Deutsche Bank Markets Research



Asia China

Resources Metals & Mining

Baos Aler	steel Co t	o., Ltd.
Reuters	Bloomberg	Exchange Tic

Bloomberg 600019 CH

Exchange Ticker 600019 SHH

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

600019.SS

Company

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 2017 came at 12mt, up 12% QoQ. 2017. 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.

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

James Kan

Research Analyst (+852) 2203 6146 james.kan@db.com

Stock data

Stock data			
Market cap (CNY	177,705		
Market cap (USD	26,678		
Shares outstandir	22,102.7		
Major shareholde	BaoSteel Group (79.709%)		
Avg daily value tr (USDm)	aded		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			

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