

Maanshan Iron & Steel Co Ltd ----- Maintain OUTPERFORM

FY14 results: Improved margin in 2H14

EPS: ▼ TP: ◀▶

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- Maanshan FY14 NP was Rmb221 mn, or EPS at Rmb0.029/sh. Excluding one-offs such as Rmb700 mn in inventory writedown, Rmb306 mn in government land compensation, recurring NP was Rmb385 mn, up 34% YoY.
- Sales volume was 18.3 mnt, up 2% YoY. Unit EBITDA was US\$51/t, flat YoY. Specifically, we estimate 4Q14A unit EBITDA was US\$62/t. Reported ASP of train-wheel was Rmb7,410/t, with a gross profit of Rmb1,271/t, up 9% YoY.
- Our recent visit to China suggests heightened risk of potential capacity exiting the industry, due to poor profitability, tightened credit from banks and environment enforcement. While we see earnings remaining depressed in 1H15E, we expect sequential margin improvement in the coming 12-18 months for the sector.
- We revise down earnings by 20% for 2015E to reflect the near-term earnings downside risk. However, we expect 141% earnings growth in 2016E, as unit EBITDA improves from US\$54/t in 2015E, to US\$56 in 2016E. Maintain OUTPERFORM with target price of HK\$2.6/sh.

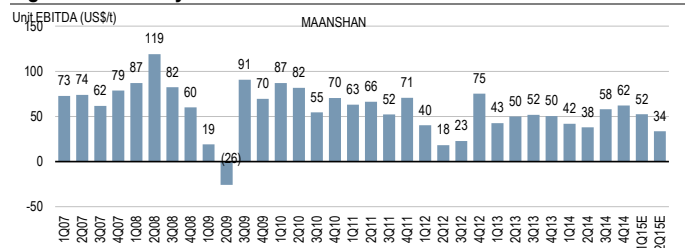
Bbg/RIC	323 HK / 0323.HK	Price (25 Mar 15, HK\$)	2.12		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	2.60 (2.60)		
Shares outstanding (mn)	7,700.68	Est. pot. % chg. to TP	23		
Daily trad vol - 6m avg (mn)	26.1	52-wk range (HK\$)	2.55 - 1.54		
Daily trad val - 6m avg (US\$ mn)	7.2	Mkt cap (HK\$/US\$ mn)	37,435.4/ 4,827.7		
Free float (%)	50.5	Performance	1M 3M 12M		
Major shareholders	Magang Group 50%	Absolute (%)	2.9 (7.4) 34.2		
		Relative (%)	2.6 (15.0) 14.0		
Year	12/13A	12/14A	12/15E	12/16E	12/17E
Revenue (Rmb mn)	73,622	59,586	55,283	56,618	58,626
EBITDA (Rmb mn)	5,158	5,276	6,150	7,389	7,473
Net profit (Rmb mn)	157	221	858	2,069	2,454
EPS (Rmb)	0.02	0.03	0.11	0.27	0.32
- Change from prev. EPS (%)	n.a.	n.a.	(20)	(8)	
- Consensus EPS (Rmb)	n.a.	n.a.	0.09	0.13	0.04
EPS growth (%)	n.m.	40.3	289.0	141.1	18.6
P/E (x)	83.1	59.3	15.2	6.3	5.3
Dividend yield (%)	0	0	0	0	0
EV/EBITDA (x)	11.1	10.3	8.4	6.3	5.6
P/B (x)	0.6	0.6	0.5	0.5	0.5
ROE (%)	0.7	1.0	3.6	8.2	8.9
Net debt (cash)/equity (%)	105.3	93.9	80.2	58.6	38.2

Note 1: ORD/ADR=100.00. Note 2: Maanshan Iron & Steel Co Ltd is principally engaged in the manufacture and distribution of iron and steel products. The company provides sheets, including hot-rolled sheets, cold-rolled sheets, galvanised sheets, colour-painting sheets and other products.

[Click here](#) for detailed financials

Our target price of HK\$2.6 is based on 0.6x P/B on 2015E.

Figure 1: Quarterly unit EBITDA—Maanshan



Source: Company data, Credit Suisse estimates

Figure 2: FY14 results summary—Maanshan

		2014A	2013A	YoY	2014E	A of E
Net revenue	Rmb mn	59,586	73,622	-19%	58,166	2%
COGS	Rmb mn	(55,840)	(70,394)	-21%	(54,865)	2%
Gross profit	Rmb mn	3,745	3,228	16%	3,301	13%
SG&A	Rmb mn	(1,823)	(1,757)	4%	(1,664)	10%
EBIT	Rmb mn	1,756	1,476	19%	1,526	15%
Financing expenses	Rmb mn	(1,244)	(1,154)	8%	(1,249)	0%
Net profit	Rmb mn	221	157	40%	14	15x
Net profit-recurring	Rmb mn	385	288	34%	267	44%
EPS	Rmb/sh	0.029	0.020	40%	0.002	15x
EPS - recurring	Rmb/sh	0.050	0.037	34%	0.035	44%
Sales volume	mnt	18.3	18.0	2%	18.1	1%
HRC spot	US\$/t	465	524	-11%	465	0%
Rebar spot	US\$/t	424	488	-13%	423	0%
ASP	Rmb/t	2,879	3,355	-14%	2,834	2%
Unit gross profit	Rmb/t	158	108	46%	127	25%
ASP-trainwheel	Rmb/t	7,410	7,682	-4%	7,667	-3%
Unit GP-trainwheel	Rmb/t	1,271	1,168	9%	1,664	-24%
Unit EBITDA	US\$/t	51	50	1%	47	9%
AR days	days	52	43	21%	54	-4%
Inv days	days	57	52	9%	55	3%
Net debt	Rmb mn	18,307	19,786	-7%	18,384	0%
Net gearing	%	71%	77%	-8%	71%	-1%
OCF	Rmb mn	2,913	5,091	-43%	4,470	-35%
FCF	Rmb mn	4,239	549	673%	1,402	202%

Source: Company data, Credit Suisse estimates

Figure 3: Quarterly results summary—Maanshan

		4Q13A	1Q14A	2Q14A	3Q14A	4Q14A
Net revenue	Rmb mn	17,421	13,599	15,173	15,496	15,318
Gross profit	Rmb mn	725	442	507	1,340	1,457
Net profit	Rmb mn	487	(446)	(284)	404	547
NP-recurring	Rmb mn	293	(300)	(162)	580	505
Volume	mnt	4.68	4.01	4.65	4.88	4.76
Unit EBITDA	US\$/t	50	42	38	58	62
BV	Rmb/sh	3.00	2.95	2.91	2.96	3.03
AR days	days	49	64	56	50	55
AP days	days	66	86	85	76	76
Inv days	days	55	79	65	65	57

Source: Company data, Credit Suisse estimates

Figure 4: Key assumptions and financials—Maanshan

		2013A	2014A	2015E	2016E	2017E
HRC-spot	US\$/t	525	465	413	415	430
CRC-spot	US\$/t	643	563	503	502	518
Wire rod-spot	US\$/t	488	423	359	358	374
Iron ore China CIF	US\$/t	136	97	73	73	76
Hard coking coal	US\$/t	159	126	123	130	130
Sales volume	mn tonnes	18.0	18.3	18.9	19.1	19.1
ASP	Rmb/t	3,355	2,879	2,601	2,625	2,718
Unit EBITDA	US\$/t	50.0	50.5	53.7	55.6	64.1
Unit financial cost	Rmb/t	64.0	68.0	54.7	44.3	32.1
Net profit - recurring	Rmb mn	157	385	858	1,371	2,454
BV	Rmb/sh	3.34	3.36	3.47	3.74	4.06
Free cash flow	Rmb mn	549	4,239	2,737	4,153	4,841
Net debt	Rmb mn	19,786	18,307	15,570	11,417	6,576
Net debt/equity	%	77%	71%	58%	40%	21%

Source: Company data, Credit Suisse estimates

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Maanshan Iron & Steel Co Ltd (0323.HK, HK\$2.12, OUTPERFORM, TP HK\$2.6)

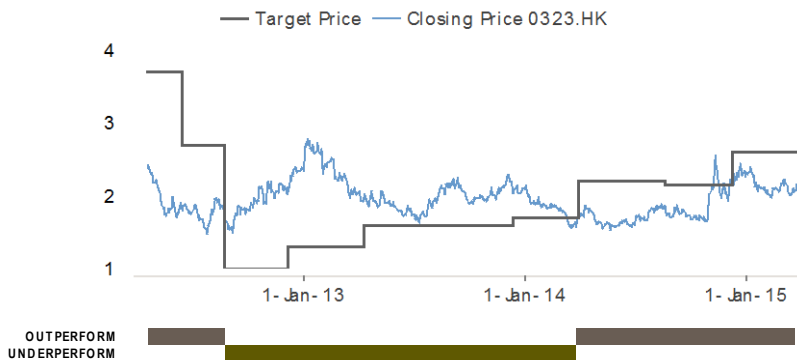
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0323.HK Date	Closing Price (HK\$)	Target Price (HK\$)	Rating
18-Apr-12	2.42	3.70	O
14-Jun-12	1.80	2.70	
23-Aug-12	1.73	1.00	U
06-Dec-12	2.08	1.30	
09-Apr-13	1.96	1.60	
11-Dec-13	2.04	1.70	
29-Mar-14	1.72	2.20	O
19-Aug-14	1.86	2.15	
20-Oct-14	1.69	2.15	*
08-Dec-14	2.25	2.60	



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Restricted	3%	

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Price Target: (12 months) for Maanshan Iron & Steel Co Ltd (0323.HK)

Method: Our target of HK\$2.60 for Maanshan Iron and Steel and is based on 0.6x P/B (price-to-book) at the low end of its historical trading range.

Risk: Potential risks to achievement of our HK\$2.60 target price for Maanshan Iron & Steel are: (1) industry supply and demand balance in both China and the global market would affect steel prices; (2) changes to government policies, in particular export-related taxes, would have an impact on Chinese steel prices and Maanshan's earnings; and (3) the Chinese government's execution of its railway expansion plan will affect the currently tight rail wheel market and also Maanshan's earnings.

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