
H-share	2,871
A-share	16,239
H-share market cap (HK\$m)	4,680
3-mth avg vol (HK\$m)	4.9
Auditors	PWC
Major shareholder:	
China Metallurgical Group Corp	64.2%

Source: MCC & Bloomberg

Share performance

	Absolute	Relative*
1-mth	-2.4%	-3.1%
3-mth	-6.9%	0.2%
6-mth	-11.0%	-8.4%

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Report Date: 31 July, 2012

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Metallurgical Corp. of China (1618) – HOLD
12-month target price at HK\$1.86

Solid core business but uncertainties remain

Metallurgical Corporation of China Ltd (“MCC”), a leading metallurgical engineering and construction contractor in the PRC, is able to post book-to-bill ratio of 1.22x for 1Q12 (vs 0.80x for 4Q11) in its core engineering & construction (E&C) business segment, even though China economy slowed down. We predict its operation cash flows will improve for FY12 & FY13 due to change of business mix. However, the cost overrun risk arising from the Western Australia SINO Iron Ore Project will continue to drag on the share price this year. Current share price is below our worst case scenario valuation (fully-written off of overrun costs and outstanding project income and written down of non-profitable segment assets) of HK\$1.77/share. We initiate our coverage for MCC with a “HOLD” recommendation and set target price at HK\$1.86/share.

Poor 1H12 results are expected. Its revenue was up 4.3%YoY but net profit plunged 39.4%YoY for the Q1 FY12. The core segment, E&C maintained a revenue growth of 15.3%YoY, contributing 81.8% of total revenue. The poor results were due to loss in its poly-silicon business in Q1. We do not see any turnaround signals in solar industry. Disappointed half-year results are expected.

Operating cash flows are expected to improve. Our forecast cash flows from operation will be Rmb4,922mn and Rmb6,054mn in FY12 and FY13 respectively. The improvement was due to (i) the reduction of demand for working capitals in social housing and other BT projects; (ii) the commencement of operation in some overseas mining projects.

Our book-to-bill ratio analysis suggests a cautious valuation is justified. Its ROAA & ROAE declined from 2.2% & 20.9% in FY09 to 1.4% & 9.1% in FY11 respectively. The deterioration of profitability justifies the counter to trade at lower P/B. We set our target price at HK\$1.86, 40% discount of its NAV of Rmb2.52/share, or 32% discount to the peer average PER of FY12. **We initiate our coverage for MCC with a “HOLD” recommendation.**

Results and forecast

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue (Rmb mn)	165,495	206,397	229,721	248,099	270,428
Chg (%YoY)	10.3	24.7	11.3	8.0	9.0
Gross Profit (Rmb mn)	15,809	20,762	21,154	24,428	27,500
Chg (%YoY)	19.0	31.3	1.9	15.5	12.6
Net Income (Rmb mn)	4,425	5,321	4,243	4,922	6,054
Chg (%YoY)	44.2	20.2	(20.3)	16.0	23.0
Fully diluted EPS (Rmb)	0.30	0.28	0.22	0.26	0.32
Chg (%YoY)	--	(7.2)	(21.4)	17.1	23.0
PE (x)	--	--	7.4	6.3	5.1
PB (x)	--	--	0.53	0.48	0.43
Yield (%)	--	--	--	3.1	3.9
ROAE (%)	20.9	12.7	9.1	9.7	10.8
ROAA (%)	2.2	2.0	1.4	1.4	1.7
Net gearing (%)	63.2	124.5	162.3	164.2	161.7

Source: MCC, ABCI Securities estimates

*We assume Rmb1 = HK\$1.23



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Metallurgical Corporation of China Ltd

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Cautious valuation

The core segment, Engineering & Construction (E&C), maintained growth in segment profit driven by revenue growth of 14% YoY and 0.02ppt of margin improvement in FY11. We believe the loss in FY11 due to Huludao in the resource business segment was one-off. However, our book-to-bill ratio analysis suggests a cautious valuation is justified. Moreover, its ROAA & ROAE declined from 2.1% & 20.9% in FY09 to 1.4% & 9.1% in FY11 respectively. In view of the deterioration of profitability, the counter deserves to trade at lower P/B. We set target price of HK\$1.86, or 40% discount on its NAV or 32% discount to the peer average PER of FY12. We initiate our coverage for MCC with a "HOLD" recommendation.

Peer Group Comparison

Company	Ticker	Mkt cap HK\$ mn	PE (x)		ROE (%)		PB (x)	
			Cur yr	Next yr	Cur yr	Next yr	Cur yr	Next yr
METALLURGICAL CORP OF CHIN-H	1618 HK	4,622	6.3	5.1	9.1	10.5	0.5	0.5
CHINA ALUMINUM INTERNATION-H	2068 HK	1,288	na	na	na	na	na	na
CHINA COMMUNICATIONS CONST-H	1800 HK	30,505	7.1	6.3	16.5	16.2	1.1	1.0
CHINA RAILWAY CONSTRUCTION-H	1186 HK	13,932	9.0	8.1	11.0	11.0	0.9	0.9
CHINA RAILWAY GROUP LTD-H	390 HK	13,884	8.7	7.8	9.0	9.2	0.8	0.7
CHINA STATE CONSTRUCTION INT	3311 HK	27,874	12.9	10.5	19.5	20.6	2.4	2.1
CHINA NATIONAL MATERIALS - H	1893 HK	2,247	4.8	3.9	10.4	11.4	0.5	0.4
CHINA RAILWAY GROUP LTD-A	601390 CH	52,544	8.5	7.8	8.4	8.4	0.7	0.7
CHINA RAILWAY CONSTRUCTION-A	601186 CH	57,478	8.1	8.0	9.0	8.6	0.8	0.7
METALLURGICAL CORP OF CHIN-A	601618 CH	45,382	11.7	10.5	7.7	6.7	na	na
FLUOR CORP	FLR US	66,348	13.5	11.6	16.6	14.9	2.1	1.9
JACOBS ENGINEERING GROUP INC	IEC US	39,481	13.7	11.9	10.0	10.3	1.4	1.2
CHICAGO BRIDGE & IRON CO NV	CBI US	30,534	13.6	11.6	21.8	20.9	2.8	2.3
URS CORP	URS US	20,524	8.5	7.8	9.3	8.9	0.7	0.7
GRANITE CONSTRUCTION INC	GVA US	7,878	18.0	14.2	6.6	7.7	1.2	1.2
VINCI SA	DG FP	189,453	9.8	9.5	14.6	14.5	1.4	1.3
SKANSKA AB-B SHS	SKAB SS	48,795	15.1	12.4	15.6	17.8	2.2	2.1
ACCIONA SA	ANA SM	18,025	11.9	10.5	3.3	3.8	0.4	0.4
ACS ACTIVIDADES CONSY SERV	ACS SM	37,705	4.9	4.4	19.1	22.0	0.9	0.8
EIFFAGE	FGR FP	18,293	8.2	6.8	9.7	10.8	0.8	0.7
BILFINGER BERGER SE	GBF GR	29,678	11.4	11.6	14.4	13.5	1.6	1.5
HOCHTIEF AG	HOT GR	27,453	14.8	9.4	7.3	10.9	1.0	1.0
STRABAG SE-BR	STR AV	19,651	14.3	12.9	4.4	4.8	0.6	0.6
Mean			10.7	9.2	11.5	12.0	1.2	1.1
Median			10.6	9.4	9.9	10.8	0.9	0.9

Source: Company, Bloomberg, ABCI Securities estimates

H share stock market cap. represents total market value of issued H shares

A share stock market cap. represents total market value of issued A shares



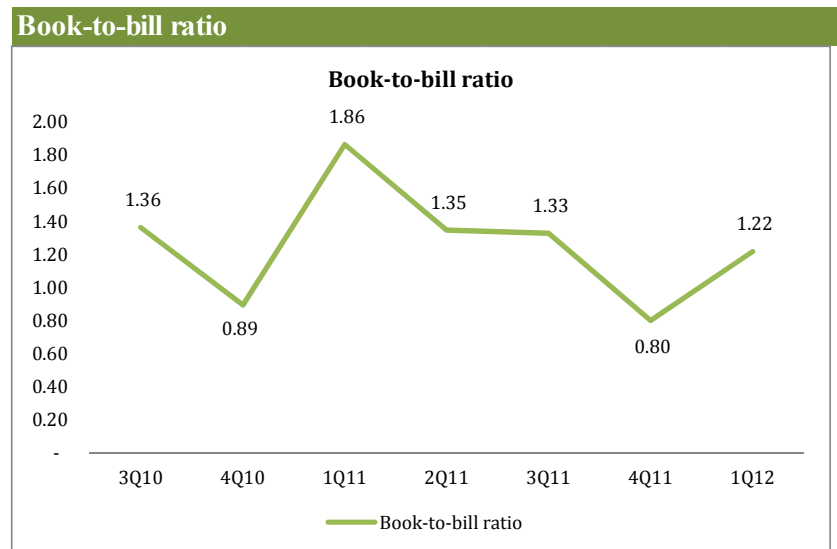
Business Analysis

Cautious outlook from the growth of newly signed contracts

MCC's new contracts declined 31.9% YoY to Rmb52.9bn in 1Q12, of which new contracts for E&C were Rmb44.7bn, down 24.8% YoY. The value of newly signed contracts of MCC totaled Rmb286.7bn in FY11, of which, Rmb228.0bn was contributed from its core segment, E&C with an increase of 4.3% YoY.

Book-to-bill ratio of E&C analysis

As shown in the graph of Book-To-Bill ratio, there are seasonal fluctuation with a higher ratio in 1Q and a lower ratio in 4Q. The latest Book-To-Bill ratio for 1Q12 is 1.22X which implies that more new contracts were received than filled. However, the Book-To-Bill ratio in 1Q12 is lower than the Book-To-Bill ratio in the first three quarters of FY11. To conclude that, we take a cautious but positive view.



Source: Company; ABCI Securities Estimates

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Metallurgical Corporation of China Ltd**Material Contracts of domestic projects**

No.	Date of contract	Name of project	Contractual amounts (Rmbmn)	Term (months)
1	2011-1-6	General contracting for steel making construction in Nanjing base of Bagang	1,028	19
2	2011-3-8	Iron and steel making construction of Langfangshi Guangyuan Metal Products (Shengbao) Co., Ltd	1,560	12
3	2011-3-15	Construction of ancillary services centre for iron and steel and power industry at industry zone of Caofeidian	1,550	24
4	2011-3-15	Construction of prestigious international plaza in Xiqiao, Nanhai of Zhuhua Co., Ltd	1,200	33
5	2011-3-29	Dongfang yongye city plaza of Songshan, Chifeng	1,000	24
6	2011-4-16	Blast furnace project of Rizhao Steel Holding Group Co., Ltd.	1,800	11
7	2011-4-18	Integrated social welfare project of Toutunhe Farm Regiment under Division 12 of Xinjiang Production and Construction Corps	1,500	18
8	2011-4-28	Convention, exhibition and business centre of Zhongshan City	1,000	36
9	2011-5-1	Settlement residence project in Huashan District (Phase II) of Ma'anshan	2,500	16
10	2011-5-25	Section III & IV of the relocation project of rehabilitation and economical housing of Zhazhuangqi Village in Dongli District, Tianjin	1,090	15
11	2011-6-8	General contracting for copper mines mining operation of Bainaimiao, Inner Mongolia	1,084	36
12	2011-6-15	General contracting for equipment upgrade and renovation of energy saving technology system in respect of special steel, steel making and steel rolling in Xining	1,575	36
13	2011-8-1	Supply and installation of equipment for Phase II of the project of energy saving, emission reduction as well as renovation by phasing out obsolete blast furnace (Beitai Plant Area) of Bxsteel Group Co., Ltd	1,012	21
14	2011-8-11	Main contracting of the hotel project in the convention centre of Tianjin Development Zone	1,001	22
15	2011-8-24	Bid of Pansteel's phase II No.3 and No.4 coking furnace construction by consolidated use of titanomagnetite in Xichang	1,522	20
16	2011-10-1	Blast furnace construction of Shougang Yili Steel Co., Ltd	1,016	14
17	2011-11-10	Energy saving, emission reduction and technical renovation of the pre-iron making system of Nanjing Iron & Steel Co., Ltd	1,072	18

Source: Company



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Metallurgical Corporation of China Ltd

Material Contracts of overseas projects

No.	Date of contract	Name of project	Contractual amounts (Rmbmn)	Term (months)
1	2011-2-1	Project for petroleum engineering institution of Kuwait University	3,350	36
2	2011-8-20	TATO KPO coking construction (including Phase 1 & 2) in India	1,752	60
3	2011-12-30	Western Australia SINO iron ore project (supplementary agreement to the general contracting contract)	5,335	TBD

Source: Company

The PRC Government expedited urbanization and increased its support and protection of people's livelihood such as stepping up efforts in social welfare housing and redevelopment of urban shanty areas, these initiatives provide a certain kind of capital buffer for MCC's engineering business and its social welfare housing development business.

In view of the domestic iron and steel industry, given the energy saving objective, remedies of industrial pollution and development of a cyclical economy, set higher standards for environment protection of iron and steel enterprises, iron and steel enterprises have strengthened their environment protection initiatives. Meanwhile, policy incentives and support of large-scale iron and steel enterprises have increased industry concentration and restructured and optimized the industry structure and thus MCC is presented with market potentials to further reinforce its market share.

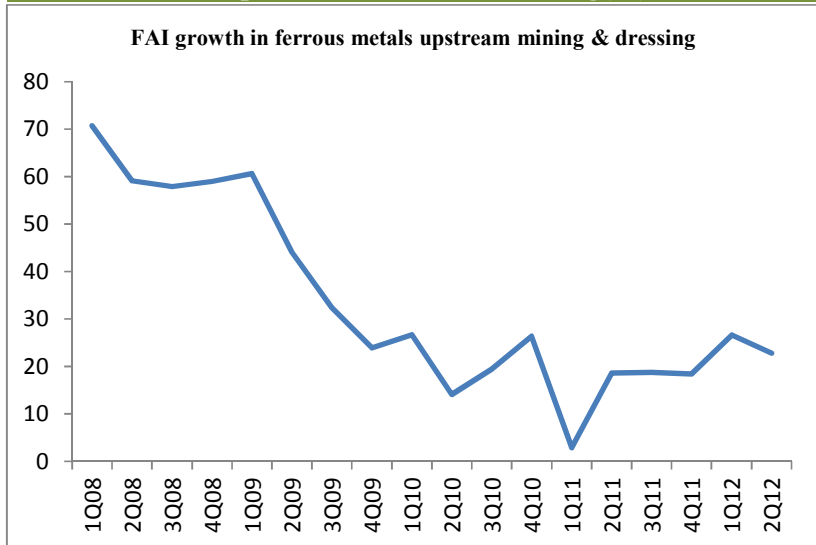


Mixed signals from latest 1H 2012 FAI figures

The continued growth of FAI in upstream mining or downstream pressing & smelting will provide business opportunities to MCC.

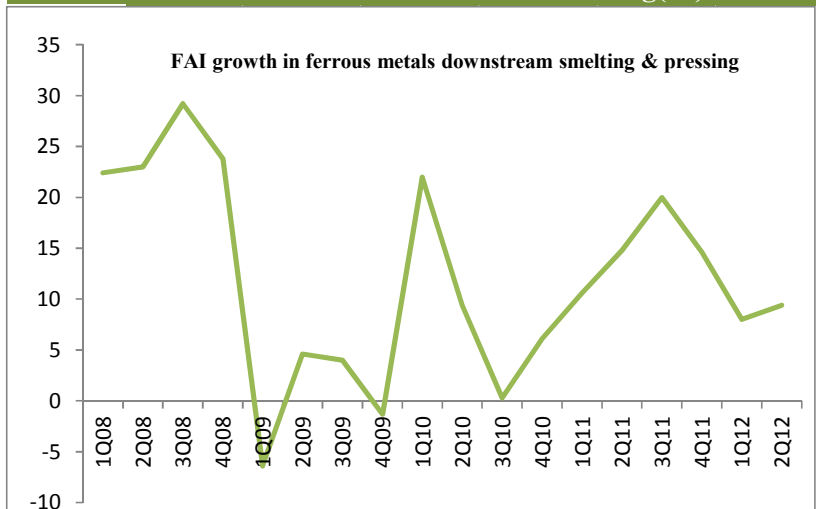
Growth of FAI in upstream ferrous metal mining increased to 22.8% YoY for 1H2012 from 18.4% in 2011. However, growth of ferrous metal pressing & smelting declined from 14.6% YoY in 2011 to 9.4% YoY for 1H2012. We expect E&C segment of MCC to benefit from the increased growth of FAI in upstream ferrous metal mining but to be adversely affected by the slowdown of downstream pressing and smelting.

Growth of FAI in upstream ferrous metal mining(%)



Source: Bloomberg

Growth of FAI in downstream ferrous metal smelting(%)



Source: Bloomberg

Under this circumstance, we believe that, besides FAI and urbanization in China, the money supply is also one of the key factors affecting sales performance of MCC.



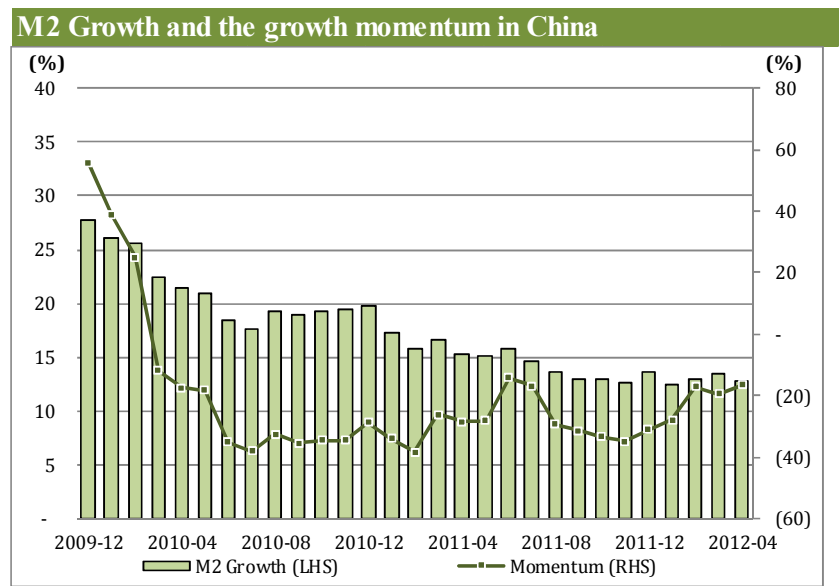
Interest rate down cycle

The PBOC announced on 5 July to cut 1-year benchmark loan rate by 31bps. We believe it is a downtrend of the interest rate cycle after the recent benchmark rate cut on 8 Jun. This rate cut happened less than one month after the previous rate cut on 8 Jun, considering historical pattern of PBOC's benchmark rate actions, this high rate cut frequency would only be a kick off, hinting to more benchmark rate and RRR cuts in coming months. MCC with a high net debt-to-equity ratio of 162% will benefit from lower interest costs.

Sensitivity to interest rate

If the interest rate of RMB-denominated loans and USD-denominated loans had changed by +/- 100bp with all other variables held constant, after-tax profit for FY11 would have changed by +/- Rmb178mn (or 4.8% of FY11 after-tax profit) and +/-Rmb24mn (or 0.65% of FY11 after-tax profit) respectively.

We expect that the M2 growth rate will climb up to 14% for the rest of this year. The expected growth of money supply provides liquidity to meet the Government goals, such as completion of 5mn units of affordable housing in 2012.



Source: Bloomberg



Long term growth drivers

We identify the long term growth drivers of MCC are as followed:

1. Urbanization of China inducing a large number of construction projects;
2. Construction projects under 12th 5 Year Plan for economic growth.

Urbanization of China

Population influx to cities under urbanization

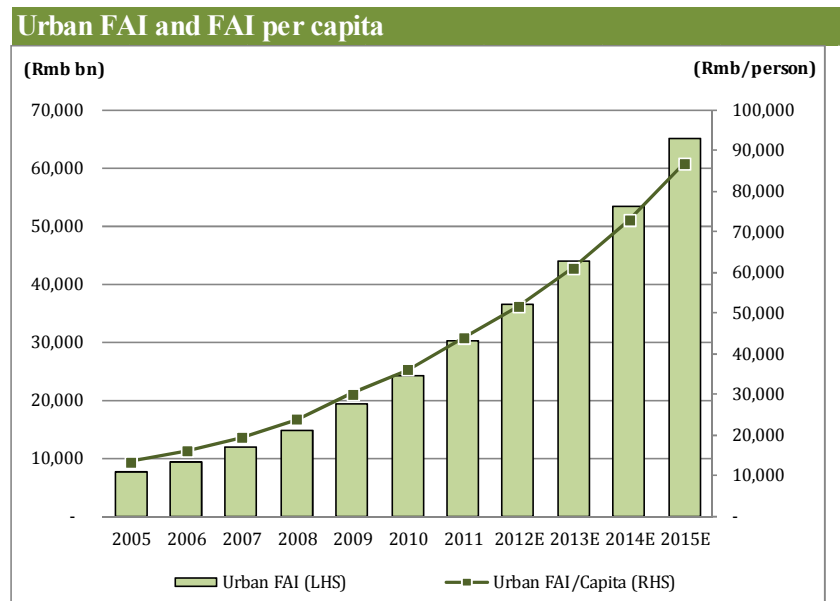
In order to relief the labour shortage problem in the cities, Chinese Government has placed lot of emphasis on urbanization to release the workforce from the rural to urban area. The construction sector benefits from the induced construction projects from urbanization of China.

The urbanization rate of China in 2000 was 35.8%, while it surged to 51.3% in 2011. The urbanization rate of China is still far below than that in many developed countries. The Chinese Government plans to enhance the urbanization rate to 55.0% by 2020. Against this backdrop, we estimate that there will be 59mn of people in total migrating from rural area to cities by during 2012-15. It will induce a large number of construction works.

Growth momentum of FAI per capita remain strong

The urban FAI per urban capita grew at a CAGR of 20.3% from Rmb5,712 in 2000 to Rmb43,708 in 2011 under the rocketing economic growth of China. Considering with the functionality of supporting GDP targeted at 7.5% in 2012, we estimate the urban FAI in China to grow at a CAGR of 21.2% from 2011 to 2015.

Based on the trends above, we expect that a growth rate of MCC turnover could maintain at least 5% annually until 2015.



Source: National Statistics Bureau, ABCI Securities estimates



Construction work under 12th 5 Year Plan

Affordable housing create demand

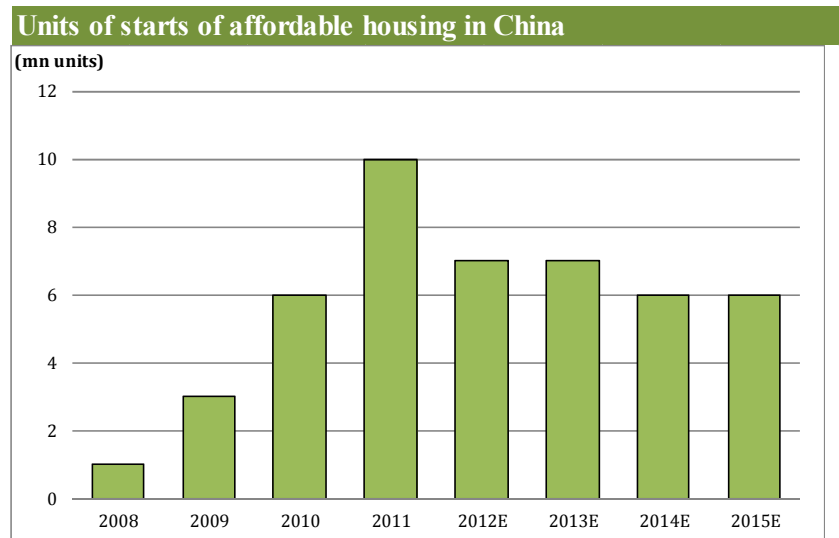
The construction of affordable housing creates demand. It will be one of the growth drivers for sales of MCC in the 12th 5-year of China.

Under the 12th 5-Year Plan, Chinese Government targets to build 36mn units of affordable housing. About 10mn units of affordable housing were started and 4.3mn units were completed in 2011. Since 2012, Government stated that they focus on execution of construction rather than the number of construction starts.

According to National Development and Reform Commission, it targets to start 7mn units and complete 5mn units in 2012 and to complete the construction of 36mn units of affordable house by 2015.

We believe the local governments are likely to put more effort and complete the affordable housing projects that are behind schedule in 2012. The total number of starts was about 2.3mn units and the completion was about 1.5mn units in the first 4 months in 2012. The total investment was about Rmb247bn.

The above trend provides a certain kind of capital buffer for MCC's engineering business and its social welfare housing development business. Moreover, it could replace the commercial property development sector business in current market atmosphere. However, the gross profit margin would decrease with decreased proportion of commodity property development with higher margin.



Source: State Council, ABCI Securities estimates



Q1FY12 Results Review

Decline due to poly-silicon business

MCC's Q1FY12 net profit came in at Rmb863mn, down 28% YoY, while turnover increased by 4.3% YoY to Rmb44.9bn. The core segment, E&C maintained a revenue growth of 15.3%YoY, contributing 81.8% of total revenue. The YoY decline in profit was mainly due to its poly-silicon business suffering a loss in Q1FY12 due to price reductions after contributing Rmb200m earnings in FY11 on surged poly-silicon prices.

Contract costs may become unrecoverable

We worry that the contract costs of Western Australia SINO Iron Ore Project may become unrecoverable. This project was a joint venture between CITIC Pacific Ltd and MCC being signed in January 2007. Its estimated value was US\$1.1bn. However, the project costs rose to US\$7bn in 2011 after several delays. The reasons were rising equipment and labour costs.

Assume the incurred costs become unrecoverable and those non-profitable segment assets being written down. The adjusted NAV per share would be HK\$1.77/share, equivalent to a PB ratio of 0.91X. The details of our worst case scenario are as shown below.

Major items of consolidated balance of MCC

	Total assets (Rmbmn)	Total liabilities (Rmbmn)	Net assets (Rmbmn)
FY2011			
E&C	205,823	186,076	19,747
Equip mfg	23,172	15,487	7,685
Resources development	35,369	30,090	5,279
Property development	99,390	80,797	18,593
Others	21,504	18,162	3,342
Unallocated items	4,473	524	3,949
Elimination	-57,700	-57,280	-420
Total	332,031	273,856	58,175
Less: MI			9,972
Net assets attributable to shareholders of the co. as of 31/12/2011			48,203
Possible loss or written down from cost overrun of projects:			
Accumulated costs overrun of the projects (upto 31/3/2012)			-1,480
Remaining costs to be incurred to complete these contracts at 31/3/2012			-4,770
Outstanding amounts for completed work less the advances rec'd fm the owner of the projects			-3,020
Sub-total			38,933
Further written down on non-profitable segment assets:			
Equip mfg (10% of segment assets as of 31/12/2011)			-2,317
Resources (25% of segment assets as of 31/12/2011)			-8,842
Adjusted net assets			27,774
Issued shares (mn)			19,110
Adjusted NAV per share (Rmb/share)			1.453
Forex (Rmb/HK\$)			0.823
Adjusted NAV per share (HK\$/share)			1.767

Source: Company; ABCI Securities



FY11 Results Review

FY11 earnings down 20% YoY to Rmb4.24bn

MCC's FY11 net profit came in at Rmb4.24bn, down 20% YoY, while turnover increased by 11.3% YoY to Rmb229.7bn. The outcome was at the lower limit of its previous profit warning for a 20-30% decline. The decline was mainly due to large losses at MCC Huludao Nonferrous Metals Group Co., Ltd., a 51%-owned subsidiary of MCC in the resource business segment. The core segment, E&C, maintained growth in segment profit driven by revenue growth of 14% YoY and 0.02ppt of margin improvement in FY11

FINAL RESULTS			
Year to 31 December	2010A	2011A	YoY
	Rmbmn	Rmbmn	%chg
Turnover	206,397	229,721	11.3%
Operating Cost	(185,635)	(208,567)	12.4%
Gross Profit	20,762	21,154	1.9%
Selling & marketing expenses	(1,530)	(1,836)	20.0%
Administration expenses	(9,689)	(11,839)	22.2%
Other income	1,091	2,021	85.2%
Other expenses	(198)	(188)	-5.1%
EBIT	10,436	9,312	-10.8%
Net interest income/(expenses)	(2,027)	(2,685)	32.5%
Share of associates' (losses)	134	56	-58.2%
Profit Before Tax	8,543	6,683	-21.8%
Tax	(2,972)	(2,971)	0.0%
Minority interests	(250)	531	-312.4%
Net profit	5,321	4,243	-20.3%

Source: Company, ABCI Securities estimates



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Metallurgical Corporation of China Ltd

Business Composition

	% of net profit in FY11
E&C	119%
Equipment manufacturing	-7%
Resources development	-48%
Property development	30%
Others	6%
	100%

Source: Company; ABCI Securities Estimates

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Metallurgical Corporation of China Ltd**Segment Analysis**

	FY10	FY11
Segment revenue (Rmbmn)		
Engineering & construction	158,381	180,646
% of total	75%	77%
Equipment manufacturing	10,632	14,231
% of total	5%	6%
Resources development	11,084	12,674
% of total	5%	5%
Property development	25,576	20,717
% of total	12%	9%
Others	5,811	6,049
% of total	3%	3%
Subtotal	211,484	234,317
Gross Profit (Rmbmn)		
Engineering & construction	13,708	16,346
% of total	65%	77%
Equipment manufacturing	935	1,038
% of total	4%	5%
Resources development	1,449	1,137
% of total	7%	5%
Property development	4,708	2,391
% of total	22%	11%
Others	162	222
% of total	1%	1%
Subtotal	20,962	21,134

Source: MCC, ABCI Securities estimates



Segment Analysis (Cont'd)		
	FY10	FY11
Gross Profit margin		
Engineering & construction	8.7%	9.0%
Equipment manufacturing	8.8%	7.3%
Resources development	13.1%	9.0%
Property development	18.4%	11.5%
Others	2.8%	3.7%
Segment profit (Rmbmn)		
Engineering & construction	6,580	8,002
% of total	61%	84%
Equipment manufacturing	(103)	5
% of total	-1%	0%
Resources development	552	(689)
% of total	5%	-7%
Property development	3,812	2,091
% of total	35%	22%
Others	21	120
% of total	0%	1%
Subtotal	10,862	9,529
Segment profit margin		
Engineering & construction	4.2%	4.4%
Equipment manufacturing	-1.0%	0.0%
Resources development	5.0%	-5.4%
Property development	14.9%	10.1%
Others	0.4%	2.0%

Source: MCC, ABCI Securities estimates



The core business, E&C maintained growth momentum

E&C segment profit rose 22% YoY to Rmb8,002mn, which accounted for 84% of all segments of MCC. The impressive results were driven by revenue growth of 14% and segment profit margin improvement of 0.2ppt YoY.

MCC enhanced its presence in the metallurgical E&C market in regions such as Liaoning, Sichuan, Xinjiang and Hebei. It also obtained some large contracts with contract amounts exceeding Rmb1bn. The blast furnace project (2 x 2,300 cubic m) with Rizhao Steel Holding Group Co., Ltd was one of the contracts.

MCC put great efforts in the development of the non-metallurgical E&C market by getting projects such as housing, transportation infrastructure and sports stadiums construction projects.

MCC's "go global" policy remained intact. On the one hand, it pressed ahead with consolidating the metallurgical markets in countries and regions such as India, eastern Europe and southeast Asia. On the other hand, it vigorously expanded the civil and infrastructure construction markets in regions such as the Middle East and Africa. With a total contract value of about Rmb3,350mn, such projects have been the largest general contracting projects of MCC in the Middle East region.



Property segment

Operating Results of Property Development Segment in FY11

	Unit: Rmb00'm, 0,000 sq. m	
	2011	YoY
	Rmbm	(%)
Total investment completed	371	-14.3
Contracted sales area	138	7.0
Contracted sales	149	12.9
GFA completed	206	-18.6
GFA under construction	1,902	31.4
Including: newly commenced GFA	726	-22.8
Site area to be developed for commodity properties & social welfare housing projects	421	N/A
Site area to be developed for primary land development projects	2,074	N/A

Source: Company

In 2011, the property development segment had 165 projects under operation with a total planned investment of about Rmb279.1bn and a planned GFA of 47.3m sqm. Excluding primary land projects, 78% of the total planned investment involving commodity property development projects while 22% involving social welfare housing projects. Commercial property development has become a new profit growth area for strengthening the foundation of its property development business.

Gross profit of the property development segment decreased by 49.2% YoY to Rmb 2,391mn in FY11. The decrease of the gross profit margin was mainly attributable to the decreased proportion of commodity property development with higher margin.

Latest Development

On 17 July 2012, MCC acquired a piece of land in Beijing for a consideration of Rmb2,200mn, together with an obligation to construct public rental housing of 4,700sqm. We estimate total monetary and non-monetary costs would be just Rmb14.1mn or RMB3000/GFA sqm. It is acquired by the consortium formed by Beijing No.5 Construction (10% stake) and MCC (90% stake). The land is located at the northwestern corner of Jiugong Town, Daxing District and has a total GFA of 138,000 sqm, including residential area of about 117,000 sqm and commercial area of about 21,000 sqm. 4,700 sqm need to be used for public housing. It means it has to sell at an ASP of Rmb15,942 per sqm to breakeven.

Resources segment loss of Rmb689mn due to Huludao

A loss of Rmb689mn from the segment result of the resource development business for FY11 was mainly attributable to the substantial loss incurred by MCC Huludao Nonferrous Metals Group Co., Ltd., a 51%-owned subsidiary of MCC. Huludao encountered an increase in product cost coupled with the declining selling price and a negative gross profit resulted from disposal, at below cost, of raw materials (copper concentrates) acquired in prior years



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Operating cash flows are expected to improve

Our forecast cash flows from operation will be Rmb4,922mn and Rmb6,054mn in FY12 and FY13 respectively. The improvement was due to (i) the reduction of demand for working capitals in social housing and other BT projects; (ii) the commencement of operation in some overseas mining projects.



Company Profile

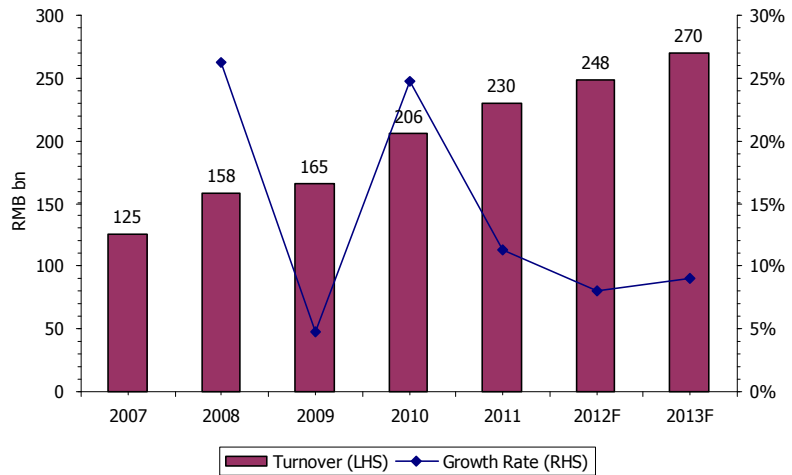
A Leading Metallurgical E&C Contractor in China

Metallurgical Corporation of China Ltd (“MCC”) is a leading metallurgical engineering and construction contractor in the PRC as well as in the world. MCC has core competency in innovation and industrialization of technology and strong construction capabilities in metallurgical engineering. From a different angle, MCC could be regarded as a large conglomerate operating in various specialized fields, across different industries and in many countries, with E&C, equipment manufacturing, resources development, and property development as its principal businesses.

MCC has core competency in innovation and industrialization of technology and strong construction capabilities in metallurgical engineering. MCC is one of the largest engineering and construction companies in China and even in the world.

MCC was listed on the main board of the Shanghai Stock Exchange (601618 SH) and the Hong Kong Stock Exchange (1618 HK) on 21 Sep and 24 Sep 2009 respectively.

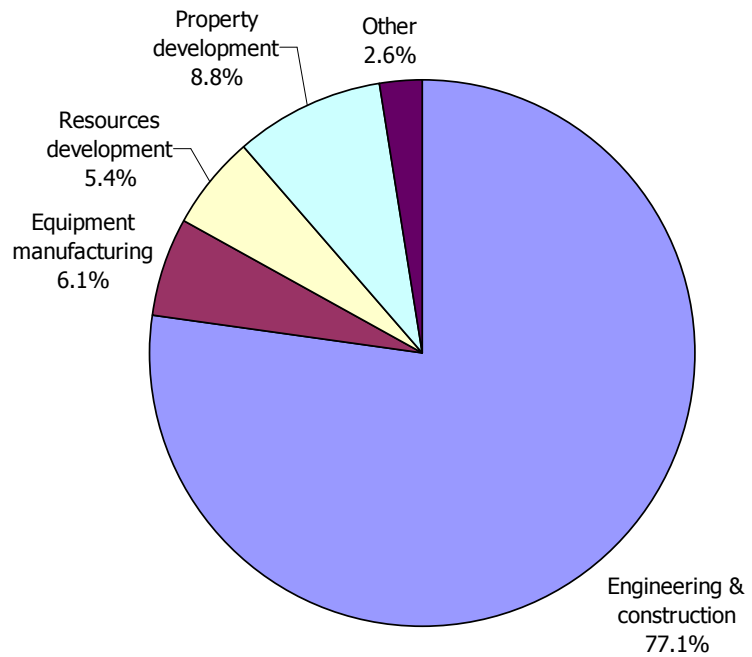
Historical And Forecast Turnover Growth



Source: Company; ABCI Securities Estimates

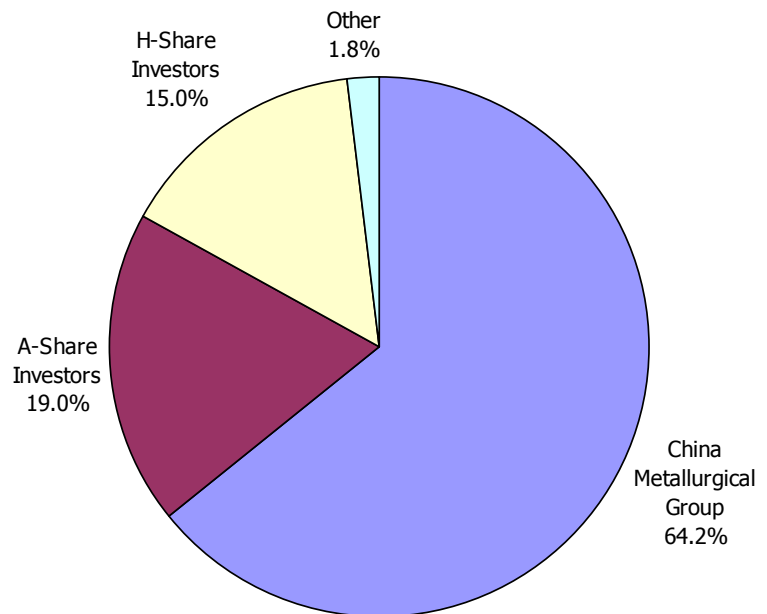


Turnover Mix in FY11



Source: Company; ABCI Securities Estimates

Shareholder Structure



Source: Company; ABCI Securities Estimates

**Financial statements**

Profit & Loss Statement				
Year to 31 December	2010A	2011A	2012F	2013F
	Rmbmn	Rmbmn	Rmbmn	Rmbmn
Turnover	206,397	229,721	248,099	270,428
	=====	=====	=====	=====
EBITDA	12,529	11,935	14,184	17,091
Depreciation	(2,093)	(2,623)	(3,279)	(4,098)
	-----	-----	-----	-----
EBIT	10,436	9,312	10,905	12,993
Net financial expenses	(2,027)	(2,685)	(3,222)	(3,544)
Share of profits of associates	134	56	69	87
	-----	-----	-----	-----
Profit before tax	8,543	6,683	7,752	9,535
Tax and minority interests	(3,222)	(2,440)	(2,830)	(3,481)
	-----	-----	-----	-----
Net profit	5,321	4,243	4,922	6,054
	=====	=====	=====	=====

Source: Company; ABCI Securities Estimates



Balance Sheet

Year to 31 December

	2010	2011	2012	2013
	Rmbmn	Rmbmn	Rmbmn	Rmbmn
Non-Current Assets				
PPE	37,104	42,533	46,361	49,606
LT investment	4,175	4,437	4,504	4,594
LT deferred assets	2,161	2,592	3,110	3,732
Intangible assets	19,384	20,212	21,020	21,861
Other LT assets	10,403	22,573	15,801	17,381
	73,227	92,347	90,797	97,175
Current Assets				
Inventories	58,300	73,017	79,589	86,751
Trade receivables	114,991	120,984	138,142	147,715
Other current assets	2,401	2,962	3,229	3,519
Cash & cash equivalents	39,302	42,721	46,566	50,757
	214,994	239,684	267,525	288,743
Total Asset	288,221	332,031	358,322	385,917
Current liabilities				
Trade and other payables	119,036	126,598	132,928	139,574
Short-term bank loans	53,249	84,676	93,231	101,786
Other current liabilities	1,881	2,096	2,201	2,311
	174,166	213,370	228,360	243,671
Non-current liabilities				
LT bank loans	52,675	52,485	57,209	62,357
Other LT liabilities	7,868	8,001	8,161	8,324
	60,543	60,486	65,370	70,682
Total liabilities	234,709	273,856	293,729	314,353
MI	8,541	9,972	11,468	12,385
Share capital	19,110	19,110	19,110	19,110
Reserves	25,861	29,093	34,015	40,069
Own Equity	44,971	48,203	53,125	59,179

Source: Company; ABCI Securities Estimates

Cashflow Statement

Year to 31 December

	2010	2011	2012	2013
	Rmbmn	Rmbmn	Rmbmn	Rmbmn
Net cash inflows from operation	(25,121)	(12,631)	4,922	6,054
Net cash inflows form investment	(11,335)	(7,875)	(8,663)	(8,229)
Net cash outflows form financing	31,178	23,989	11,995	12,594
Net cashflow	(5,278)	3,483	8,254	10,419
Beginning Cash	44,740	39,302	42,721	50,975
Exchange gains/(losses)	(160)	(64)	0	0
Ending Cash	39,302	42,721	50,975	61,394

Source: Company, ABCI Securities Estimates



Risk factors

1. The contract costs of Western Australia SINO Iron Ore Project may become unrecoverable

We worry that the contract costs of Western Australia SINO Iron Ore Project may become unrecoverable. This project is a joint venture between CITIC Pacific Ltd and MCC being signed in January 2007. Its estimated value was US\$1.1bn. However, the project costs rose to US\$7bn in 2011 after several delays. The reasons of cost overrun were rising equipment and labour costs, stronger Australian dollars and the imposition of a mining tax and carbon tax.

Based on the information from MCC's 1Q12 report, the accumulated costs of certain construction contracts had exceeded their current contract values agreed were Rmb1,480mn. Moreover, the remaining costs to be incurred to complete these contracts were estimated to be Rmb4,770mn. Furthermore, the outstanding amounts for completed work less the advances received amounted to Rmb3,020mn.

2. Other major risks would be a) slow-down of the metallurgical fixed asset investments; b) significant price correction in the commodity property market in China; c) political risk of its overseas mines.



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