



Rating
Buy

Asia
China

Resources
Metals & Mining

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

Reuters 600019.SS Bloomberg 600019 CH Exchange SHH Ticker 600019

Date
30 October 2017

Results

Price at 27 Oct 2017 (CNY)	7.70
Price target - 12mth (CNY)	9.30
52-week range (CNY)	8.64 - 5.56
HANG SENG INDEX	28,439

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Synergy starts to surface; Buy re-iterated

9M17 results beat consensus and DB estimates

Baosteel announced its 9M17 results after market close on October 27. For the first three quarters, the company has recorded revenue at 252.1bn and NPAT at RMB 11.7bn. The result beats both DB and Bloomberg consensus, achieving 80.7% FY17 DBe and 82.8% Bloomberg 2017 full year estimates. Meanwhile, for 3Q17 alone, Baosteel's NPAT was RMB5.5bn, 130% up QoQ. We believe the results should trigger street analysts to upgrade their estimates.

Strong cost reduction; Wugang turnaround and synergy starts to surface

The company's sales volume in 3Q17 came at 11.5mt, down 4% QoQ. Baosteel's products 3Q17 GP/t increased by RMB 317.5/t QoQ. The cost of goods sold in 3Q17 decreased by 8.0% QoQ. Baosteel reported a cost reduction of RMB17.2bn in 3Q17 alone or RMB55.4bn for 9M17(compare to FY2015 cost level) and might overachieve its full year cost reduction target of RMB60bn. Meanwhile, the company also reported that its newly acquired Wugang assets have turned around to be profitable with 3Q17 NPAT at RMB855m. Meanwhile, the merger synergy also start to surface and contribute RMB770mn of profits.

Outlook remains positive, maintain Buy

Winter pollution measures in northern China will likely keep 4Q17 steel D/S tight and Baosteel's operations being all in southern China are among the beneficiaries. We also believe the good profitability of the steel industry will last into 2018 as we explains in our report: 2018 should be just as good; conviction Buy, published on September 5, 2017). Baosteel is currently trading at 11.8x 2017DBe NPAT and 1.1 PBx. With upcoming synergy to be delivered and great profitability to be maintained, we think the valuation is undemanding. Buy re-iterated.

Stock data

Market cap (CNYm)	170,190
Market cap (USDm)	25,593
Shares outstanding (m)	22,102.7
Major shareholders	BaoSteel Group (79.709%)
Avg daily value traded (USDm)	145.5
Free float(%)	20

Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	185,710	305,804	314,158
Net Profit (CNYm)	8,966.0	14,460.6	18,760.4
DB EPS (CNY)	0.55	0.65	0.85
PER (x)	10.2	11.8	9.1
Yield (net) (%)	3.8	4.4	5.7

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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