

China / Hong Kong Company Update

Angang Steel

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

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DBS Group Research . Equity

16 May 2022

H: HOLD

Last Traded Price (13 May 2022): HK\$3.28 (HSI : 19,899)

Price Target 12-mth: HK\$3.60 (9.8% upside) (Prev HK\$4.00)

A: HOLD

Last Traded Price (13 May 2022): RMB3.40 (CSI300 Index : 3,989)

Price Target 12-mth: RMB3.80 (11.8% upside) (Prev RMB4.00)

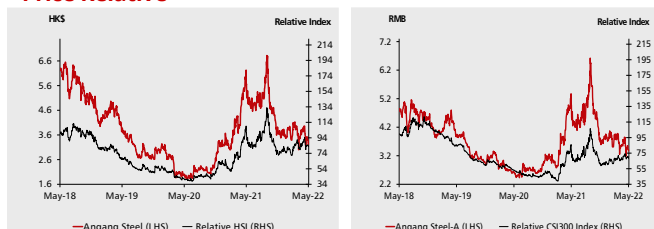
Analyst

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What's New

- Continuously deteriorating GP to cloud outlook
- Lacking strong share catalyst in near term
- Revised down earnings by 54%/57% for FY22F/FY23F on lower unit GP assumption
- Cut our TP to HK\$3.6 or 0.5x target P/BV; maintain HOLD

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	100,903	136,674	117,082	115,911
EBITDA	6,921	13,187	7,506	7,494
Pre-tax Profit	2,403	8,920	3,483	3,509
Net Profit	1,978	6,925	2,773	2,794
Net Profit Gth (Pre-ex) (%)	10.7	250.1	(60.0)	0.8
EPS (RMB)	0.21	0.74	0.29	0.30
EPS (HK\$)	0.24	0.85	0.34	0.34
EPS Gth (%)	10.7	250.2	(60.0)	0.8
Diluted EPS (HK\$)	0.24	0.85	0.34	0.34
DPS (HK\$)	0.10	0.26	0.10	0.10
BV Per Share (HK\$)	6.56	7.34	7.58	7.82
PE (X)	13.5	3.9	9.6	9.5
P/Cash Flow (X)	2.7	2.2	3.9	4.1
P/Free CF (X)	4.3	3.5	9.2	10.7
EV/EBITDA (X)	5.1	2.1	3.4	3.2
Net Div Yield (%)	3.0	7.8	3.1	3.1
P/Book Value (X)	0.5	0.4	0.4	0.4
Net Debt/Equity (X)	0.2	0.0	CASH	CASH
ROAE (%)	3.8	12.3	4.6	4.5
Earnings Rev (%)			(54)	(57)
Consensus EPS (RMB)			0.64	0.66
Other Broker Recs:		B:11	S:0	H:2

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

2Q to see worsening GP

Investment Thesis

Steel GP worsening further since beginning of 2Q. The rising input costs have squeezed quarter-to-date unit steel GP performance. Accordingly, we cut our FY22F/FY23F earnings on a lower steel price assumption. We expect AnSteel's unit GP to contract to RMB319/tonne and RMB316/tonne in 2022/2023, respectively.

Lacking catalyst in near term. We continue to hold a neutral outlook for the company in 2022. It is set to continue to prioritise cost reduction, ultra-low emission renovation projects, as well as low-carbon transformation. We believe the company's rising cash position would enable the fulfilment of its need for investments for future projects.

Carbon development. AnSteel has set its goals for ultra-low emissions and carbon emission reductions for its Anshan, Bayuquan, and Chaoyang manufacturing bases, and has committed the capex investment needed for this purpose.

Valuation:

Our H-share TP of HK\$3.6 is based on a 0.5x FY22F P/BV, pegged to the company's -1SD to historical mean, against its contracting ROE, which is expected to shrink in 2022. Our A-share TP of RMB3.8 is derived based on a 0.6x P/BV, in line with its historical range and consistent with the historical price spread of the dual-listed counter.

Where we differ:

Our FY22F/FY23F earnings are below the consensus, in view of the concerns of declining GP.

Key Risks to Our View:

Unexpected market supply contraction or demand rebound may adversely impact our assumptions.

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\$m/US\$m)	36,056 / 4,593
Major Shareholders (%)	
Anshan Iron and Steel Group Corp	62.8
China National Petroleum Corporation	10.6
Major H Shareholders (As % of H shares)	
H Shares-Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	6.42
GICS Industry: Materials / Metals & Mining	



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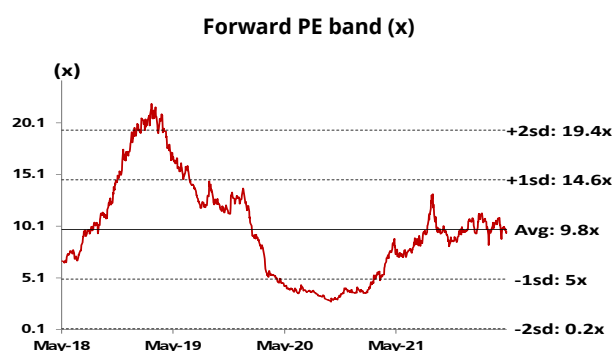
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Angang Steel

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 the 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.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Angang Steel

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for steel products (Mt)	25.4	24.5	24.4	22.4	22.4
ASP for steel products (RMB/t)	4,074.2	4,099.4	5,601.4	5,215.7	5,163.5
Gross profit for steel products (RMB/t)	309.0	228.1	500.4	318.7	315.5

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Steel products	105,587	100,903	136,674	117,082	115,911
Total	105,587	100,903	136,674	117,082	115,911
Gross profit (RMB m)					
Steel products	7,843	5,597	12,209	7,155	7,083
Total	7,843	5,597	12,209	7,155	7,083
Gross profit margins (%)					
Steel products	7.4	5.5	8.9	6.1	6.1
Total	7.4	5.5	8.9	6.1	6.1

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	105,587	100,903	136,674	117,082	115,911
Cost of Goods Sold	(96,782)	(94,313)	(123,434)	(109,927)	(108,828)
Gross Profit	8,805	6,590	13,240	7,155	7,083
Other Opng (Exp)/Inc	(5,357)	(2,818)	(3,086)	(2,644)	(2,617)
Operating Profit	3,448	3,772	10,154	4,511	4,466
Other Non Opg (Exp)/Inc	(565)	(783)	(1,062)	(910)	(901)
Associates & JV Inc	182	191	318	272	270
Net Interest (Exp)/Inc	(1,093)	(777)	(490)	(391)	(327)
Dividend Income	0	0	0	0	1
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,972	2,403	8,920	3,483	3,509
Tax	(212)	(407)	(1,961)	(697)	(702)
Minority Interest	27	(18)	(34)	(14)	(14)
Preference Dividend	0	0	0	0	1
Net Profit	1,787	1,978	6,925	2,773	2,794
Net Profit before Except.	1,787	1,978	6,925	2,773	2,794
EBITDA	6,763	6,921	13,187	7,506	7,494
Growth					
Revenue Gth (%)	0.4	(4.4)	35.5	(14.3)	(1.0)
EBITDA Gth (%)	(55.4)	2.3	90.5	(43.1)	(0.2)
Opg Profit Gth (%)	(70.1)	9.4	169.2	(55.6)	(1.0)
Net Profit Gth (%)	(77.5)	10.7	250.1	(60.0)	0.8
Margins & Ratio					
Gross Margins (%)	8.3	6.5	9.7	6.1	6.1
Opg Profit Margin (%)	3.3	3.7	7.4	3.9	3.9
Net Profit Margin (%)	1.7	2.0	5.1	2.4	2.4
ROAE (%)	3.4	3.8	12.3	4.6	4.5
ROA (%)	2.0	2.2	7.5	2.9	3.0
ROCE (%)	4.4	4.5	11.6	5.3	5.3
Div Payout Ratio (%)	30.0	39.9	30.0	30.0	30.0
Net Interest Cover (x)	3.2	4.9	20.7	11.5	13.6

Source: Company, DBS HK

Angang Steel

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	50,966	50,372	47,895	48,262	48,604
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	13,350	14,658	17,208	17,208	17,208
Cash & ST Invts	4,671	5,330	5,377	5,436	5,088
Inventory	9,793	10,618	18,969	13,175	13,043
Debtors	5,204	2,656	1,914	1,957	1,938
Other Current Assets	3,824	4,412	6,163	6,163	6,161
Total Assets	87,808	88,046	97,526	92,201	92,042
ST Debt	12,195	8,505	650	424	199
Creditors	8,567	10,559	17,993	12,714	12,587
Other Current Liab	8,579	8,638	11,907	11,907	11,907
LT Debt	4,905	4,954	5,113	3,339	1,564
Other LT Liabilities	1,014	1,532	1,671	1,671	1,671
Shareholder's Equity	52,079	53,365	59,666	61,607	63,561
Minority Interests	469	493	526	540	553
Total Cap. & Liab.	87,808	88,046	97,526	92,201	92,042
Non-Cash Wkg. Capital	1,675	(1,511)	(2,854)	(3,326)	(3,352)
Net Cash/(Debt)	(12,429)	(8,129)	(386)	1,673	3,325
Debtors Turn (avg days)	9.0	4.8	2.6	6.0	6.1
Creditors Turn (avg days)	33.2	37.0	42.2	51.0	42.4
Inventory Turn (avg days)	19.0	7.3	4.1	(1.2)	7.5
Asset Turnover (x)	1.2	1.1	1.5	1.2	1.3
Current Ratio (x)	0.8	0.8	1.1	1.1	1.1
Quick Ratio (x)	0.3	0.3	0.2	0.3	0.3
Net Debt/Equity (X)	0.2	0.2	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	0.2	0.0	CASH	CASH
Capex to Debt (%)	20.0	28.1	78.4	106.3	226.9
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	2021A	2022F	2023F
Pre-Tax Profit	1,760	1,996	6,959	2,786	2,806
Dep. & Amort.	3,698	3,741	3,777	3,633	3,658
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	749	472	24
Other Operating CF	891	1,042	733	0	0
Net Operating CF	10,020	9,916	12,218	6,891	6,489
Capital Exp.(net)	(3,415)	(3,778)	(4,518)	(4,000)	(4,000)
Other Invts.(net)	3	165	185	0	0
Invts in Assoc. & JV	(80)	(74)	(154)	0	0
Div from Assoc & JV	0	0	0	0	1
Other Investing CF	226	135	316	0	(1)
Net Investing CF	(3,266)	(3,552)	(4,171)	(4,000)	(4,000)
Div Paid	(2,388)	(1,266)	(1,139)	(832)	(838)
Chg in Gross Debt	(1,093)	(4,840)	(7,513)	(2,000)	(2,000)
Capital Issues	0	0	0	0	0
Other Financing CF	(756)	(491)	74	0	0
Net Financing CF	(4,237)	(6,597)	(8,578)	(2,832)	(2,838)
Currency Adjustments	0	0	0	0	0
Chg in Cash	2,517	(233)	(531)	59	(349)
Opg CFPS (RMB)	0.68	0.68	1.22	0.68	0.69
Free CFPS (RMB)	0.70	0.65	0.82	0.31	0.26

Source: Company, DBS HK

Angang Steel

H Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Aug-21	HK\$5.31	HK\$7.20	Buy
2:	17-Jan-22	HK\$3.85	HK\$4.50	Hold
3:	1-Apr-22	HK\$3.61	HK\$4.00	Hold

Source: DBS HK

Analyst: Duncan Chan

A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Aug-21	RMB5.03	RMB6.00	Buy
2:	17-Jan-22	RMB3.86	RMB4.50	Hold
3:	1-Apr-22	RMB3.55	RMB4.00	Hold

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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