Company Report

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Angang (00347 HK)
鞍钢股份（00347 HK）

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Core product demand grows strongly, upgrade to “Accumulate”
核心产品需求增长强劲，上调至收集评级

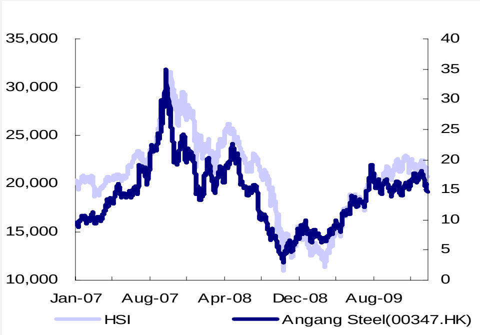
- With current production capacity 6.5mn tons, Bayuquan Base, will run in full capacity in 2010. Angang is expected to produce 19.0mn tons and 22.0mn tons of steel product in 2009 and 2010, up 24% and 15% yoy, respectively. The strong and fast recovery of cold rolled product, its core product, will boost Angang's profitability in 2010.
- Angang's the cold rolled steel products and related coated products increase steadily in 2H09. And Angang raised its Feb cold rolled product selling price by RMB 50 to 230. We expect the strong price of its cold rolled products will continue as the demand is still strong and the trader's inventories are not high. Angang can capture the cold rolled product growth to improve its revenue and profit in 2010.
- We consider Angang not only a cyclical stock but also a growth stock with rapid capacity expansion, constant technique upgrade, and increasing market power. According to the updated sales volume given by the management guidance, we revise down its 09 EPS to RMB 0.253 by 6%; we revise up its FY10-11 EPS to RMB 0.852 and RMB 1.012 by 116% and 146% respectively. We set TP of HK$ 23 for Angang representing 23.8x 2010 PE and 20.0x 2011PE.
- 鲅鱼圈基地，目前产能达到 650 万吨，将在 2010 年满负荷运营。鞍钢 09 年和 10 年预期生产 1,900 万吨和 2,200 万吨钢材产品，同比上升 24%和 15%。鞍钢核心盈利产品冷轧的快速复苏提升了鞍钢在 2010 年的盈利预期。
- 从 2009 年下半年开始，鞍钢的冷轧产品价格涨势良好，鞍钢上调 2 月份冷轧销售价格 50 元至 230 元不等。我们认为这种涨势可以持续，因为产品的需求很强并且贸易商的冷轧库存不高。我们认为鞍钢能够很好的抓住冷轧产品的增长机会提升其在 2010 年的收入和利润。
- 我们认为鞍钢不仅是一个周期型股票，而且是一个成长型股票。他成长性来自于快速的产能扩张，持续的技术升级，和不断增长的市场份额。根据管理层销售量指引的更新，我们调低了 09 年公司的每股盈利达到 0.253 元人民币，下调 6%，调高了 10 年和 11 年公司的每股盈利至 0.852 元人民币和 1.012 元人民币，分别上调 116%和 146%。 我们给鞍钢的目标价为 17.5 港元，相当于 18.0 倍的 2010 年市盈率和 15.2 倍的 2011 年市盈率。评级为“收集”。

Rating: Accumulate
评级：收集

6-18m TP 目标价: HK$17.50

Share price 股价：HK$ 14.68

Stock performance
股价表现



Change in Share Price 股价变动	1M 1个月	3M 3个月	1Y 1年
Abs. % 绝对变动 %	-13.03	-9.83	127.60
Rel. % to HS index 相对恒指变动 %	-9.36	-1.58	62.82
Avg share price(HK$) 平均股价(港元)	16.71	16.15	13.07

Source: Bloomberg, Guotai Junan (HK)

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (△%)	PER 市盈率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2007	65,294	7,534	1.121	-6.2	12.3	0.592	4.3	17.9
2008	78,985	2,993	0.414	-63.1	31.2	0.210	1.6	5.6
2009E	72,918	1,882	0.253	-39.0	51.2	0.126	1.0	3.4
2010E	98,972	6,348	0.852	237.3	15.2	0.426	3.3	10.9
2011E	106,135	7,540	1.012	18.8	12.8	0.506	3.9	12.2

Shares in issue (m) 总股数 (m)	7452.0	Major shareholder 大股东	鞍钢集团 67.3%
Market cap. (HK$ m) 市值 (HK$ m)	109,395.4	Free float (%) 自由流通比率 (%)	17.5
P/B (x) 市净率 (x)	1.6	NBV per share (HK$) 每股净资产 (HK$)	9.1
52 Weeks high/low (HK$) 52 周高/低	19.64/6.05	3 Month Trading Volume 3 个月成交股数（千股）	17,886.53.

Source：the Company, Guotai Junan (HK)

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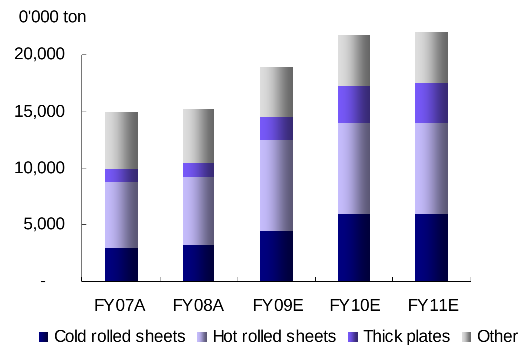
Company Analysis

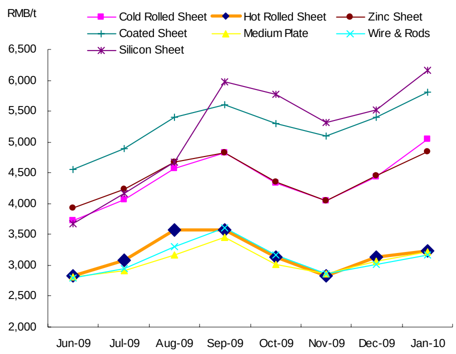
2010 sales volume target of Angang will reach 22.0mn tons, up 15% yoy. In 2009, two 4,083 cubic meters blast furnaces with coefficient of utilization rate of 2.3 were put into operation in Bayuquan base, the iron production capacity of which reaches 6.5mn tons. According to the management guidance, Angang sales volume target in 2009 and 2010 will reach 19.0mn tons and 22.0mn tons, respectively, or up 24% and 15% Yoy respectively. The 1,580m hot rolled sheet production with capacity of 2.96mn tons in Bayuquan ran in full capacity in 2009 and the 5,500m thick plate production line with capacity of 2.0mn tons was in the installation and trial run period in 2H09, expected to run in full capacity in 2010. The high-end thick plate production line aims to produce complete series of ship plates. The 2,130m cold rolled production line was also finished in original base in 2009, increasing capacity of 1mn tons. In 2011, the 1.0mn tons cold rolled production line in Bayuquan base is expected to be under construction. From 4Q09, half of its investment associate---Tian Tie Cold Rolled Sheet Factory capacity, amounting to 1mn tons, will be merged in to Angang's financial statements as Angang assigned management team to this investment associate and took control of the company. But Angang and Tian Ye will assign management team to the Tian Tie Cold Rolled Sheet Factory alternately, which means Angang will remove approximately 1mn tons sales volume from financial statements from 2012 to 2013. Considering the high sale to production ratio, we think Angang's 2010 sales volume target can be achieved. The capacity expansion pace of Angang is very fast and, if the downstream demand keeps strong in 2010, we expect the management will discuss construction of Bayuquan base's 2nd Phase by year end.

Figure 1: Angang's Sales Volume



Source: Guotai Junan (HK)

Figure 2: Angang's Steel Product Selling Price

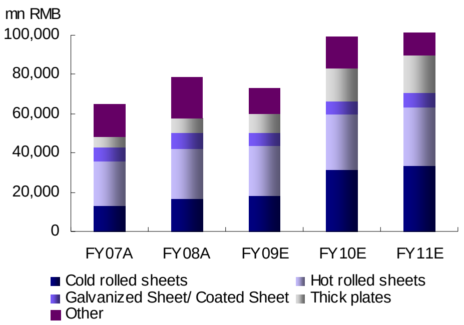


Source: Guotai Junan (HK), Mysteel

Angang's Selling price of cold rolled sheet in Jan 10 reached RMB5,897/t, 23.9% higher than the average market price RMB4,761 in FY09. As Angang's revenue increasingly rely on cold rolled sheet and hot rolled sheet, the average selling price trends of these two products are vital to Angang's future earnings. According to the product selling price provided by Angang, we conclude that demand for the cold rolled sheet and related zinc sheets and coated sheet recovered very fast in 2H09, while that of the hot rolled sheet, medium plate, and thick plate selling price was very weak. Nearly 1/4 demand of the cold rolled sheet and strip derives from the automobile and white goods sector, which experienced sales boom in 2009. When the preferential policies for consumption remain for these two products, the expected future high growth will trigger fast recovery of cold rolled demand. In the short run, we expect the strong growth of the automobile and white goods to continue. The utilization rate of the majority of the cold rolled production lines reached around 95%. The nearly full capacity operation also leads to strong CR price. Nearly 1/3 of the medium and thick plates domestic produced are ship plates. Ship industry will not recover until the end of 2011 because peak of the new ship delivery has not come yet, which means that the ship price is expected to fall and new orders for shipbuilding is constrained. As new orders are limited and the delivery was postponed, the ship builders tend to slow the manufacturing process, thus lowering the purchase of thick plates. The hot rolled sheet is widely used in the construction sector and machinery sector, and the domestic production capacity of hot rolled sheet increases fast, leading to very high inventories in traders. The hot rolled sheet demand must go through the destocking process in 1Q10.

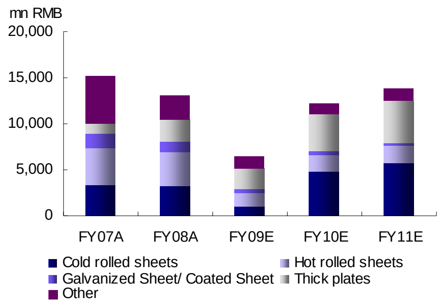
Angang's profit growth is expected to increasingly focus on thick plates, cold rolled sheets, and related zinc sheets and coated sheets. From 2007 till now, Angang's revenue and profit generators have become increasingly concentrated on its core products, such as cold rolled sheets and other related zinc sheets and coated sheets. The cold rolled sheet products are more customer-oriented and have more differentiated products and the large steel mills can improve CR product margin by designing customer-oriented products. Currently the price of CR product is round RMB 1,500 higher than that of the construction steel. Because the five largest steel groups' market shares in CR market reached over 60% we expect the premium to exist in the long run. As government ceased approving new steel projects, the oversupply risk is reducing in 2010. We expect Angang's gross margin of the CR product to return to its normal level in 2010, around 25%. We expect the CR product and related coated sheets to contribute large parts of Angang's revenue and profit in 2010.

Figure 3: Angang's Revenue Structure



Source: Guotai Junan (HK), the Company

Figure 4: Angang's Profit Structure



Source: Guotai Junan (HK), the Company

Cost pressure still exists in 2010. Although Angang can benefit from the iron ore purchase contract with the parent company, Angang will still face cost pressure from the iron ore and coking coal market. 80% of Angang's iron ore was purchased according to the average custom imported spot price last half year with 5% discount. Angang's cost pressure was lower than the peers which purchase totally from the spot market such as Chongqing Iron but may be higher than some peers who have long term and favorable contract price with the oversea iron ore suppliers. Angang's iron ore purchasing price from its parent perhaps will reach USD 78 in 1H10, 7% higher than that in 2H09, and the purchasing price in 2H10 will be expected to increase to around USD 95. Iron ore price soared very quickly in Dec 2009, reaching USD 111/t. This price is 32% higher than the average spot price in 2009, and returned to the price level in Aug 2007. The strong iron ore price comes from iron ore market structure. The Rio Tinto and BHP plan to merge their iron ore selling business in West Australia, which would largely increase the market concentration again. China failed to reach the agreement with CVRD, Rio Tinto, and BHP (the big three) in 2009 and part of the iron ore purchase shifts from contract market to spot market, largely increasing the volatility of the iron ore price. The expectation released by the big three that iron ore contract price will rise 30% was quickly absorbed by the market. Furthermore, India raised 5% tax on exported iron ore, also boosting the price.

Chart 1: Assumption Revision

	FY09 (Old)	FY09 (New)	Change %	FY10 (Old)	FY10 (New)	Change %	FY11 (Old)	FY11 (New)	Change %
Sales Volume ('000 tons)	16,763	18,852	12%	17,617	21,770	24%	18,117	22,070	22%
Avg. Price (Rmb/ton)	4,273	3,868	-9%	4,474	4,546	2%	4,469	4,809	8%
Unit cost (Rmb/ton)	3,881	3,679	-5%	4,068	4,047	0%	4,059	4,250	5%
SG&A/Revenue	-4%	-4%	0%	-3%	-3%	0%	-3%	-3%	0%
Interest rate	-4%	-4%	0%	-4%	-4%	0%	-4%	-4%	0%
Effective income tax	-22%	-22%	0%	-22%	-22%	0%	-22%	-22%	0%
Dividend rate	-50%	-50%	0%	-50%	-50%	0%	-50%	-50%	0%
EPS	**0.269**	**0.253**	**-6%**	**0.395**	**0.852**	**116%**	**0.411**	**1.012**	**146%**

Source: Guotai Junan (HK), the Company

Our prediction on production volume in the interim report is too cautious, due to oversupply concerns. We now think the oversupply risk in cold rolled sectors does not exist, and the downstream demand grows and upgrades fast. According to the management latest guidance, we revise up the production volume of Angang in FY10-11 to 18.9mn tons and 21.8mn tons. We revise down by 9% Angang's 09 average selling price from Rmb

4,273/t to RMB 3,868/t according to the product prices released by Angang. We revise down by 5% our FY10 unit cost assumption from RMB 3,881/t to RMB 3,679/t. Angang's 4Q average selling price is 5% lower than its 3Q average selling price, and we consider its 4Q earning should be slightly lower than its 3Q earnings. So we revise down by 6% its 4Q EPS from RMB 0.269 to RMB 0.253. Our assumptions of avg. selling price and unit cost in 2010 almost remain unchanged at RMB 4,546/t and RMB 4,047/t, respectively. Due to the sales volume adjustment, we revise up its 2010 EPS to RMB 0.852, up 116%. We also revise up Angang's average selling price and unit cost in 2011 to RMB 4,809 and RMB 4,250, up 8% and 5% respectively. Due to the sales volume revision, we revise up by 146% Angang's 2011 EPS from RMB 0.411 to RMB 1.012.

Risk

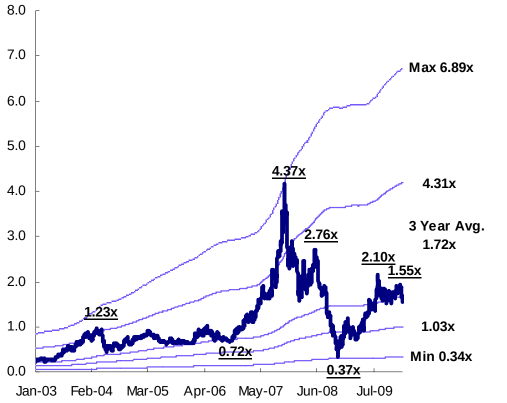
1） **The valuation of steel stocks would face correction along with that of the real estate stocks.** The steel industry is highly correlated with the real estate industry. When the valuation of real estate sector faces correction, the steel valuation of steel stocks also corrects. However, the market expects China's GDP will continue to grow strongly at least 8% in 2010 and the consumption and export will contribute more to steel demand growth, especially the high-end cold rolled steel products. Although the valuation of leading steel mills will be under pressure in 1Q10 but their stable and strong growth would bring their valuation back in 2H10.

2） **The current soaring iron ore prices give the steel stocks valuation pressure.** The iron ore prices rise very quickly in Jan 10, reaching USD 135/t. The cost pressure brings uncertainties to the performance of steel mills in 2010. We consider the hike of the iron ore prices are temporary and would not last as the medium & small steel mills would not afford such high iron ore prices and would reduce their production volume as long as their cheap iron ore inventories are used up in 1H10. The potential production reduction will also give a gloomy view of the China's industry. However, we consider the negative impact temporary as the sales to production ratio is very high in leading steel mills because the high-end flat products are always in short supply. The constantly net import of cold rolled steel mills will be the best indicator for observing the strength of domestic cold rolled demand. There will not severe sales problem for leading steel mills as long as the GDP growth at over 8%.

Valuation

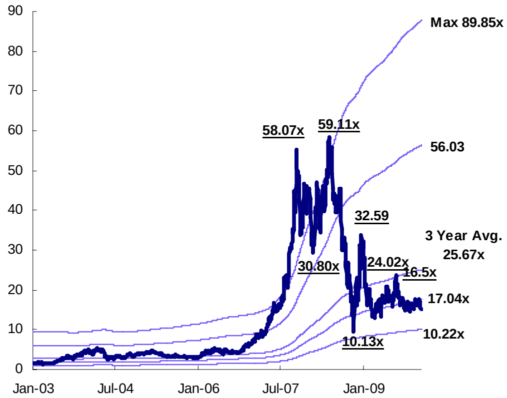
We consider Angang not only a cyclical stock but also a growth stock with rapid capacity expansion, constant technique upgrade and increasing market power. The steel mills in Hong Kong market are all in the 3 years average Forward PE or PB position. In short run, due to the real estate contraction and strong iron ore prices we expect a value correction in Steel mills in 1Q10. However, as the growth foundation in 2010 is much stronger than that in 2009, we expect steel mills stocks grow more stably and relatively slowly. Unlike Chongqing Iron and Magang, the average of Angang's valuation indicators like Forward PB and Forward PE are obviously in uptrend. Currently, the 1 year Forward PB of Angang is about 1.6x, slightly below its 3 year average of 1.72x, and its 1 year Forward PE is around 15.0x, much lower than its 3 year average of 25.7x. Due to Angang's growth potential in the future, we consider PE will be more appropriate. We set TP of HK$ 17.5 for Angang, representing 18x 2010 PE and 15.2x 2011PE.

Figure 5: Angang Forward PB Band



Source: Guotai Junan (HK), Bloomberg

Figure 6: Angang Forward PE Band



Source: Guotai Junan (HK), Bloomberg

In peer group comparison, if we use PE ratio as our valuation tool, Angang is currently trading at 15.0x 2010E PE, representing approximately a 50% discount to the global weighted average; and Angang is now trading at 12.8x 2011E PE, representing approximately 8% premium to the global weighted average. Our TP is HKD 17.5, representing 18x 2010 PE, which is 42% discount to the global average.

Chart 2: Peer Group Comparison

				Mkt. Cap	P/E			P/B			EV/EBITDA		ROE %		
Company/Region	**Ticker**	**$**	**Last Price**	**(HK$ mn)**	**09F**	**10F**	**11F**	**09F**	**10F**	**11F**	**09F**	**10F**	**09F**	**10F**	**11F**
Hong Kong															
ANGANG STEEL CO LTD-H	***347 HK***	***HKD***	***14.68***	***101,002***	***51.2***	***15.2***	***12.8***	***1.7***	***1.6***	***1.5***	***14.1***	***7.8***	***3.4***	***10.9***	***12.2***
MAANSHAN IRON & STEEL-H	323 HK	HKD	5.00	39,920	29.5	24.7	23.5	1.1	1.1	1.0	8.2	5.6	3.8	4.4	4.5
CHONGQING IRON & STEEL CO-H	1053 HK	HKD	2.75	9,371	11.8	6.9	5.6	0.7	0.7	0.6	13.1	8.7	6.2	10.0	11.4
SHOUGANG CONCORD CENTURY HL	103 HK	HKD	0.96	1,845	9.4	6.3	4.1	0.8	0.7	0.6	6.9	5.5	8.8	12.0	16.2
XINGDA INT'L HOLDINGS	1899 HK	HKD	3.98	5,517	10.0	8.2	8.1	0.9	0.9	0.7	6.0	4.6	14.2	16.2	14.2
Mean (Simple)					**22.4**	**12.3**	**10.8**	**1.0**	**1.0**	**0.9**	**9.7**	**6.4**	**7.3**	**10.7**	**11.7**
Mean (Weighted)					**41.4**	**16.7**	**14.8**	**1.4**	**1.4**	**1.3**	**12.2**	**7.2**	**4.1**	**9.4**	**10.3**
Median					**11.8**	**8.2**	**8.1**	**0.9**	**0.9**	**0.7**	**8.2**	**5.6**	**6.2**	**10.9**	**12.2**
China															
BAOSHAN IRON & STEEL CO-A	600019 ch	CNY	7.87	156,916	24.6	14.1	11.4	1.4	1.3	1.2	8.9	6.7	5.9	9.5	11.5
WUHAN IRON & STEEL CO LTD-A	600005 ch	CNY	7.17	63,987	27.6	13.2	9.8	1.9	1.7	1.5	12.9	7.9	6.5	12.4	15.0
SHANXI TAIGANG STAINLESS-A	600005 ch	CNY	8.13	52,727	74.6	19.3	13.9	2.2	2.0	1.8	13.2	8.9	2.6	10.0	12.4
PANZHIHUA NEW STEEL-A	000629 ch	CNY	8.08	52,682	134.7	28.2	27.9	3.1	3.0	2.7	56.3	23.4	n.a	n.a	n.a
DAYE SPECIAL STEEL CO LTD-A	000708 ch	CNY	10.94	5,598	18.2	15.0	12.9	2.5	2.2	1.9	n.a	n.a	11.1	13.7	14.2
BENGANG STEEL PLATES CO-A	000761 ch	CNY	6.56	21,983	n.a	21.9	14.4	1.3	1.1	1.0	6.9	4.0	2.9	11.4	14.4
XINXING DUCTILE IRON PIPES-A	000778 ch	CNY	12.83	21,539	16.7	14.1	12.2	2.0	1.8	1.7	10.5	9.6	11.9	11.9	12.6
HUBEI FUXING SCIENCE & TEC-A	000926 ch	CNY	12.45	10,064	24.0	18.8	15.1	2.2	2.0	1.8	18.6	14.8	9.5	11.1	10.0
HUNAN VALIN STEEL CO LTD -A	000932 ch	CNY	6.65	20,728	84.2	17.7	11.3	1.2	1.2	1.1	n.a	n.a	1.5	6.0	8.8
XINING SPECIAL STEEL CO-A	600117 ch	CNY	9.49	8,009	107.8	33.3	20.1	2.7	2.6	2.3	n.a	n.a	1.3	7.3	12.9
HANGZHOU IRON & STEEL CO-A	600126 ch	CNY	6.37	6,085	35.4	12.7	9.9	1.4	1.3	1.2	11.3	8.0	4.0	8.4	10.8
NANJING IRON & STEEL CO-A	600282 ch	CNY	5.36	10,282	47.9	21.1	15.2	2.0	1.8	1.6	14.4	9.7	4.9	10.8	13.7
ANYANG IRON & STEEL CO LTD-A	600569 ch	CNY	5.06	13,790	63.3	16.5	9.7	4.3	3.6	2.7	137.2	102.4	n.a	n.a	n.a
XINYU IRON & STEEL CO LTD-A	600782 ch	CNY	8.31	13,184	51.9	17.8	13.2	1.4	1.3	1.2	17.5	9.1	3.0	6.0	8.2
SANSTEEL MINGUANG CO LTD -A	002110 ch	CNY	14.31	8,712	66.9	15.2	10.7	2.8	2.4	1.9	24.4	9.7	3.5	10.8	17.7
Mean (Simple)					**55.6**	**18.6**	**13.9**	**2.2**	**2.0**	**1.7**	**27.7**	**17.9**	**5.3**	**10.0**	**12.5**
Mean (Weighted)					**48.9**	**17.5**	**13.8**	**2.0**	**1.8**	**1.6**	**19.3**	**11.7**	**4.5**	**8.6**	**10.6**
Median					**49.9**	**17.7**	**12.9**	**2.0**	**1.8**	**1.7**	**13.8**	**9.3**	**4.0**	**10.8**	**12.6**
Other Asia Pacific															
JFE HOLDINGS INC	5411 JP	JPY	3,305.00	175,410	13.8	51.7	10.6	1.3	1.2	1.2	10.4	6.4	2.7	12.1	12.9
NIPPON STEEL CORP	5401 JP	JPY	362.00	212,847	14.0	157.4	13.0	1.3	1.3	1.2	13.5	7.5	1.1	9.8	11.2
SUMITOMO METAL INDUSTRIES	5405 JP	JPY	264.00	109,595	11.9	n.a	20.1	1.4	1.5	1.4	18.8	4.9	0.5	7.2	9.1
POSCO	005490 KS	KRW	588,000.00	346,123	15.8	10.2	9.6	1.6	1.4	1.3	5.8	4.9	15.0	14.7	14.7
HYUNDAI STEEL CO	004020 KS	KRW	87,100.00	50,010	8.2	11.5	9.2	1.3	1.1	1.0	12.9	8.1	19.6	8.0	9.0
STEEL AUTHORITY OF INDIA	SAIL IN	INR	225.60	156,855	16.7	15.7	13.3	3.4	2.8	2.4	9.3	7.5	20.0	19.2	20.3
TATA STEEL LTD	TATA IN	INR	624.55	93,275	5.6	239.5	9.9	1.5	2.3	2.0	13.4	7.3	1.4	18.0	22.3
CHINA STEEL CORP	2002 TT	TWD	32.95	104,899	36.0	13.9	10.8	1.8	1.6	1.6	24.2	10.5	4.4	11.8	12.7
Mean (Simple)					**15.2**	**71.4**	**12.1**	**1.7**	**1.7**	**1.5**	**13.5**	**7.1**	**8.1**	**12.6**	**14.0**
Mean (Weighted)					**15.6**	**58.4**	**11.8**	**1.7**	**1.6**	**1.5**	**11.7**	**6.7**	**15.6**	**13.1**	**14.2**
Median					**13.9**	**15.7**	**10.7**	**1.4**	**1.5**	**1.3**	**13.1**	**7.4**	**3.5**	**12.0**	**12.8**
USA and Europe															
UNITED STATES STEEL CORP	x us	USD	55.00	61,282	n.a	29.6	9.1	1.7	1.8	1.4	n.a	8.3	(31.7)	8.9	22.3
NUCOR CORP	nue us	USD	44.19	108,131	n.a	16.7	11.2	1.9	1.8	1.6	72.6	7.5	n.a	10.9	16.8
STEEL DYNAMICS INC	stld us	USD	16.40	27,487	n.a	11.3	8.4	1.8	1.6	1.3	15.4	6.4	0.2	15.9	19.1
AK STEEL HOLDING CORP	aks us	USD	20.19	17,163	n.a	15.4	8.2	2.6	2.4	1.9	25.8	5.3	(10.5)	16.5	26.2
ARCELORMITTAL	mt na	EUR	30.32	520,418	2,383.0	16.9	10.0	1.1	1.1	1.0	16.0	8.0	0.2	6.5	10.8
EVRAZ GROUP SA - GDR REG S	evr li	EUR	33.50	113,963	n.a	22.1	8.8	1.8	1.7	1.5	18.2	7.6	(13.7)	7.5	15.0
THYSSENKRUPP AG	tka gr	EUR	24.49	138,574	n.a	28.2	10.5	1.3	1.3	1.2	5.1	3.6	4.0	12.1	15.0
SSAB AB-A SHARES	ssaba ss	EUR	127.20	43,340	n.a	19.3	11.7	1.3	1.2	1.1	149.0	9.3	(4.4)	6.6	10.0
Mean (Simple)					**2,383.0**	**19.9**	**9.7**	**1.7**	**1.6**	**1.4**	**43.2**	**7.0**	**(8.0)**	**10.6**	**16.9**
Mean (Weighted)					**1,203.6**	**19.6**	**10.0**	**1.4**	**1.4**	**1.2**	**25.5**	**7.3**	**(3.1)**	**8.4**	**13.6**
Median					**2,383.0**	**18.1**	**9.6**	**1.8**	**1.7**	**1.4**	**18.2**	**7.5**	**(4.4)**	**9.9**	**15.9**
Latin America															
CIA SIDERURGICA NACIONAL SA	csna3 bz	BRL	53.60	173,203	17.0	12.6	10.9	6.3	4.8	4.9	14.0	8.9	31.7	36.2	37.3
GERDAU S.A.	ggbr3 bz	BRL	19.80	146,272	21.9	10.0	7.8	1.5	1.3	1.3	13.9	8.1	7.6	12.2	15.7
USINAS SIDER MINAS GER-PF A	usim5 bz	BRL	46.50	101,995	24.5	12.1	8.8	1.5	1.4	1.3	17.1	7.0	6.5	11.4	12.7
TERNIUM SA-SPONSORED ADR	tx us	USD	33.98	52,949	15.0	13.5	10.9	1.3	1.2	1.1	13.4	6.9	10.0	8.7	9.4
TENARIS SA-ADR	ts us	USD	45.06	206,736	22.7	19.3	12.3	3.4	3.1	2.2	n.a	n.a	14.3	16.4	19.7
Mean (Simple)					**20.2**	**13.5**	**10.2**	**2.8**	**2.4**	**2.2**	**14.6**	**7.7**	**14.0**	**17.0**	**19.0**
Mean (Weighted)					**11.3**	**14.1**	**10.4**	**3.3**	**2.8**	**2.5**	**10.2**	**5.6**	**15.8**	**19.2**	**21.5**
Median					**21.9**	**12.6**	**10.9**	**1.5**	**1.4**	**1.3**	**14.0**	**7.6**	**10.0**	**12.2**	**15.7**
Global Average (Simple)					**499.3**	**27.1**	**11.3**	**1.9**	**1.7**	**1.5**	**21.7**	**9.2**	**5.3**	**12.2**	**14.8**
Global Average (Weighted)					**363.5**	**31.6**	**11.3**	**1.9**	**1.8**	**1.6**	**16.3**	**7.3**	**5.8**	**12.1**	**14.7**
Global Median					**22.7**	**16.7**	**11.1**	**1.8**	**1.6**	**1.4**	**13.2**	**7.9**	**4.2**	**11.0**	**12.9**

Source: Bloomberg, Guotai Junan (HK)

Chart 3: Financial Statements of Angang

P&L (mn Rmb)	FY07A	FY08A	FY09E	FY10E	FY11E
Turnover	65,294	78,985	72,918	98,972	106,135
Cost of sales	(50795)	(70839)	(66497)	(86729)	(92273)
Gross Profit	14499	8146	6422	12244	13862
SG&A	(3224)	(3685)	(2917)	(2969)	(3184)
Profits of Operations	11275	4461	3505	9274	10678
Finance Cost	(755)	(694)	(944)	(973)	(844)
Others	(138)	80	(142)	(142)	(142)
Profits before taxation	10382	3847	2419	8159	9691
Income Tax	(2848)	(854)	(537)	(1811)	(2151)
Profits after taxation	7534	2993	1882	6348	7540
Net Profit	7534	2993	1882	6348	7540
EPS	1.121	0.414	0.253	0.852	1.012
DPS	0.592	0.210	0.126	0.426	0.506

Cash Flow (mn Rmb)	FY07A	FY08A	FY09E	FY10E	FY11E
Net Income	7,534	2,993	1,882	6,348	7,540
Operating Capital Change	-4,222	6,358	2,497	-103	-28
Dep.&Amortization	1,290	2,706	3,798	4,741	5,141
Others	1,971	-119	-2,223	-2,356	-2,818
CFO	6,573	11,938	5,954	8,630	9,834
CAPEX	-17,840	-13,303	-5,000	-5,000	-5,000
Others	-187	0	0	0	0
CFI	-18,027	-13,303	-5,000	-5,000	-5,000
New Bank Loans	3,529	6,543	814	6,063	-1,445
Dividend Paid	-3,440	-1,519	-941	-3,174	-3,770
other	17,641	-694	1,879	-973	-844
CFF	17,730	4,330	1,752	1,916	-6,059
Net change in cash	6,206	-4,759	2,706	5,546	-1,224
Cash at beginning of year	1,527	7,733	2,974	5,680	11,226
Cash at end of year	7,733	2,974	5,680	11,226	10,002

Balance Sheet (mn Rmb)	FY07A	FY08A	FY09E	FY10E	FY11E
PPE	32,659	43,256	44,457	44,717	44,576
others	23,771	28,770	31,647	34,812	38,293
Cash	7,733	2,974	5,680	11,226	10,002
AR	6,495	3,000	2,770	3,759	4,031
Other Receivables	2,920	2,796	2,581	3,504	3,757
Inventory	8,701	10,372	7,292	9,897	10,613
Others	5,102	3,658	4,024	4,426	4,869
Total Assets	87,381	94,826	98,451	112,341	116,141
Long-term Loans	12,297	17,565	12,230	16,599	17,800
Short-term Loans	7,326	8,601	14,750	16,443	13,797
AP	2,718	7,805	7,206	9,780	10,488
Other Payables	6,255	5,578	5,150	6,990	7,495
Others	4,512	2,165	2,382	2,620	2,882
Total Liabilities	33,254	41,855	41,716	52,432	52,463
Total Equity	54,127	52,971	56,735	59,909	63,679

Key Ratios	FY07A	FY08A	FY09E	FY10E	FY11E
Gross Margin	22.2%	10.3%	8.8%	12.4%	13.1%
Net Margin	11.5%	3.8%	2.6%	6.4%	7.1%
ROE	17.9%	5.6%	3.4%	10.9%	12.2%
ROA	10.4%	3.3%	1.9%	6.0%	6.6%
ROCE	16.7%	6.4%	4.9%	11.9%	12.9%
Free CF(mn Rmb)	-11,267	-1,365	954	3,630	4,834
Net Gearing	28.3%	43.3%	38.8%	37.4%	34.9%

Source: Guotai Junan (HK)

Company Rating Definition
The Benchmark: Hong Kong Hang Seng Index
Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition
The Benchmark: Hong Kong Hang Seng Index
Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

(1) The Analysts and their associates do not serve as director in the listed corporation mentioned in this Research Report.
(2) The Analysts and their associates have no financial interests in the listed corporation mentioned in this Research Report.
(3) Except for Shandong Chenming (01812), Guotai Junan and its group companies do not hold more than 1% of the market capitalization of listed corporation mentioned in this Research Report.
(4) Guotai Junan and its group companies have had investment banking relationships within the preceding 12 months for the listed corporation mentioned in this Research Report.

DISCLAIMER

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