



Rating  
**Buy**

Asia  
China

Resources  
Metals & Mining

Company  
**Baosteel Co., Ltd.  
Alert**

Reuters 600019.SS    Bloomberg 600019 CH    Exchange SHH    Ticker 600019

Date  
25 August 2017

## Results

Price at 24 Aug 2017 (CNY)	8.04
Price target - 12mth (CNY)	8.64
52-week range (CNY)	8.63 - 5.39
HANG SENG INDEX	27,519

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### Stock data

Market cap (CNYm)	177,705
Market cap (USDm)	26,678
Shares outstanding (m)	22,102.7
Major shareholders	BaoSteel Group (79.709%)
Avg daily value traded (USDm)	120.3
Free float(%)	20

Source: Deutsche Bank

### Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	185,710	304,804	311,654
Net Profit (CNYm)	8,966.0	14,369.2	15,971.8
DB EPS (CNY)	0.55	0.65	0.72
PER (x)	10.2	12.4	11.1
Yield (net) (%)	3.8	4.2	4.7

Source: Deutsche Bank

## Stably moving and waiting for synergy to realize; Buy re-iterated

### 1H17 results should be in-line with consensus

Baosteel announced its 1H17 results after market close on August 24. In 1H17, the company has recorded revenue of RMB170.1bn, RMB 8.51bn for operating profit, and NPAT of RMB 6.2bn. The company's bottom line reached 42.1% FY17 DBE and 48.1% Bloomberg 2017 full year estimates. We believe the 1H17 results is in-line with consensus but disappointed DBE as a result of lower-than-expected GP/t.

### 2Q17 GP/t down RMB325/t, but our full year forecast remains intact

The company's shipment volume in 2Q17 came at 12mt, up 12% QoQ. 2Q17 ASP dropped RMB350/t QoQ, in line with market price movement for flat steel products. Baosteel's steel products 2Q17 GP/t dropped by RMB325/t QoQ, which compressed GPM to 10.4% in 2Q17 from 16.3% in 1Q17. With QTD HRC spread (as a proxy for steel plate profitability) already improved by c.RMB400/t, we remain comfortable with our FY17 NPAT estimate of c.RMB14bn given the optimistic profitability outlook for 2H17. Our FY17 DBE NPAT is currently 12% above Bloomberg consensus.

### Outlook remains positive, maintain Buy

We expect profitability improvement in 3Q17 for Baosteel due to upcoming peak demand season driven by seasonal recovery in auto production. Meanwhile, winter pollution measures will likely keep 4Q17 D/S of steel market tight (Details in our report: Undervalued structural changes, reiterating Buy for steel sector, published on 18 July 2017). These will likely play out to be the catalysts to let Baosteel's profitability remain upbeat. Thus, we maintain our Buy rating for Baosteel.