



Rating
Hold

Asia
Hong Kong

Resources
Metals & Mining

Company
**Shougang Fushan
Alert**

Reuters 0639.HK	Bloomberg 639 HK	Exchange HSI	Ticker 0639
ADR Ticker SHOUY	ISIN US82536R1014		

Date
17 March 2015

Company Update

Price at 16 Mar 2015 (HKD)	1.57
Price target - 12mth (HKD)	1.87
52-week range (HKD)	2.49 - 1.44
HANG SENG INDEX	23,950

James Kan	Sharon Ding
Research Analyst (+852) 2203 6146 james.kan@db.com	Research Associate (+86) 21 2080 1666 sharon.ding@db.com

Hold maintained on the back of Fushan's profit warning

Fushan to book a consolidated loss of HKD361mn in FY14; Hold maintained

On Mar 16 after market close, Shougang Fushan issued a profit alert that it will book an impairment loss of its goodwill for approximately HKD524mn in 2H14. Together with its c.HKD300mn impairment loss booked during 1H14, the company recorded a total impairment loss of HKD824mn, resulting in a consolidated loss of c.HKD361mn in FY2014. The net level should disappoint DB estimate of HKD149mn and Bloomberg consensus of HKD144mn. However, after stripping out the impairment loss in FY14 and donation expenses in 1H14, which are one-off items, Fushan's consolidated profit ranged between HKD300-400mn for both 1H14 and 2H14. We believe this suggests that our DBe for FY15 NPAT should be intact. We maintain our Hold rating for Fushan.

Impairment loss not significant to book value; potential good cost reduction

The impairment loss of HKD824mn is the main contributor to Fushan's consolidated loss in FY2014. However, the impairment loss is only about 4.4% of the company's total book value, so should not be a very big concern. Meanwhile, after stripping out impairment loss (HKD300mn in 1H14 and HKD524mn in 2H14) as well as donation expenses (HKD245mn in 1H14, no donation in 2H14), Fushan's consolidated profit in 2H14 was slightly lower than in 1H14 by c.HKD60mn. Since coking coal prices (Liulin No.4 benchmark price) decreased by as large as c.RMB170/t (VAT excl) in 2H14, we gauge there was significant cost reduction in 2H14. We need to verify the possible cost reduction and its sustainability when the official result is disclosed.

Result implies FY15 DBe intact; Hold maintained

After stripping out impairment loss and donation expenses, Fushan's consolidated profit ranged between HKD300-400mn for both 1H14 and 2H14. This basically suggests our FY15 NPAT estimate of HKD585mn should be intact, assuming coking coal price hovering at current level and current low production cost sustainable. The company is trading at c.6x 2015 DBe EPS when net off cash, thus we don't think the valuation is demanding. We maintain Hold for Fushan, and will further review the company's operational and financial details upon disclosure of the official announcement.

Stock data

Market cap (HKDm)	8,324
Market cap (USDm)	1,072
Shares outstanding (m)	5,302.0
Major shareholders	-
Avg daily value traded (USDm)	1.6
Free float(%)	61

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	4,268	3,303	3,235
Net Profit (HKDm)	1,115.1	148.6	585.1
DB EPS (HKD)	0.21	0.03	0.11
PER (x)	13.9	56.0	14.2
Yield (net) (%)	3.6	0.8	3.2

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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