Analysts' Ideas of the Week – Iron Ore Continued…

www.researchfrc.com

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Iron Ore Continued…

Last week, I talked about the recent hype surrounding iron ore and why I expect iron ore producers to see rough times ahead. Over the past week, we have seen a few more developments suggesting that iron ore supply is likely to well exceed demand.

I will start off with the developments suggesting that demand is now outpacing supply, which has been the primary reason for the hype:

- According to a Xinhua-China iron ore index report, as of Oct 7, inventories of imported iron ore dropped by 0.08%, down 58,000 tons, compared to September levels.
- Chinese imports increased by 8% MOM, and 15% YOY, to 74.58 million tonnes.
- Iron ore is primarily used for steel production. China's steel production is up 8% YOY so far.

Now, here are the key recent developments on the supply side:

- Rio Tinto (NYSE: RIO), Fortescue Metals Group (ASX: FMG) and BHP Billiton (NYSE: BHP), are all expanding their iron ore production capacity. As I mentioned last week, RioTinto is currently expanding its Pilbara iron ore export capacity from 220 Mt to 290 Mt. The company is also evaluating the potential to increase capacity to 360 million tonnes, which reflects a 64% increase from initial levels.

- Vale (NYSE: VALE) is expected to increase its annual production from 306 Mt to 450 - 480 Mt by 2018. Their Carajas project alone is expected to bring another 90 Mt per year by 2016.
- BHP is expecting to increase its production to 207 Mt in FY2014, after reporting a 17% YOY increase in FY2013 (12 months ended July 2013) to 187 Mt.
- Fortescue Meals is currently raising their production from 120 Mt to 155 Mt per year.
- Anglo American's (LSE: AAL) Minas Rio project is expected to commence production next year at 26.5 Mt per year.
- The 55 Mt per annum Roy Hill project, which is majority owned by Hancock Prospecting, is expected to be in production by 2015.
- CITIC Pacific's (OTCPK: CTPCF) 24 Mt per year Sino Iron project in Australia went into production this month.

The new supply that is expected to come into the market in the next few years, plus the fact that cash costs of most producers are well below $75 per tonne, we believe, should soften the commodity's price from its current level of $130+ per tonne. Even the world's largest iron ore producer, Vale, stated last week that they expect the iron ore market will be in a supply surplus position in 2015.

India, which was once a major exporter, has seen its exports dropping by 80%+, after a 30% export duty on the commodity, and as major producing states in the country imposed a ban on exports. Although the Indian government stated this past week that they are not considering reducing the 30% export duty, I believe, a change on their stance going forward can result in a lot of additional supply into the international market.

All the above, I believe, makes the iron ore sector extremely vulnerable, with supply clearly expected to outpace demand. I would be cautious when looking to invest in the sector.

Daniel Iwata, BA, Dip. Fin. Mgmt.
Equity Research Associate

OLED technology quickly growing in display market

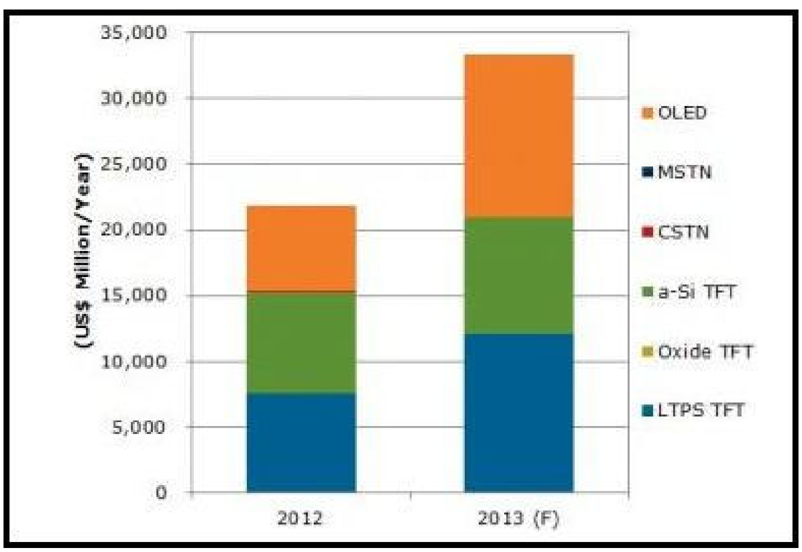
Organic light emitting diode (OLED) technology is becoming extremely popular for displays. Companies such as Samsung, LG (NYSE: LG) and other large manufacturers have begun introducing products with OLED technology. We feel that OLED technology will become the dominant display technology because it offers many benefits over current liquid crystal display (LCD) technology, which currently dominates the display market.

In very simplistic terms, OLED is an organic compound that produces light when electricity is fed to it. LCD displays sandwich liquid crystals between two layers of glass and use a backlight to illuminate the crystals. Since OLED does not require a backlight, the displays are much lighter, thinner, and require less power. OLED compounds can also be applied to plastic and flexible materials, which allow them to be bendable. Some companies have recently released curved products, and some companies are experimenting with displays that can be rolled up.

The additional benefits of OLED over current LED are:

- Faster response time
- Can produce more colors
- Higher contrast ratios
- As the technology advances, the production costs should be less than LCD. Although OLED currently costs an estimated 8-10 times more, it is expected that in the future, OLED will be lower cost to produce than LCD

The market for OLED has been growing rapidly with Samsung using OLED in many of their current smartphone models (current models use OLED between layers of glass). Display Search, a leading marketing research company, estimated that in 2011, revenues for OLED displays was $4 Billion. They are estimating the 2013 market for OLED mobile displays to be $13 billion. They also forecast that OLED materials will reach a market of $3.4 billion in 2017, from $529 million in 2013. OLED costs are expected to decrease significantly over the short term. Display Search estimates that currently OLED costs around 7 times more to produce than LCD, but that by Q1-2014, OLED productions costs will decrease by 36%. The mobile display market by type is shown below.



Source: Display Search

Major manufactures such as Samsung and LG are investing in OLED technology for their products. To gain direct exposure to the OLED market, investors can look to Universal Display Corporation (NASDAQ: OLED), a leader in OLED technology. They license their technology to many large corporations such as Samsung and have partnerships with LG, Sony and DuPont. A more speculative investment that give exposure to OLED displays is eMagin (NYSE MKT:EMAN), a company that produces micro displays for personal use. They have displays with applications for military, industrial, medical and consumer products. They research, design and produce their current line of displays, and were profitable in 2012.

Pooneh Ruintan, MEcon. Msc. Finance
Equity Research Associate

Update on Real Estate Forecasts

The Canada Mortgage and Housing Corporation (CMHC) recently released its Q3-2013 outlook on the Housing Market in Canada, which updated its forecasts for major housing market indicators (housings starts, sales and average resale prices). These are presented in the table below.

Housing Market Indicators	2012	2013(F)	2014(F)
Housing starts	214,827	182,800	186,600
Total Residential Resale	453,372	448,900	467,600
Average Residential Resale Price	$363,740	$ 374,800	$ 382,800

It is anticipated that total housing starts will be lower in 2013 (from 214,827 in 2012 to 182,800 in 2013). In 2014, housing starts are expected to reverse and move marginally higher. Similarly, home sales are expected to slightly increase in 2014, after a decrease in 2013, reaching 467,600, from 448,900. These changes are mainly attributed to moderation in economic fundamentals, such as employment rates, migration and income growth in the first half of 2013, and anticipated marginal growth of these factors later in 2013, and 2014. The resale price in 2013 is expected to be consistent with the relatively stable outlook for sales. It is anticipated that the average growth rate of resale prices will be close to the inflation rate (about 2.5% on average) over 2013 and 2014.

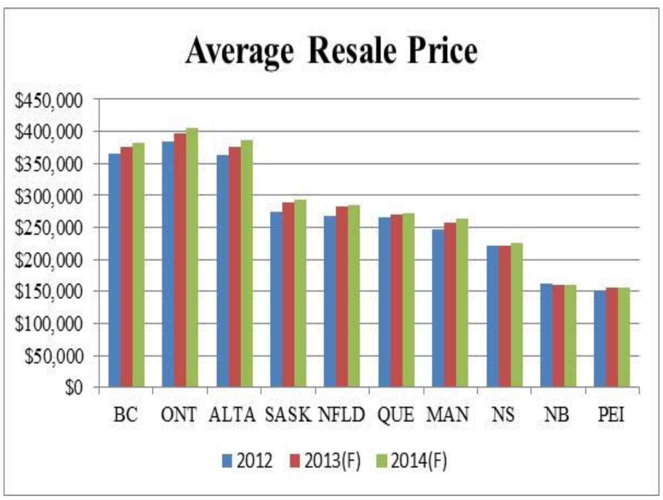
Table below shows some economic forecasts:

Economic Forcast	2013(F)	2014(F)
GDP Growth	1.70%	2.40%
Employment Growth	1.40%	1.40%
Mortgage Rate One-Year	3-3.50%	3.25-3.75%
Mortgage Rate Five-Year	5-5.50%	5.25-6%

Source: CMHC

As shown, the Canadian economy should continue to grow in 2013, and 2014, and will therefore remain supportive of the housing market. Moreover, the anticipated employment growth is expected to increase household income and household formation, which in turn, supports the housing market. The Interest rate outlook has not changed/increased from the 2013 second quarter Housing Market Outlook. This will be supportive of the housing market over the forecast period.

It is expected that over the forecast period, Saskatchewan, Manitoba, Newfoundland, and Alberta, will experience the highest price increase (6-7%), and New Brunswick, British Columbia and Quebec have the lowest price increase (0-2%), compared to the other provinces.



Source: CMHC

Among the 10 major cities from the Q2-2013 Housing Market Outlook, CMHC lowered its price forecast for Montreal (1.8%), Quebec City (0.55%), and Ottawa (0.21%) for 2014, and increased its forecast for Hamilton (3.45%), Saskatchewan (2.73%), Calgary (1.37%), Toronto (0.97%), and Edmonton (0.57%). At FRC, we cover a number of exempt market securities that can help investors gain exposure to real estate in areas mentioned above.

#	Major Cities	Year	Average MLS Price		Rental Rate	
1	Vancouver	2012	$	730,036.00	$	1,261.00
		2013(F)	$	736,000.00	$	1,300.00
		2014(F)	$	745,000.00	$	1,330.00
2	Toronto	2012	$	498,973.00	$	1,183.00
		2013(F)	$	511,000.00	$	1,215.00
		2014(F)	$	519,000.00	$	1,230.00
5	Victoria	2012	$	484,164.00	$	1,059.00
		2013(F)	$	480,000.00	$	1,061.00
		2014(F)	$	490,000.00	$	1,066.00
4	Calgary	2012	$	412,315.00	$	1,150.00
		2013(F)	$	435,000.00	$	1,230.00
		2014(F)	$	445,000.00	$	1,280.00
5	Hamilton	2012	$	360,059.00	$	886.00
		2013(F)	$	380,000.00	$	900.00
		2014(F)	$	390,000.00	$	920.00
	Ottawa	2012	$	352,610.00	$	1,115.00
		2013(F)	$	355,000.00	$	1,145.00
		2014(F)	$	358,000.00	$	1,150.00
7	Edmonton	2012	$	334,319.00	$	1,071.00
		2013(F)	$	345,000.00	$	1,120.00
		2014(F)	$	353,000.00	$	1,160.00
8	Montreal	2012	$	326,389.00	$	711.00
		2013(F)	$	325,000.00	$	720.00
		2014(F)	$	328,000.00	$	730.00
9	Saskatoon	2012	$	315,834.00	$	1,002.00
		2013(F)	$	331,000.00	$	1,025.00
		2014(F)	$	339,000.00	$	1,050.00
10	Quebec City	2012	$	257,942.00	$	741.00
		2013(F)	$	268,500.00	$	755.00
		2014(F)	$	278,500.00	$	765.00

Source: CMHC

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst(s) about any companies and industries mentioned. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. Companies mentioned in this report may be covered by FRC under an issuer paid model. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at www.investars.com.

To subscribe for real-time access to research, visit http://www.researchfrc.com for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company, industry, and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report.

.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.