



Rating
Buy

Asia
Hong Kong

Resources
Metals & Mining

Company
China Oriental

Reuters	Bloomberg	Exchange	Ticker
0581.HK	581 HK	HSI	0581

Date
18 September 2018

Company Update

Price at 17 Sep 2018 (HKD)	5.92
Price target - 12mth (HKD)	10.40
52-week range (HKD)	6.80 - 4.94
HANG SENG INDEX	26,933

Dismissal of AM's litigation removes roadblock for rerating, Buy reiterated

Doubts reduced by Court's decision on AM's lawsuit

After market close on Sept. 17, 2018, China Oriental (the company) announced that the potential litigation from ArcelorMittal (AM, the top shareholder in the company) was without merit and thus dismissed by the Court. The company is therefore not required to disclose or to allow inspection of documents specified in AM's application. We believe that the Court's decision will largely help to reduce investors' doubts about corporate governance at the company and to remove the major obstacle for the stock to rerate. Also, during its NDR in early September, management described the continued positive interactions with AM, which we believe will further align the interests of AM and China Oriental.

Pending production cut articulation, Deep value, Buy reiterated

While the company is awaiting local government articulation of the differentiated production cut requirements in the coming winter, we consider the dismissal of AM's potential litigation and more communications between the company and AM as important positive share price catalysts. China Oriental is currently trading at 1.1x 2018DBe PBx and 4.7x 2018DBe PEx while 2018DBe ROAE is c.26%. Factoring in NDR updates and a high YTD steel market spread, we maintain that China Oriental should easily achieve 2018DBe NPAT (c.RMB4bn). With 76% upside potential to our TP at HKD10.4, we reiterate our Buy rating.

Valuation & Risks

James Kan

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Model updated: 28 May 2018

Running the numbers

Asia

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Reuters: 0581.HK

Bloomberg: 581 HK

Buy

Price (17 Sep 18) HKD 5.92

Target Price HKD 10.40

52 Week range HKD 4.94 - 6.80

Market cap (m) HKDm 22,038
USDm 2,809.1

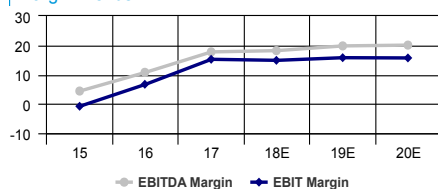
Company Profile

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.

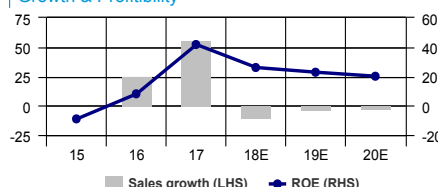
Price Performance



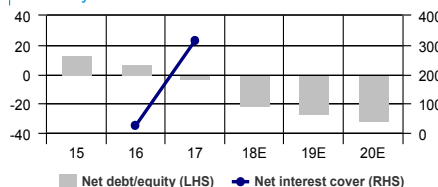
Margin Trends



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	19,295	19,295	19,295
Enterprise value (CNYm)	3,520	2,921	10,113	15,271	13,715	12,168

Valuation Metrics

P/E (DB) (x)	nm	3.7	2.3	4.7	4.6	4.7
P/E (Reported) (x)	nm	3.7	2.3	4.7	4.6	4.7
P/BV (x)	0.30	0.29	1.28	1.11	0.99	0.89
FCF Yield (%)	187.3	40.8	36.8	20.7	18.8	19.2
Dividend Yield (%)	0.0	4.4	10.3	10.6	10.9	10.7
EV/Sales (x)	0.2	0.1	0.2	0.4	0.4	0.4
EV/EBITDA (x)	3.8	1.0	1.4	2.3	1.9	1.7
EV/EBIT (x)	nm	1.6	1.6	2.8	2.4	2.2

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/extraordinaries	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

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Appendix 1

Important Disclosures

*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
China Oriental	0581.HK	5.92 (HKD) 17 Sep 2018	NA

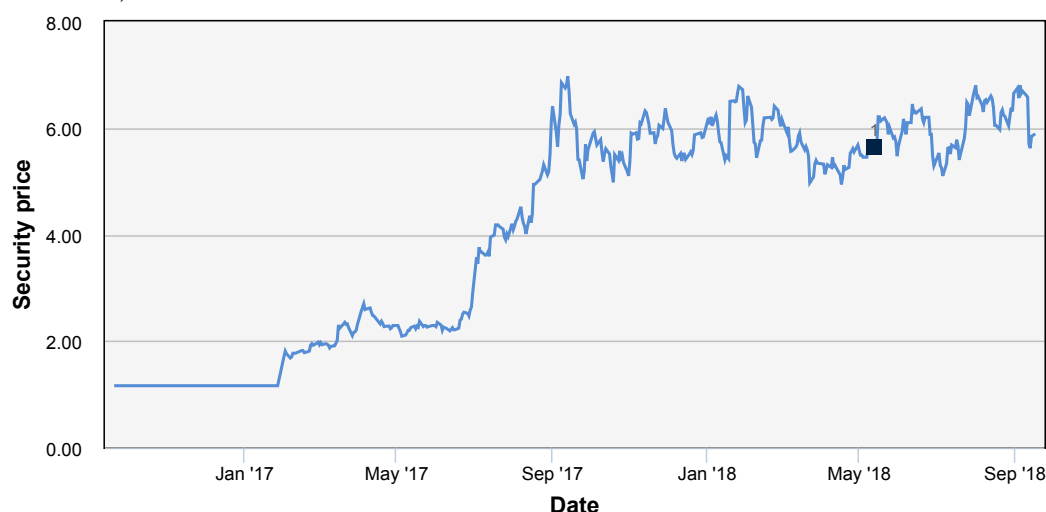
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Historical recommendations and target price. China Oriental (0581.HK)

(as of 09/17/2018)



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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Equity Rating Key

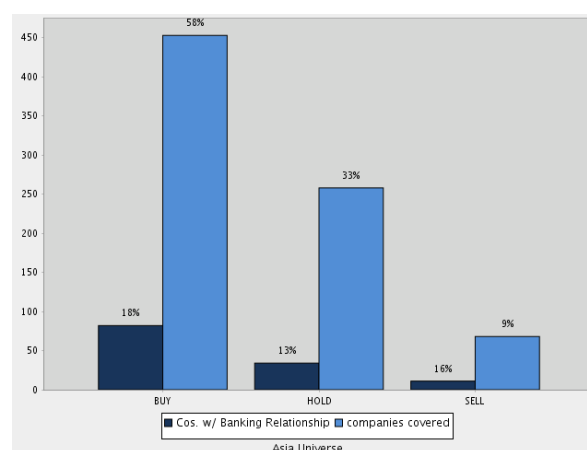
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships



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