COMPANY RESULTS SNAPSHOT

China Oriental (581 HK)

Better-than-expected earnings on strong sales

UNDER REVIEW

Close	Target
HK$3.28	---

China / Metals

24 March 2010

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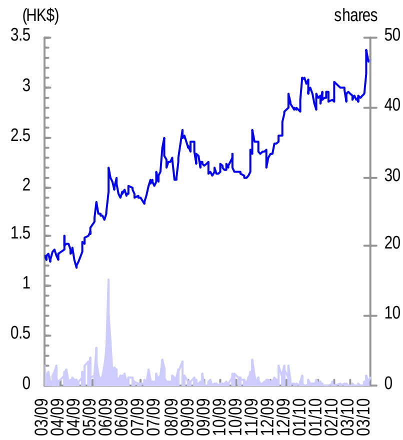
Key stock data

12-month High / Low	HK$3.39/1.15
1m avg daily vol	0.25m
Issued shares	2,930m
Market cap	HK$9,609m
Board lot	2,000
Major shareholder	Wellbeing Holdings Ltd. (42.88%)

Source: Bloomberg

Performance	1M	3M	12M
Absolute (%)	15.09	15.90	152.31
Rel (HSI) (%)	12.55	18.36	101.43

Source: Bloomberg



Highlights:

- **Better-than-expected earnings on better sales and ASP.** Sales volume for FY09 reached 6.95mn ton, 53% higher than that for the previous year and 6.8% higher than our forecast. However, offset by a 31% fall in ASP from RMB4,273/ton to RMB2,962/ton, total turnover for FY09 only increased by 6.2% yoy to RMB20.6bn, from RMB19.4bn for FY08. Net income was reported at RMB884mn (RMB0.30/shr), up 19 times from RMB44mn (RMB0.02/shr) for FY08. This is also 20% higher than our forecast of RMB734mn, due to stronger than expected sales and ASP. A final dividend of HK$0.086/shr was declared.
- **Margins improved on lower sales costs.** Cost of sales decreased 1.5% yoy to RMB18.58bn for FY09, despite a 53% jump in sales volume, due to a sharp decline in raw material costs. As such, gross profit margin strengthened to 9.7%, up 7ppts from 2.7% for FY08. Net profit margin was 4.3%, versus 0.2% for FY08.
- **Net gearing increased slightly but still in line with industry average.** Net finance costs climbed 51% yoy to RMB102mn for FY09 from FY08's RMB67mn, due to higher borrowing and finance lease liabilities. Total borrowing increased to RMB2.56bn over the year, up RMB3.7mn from RMB2.19bn at end08. Net gearing ratio increased to 34.3% from 33.7% in 2008, which is equivalent to industry peers.

Outlook:

- **Earnings growth delivered by capacity expansion in 2010.** According to the Management, COG increased its production capacity to 10mn tons through various acquisitions, successfully meeting its target for 2010 and adding new growth drivers to the Company. As such, it expects a double-digit growth in sales volume in 2010. However, Management also expressed the concern that the increase in steel prices may be outmatched by the rise of iron ore and coking coal prices this year, creating a strain on costs and putting pressure on profitability. Before the earnings revisions, COG is trading at 6.9x FY10F P/E and 1.0x FY10F P/B.

Summary Income Statement

Year to 31 Dec (RMB m)	FY09	FY08	YoY % change	CPY FY09 estimates	Difference
Turnover	**20,589**	**19,388**	**6.2%**	**17,789**	**15.7%**
Cost of sales	(18,583)	(18,871)	-1.5%	(16,412)	13.2%
Gross profit	**2,006**	**517**	**287.9%**	**1,377**	**45.7%**
Other income	37	36	3.3%	36	2.9%
Distribution costs	(57)	(80)	-29.0%	(44)	28.2%
Administrative expenses	(284)	(282)	0.6%	(263)	7.7%
Other expenses	(207)	(10)	1922.1%	(18)	1062.6%
Other gains - net	(81)	(1)	5805.1%	14	-663.0%
Operating profit	**1,415**	**179**	**690.7%**	**1,102**	**28.5%**
Finance costs-net	(102)	(67)	51.0%	(74)	37.8%
Share of profit of an associate	0	2	-91.1%	2	-91.6%
Profit before income tax	1,314	114	1056.4%	1,030	27.6%
Income tax expense	(341)	(71)	383.1%	(257)	32.6%
Minority interests	(88)	1	-8304.7%	(39)	128.2%
Profit attributable to shareholders	**884**	**44**	**1908.4%**	**734**	**20.5%**
EPS	0.30	0.02	1895.7%	0.25	19.8%
DPS	0.08	0.06	32.8%	0.05	51.2%

Source: Company data, Core Pacific-Yamaichi