

China / Hong Kong Company Update

Baoshan Iron & Steel Co-A

Bloomberg: 600019 CH Equity | Reuters: 600019.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 May 2022

HOLD

Last Traded Price (13 May 2022): RMB6.07 (CSI300 Index : 3,989)

Price Target 12-mth: RMB6.80 (12% upside) (Prev RMB8.50)

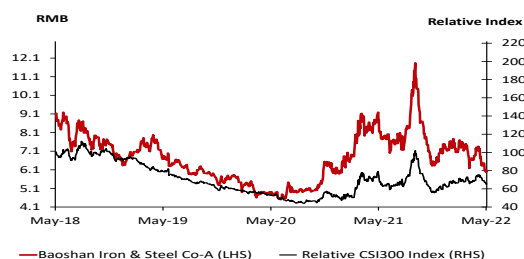
Analyst

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What's New

- Slowing industrial steel market and GP to cloud outlook
- Parent's industry consolidation move remains intact
- Revised down earnings by 21%/19% for FY22F/FY23F on lower unit GP assumption
- Cut our TP to RMB6.8 or 0.7x target P/BV, maintain HOLD

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	284,436	365,342	342,380	342,380
EBITDA	35,936	51,473	46,353	48,887
Pre-tax Profit	16,022	30,708	22,711	24,953
Net Profit	12,677	23,632	17,478	19,203
Net Profit Gth (Pre-ex) (%)	2.0	86.4	(26.0)	9.9
EPS (RMB)	0.57	1.07	0.80	0.87
EPS (RMB)	0.57	1.07	0.80	0.87
EPS Gth (%)	2.6	86.4	(25.4)	9.9
Diluted EPS (RMB)	0.57	1.08	0.80	0.87
DPS (RMB)	0.30	0.59	0.44	0.48
BV Per Share (RMB)	8.32	8.62	9.04	9.43
PE (X)	10.6	5.7	7.6	6.9
P/Cash Flow (X)	4.8	2.2	2.8	3.2
P/Free CF (X)	15.8	3.7	5.3	7.0
EV/EBITDA (X)	4.7	3.3	3.3	3.0
Net Div Yield (%)	5.0	9.7	7.3	8.0
P/Book Value (X)	0.7	0.7	0.7	0.6
Net Debt/Equity (X)	0.1	0.1	CASH	CASH
ROAE (%)	7.0	12.6	9.0	9.5
Earnings Rev (%)			(21)	(19)
Consensus EPS (RMB)			1.05	1.14
Other Broker Recs:		B:25	S:0	H:2

Source of all data on this

Weak GP outlook

Investment Thesis

Industrial steel market momentum slowing. We noted that the decline in steel usage by the machinery sectors was widening over the last quarter. We are concerned that weaker manufacturing activities would cloud the company outlook, given its highest revenue contribution is from flat steel products.

Cloudy outlook for 2022. Despite the company setting a flattish production and sales target for this year, the rising input cost has squeezed the quarter-to-date unit steel GP performance. Accordingly, we cut our FY22F/FY23F earnings on a lower steel price assumption. We expect BaoSteel's unit GP to contract to RMB668/tonne and RMB718/tonne in 2022/2023, respectively.

Parent's industry consolidation intact. BaoWu Group accelerates merger with industry peers, with its target capacity expansion to reach 150m tonnes or >11% of China's total capacity to become China's largest. The move would support the continued increase of the company's concentration in the China steel industry.

Valuation:

Our TP of RMB6.8 is based on a 0.7x FY22F P/BV – lowered target multiple from 0.9x previously – pegged to the historical mean during 2002 and 2020, against its ROE, which is expected to shrink to c.9% in FY22F-23F, below the average of 11% for the historical period.

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 (m shrs)	22,268
Mkt Cap (RMBm/US\$m)	135,167 / 19,910
Major Shareholders (%)	
China Baowu Steel Group Co., Ltd.	48.6
Wuhan Iron and Steel (Group) Corporation	13.4
Free Float (%)	38.0
3m Avg. Daily Val. (US\$m)	104.16
GICS Industry: Materials / Metals & Mining	



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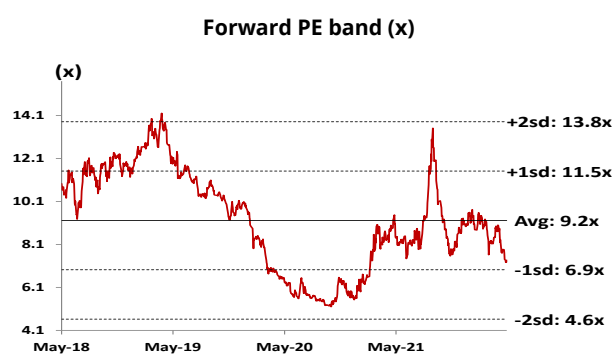


Baoshan Iron & Steel Co-A

Company Background

Headquartered in Shanghai, BaoSteel is the largest flat steel producer in China with 49mt p.a. of crude steel output capacity after merging with Wugang in 2017. In China, BaoSteel has a 50% market share in high-end automotive steel (mainly CRC and galvanised steel), 27% market share in home appliance steel, 47% market share in high-end oriental silicon steel, and 26% market share in non-standard oil pipes (in 2020).

Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for steel products (Mt)	46.9	46.0	46.6	44.4	44.4
ASP for steel products (RMB/t)	4,230.1	4,276.5	5,874.2	5,642.6	5,642.6
Gross profit for steel products (RMB/t)	418.9	515.4	798.1	668.1	717.8

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Steel products	198,309	196,593	273,619	250,657	250,657
Others	93,749	87,843	91,723	91,723	91,723
Total	292,057	284,436	365,342	342,380	342,380
Gross profit (RMB m)					
Steel products	19,638	23,694	37,176	29,677	31,887
Others	12,364	7,804	12,118	12,118	12,118
Total	32,002	31,498	49,294	41,796	44,005
Gross profit margins (%)					
Steel products	9.9	12.1	13.6	11.8	12.7
Others	13.2	8.9	13.2	13.2	13.2
Total	11.0	11.1	13.5	12.2	12.9

Source: Company, DBS HK

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Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	292,057	284,436	365,342	342,380	342,380
Cost of Goods Sold	(260,055)	(252,938)	(316,048)	(300,584)	(298,374)
Gross Profit	32,002	31,498	49,294	41,796	44,005
Other Opg (Exp)/Inc	(10,230)	(8,866)	(7,957)	(7,456)	(7,456)
Operating Profit	21,772	22,632	41,338	34,339	36,549
Other Non Opg (Exp)/Inc	(5,619)	(6,430)	(11,225)	(10,519)	(10,519)
Associates & JV Inc	1,301	1,281	2,383	2,233	2,233
Net Interest (Exp)/Inc	(2,460)	(1,462)	(1,788)	(3,342)	(3,311)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	14,994	16,022	30,708	22,711	24,953
Tax	(1,525)	(2,036)	(4,253)	(3,146)	(3,456)
Minority Interest	(1,046)	(1,309)	(2,823)	(2,088)	(2,294)
Preference Dividend	0	0	0	0	0
Net Profit	12,423	12,677	23,632	17,478	19,203
Net Profit before Except.	12,423	12,677	23,632	17,478	19,203
EBITDA	36,495	35,936	51,473	46,353	48,887
Growth					
Revenue Gth (%)	(4.3)	(2.6)	28.4	(6.3)	0.0
EBITDA Gth (%)	(28.7)	(1.5)	43.2	(9.9)	5.5
Opg Profit Gth (%)	(37.6)	3.9	82.6	(16.9)	6.4
Net Profit Gth (%)	(42.4)	2.0	86.4	(26.0)	9.9
Margins & Ratio					
Gross Margins (%)	11.0	11.1	13.5	12.2	12.9
Opg Profit Margin (%)	7.5	8.0	11.3	10.0	10.7
Net Profit Margin (%)	4.3	4.5	6.5	5.1	5.6
ROAE (%)	7.0	7.0	12.6	9.0	9.5
ROA (%)	3.7	3.6	6.4	4.5	4.8
ROCE (%)	8.5	8.6	14.4	11.2	11.1
Div Payout Ratio (%)	50.2	52.7	55.4	55.4	55.4
Net Interest Cover (x)	8.8	15.5	23.1	10.3	11.0

Source: Company, DBS HK

Baoshan Iron & Steel Co-A

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	147,436	140,204	146,161	148,862	151,239
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	61,633	69,610	84,881	84,881	84,881
Cash & ST Invt	13,439	16,889	20,046	45,338	63,844
Inventory	40,300	39,357	49,490	42,250	41,939
Debtors	11,505	10,686	27,216	17,760	17,760
Other Current Assets	65,321	79,480	52,602	52,602	52,602
Total Assets	339,633	356,225	380,398	391,693	412,266
ST Debt	13,068	12,450	10,933	14,694	18,455
Creditors	29,423	34,291	47,465	38,878	38,592
Other Current Liab	90,096	82,348	79,005	79,005	79,005
LT Debt	11,008	22,363	22,773	29,012	35,251
Other LT Liabilities	4,823	5,030	9,501	9,501	9,501
Shareholder's Equity	178,053	184,371	190,934	198,729	207,293
Minority Interests	13,163	15,371	19,787	21,875	24,169
Total Cap. & Liab.	339,633	356,225	380,398	391,693	412,266
Non-Cash Wkg. Capital	(2,393)	12,884	2,839	(5,270)	(5,295)
Net Cash/(Debt)	(10,637)	(17,925)	(13,660)	1,631	10,138
Debtors Turn (avg days)	33.3	14.2	13.6	24.0	18.9
Creditors Turn (avg days)	52.9	46.0	47.2	52.4	47.4
Inventory Turn (avg days)	37.9	25.7	17.7	22.9	22.9
Asset Turnover (x)	0.9	0.8	1.0	0.9	0.9
Current Ratio (x)	1.0	1.1	1.1	1.2	1.3
Quick Ratio (x)	0.2	0.2	0.3	0.5	0.6
Net Debt/Equity (X)	0.1	0.1	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	0.1	0.1	CASH	CASH
Capex to Debt (%)	73.2	56.2	71.0	52.6	42.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

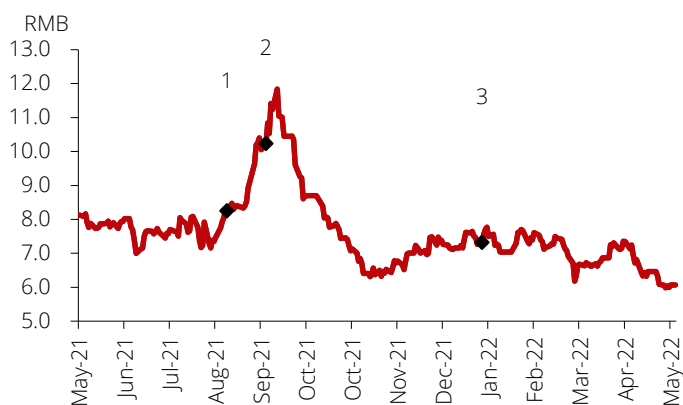
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	13,469	13,985	26,455	22,711	24,953
Dep. & Amort.	19,041	18,452	18,977	20,299	20,623
Tax Paid	0	0	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.	(1,132)	(2,799)	14,244	8,109	25
Other Operating CF	(1,873)	(1,555)	193	(3,146)	(3,456)
Net Operating CF	29,504	28,084	59,869	47,974	42,145
Capital Exp.(net)	(17,624)	(19,573)	(23,922)	(23,000)	(23,000)
Other Invt.(net)	1,011	29,451	4,647	0	0
Invt in Assoc. & JV	(31,245)	(409)	(7,920)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	25,629	(22,857)	161	0	0
Net Investing CF	(22,229)	(13,388)	(27,034)	(23,000)	(23,000)
Div Paid	(14,087)	(7,703)	(17,606)	(9,683)	(10,638)
Chg in Gross Debt	2,938	(6,697)	(9,201)	10,000	10,000
Capital Issues	0	0	0	0	0
Other Financing CF	(336)	698	(4,537)	0	0
Net Financing CF	(11,485)	(13,702)	(31,344)	317	(638)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(4,210)	994	1,491	25,291	18,507
Opg CFPS (RMB)	1.38	1.39	2.06	1.81	1.92
Free CFPS (RMB)	0.53	0.38	1.62	1.14	0.87

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Aug-21	RMB8.25	RMB10.50	Buy
2:	6-Sep-21	RMB10.05	RMB12.00	Buy
3:	17-Jan-22	RMB7.26	RMB8.50	Hold

Source: DBS HK

Analyst: Duncan Chan

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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