

## Equities

20 October 2010 | 5 pages

# China Oriental Group (0581.HK)

## Takeaways from Greater China Conference, Oct. 18-22: Analyzed Non-Rated Snapshot

- Takeaways from Macau** — China Oriental Group presented at our Greater China Investor Conference in Macau. Below are key takeaways.
- China Oriental is the cheapest steel name, but generates the highest ROE** — The company delivered 23% ROE in 1H10 vs. industry average of 5.6%. It is now trading at slightly below book, much cheaper compared with peers such as Angang and Magang, which trade from 1.2x to 1.7x.
- The most renowned section producer in China market with 30% market share** — H-sections produced by CO are used in landmark projects, e.g. the Bird's Nest, Water Cube, CCTV Tower, BJ Airport etc. H-sections account for 40% of revenue, and more than half of profit. HRC/CRC and billets are included in the product portfolio as well.
- ArcelorMittal's flagship in China** — AM owns 29.6% directly and 17.4% indirectly as effectively the largest shareholder. AM provides support on technology, management and material sourcing.
- Productivity outpaces peers** — China Oriental has production per employee of 906 ton versus industry average of 315 ton, ranking No.1 in China. Its current asset turnover is 4.1x versus industry average of 2.3x.
- M&A potential** — Retaining 11mil ton capacity, China Oriental is the No.3 largest steel mill in Hebei Province. It aims at 15 mil ton capacity in the next 1-2 years, expanding by acquiring assets. With a strategic focus on risk/reward, China Oriental adopts a model of operating lease and then acquisition.
- Key risk lies in China's decelerating investment** — Sections are mainly used in non-residential construction, which is highly correlated to infrastructure and commercial building investments. China's FAI growth has decelerated from last year's peak of 35% to the recent 25%, shadowing the section market.

Price (20 Oct 10)	HK\$3.14
Shares Outstanding	2,930M
Free Float (%)	25
Fiscal Year End	31 Dec
Market Cap	HK\$9,199M US\$1,186M

### Price Performance (RIC: 0581.HK, BB: 581 HK)



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