

Steel Sector

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Relative Performance - Ferrous



Source: Bloomberg, ENAM Research

FLAT? STILL STR(L)ONG!

Global Scenario: Global steel prices have been on an uptrend recently, after witnessing a mild correction a few months back. Saleable steel as well as semi-finished product prices are scaling high levels on the back of strong overall demand growth, tight supply factors (cost pressures + export tariff in China and elsewhere) and increasing consolidation. In the first two months of CY07, despite a 4.6% decline in steel output in America, global steel output grew 10.5%, primarily due to high output from China, Asia and Europe. (Refer pg 3).

Longs/Semis prices are rising faster: While flat product prices have risen to their yearly high levels, long and semi-finished products have witnessed a sharp price rise. Long product (Rebar) prices are at similar levels to that of hot rolled coils given strong demand from construction activities in Asia and else where. (Refer pg3)

Indian Scenario: Indian manufacturers have increased steel prices in FY07 in line with international prices. However, post budget, following the government's request for capping prices, domestic steel players agreed to partially rollback the price hikes announced in March 2007. We believe, continued pressure from the government, given impending elections and the intention to contain inflation, has capped the steel pricing upside in the domestic market. While, the current domestic prices may be at a 5-10% discount to international prices, domestic price increase on a YoY basis across products has largely been in line with the global trend.

Outlook

Indian steel companies are likely to benefit either from their product mix or from their exposure to global sales. While Tata Steel is likely to benefit from global upswing in prices due to exposure in Corus, JSW Steel is likely to benefit from exports, which account for ~40% of its total volume. SAIL, on the other hand is likely to benefit from its ~45% exposure to semis and longs, which have seen maximum price upswing. Indian steel companies valuations are at discount to regional as well as global peers. (Refer pg 2). As a result, we are raising the target price valuations of the steel companies.

Financial summary

Y/E Mar	Tata Steel (Rs 424)				SAIL (Rs 108)				JSW Steel (Rs 476)			
	EPS (Rs.)	P/E (x)	RoE (%)	EV/EBIDTA (x)	EPS (Rs.)	P/E (x)	RoE (%)	EV/EBIDTA (x)	EPS (Rs.)	P/E (x)	RoE (%)	EV/EBIDTA (x)
2006	56.1	7.6	42	4.7	9.5	8.7	35	4.9	28.6	10.6	16	5.4
2007	77.6	5.5	39	2.6	15.0	7.2	42	3.8	69.3	6.9	27	4.8
2008E	87.1	4.9	33	4.9	17.6	6.1	37	3.0	85.7	5.6	25	4.1
2009E	119.8	3.5	38	4.1	19.3	5.6	31	2.7	109.1	4.4	25	3.4
Tgt pr	602				140				600			
Reco:	Outperformer				Outperformer				Neutral			

Source: Company, ENAM estimates, Note: All recommendations are relative to ferrous sector.

Geographical Composition of Sales

FY 2005-06	Volume Sales (mn tonnes)			Outside India as a % of Total	Remarks
	Outside India	India	Total		
SAIL	0.6	10.7	11.3	5%	Domestic prices are capped at current levels
Tata	19	4	23	83%	To benefit from large exposure to Corus
- Tata Steel	0.4	4.0	4.4	9%	
- Corus	19	-	19	100%	Corus to benefit from rising intl. prices
JSW Steel	1.0	1.2	2.2	44%	Exports to become more profitable

Source: Company, ENAM Research

Product Mix

	Total Vol FY07E (mn tonnes)	Long + Semis (%)	Flat (%)	Remarks
Sail	12	45 = (25)+(20)	55	Significantly higher increase in longs and semis to benefit SAIL the maximum
Tata	24	39	61	To benefit largely from significantly higher price increase in long products
-Tata Steel	5	36	64	-DO-
-Corus	19	39	61	-DO-
JSW	3	0	100	No major upside as no presence in long products

Source: Company, ENAM Research

Global Valuations

Name of the company	EV (USD bn)	Mkt Cap (USD bn)	EV/EBIDTA (x)		P/E (x)		EV/tonne USD
			CY07/FY08	CY08/FY09	CY07/FY08	CY08/FY09	
Arcelor Brasil	16.2	15.2	3.8	3.1	11.3	4.3	1,475
Gerdau	16.8	11.6	6.7	6.5	8.5	8.2	1,226
Baoshan	28.3	23.4	6.2	5.7	12.2	11.5	1,248
Mittal South Africa	6.6	7.4	5.6	5.8	9.7	9.3	898
Usiminas	12.3	12.0	5.1	5.3	8.4	8.4	1,361
Indian Companies							
Tata Steel	15.9	5.6	4.9	4.1	4.9	3.5	664
SAIL	8.5	10.3	3.0	2.7	6.1	5.6	711
JSW Steel	2.9	1.8	4.1	3.4	5.6	4.4	773

Source: Bloomberg

Global Steel: Stock Return

(%)	1mth	3 mth	6 mth	1 yr	2 yr	3 yr
Arcelor Brasil	3.2	18	35	53	163	421
Gerdau	13.5	8	36	25	171	299
Baoshan	10.3	20	154	173	101	76
Mittal South Africa	14.2	18	68	68	84	244
Usiminas	24.8	29	60	37	155	315
Indian Companies						
Tata Steel	(4.3)	(11)	(21)	(19)	11	74
SAIL	1.7	20	40	32	80	234
JSW Steel	3.9	24	71	68	32	194

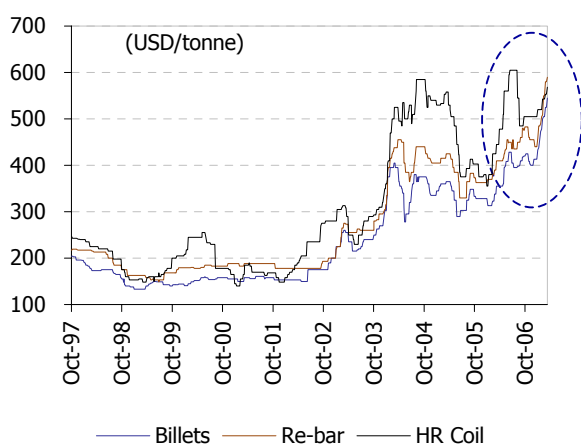
Source: Bloomberg

Global Steel Output

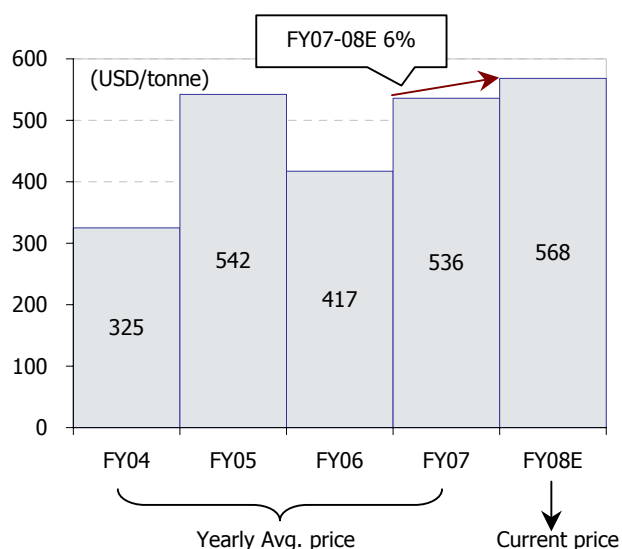
mn tonnes	12 months			2 months				12 months			
	2004	2005	2006	2007	2006	% Grwth '07/06	% Grwth '06/05	2007F	2008F	(%) Grwth	(%) Grwth
Asia (ex China)	229	237	246	38	36	5.1	3.7	256	267	4.0	4.5
China	281	353	419	74	60	23.1	20.0	494	573	18.0	16.0
Europe (incl USSR)	338	332	353	60	55	8.8	0.7	374	393	6.0	5.0
America (NA & LA)	179	172	176	27	28	(4.6)	(1.3)	158	163	(10.0)	3.0
Others	42	45	46	7	7	4.2	1.6	49	51	5.0	5.0
Total	1,069	1,140	1,240	206	186	10.5	6.6	1,331	1,447	7.3	8.8
YoY Growth (%)	12.4	6.6	8.8								

Source: IISI, ENAM Research, Others* (incl Middle East & Africa)

CIS: Billet (Semis), Rebar (Long) and HR Coil (Flat)

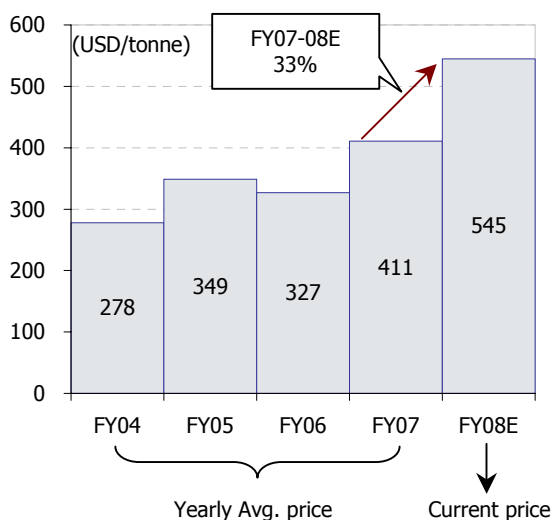


HR Coil (Flat) International prices

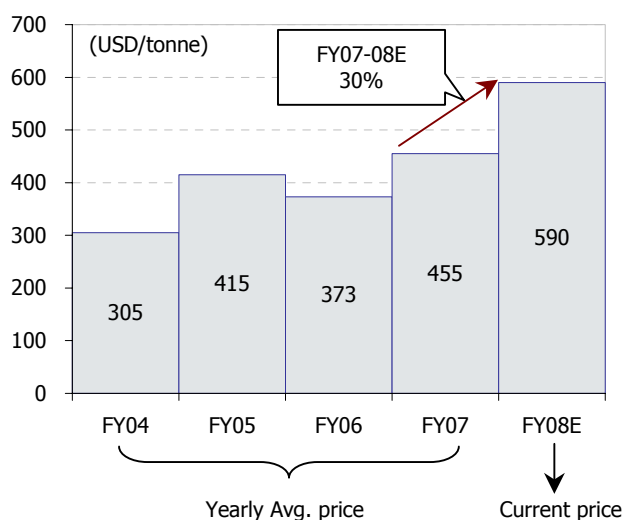


Source: Bloomberg

Export Billet (Semis)



Export Rebar (Long)



Source: Bloomberg

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