

# China/Hong Kong Company Update

## Angang Steel

Bloomberg: 347 HK EQUITY | 000898 CH Equity | Reuters: 0347.HK | 000898.SZ

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

17 Jan 2022

**H: HOLD** (Downgrade from BUY)

Last Traded Price ( 14 Jan 2022):HK\$3.85(HSI : 24,383)

Price Target 12-mth: HK\$4.50 (16.9% upside) (Prev HK\$7.20)

**A: HOLD** (Downgrade from BUY)

Last Traded Price ( 14 Jan 2022):RMB3.86(CSI300 Index : 4,727)

Price Target 12-mth: RMB4.50 (16.6% upside) (Prev RMB6.00)

### Analyst

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### What's New

- Lacking strong share price catalyst
- Parent asset restructure longer term driver
- Cut FY22F estimate on lower GP assumptions
- HOLD with TP of HK\$4.5

## Lacking catalyst

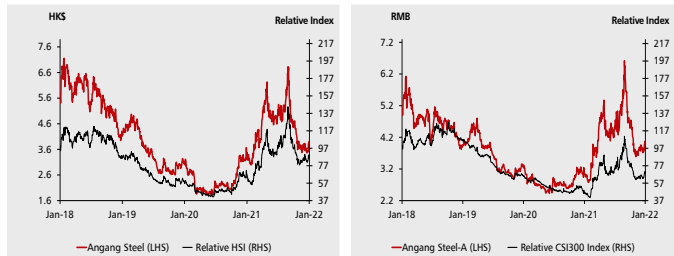
### Investment Thesis

**Softening industrial market demand.** We noted the steel usage decline from the machinery sectors was widening over the last quarter. We are concerned weaker manufacturing activities would cloud earnings outlook.

**Earnings revision.** We cut our FY22F estimate on lower steel price assumption. After all, we expect AnSteel's unit GP contract to RMB664 per ton in 2022 from RMB690 per ton in 2021.

**Parent asset restructure driver.** Along with alliances and collaboration with various downstream industry leaders for targeted market penetration, we expect further progress in An-Ben merger being made this year. However, we believe there is low chance for potential asset injecting to listed company. And we think this would provide limited near term share catalyst.

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	100,903	112,846	102,382	103,250
EBITDA	6,921	13,045	11,860	12,689
Pre-tax Profit	2,403	8,521	7,387	8,254
Net Profit	2,014	6,878	5,963	6,664
Net Pft (Pre Ex) (core profit)	2,014	6,878	5,963	6,664
Net Profit Gth (Pre-ex) (%)	16.2	241.5	(13.3)	11.8
EPS (RMB)	0.21	0.73	0.63	0.71
EPS (HK\$)	0.26	0.90	0.78	0.87
EPS Gth (%)	16.2	241.5	(13.3)	11.8
Diluted EPS (HK\$)	0.26	0.90	0.78	0.87
DPS (HK\$)	0.10	0.35	0.30	0.34
BV Per Share (HK\$)	6.95	7.48	7.93	8.44
PE (X)	14.7	4.3	5.0	4.4
P/Cash Flow (X)	3.0	3.6	2.9	2.8
P/Free CF (X)	5.7	6.9	4.8	4.6
EV/EBITDA (X)	5.5	2.8	2.8	2.3
Net Div Yield (%)	2.7	9.1	7.9	8.8
P/Book Value (X)	0.6	0.5	0.5	0.5
Net Debt/Equity (X)	0.2	0.1	0.0	CASH
ROAE(%)	3.8	12.4	10.1	10.6
Earnings Rev (%)		3	(12)	New
Consensus EPS (RMB)		0.89	0.86	0.85
Other Broker Recs:		B:14	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### Valuation:

Our H-share TP of HK\$4.5 is based on a 0.6x FY22F P/BV, pegged to +1SD of its historical mean, lowered target multiple from previously 0.9x, against its ROE which is expected to shrink further in 2022 towards. Our A-share TP of RMB4.5 is derived based on a 0.7x P/BV, in line with its historical range and consistent with the historical price spread of the dual-listed counter.

### Where we differ:

We are more conservative than the street that AnSteel's product GP to be capped on market supply increase.

### Key Risks to Our View:

A market collapse on an unexpected shift in the supply market landscape and/or regulatory policy swings.

### At A Glance

Issued Capital - H shares (m shs)	1,412
- Non H shrs (m shs)	7,994
H shs as a % of Total	15
Total Mkt Cap (HK\$/US\$m)	44,487 / 5,710
Major Shareholders (%)	
Anshan Iron and Steel Group Corp	62.8
China National Petroleum Corporation	10.6
Major H Shareholders (As % of H shares)	
FIL Investment Management (HK) Ltd	5.8
H Shares-Free Float (%)	94.2
3m Avg. Daily Val. (US\$m)	5.42
GICS Industry: Materials / Metals & Mining	



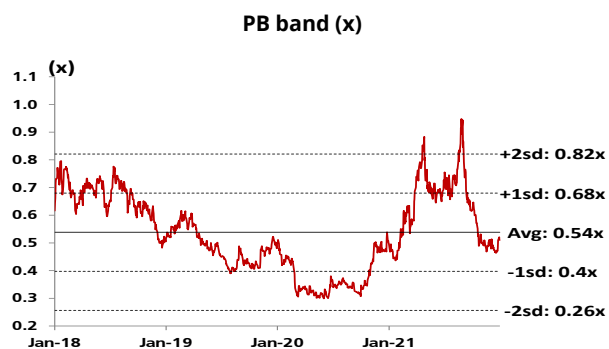
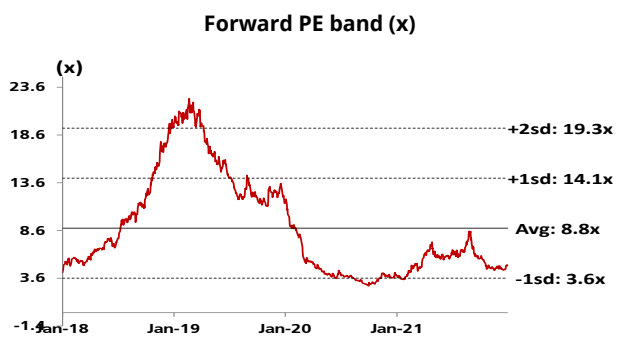
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## Angang Steel

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Angang Steel

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Sales volume for steel products (Mt)	25.4	24.5	23.3	21.4	21.4
ASP for steel products (RMB/t)	4,074.2	4,099.4	4,841.1	4,774.1	4,814.6
Gross profit for steel products (RMB/t)	309.0	338.5	689.9	664.4	704.9

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Steel products	105,587	100,903	112,846	102,382	103,250
<b>Total</b>	<b>105,587</b>	<b>100,903</b>	<b>112,846</b>	<b>102,382</b>	<b>103,250</b>
<b>Gross Profit (RMB m)</b>					
Steel products	7,843	8,305	16,081	14,248	15,116
<b>Total</b>	<b>7,843</b>	<b>8,305</b>	<b>16,081</b>	<b>14,248</b>	<b>15,116</b>
<b>Gross Profit Margins (%)</b>					
Steel products	7.4	8.2	14.3	13.9	14.6
<b>Total</b>	<b>7.4</b>	<b>8.2</b>	<b>14.3</b>	<b>13.9</b>	<b>14.6</b>

Source: Company, DBS HK

## Angang Steel

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	105,587	100,903	112,846	102,382	103,250
Cost of Goods Sold	(96,782)	(91,605)	(96,765)	(88,133)	(88,133)
<b>Gross Profit</b>	<b>8,805</b>	<b>9,298</b>	<b>16,081</b>	<b>14,248</b>	<b>15,116</b>
Other Opng (Exp)/Inc	(5,357)	(5,526)	(6,180)	(5,607)	(5,655)
<b>Operating Profit</b>	<b>3,448</b>	<b>3,772</b>	<b>9,901</b>	<b>8,641</b>	<b>9,462</b>
Other Non Opg (Exp)/Inc	(565)	(783)	(876)	(794)	(801)
Associates & JV Inc	182	191	214	194	195
Net Interest (Exp)/Inc	(1,093)	(777)	(718)	(654)	(603)
Dividend Income	0	0	0	0	1
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,972</b>	<b>2,403</b>	<b>8,521</b>	<b>7,387</b>	<b>8,254</b>
Tax	(212)	(407)	(1,704)	(1,477)	(1,651)
Minority Interest	(27)	18	61	53	60
Preference Dividend	0	0	0	0	1
<b>Net Profit</b>	<b>1,733</b>	<b>2,014</b>	<b>6,878</b>	<b>5,963</b>	<b>6,664</b>
Net Profit before Except.	1,733	2,014	6,878	5,963	6,664
EBITDA	6,763	6,921	13,045	11,860	12,689
<b>Growth</b>					
Revenue Gth (%)	0.4	(4.4)	11.8	(9.3)	0.8
EBITDA Gth (%)	(55.4)	2.3	88.5	(9.1)	7.0
Opg Profit Gth (%)	(70.1)	9.4	162.5	(12.7)	9.5
Net Profit Gth (%)	(78.2)	16.2	241.5	(13.3)	11.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	8.3	9.2	14.3	13.9	14.6
Opg Profit Margin (%)	3.3	3.7	8.8	8.4	9.2
Net Profit Margin (%)	1.6	2.0	6.1	5.8	6.5
ROAE (%)	3.3	3.8	12.4	10.1	10.6
ROA (%)	1.9	2.3	7.7	6.5	7.1
ROCE (%)	4.4	4.5	11.3	9.5	9.9
Div Payout Ratio (%)	30.9	39.2	39.2	39.2	39.2
Net Interest Cover (x)	3.2	4.9	13.8	13.2	15.7

Source: Company, DBS HK

## Angang Steel

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	50,966	50,372	50,566	50,746	50,914
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	13,350	14,658	14,658	14,658	14,658
Cash & ST Invt	4,671	5,330	4,896	8,754	12,543
Inventory	9,793	10,618	10,780	9,819	9,819
Debtors	5,204	2,656	4,395	3,988	4,021
Other Current Assets	3,824	4,412	4,412	4,412	4,410
<b>Total Assets</b>	<b>87,808</b>	<b>88,046</b>	<b>89,707</b>	<b>92,377</b>	<b>96,366</b>
ST Debt	12,195	8,505	7,241	7,241	7,241
Creditors	8,567	10,559	10,102	9,201	9,201
Other Current Liab	8,579	8,638	8,638	8,638	8,638
LT Debt	4,905	4,954	4,218	4,218	4,218
Other LT Liabilities	1,014	1,532	1,532	1,532	1,532
Shareholder's Equity	52,079	53,365	57,422	60,939	64,869
Minority Interests	469	493	554	608	667
<b>Total Cap. &amp; Liab.</b>	<b>87,808</b>	<b>88,046</b>	<b>89,707</b>	<b>92,377</b>	<b>96,366</b>
Non-Cash Wkg. Capital	1,675	(1,511)	848	380	412
Net Cash/(Debt)	(12,429)	(8,129)	(6,563)	(2,705)	1,084
Debtors Turn (avg days)	9.0	4.8	11.4	14.9	14.2
Creditors Turn (avg days)	33.2	38.1	39.0	40.0	38.1
Inventory Turn (avg days)	19.0	7.4	13.1	15.6	16.7
Asset Turnover (x)	1.2	1.1	1.3	1.1	1.1
Current Ratio (x)	0.8	0.8	0.9	1.1	1.2
Quick Ratio (x)	0.3	0.3	0.4	0.5	0.7
Net Debt/Equity (X)	0.2	0.2	0.1	0.0	CASH
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.0	CASH
Capex to Debt (%)	20.0	35.1	34.9	34.9	34.9
Z-Score (X)	1.7	1.5	1.5	1.6	1.6

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,760	1,996	6,817	5,910	6,602
Dep. & Amort.	3,698	3,741	3,806	3,820	3,832
Tax Paid	0	(355)	0	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	3,671	3,492	(2,359)	468	(34)
Other Operating CF	891	1,042	0	0	0
<b>Net Operating CF</b>	<b>10,020</b>	<b>9,916</b>	<b>8,264</b>	<b>10,197</b>	<b>10,401</b>
Capital Exp.(net)	(3,415)	(4,721)	(4,000)	(4,000)	(4,000)
Other Invt.(net)	3	0	0	0	0
Invt in Assoc. & JV	(80)	0	0	0	0
Div from Assoc & JV	0	0	0	0	1
Other Investing CF	226	787	0	0	(1)
<b>Net Investing CF</b>	<b>(3,266)</b>	<b>(3,934)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Div Paid	(2,388)	(1,266)	(2,698)	(2,339)	(2,613)
Chg in Gross Debt	(1,093)	(4,840)	(2,000)	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(756)	(491)	0	0	0
<b>Net Financing CF</b>	<b>(4,237)</b>	<b>(6,597)</b>	<b>(4,698)</b>	<b>(2,339)</b>	<b>(2,613)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	2,517	(615)	(434)	3,858	3,787
Opg CFPS (RMB)	0.68	0.68	1.13	1.03	1.11
Free CFPS (RMB)	0.70	0.55	0.45	0.66	0.68

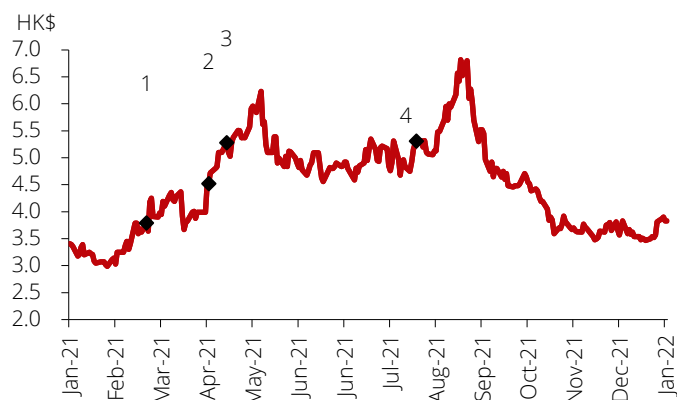
Source: Company, DBS HK

## Angang Steel

### Company Background

Angang Steel (AnSteel), a state-owned enterprise, is a dominant flat steel manufacturer. Its principal products are CRC, HRC, medium-and-heavy plates, galvanised steel, and silicon steel. Headquartered in Liaoning province, it has an annual crude steel capacity of 26.5mt. The company was dual-listed in 1997 on the HKEx and Shenzhen Stock Exchange.

### H Share - Target Price & Ratings History

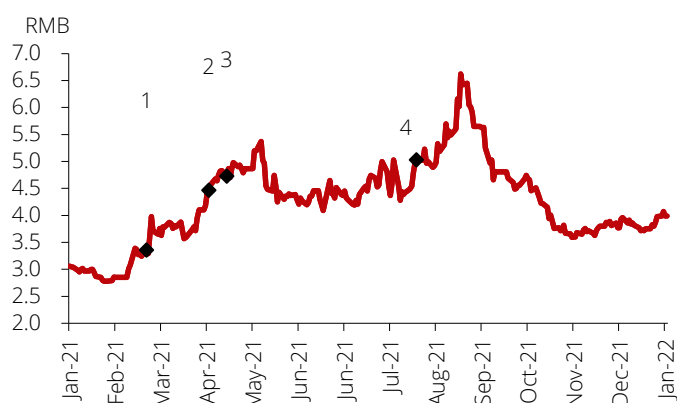


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-21	HK\$3.68	HK\$4.00	Buy
2:	8-Apr-21	HK\$4.48	HK\$5.50	Buy
3:	19-Apr-21	HK\$5.10	HK\$6.50	Buy
4:	13-Aug-21	HK\$5.31	HK\$7.20	Buy

Source: DBS HK

Analyst: Duncan CHAN

### A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-21	RMB3.31	RMB4.00	Buy
2:	8-Apr-21	RMB4.40	RMB5.00	Buy
3:	19-Apr-21	RMB4.83	RMB5.50	Buy
4:	13-Aug-21	RMB5.03	RMB6.00	Buy

Source: DBS HK

Analyst: Duncan CHAN

## Angang Steel

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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**Angang Steel**

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