

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

7 Jul 2022

HOLD

Last Traded Price (6 Jul 2022): RMB6.23 (CSI300 Index : 4,424)

Price Target 12-mth: RMB6.50 (4% upside) (Prev RMB6.80)

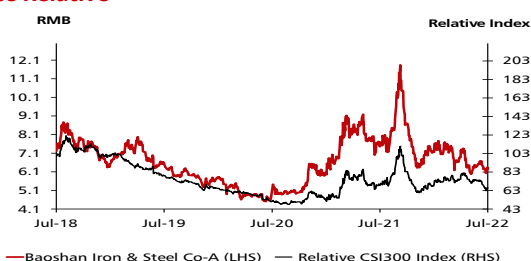
Analyst

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What's New

- Subdued steel demand market to cloud 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 0.7x P/BV, lower part of the range during 2016-2018 (prior 0.9x); maintain HOLD

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	284,436	365,342	337,158	334,703
EBITDA	35,936	51,473	43,626	43,796
Pre-tax Profit	16,022	30,708	19,977	19,828
Net Profit	12,677	23,632	15,373	15,259
Net Pft (Pre Ex) (core profit)	12,677	23,632	15,373	15,259
Net Profit Gth (Pre-ex) (%)	2.0	86.4	(34.9)	(0.7)
EPS (RMB)	0.57	1.07	0.70	0.69
EPS Gth (%)	2.6	86.4	(34.4)	(0.7)
Diluted EPS (RMB)	0.57	1.08	0.70	0.69
DPS (RMB)	0.30	0.59	0.39	0.38
BV Per Share (RMB)	8.32	8.62	9.00	9.31
PE (X)	10.9	5.8	8.9	9.0
P/Cash Flow (X)	4.9	2.3	3.0	3.6
P/Free CF (X)	16.2	3.8	6.0	9.2
EV/EBITDA (X)	4.8	3.3	3.6	3.5
Net Div Yield (%)	4.8	9.5	6.2	6.2
P/Book Value (X)	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.1	0.1	CASH	CASH
ROAE (%)	7.0	12.6	7.9	7.6
Earnings Rev (%)			(12)	(21)
Consensus EPS (RMB)			0.96	0.99
Other Broker Recs:		B:23	S:0	H:3

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

Subdued GP outlook

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 has set a flattish production and sales target for this year. The rising input cost has squeezed the quarter-to-date unit steel GP.

Accordingly, we cut our FY22F/FY23F earnings on a lower steel price assumption. We expect BaoSteel's unit GP to contract to RMB601/tonne and RMB595/tonne in 2022 and 2023, respectively.

Parent's industry consolidation has limited near-term share catalyst. The BaoWu Group accelerates its mergers with industry peers, with its target capacity expansion to reach 150m tonnes or >11% of China's total capacity, to become China's largest. However, we believe that the move would have limited share catalyst in near term.

Valuation:

Our TP of RMB6.5 is based on a 0.7x FY22F P/BV – pegged to the lower end of the historical range during 2016 and 2018, against its expected ROE contraction, which is expected to shrink to c.8% in FY22F-23F.

Where we differ:

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

Key Risks to Our View:

Unexpected industry supply curbs or market demand could pose risks to our assumptions.

At A Glance

Issued Capital (m shrs)	22,268
Mkt Cap (RMBm/US\$m)	138,730 / 20,681
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)	85.00
GICS Industry: Materials / Metals & Mining	

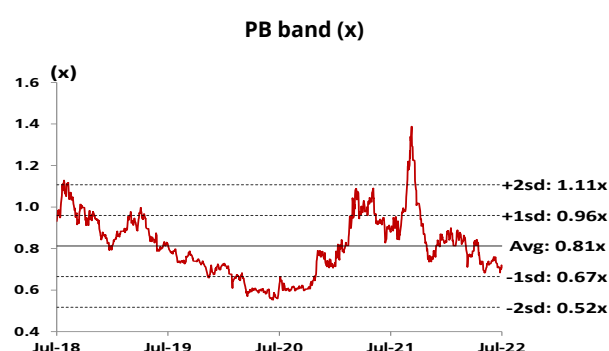
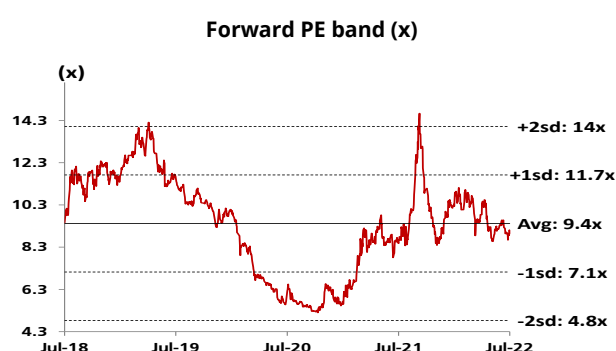


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Baoshan Iron & Steel Co-A**Company Background**

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

Baoshan Iron & Steel Co-A

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	5,525.1	5,469.8
Gross profit for steel products (RMB/t)	418.9	515.4	798.1	601.3	595.3

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	245,435	242,980
Others	93,749	87,843	91,723	91,723	91,723
Total	292,057	284,436	365,342	337,158	334,703
Gross Profit (RMB m)					
Steel products	19,638	23,694	37,176	26,710	26,443
Others	12,364	7,804	12,118	12,118	12,118
Total	32,002	31,498	49,294	38,828	38,561
Gross Profit Margins (%)					
Steel products	9.9	12.1	13.6	10.9	10.9
Others	13.2	8.9	13.2	13.2	13.2
Total	11.0	11.1	13.5	11.5	11.5

Source: Company, DBS HK

Baoshan Iron & Steel Co-A

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	292,057	284,436	365,342	337,158	334,703
Cost of Goods Sold	(260,055)	(252,938)	(316,048)	(298,329)	(296,142)
Gross Profit	32,002	31,498	49,294	38,828	38,561
Other Opng (Exp)/Inc	(10,230)	(8,866)	(7,957)	(7,343)	(7,289)
Operating Profit	21,772	22,632	41,338	31,486	31,272
Other Non Opng (Exp)/Inc	(5,619)	(6,430)	(11,225)	(10,359)	(10,283)
Associates & JV Inc	1,301	1,281	2,383	2,199	2,183
Net Interest (Exp)/Inc	(2,460)	(1,462)	(1,788)	(3,350)	(3,344)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	14,994	16,022	30,708	19,977	19,828
Tax	(1,525)	(2,036)	(4,253)	(2,767)	(2,746)
Minority Interest	(1,046)	(1,309)	(2,823)	(1,836)	(1,823)
Preference Dividend	0	0	0	0	0
Net Profit	12,423	12,677	23,632	15,373	15,259
Net Profit before Except.	12,423	12,677	23,632	15,373	15,259
EBITDA	36,495	35,936	51,473	43,626	43,796
Growth					
Revenue Gth (%)	(4.3)	(2.6)	28.4	(7.7)	(0.7)
EBITDA Gth (%)	(28.7)	(1.5)	43.2	(15.2)	0.4
Opg Profit Gth (%)	(37.6)	3.9	82.6	(23.8)	(0.7)
Net Profit Gth (%)	(42.4)	2.0	86.4	(34.9)	(0.7)
Margins & Ratio					
Gross Margins (%)	11.0	11.1	13.5	11.5	11.5
Opg Profit Margin (%)	7.5	8.0	11.3	9.3	9.3
Net Profit Margin (%)	4.3	4.5	6.5	4.6	4.6
ROAE (%)	7.0	7.0	12.6	7.9	7.6
ROA (%)	3.7	3.6	6.4	4.0	3.8
ROCE (%)	8.5	8.6	14.4	10.3	9.6
Div Payout Ratio (%)	50.2	52.7	55.4	55.4	55.4
Net Interest Cover (x)	8.8	15.5	23.1	9.4	9.4

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
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	61,633	69,610	84,881	84,881	84,881
Cash & ST Invts	13,439	16,889	20,046	44,444	60,847
Inventory	40,300	39,357	49,490	41,933	41,626
Debtors	11,505	10,686	27,216	17,489	17,362
Other Current Assets	65,321	79,480	52,602	52,602	52,602
Total Assets	339,633	356,225	380,398	390,212	408,557
ST Debt	13,068	12,450	10,933	14,694	18,455
Creditors	29,423	34,291	47,465	38,586	38,303
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	197,790	204,596
Minority Interests	13,163	15,371	19,787	21,623	23,446
Total Cap. & Liab.	339,633	356,225	380,398	390,212	408,557
Non-Cash Wkg. Capital	(2,393)	12,884	2,839	(5,566)	(5,718)
Net Cash/(Debt)	(10,637)	(17,925)	(13,660)	738	7,141
Debtors Turn (avg days)	33.3	14.2	13.6	24.2	19.0
Creditors Turn (avg days)	52.9	46.0	47.2	52.6	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	0.8
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	19,977	19,828
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	8,405	152
Other Operating CF	(1,873)	(1,555)	193	(2,767)	(2,746)
Net Operating CF	29,504	28,084	59,869	45,914	37,857
Capital Exp.(net)	(17,624)	(19,573)	(23,922)	(23,000)	(23,000)
Other Invts.(net)	1,011	29,451	4,647	0	0
Invts 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)	(8,517)	(8,453)
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)	1,483	1,547
Currency Adjustments	0	0	0	0	0
Chg in Cash	(4,210)	994	1,491	24,398	16,404
Opg CFPS (RMB)	1.38	1.39	2.06	1.71	1.72
Free CFPS (RMB)	0.53	0.38	1.62	1.04	0.68

Source: Company, DBS HK

Baoshan Iron & Steel Co-A

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
4:	16-May-22	RMB6.07	RMB6.80	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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