



Rating  
**Buy**

Asia  
Hong Kong

Resources  
Metals & Mining

Company  
**China Oriental**

Reuters	Bloomberg	Exchange	Ticker
0581.HK	581 HK	HSI	0581

Date  
19 July 2018

Company Update

Price at 18 Jul 2018 (HKD)	5.40
Price target - 12mth (HKD)	10.40
52-week range (HKD)	6.97 - 3.81
HANG SENG INDEX	28,117

## Limited impact from restricted capacity; maintain Buy

### Environmental shutdown plan announced

On July 19th, China Oriental announced that from 7/20/18 to 31/08/18, its BF and sintering process capacities will be restricted by 20% and 42%, respectively, due to Tangshan local government's environmental policies. We estimate that this 40-day shutdown may lower the company's production volume by c.0.12mt (1% of its production capacity) and impact FY18 NPAT by c.RMB120+mn (c.3% of FY18 DBE) with the consideration of production loss and rising steel scrap market price (but not considering that the supply restrictions in steel industry might further boost China Oriental's per tonne profit).

### Minimum impact while still in deep value, reiterate Buy

China Oriental is currently trading at 1.0x 2018DBE PBx and 4.2x 2018DBE PEx while 2018DBE ROAE is c.26%. Estimated interim net cash should be about RMB5+bn and interim cash dividend yield at 2+%. Thus, the stock continues to be in deep value. YTD steel spreads remain high, and we believe 2H18 D/S for steel market should still be healthy. Despite the minor impacts from its production restrictions, we believe that China Oriental will still achieve c.RMB4bn NPAT as 2018DBE, if not higher. Our TP at HK\$10.4 implies 93% share price upside potential. Buy reiterated.

### Valuation & Risks

James Kan

Research Analyst

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Model updated: 28 May 2018

Running the numbers

Asia

Hong Kong

Metals & Mining

China Oriental

Reuters: 0581.HK

Bloomberg: 581 HK

Buy

Price (18 Jul 18) HKD 5.40

Target Price HKD 10.40

52 Week range HKD 3.81 - 6.97

Market cap (m) HKDm 20,102  
USDm 2,560.9

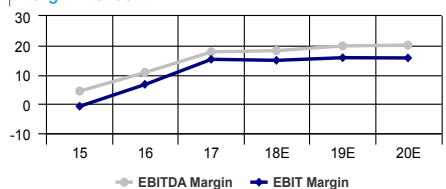
Company Profile

China Oriental is the largest non-SOE HK-listed steel company. The company has attracted ArcelorMittal as its top shareholder since 2007. The company produces H-section steel products, cold rolled sheets and galvanized sheets, billets, rebar and sheet pilings which are mainly sold domestically and used in construction industry and for the manufacture of machinery.

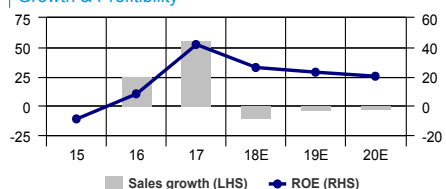
Price Performance



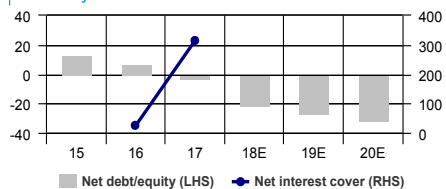
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	-0.26	0.25	1.37	1.10	1.14	1.11
Reported EPS (CNY)	-0.26	0.25	1.37	1.10	1.14	1.11
DPS (CNY)	0.00	0.04	0.32	0.55	0.57	0.56
BVPS (CNY)	2.9	3.2	3.9	4.7	5.3	5.8
Weighted average shares (m)	2,931	2,931	3,472	3,723	3,723	3,723
Average market cap (CNYm)	2,520	2,660	10,785	17,187	17,187	17,187
Enterprise value (CNYm)	3,520	2,921	10,113	13,164	11,607	10,060

Valuation Metrics

P/E (DB) (x)	nm	3.7	2.3	4.2	4.1	4.1
P/E (Reported) (x)	nm	3.7	2.3	4.2	4.1	4.1
P/BV (x)	0.30	0.29	1.28	0.99	0.88	0.80
FCF Yield (%)	187.3	40.8	36.8	23.3	21.2	21.5
Dividend Yield (%)	0.0	4.4	10.3	11.9	12.3	12.1
EV/Sales (x)	0.2	0.1	0.2	0.4	0.3	0.3
EV/EBITDA (x)	3.8	1.0	1.4	2.0	1.6	1.4
EV/EBIT (x)	nm	1.6	1.6	2.4	2.1	1.8

Income Statement (CNYm)

Sales revenue	21,072	26,427	41,353	36,874	35,539	34,734
Gross profit	357	2,674	7,292	6,448	6,570	6,391
EBITDA	928	2,852	7,346	6,713	7,041	6,974
Depreciation	1,094	1,079	1,045	1,224	1,430	1,521
Amortisation	0	0	0	0	0	0
EBIT	-166	1,773	6,301	5,489	5,611	5,453
Net interest income/(expense)	-302	-70	-20	2	74	121
Associates/affiliates	-1	-1	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-421	-647	127	0	0	0
Profit before tax	-890	1,055	6,408	5,491	5,685	5,574
Income tax expense	46	524	1,525	1,373	1,421	1,394
Minorities	-170	-191	44	37	38	38
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-766	722	4,839	4,081	4,226	4,143
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	-766	722	4,839	4,081	4,226	4,143

Cash Flow (CNYm)

Cash flow from operations	4,839	1,497	4,491	5,999	5,636	5,697
Net Capex	-120	-413	-518	-2,000	-2,000	-2,000
Free cash flow	4,719	1,084	3,973	3,999	3,636	3,697
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	-881	-611	-2,041	-2,113
Net inc/(dec) in borrowings	-4,805	-2,050	762	0	0	0
Other investing/financing cash flows	1,575	-82	-2,378	-29	0	0
Net cash flow	1,489	-1,048	1,476	3,359	1,595	1,584
Change in working capital	5,680	-299	-2,465	657	-58	-5

Balance Sheet (CNYm)

Cash and other liquid assets	2,338	1,290	2,766	6,125	7,721	9,305
Tangible fixed assets	8,407	8,238	8,587	9,363	9,933	10,412
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	510	490	432	461	461	461
Other assets	11,108	11,030	12,621	12,118	11,842	11,704
Total assets	22,363	21,048	24,406	28,068	29,957	31,882
Interest bearing debt	3,450	1,933	2,333	2,333	2,333	2,333
Other liabilities	10,001	9,751	7,968	8,122	7,788	7,645
Total liabilities	13,451	11,684	10,301	10,455	10,121	9,978
Shareholders' equity	8,514	9,256	13,912	17,382	19,567	21,597
Minorities	398	108	193	230	269	306
Total shareholders' equity	8,912	9,364	14,105	17,612	19,836	21,903
Net debt	1,112	643	-433	-3,792	-5,388	-6,972

Key Company Metrics

Sales growth (%)	nm	25.4	56.5	-10.8	-3.6	-2.3
DB EPS growth (%)	na	na	457.1	-20.1	3.5	-2.0
EBITDA Margin (%)	4.4	10.8	17.8	18.2	19.8	20.1
EBIT Margin (%)	-0.8	6.7	15.2	14.9	15.8	15.7
Payout ratio (%)	nm	16.2	23.0	50.0	50.0	50.0
ROE (%)	-9.0	8.1	41.8	26.1	22.9	20.1
Capex/sales (%)	0.6	1.6	1.3	5.4	5.6	5.8
Capex/depreciation (x)	0.1	0.4	0.5	1.6	1.4	1.3
Net debt/equity (%)	12.5	6.9	-3.1	-21.5	-27.2	-31.8
Net interest cover (x)	nm	25.3	315.1	nm	nm	nm

Source: Company data, Deutsche Bank estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
China Oriental	0581.HK	5.40 (HKD) 18 Jul 2018	NA

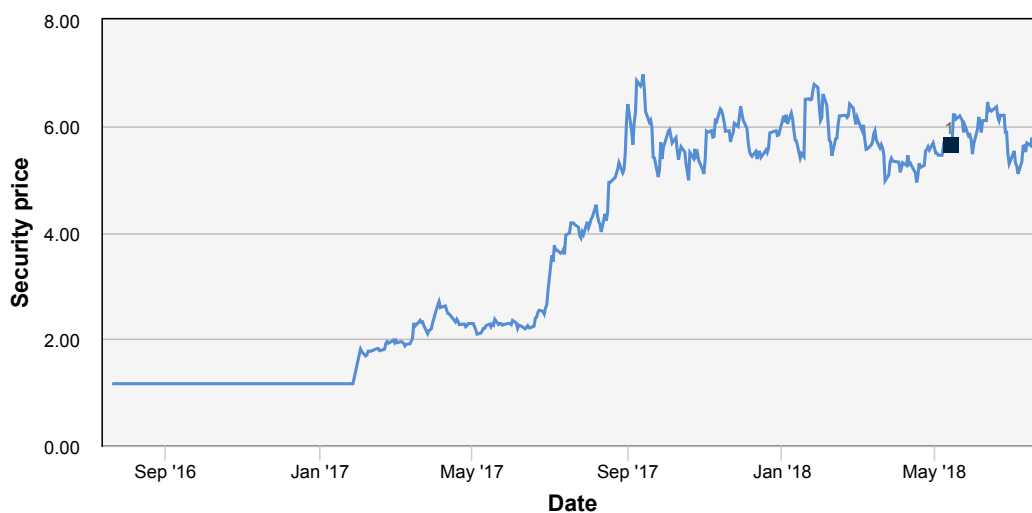
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## Historical recommendations and target price. China Oriental (0581.HK)

(as of 07/18/2018)



### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1. 05/14/2018 Buy, Target Price Change HKD 10.40 James Kan



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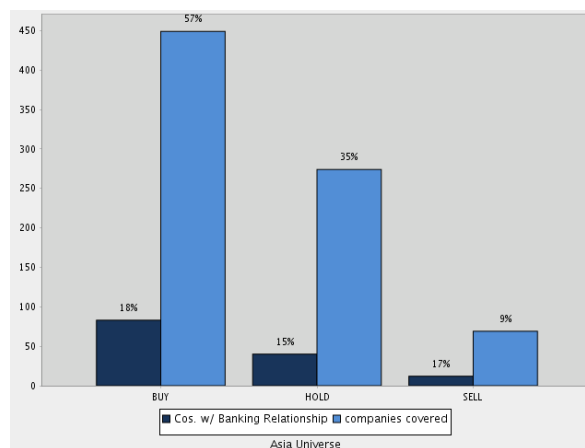
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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