

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

7 Jul 2022

H: SELL(Downgrade from HOLD)

Last Traded Price (6 Jul 2022):HK\$2.89(HSI : 21,587)

Price Target 12-mth: HK\$2.70 (6.6% downside) (Prev HK\$3.60)

A: SELL(Downgrade from HOLD)

Last Traded Price (6 Jul 2022):RMB3.22(CSI300 Index : 4,424)

Price Target 12-mth: RMB2.90 (9.9% downside) (Prev RMB3.80)

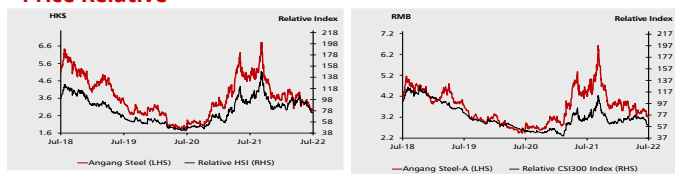
Analyst

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What's New

- Subdued steel demand to cloud market outlook
- Risk of faster decline in steel price than production cost
- Cut FY22F/FY23F earnings on lower unit GP assumption
- Pegged to target multiple of 0.35x P/BV, lower part of the range during 2016-2018 (0.5x prior); downgrade to SELL

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	100,903	136,674	111,228	110,116
EBITDA	6,921	13,187	5,251	5,262
Pre-tax Profit	2,403	8,920	1,219	1,250
Net Profit	1,978	6,925	971	996
Net Pft (Pre Ex) (core profit)	1,978	6,925	971	996
Net Profit Gth (Pre-ex) (%)	10.7	250.1	(86.0)	2.6
EPS (RMB)	0.21	0.74	0.10	0.11
EPS (HK\$)	0.25	0.86	0.12	0.12
EPS Gth (%)	10.7	250.2	(86.0)	2.6
Diluted EPS (HK\$)	0.25	0.86	0.12	0.12
DPS (HK\$)	0.10	0.26	0.04	0.04
BV Per Share (HK\$)	6.64	7.42	7.51	7.59
PE (X)	11.7	3.4	23.9	23.3
P/Cash Flow (X)	2.3	1.9	4.5	5.0
P/Free CF (X)	3.8	3.0	19.5	34.1
EV/EBITDA (X)	4.6	1.8	4.4	4.3
Net Div Yield (%)	3.4	8.9	1.3	1.3
P/Book Value (X)	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	0.2	0.0	CASH	CASH
ROAE (%)	3.8	12.3	1.6	1.6
Earnings Rev (%)			(65)	(64)
Consensus EPS (RMB)			0.60	0.62
Other Broker Recs:		B:9	S:1	H:2

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

Earnings cut twice in two months

Investment Thesis

Subdued steel market sentiment is likely to continue. We noted that the decline in steel usage by the property and machinery sectors has remained over the last quarter. We are concerned that slower manufacturing activities would cloud the company outlook, given its highest revenue contribution is from flat steel products.

Cloudy GP outlook remains. The company setting a flattish production and sales target for this year. The rising input cost has squeezed quarter-to-date unit steel GP. Accordingly, we cut our FY22F/FY23F earnings on a lower steel price assumption. We expect AnSteel's unit GP to contract to RMB211/tonne and RMB208/tonne in 2022 and 2023, respectively.

Carbon goal has limited short-term share catalyst. AnSteel has set its goals for ultra-low emissions and carbon reductions for its Anshan, Bayuquan, and Chaoyang bases. It has committed the capex investment needed for this purpose. However, the progress remains slow and is a limited share catalyst.

Valuation:

Our H-share TP of HK\$2.7 is based on a 0.35x FY22F P/BV, pegged to the company's lower end of its historical range during 2016-2018, against its expected ROE reverting towards a low single digit. Our A-share TP of RMB2.9 is derived based on a 0.45x 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 industry supply or market demand could pose risks to 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)	34,190 / 4,357
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)	3.79
GICS Industry: Materials / Metals & Mining	



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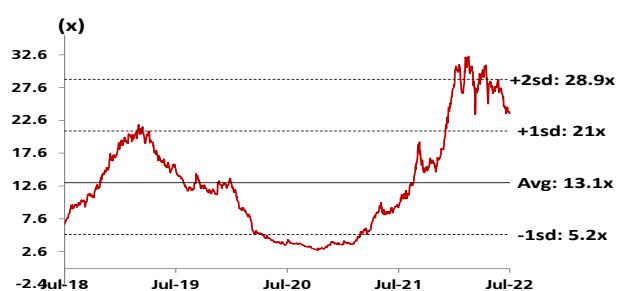
Angang Steel

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

Forward PE band (x)



PB band (x)



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	4,954.9	4,905.4
Gross profit for steel products (RMB/t)	309.0	228.1	500.4	211.0	208.9

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	111,228	110,116
Total	105,587	100,903	136,674	111,228	110,116
Gross Profit (RMB m)					
Steel products	7,843	5,597	12,209	4,736	4,688
Total	7,843	5,597	12,209	4,736	4,688
Gross Profit Margins (%)					
Steel products	7.4	5.5	8.9	4.3	4.3
Total	7.4	5.5	8.9	4.3	4.3

Source: Company, DBS HK

Angang Steel

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	105,587	100,903	136,674	111,228	110,116
Cost of Goods Sold	(96,782)	(94,313)	(123,434)	(106,492)	(105,427)
Gross Profit	8,805	6,590	13,240	4,736	4,688
Other Opng (Exp)/Inc	(5,357)	(2,818)	(3,086)	(2,511)	(2,486)
Operating Profit	3,448	3,772	10,154	2,224	2,202
Other Non Opng (Exp)/Inc	(565)	(783)	(1,062)	(864)	(856)
Associates & JV Inc	182	191	318	259	256
Net Interest (Exp)/Inc	(1,093)	(777)	(490)	(399)	(354)
Dividend Income	0	0	0	0	1
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,972	2,403	8,920	1,219	1,250
Tax	(212)	(407)	(1,961)	(244)	(250)
Minority Interest	27	(18)	(34)	(5)	(5)
Preference Dividend	0	0	0	0	1
Net Profit	1,787	1,978	6,925	971	996
Net Profit before Except.	1,787	1,978	6,925	971	996
EBITDA	6,763	6,921	13,187	5,251	5,262
Growth					
Revenue Gth (%)	0.4	(4.4)	35.5	(18.6)	(1.0)
EBITDA Gth (%)	(55.4)	2.3	90.5	(60.2)	0.2
Opg Profit Gth (%)	(70.1)	9.4	169.2	(78.1)	(1.0)
Net Profit Gth (%)	(77.5)	10.7	250.1	(86.0)	2.6
Margins & Ratio					
Gross Margins (%)	8.3	6.5	9.7	4.3	4.3
Opg Profit Margin (%)	3.3	3.7	7.4	2.0	2.0
Net Profit Margin (%)	1.7	2.0	5.1	0.9	0.9
ROAE (%)	3.4	3.8	12.3	1.6	1.6
ROA (%)	2.0	2.2	7.5	1.0	1.1
ROCE (%)	4.4	4.5	11.6	2.7	2.7
Div Payout Ratio (%)	30.0	39.9	30.0	30.0	29.9
Net Interest Cover (x)	3.2	4.9	20.7	5.6	6.2

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	4,278	2,662
Inventory	9,793	10,618	18,969	12,763	12,635
Debtors	5,204	2,656	1,914	1,860	1,841
Other Current Assets	3,824	4,412	6,163	6,163	6,161
Total Assets	87,808	88,046	97,526	90,534	89,111
ST Debt	12,195	8,505	650	424	199
Creditors	8,567	10,559	17,993	12,317	12,193
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	60,345	61,041
Minority Interests	469	493	526	531	536
Total Cap. & Liab.	87,808	88,046	97,526	90,534	89,111
Non-Cash Wkg. Capital	1,675	(1,511)	(2,854)	(3,438)	(3,463)
Net Cash/(Debt)	(12,429)	(8,129)	(386)	515	899
Debtors Turn (avg days)	9.0	4.8	2.6	6.2	6.1
Creditors Turn (avg days)	33.2	37.0	42.2	51.9	42.4
Inventory Turn (avg days)	19.0	7.3	4.1	(2.0)	7.5
Asset Turnover (x)	1.2	1.1	1.5	1.2	1.2
Current Ratio (x)	0.8	0.8	1.1	1.0	1.0
Quick Ratio (x)	0.3	0.3	0.2	0.2	0.2
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	976	999
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	584	23
Other Operating CF	891	1,042	733	0	0
Net Operating CF	10,020	9,916	12,218	5,192	4,681
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)	(291)	(298)
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)	(2,291)	(2,298)
Currency Adjustments	0	0	0	0	0
Chg in Cash	2,517	(233)	(531)	(1,099)	(1,618)
Opg CFPS (RMB)	0.68	0.68	1.22	0.49	0.50
Free CFPS (RMB)	0.70	0.65	0.82	0.13	0.07

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
4:	16-May-22	HK\$3.28	HK\$3.60	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
4:	16-May-22	RMB3.40	RMB3.80	Hold

Source: DBS HK

Analyst: Duncan Chan

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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