

Asian steel producers

Approaching melting point – Time to take profits

Market euphoria has fuelled visions of a 'new era' for steel, but in our opinion, we are simply entering the end of a powerful cycle. Asia is now firmly in the drivers seat, accounting for over half of global steel supply and consumption, but as China has moved to become a significant net exporter of steel, so too has the region. We have reached a danger point for steel.

Emerging signs of buyer resistance to higher steel prices, in our view, will gain momentum into the 2H 2007. With significant Chinese flat steel capacity due to come on stream in the 2H, we forecast the industry's benchmark, hot rolled coil (HRC) prices to fall by 26% from its Q2 peak in 2007 to end-2008.

Valuations are now at historic highs and we believe M&A activity, which has driven the sector's performance over recent months, has also reached a point of resistance. In any case, in Asia, nationalism remains a significant poison pill. We initiate coverage with Underweight ratings on Maanshan, Angang and BlueScope, and Neutral ratings on Baosteel, POSCO and China Steel.

By Daniel Kang and Sarah Mak

HSBC Asian Steel valuation table

Steel valuation

Company name	Posco	Baosteel	China Steel	Angang - A	Angang - H	Bluescope	Maanshan - A	Maanshan - H	Sector	
Code	005490.KS	600019.SS	2002.TW	898.SZ	0347.hk	BSL.AX	600808.SS	0323.HK	Asia Steel	
Currency	KRW	RMB	TWD	RMB	HKD	AUD	RMB	HKD		
Price	387500	11.30	39.65	18.0	16.4	11.69	8.23	5.38		
Target	400000	11.50	40.00	12.00	12.65	9.35	5.15	4.60		
Rating	N	N	N	U	U	U	U	U		
Market capitalisation (US\$m)	36,390	25,640	13,213	11,755	1866	7,179	1,208	4,974	102,224	
Year end	December	December	December	December	December	June	December	December		
VALUATION										
NPV	325281	8.42	38	10.3	10.27	7.50	\$4.13	\$4.13		
P/NPV	1.19	1.34	1.04	1.75	1.59	1.56	1.99	1.30	1.32	
PE (x)										
	2006	9.5	15.2	11.2	15.0	13.7	17.6	22.2	14.5	12.8
	2007F	8.2	11.4	8.4	13.1	11.9	11.0	16.5	10.8	10.1
	2008F	9.2	12.8	12.6	15.3	13.9	14.3	19.2	12.5	12.0
EV/EBITDA										
	2007F	4.8	4.7	5.1	6.4	6.4	6.5	8.1	8.1	5.3
	2008F	5.5	5.1	7.4	6.8	6.8	7.5	7.8	7.8	6.1
Yield (%)										
	2007F	2.4%	3.5%	10.2%	3.3%	4.0%	3.8%	2.2%	3.6%	4.0%
	2008F	2.1%	3.5%	8.7%	2.8%	4.0%	3.8%	1.8%	3.6%	3.6%
PROFITABILITY										
EPS diluted (¢)										
(pre goodwill amortisation)	2006	40,705	0.74	3.55	1.2	1.2	0.7	0.37	0.37	
	2007F	47,357	0.99	4.71	1.4	1.4	1.06	0.50	0.50	
	2008	41,985	0.88	3.15	1.2	1.2	0.82	0.43	0.43	
EPS growth (%)										
	2007F	16.3%	33.4%	32.4%	34.7%	34.7%	60.3%	34.7%	34.7%	29.3%
	2008F	-11.3%	-10.9%	-31.8%	-14%	-14%	-23.4%	-14.1%	-14.1%	-15.3%
EBITDA/Sales margins (%)										
	2006F	27%	21%	27%	16%	16%	11%	16%	16%	22.2%
	2007F	28%	26%	33%	15%	15%	17%	15%	15%	24.8%
	2008F	28%	24%	27%	15%	15%	15%	15%	15%	23.2%
ROIC (%)										
	2006F	18%	16%	28%	15%	15%	9%	8%	8%	17.1%
	2007F	17%	19%	40%	15%	15%	15%	9%	9%	19.4%
	2008F	12%	16%	25%	15%	15%	12%	7%	7%	14.7%
BALANCE SHEET										
Net debt/equity (%)										
	2006F	7%	12%	-8%	61%	61%	61%	85%	85%	22.1%
	2007F	5%	4%	-11%	80%	80%	50%	99%	99%	21.6%
	2008F	6%	6%	-7%	61%	61%	43%	98%	98%	19.8%
Crude steel production										
	2006F	30.1	21.9	11.5	15.2	15.2	6.7	10.2	10.2	95.5
	2007F	30.8	22.6	11.7	17.1	17.1	6.6	12.6	12.6	101.4
	2008F	31.6	25.9	11.8	18.6	18.6	6.6	14.2	14.2	108.6
EV/tonne										
		1061	1217	910	1088	1088	1280	826	826	1,085
Hot Rolled Coil (USD/t)										
Asia	1H2006	458	HRC	1H2006	455	HRC	1H2006	546	HRC	545
	2H2006	498	Europe	2H2006	516	US	2H2006	619	Global	590
	1H2007	541		1H2007	538		1H2007	645		598
	2H2007	513		2H2007	513		2H2007	616		564
	1H2008	467		1H2008	456		1H2008	547		528
	2H2008	438		2H2008	431		2H2008	518		503

Source HSBC

Source: Company data, HSBC estimates

Investment thesis

What a difference a year makes – this time last year the sector was struggling to overcome investor scepticism. Today, market euphoria and visions of a ‘new era’ have seen the Asian steel sector post a 25% gain since the beginning of the year. While momentum remains in the near term, we believe compelling signs have emerged to indicate that the peak of the current cycle is near. We forecast steel prices to fall by 26% from the peak in Q2 2007 to end 2008, and initiate the Asian Steel sector with a recommendation to take profits

Initiate on Asian Steel sector with Underweight rating

Enter the danger zone – Record valuations but steel prices peaking

The Asian Steel sector (ex-Japan) has exploded through the starting gates, gaining 25% since the start of this year. There has been a significant re-rating of the sector with PEs and P/B valuations at historical highs while dividend yields have contracted sharply. However, with China’s new-found role as a significant net exporter of steel, we believe we are simply approaching the peak of a powerful cycle. Increasing resistance from steel buyers, in our view, will gain momentum into the 2H. In addition, with valuations now significantly above recent transactions, we believe M&A activity which has underpinned the sector’s performance, has also reached a point of resistance. We initiate with an Underweight rating on the Asian Steel sector.

Buyer resistance to gain momentum into 2H

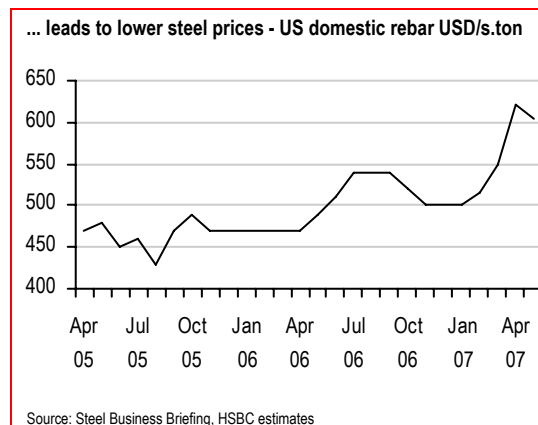
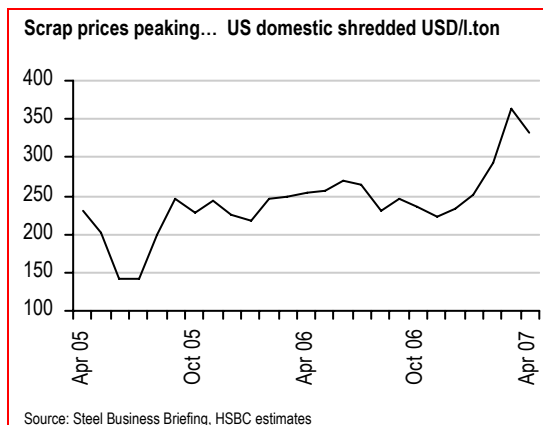
Given the correlation between steel prices and steel equities is near perfect (correlation of 0.94 for the stocks we have initiated on), we think it is appropriate to begin on this topic. Asian steel prices (hot rolled coil) have spiked by over 20% or USD100/t (to USD590/t) since the beginning of the year driven by rocketing scrap prices, expectations of cuts to Chinese VAT rebates plus unexpectedly strong construction steel demand from the Middle East. While steel buyers may need to concede further price increases in the 2Q, we believe steel prices are peaking.

In recent weeks, there has been a noticeable pick-up in (steel) buyer resistance to high prices. Rocketing scrap prices (+30% since the start of the year to USD370/t) which have underpinned cost-push price hikes are starting to turn... down. Increased availability of steel supply will also become more apparent in the 2H.

Driven by seasonal factors, scrap is now more readily available and steel mills appear to be holding back on scrap buying, sensing further falls. Over coming months, significant new capacity will be ramping up

to full speed or being commissioned. We estimate 40mt of high-end flat steel of capacity was completed or will commence production over 2006-2007. With the Asia (ex Japan) market for high-end flat steel totalling 70mt, this space is becoming crowded.

Peaking scrap prices and increased flat steel availability will provide buyers with strong resolve to insist on lower steel prices, in our opinion. We expect buyer resistance will gain momentum into Q3 and Q4.

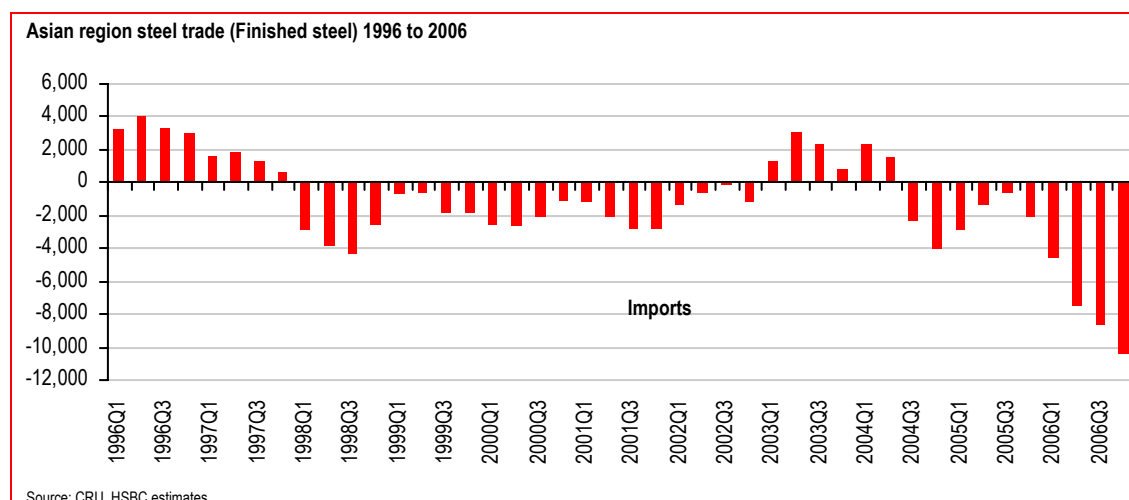


China exports not likely to slow despite VAT rebate cuts

Recent moves by China to cut tax rebates on steel exports, in our view, were aimed at appeasing anti-dumping actions raised by the US, Europe and other countries. While some may see it as a positive for global steel prices in discouraging Chinese exports, we don't expect Chinese exports to slow down, at least in the near term given strong international steel prices. Fuelled by the strength of international steel prices, as a region, Asia (including China) is now a significant and growing exporter (see table below).

The overcapacity time bomb – 277mt surplus capacity by 2008

While we expect seasonal factors and continued strong Asian exports to lead to a steel downturn in the 2H, structural factors in our view will lead to the market remaining weak through to 2008. Put simply, the world is not short of steel. ISSB forecasts surplus capacity in 2007 of 230mt will grow to 277mt by 2008.



This represents 20% of additional available capacity. Much of this growth in new capacity will arrive from Brazil, Russia, India and China, which are accelerating plans to ensure self-sufficiency. With most of these countries looking to reduce import intake, where will all the exporters find a home?

M&A cycle stalling?

M&A fervour have been a significant driver of the stellar performance of the steel sector in recent months. While we cannot rule out further activity, we suspect that the M&A cycle has stalled. Recent M&A transactions have been completed at an average EV of cUSD750/t, but current EV valuations for listed companies are exceeding USD1000/t. This point has not gone unnoticed for the likes of Korea's POSCO and Russia's Severstal at recent investor presentations.

While we remain positive that consolidation in Asia will advance in the longer term, we believe that it is unreasonable to expect this to happen quickly. In fact, Asian steel producers have moved the other way, showing a preference to take more defensive tactics to ensure independence, such as reciprocal shareholdings and alliances on technology and raw material procurement. While these are effective to some degree, in our view, country nationalism remains the largest poison pill, as Asian governments remain strongly opposed to foreign control. Arcelor Mittal recently faced this with a failed attempt to acquire a 49% stake in Baotou Iron & Steel in China. After ceasing discussions with Arcelor Mittal, Baotou has agreed to Baosteel taking a controlling stake. And so, in-country consolidation is more likely than cross-border consolidation. The only exception to this rule is India, who has shown an aggressive attitude to becoming global.

Competitor strategies – Capacity growth, high-end focus, raw material security

The merger of Arcelor-Mittal and China's expanding capacity has effectively provided a wake-up call to Asian producers. Maintaining market significance via capacity expansions, focusing on high-end steel to avoid volatility plus security of raw material supply remain key objectives of our stocks under coverage.

- ▶ **Capacity growth** – Significant expansion plans are in train for Asia's steel industry. For the stocks in our universe, crude steel capacity will grow by nearly 60mt over the next five years. New greenfield capacity form the bulk of these expansion plans, but in-country consolidation will also contribute for Chinese mills. China aside, new capacity is targeting low cost, resource rich countries such as India and Vietnam.
- ▶ **High-end focus** – All the companies in our coverage are focusing on growth in high-end steel (including galvanised, auto and appliance sheet, shipping plates). We estimate the market excluding Japan, accounts for 70mt of steel consumption (in 2005) with its growth fuelled by China's expanding manufacturing sector. However, it is worth noting that China's reliance on imports for high-end flat steel has been steadily declining in recent years. With an additional 40mt of high-end flat steel coming on stream in the 2H, China's import requirements will further reduce with the risk of crowding out regional players servicing this market.
- ▶ **Security of raw material supply** – With the strength of prices and tightness of supply for iron ore, raw material security remains a key strategic focus for our regional universe. Most are content with

building equity stakes or negotiating long-term contractual arrangements to ensure security of supply, rather than outright acquisitions of mines.

Valuations – Mid cycle multiples for peak cycle earnings

While we anticipate prices will fall in 2H 2007, given the strength of 1H prices, we forecast 2007 full-year average Asian HRC prices to be higher than 2006 (+2.1% to USD488/t). 2008 average prices are forecast to fall by 14% to USD420/t. Under these assumptions, we estimate the sector is currently trading at 10.1x PE, 5.3x EV/EBITDA and 2.1x PB on 2007 forecasts for our Asian stock universe. Multiples expand to 12.0x, 6.1x EBITDA in 2008. While a sector PE of 10x 2007 earnings is not overly demanding, if these are peak cycle earnings (as we believe they are) then the sector is expensive. Under normalised earnings, we believe the sector is trading on a PE of 13.0x, 30% above historical mid-cycle levels of 10x.

For reference, we have included consensus estimates for Japanese and Indian steel majors. Japan steel stocks currently trade at a PE premium to our regional universe, while Indian steel stocks trade at a PE discount.

HSBC Asia steel valuations table

Code	Stock	Currency	Price	Market Cap	PE		EV/EBITDA		P/B	Div Yield	
				US\$m	2007	2008	2007	2008	2006	2007	2008
Asian steel											
005490.KS	Posco	KRW	387,500	36,390	8.2	9.2	4.8	5.5	1.4	2.4%	2.1%
600019.SS	Baosteel	RMB	11.30	25,640	11.4	12.8	4.7	5.1	2.4	3.5%	3.5%
2002.TW	China Steel	TWD	39.65	13,213	8.4	12.6	5.1	7.4	2.2	10.2%	8.7%
898.CH	Angang - A	RMB	17.99	11,755	13.1	15.3	6.4	6.8	2.7	3.3%	2.8%
0347.HK	Angang - H	HKD	16.38	1,866	11.9	13.9	6.4	6.8	3.6	4.0%	4.0%
BSL.AX	Bluescope	AUD	11.69	7,179	11.0	14.3	6.5	7.5	2.7	3.8%	3.8%
600808.CH	Maanshan - A	RMB	8.23	1,208	16.5	19.2	8.1	7.8	1.8	2.2%	1.8%
0323.HK	Maanshan - H	HKD	5.38	4,974	10.8	12.5	8.1	7.8	3.1	3.6%	3.6%
Weighted average				102,224	10.1	12.0	5.3	6.1	2.1	4.0%	3.6%
Other Asian majors											
5401.JP*	Nippon Steel	JPY	769	44,108	14.0	14.2	7.0	6.9	2.4	1.4%	1.4%
5411.JP*	JFE	JPY	6470	33,347	11.7	11.8	6.3	6.2	2.1	2.0%	2.0%
SAIL.IN*	SAIL	INR	134	13,258	8.7	7.3	5.3	4.6	2.6	2.4%	2.8%
TATA.IN*	Tata Steel	INR	534	7,424	7.4	6.8	4.5	3.9	1.7	2.7%	3.4%
				98,138	12.0	11.9	6.4	6.1	2.3	1.8%	1.9%
Total Asia				200,362	11.0	11.9	5.8	6.1	2.2	2.9%	2.8%

Source: Company data, HSBC estimates, * Bloomberg estimates. Using company year end estimates

It's time to look at mid-cycle (normalised earnings) valuations

Another way of assessing mid-cycle earnings is to view it from the perspective of long-term EBITDA. If we use 2010 forecasts as a proxy for normalised mid-cycle earnings and apply the sector's historical EV multiple of 6.0x, the sector is trading on a significant premium. Excluding Maanshan (affected by high near-term gearing), we calculate the sector's average premium to mid-cycle EBITDA valuations to be 27%. POSCO and Baosteel are the only stocks that are trading at close to their EBITDA valuations.

HSBC Asian steel: Mid-cycle EBITDA valuation

	Posco	China Steel	Bluescope	Baosteel	Maanshan	Angang
Volume	30.1	11.5	6.7	21.9	10.2	14.0
Mid-cycle EBITDA/t 2010 (USD/t)	169	138	121	216	44	142
2007 forecast	216	173	184	240	43	167
Historical average	136	135	103	190	30	65
Local currency	KRW	TWD	AUD	CNY	CNY	CNY
Exchange rate	969.9	32.6	0.7	7.9	7.9	7.9
EBITDA (USDm)	5,065.6	1,591.6	809.0	4,727.8	449.7	1,994.2
EBITDA (local currency m)	4,913,117	51,815	1,091	37,539	3,566	15,814
EV/EBITDA	5.4	7.3	12.0	6.1	12.1	8.6
Mid-cycle EV/EBIDA multiple	6.0	6.0	6.0	6.0	6.0	6.0
EV (mn)	29,478,703	310,892	6,549	225,235	21,398	94,883
Less: Net debt.(cash) (m)	1,622,852	-16,322	1,890	10,104	17,034	18,166
Equity value (m)	27,855,851	327,214	,659	215,131	4,364	76,717
No. of shares (m)	79	10,464	708	17,512	6,485	5,933
Per share value	353,976	31.3	6.6	12.3	0.7	12.9
Share price	387,500	39.65	11.69	11.30	5.38	16.38
Prem/(Disc)	9%	27%	78%	-8%	699%	27%

Source: Company data, HSBC estimates

Investment strategy – Time to take profits

We initiate coverage of the Asian steel sector with a recommendation to take profits. While 2Q prices and profits are likely to be strong, we expect this to represent the peak as consumer resistance is starting to build. Apart from a steel price downturn, investors should also be wary of the sector's strong correlation with the Chinese share market, which we believe is due for a meaningful correction. Finally, with valuations now above recent transactions, we believe the M&A cycle, which has underpinned the sector's performance, will likely stall until a meaningful correction arrives.

- ▶ **POSCO – A visionary regional leader.** We initiate coverage of POSCO with a Neutral (V) rating and W400,000/share target. Strategically and technologically, we regard POSCO as the region's leader. Its three-pronged growth strategy focused on greenfield expansions, lifting sales of strategic products and security of raw materials should ensure that its profit margins continue to lead the pack. While relative valuations remain supportive, absolute valuations (PE, P/B) are now at historical highs.
- ▶ **Baosteel – The Chosen one.** We initiate with a Neutral (V) rating and CNY11.50/share target. We expect BaoSteel to play a starring role in domestic consolidation. While a steel price downturn would impact earnings and valuations, Baosteel may benefit from more attractive M&A opportunities.
- ▶ **China Steel – A high yielding national hero.** We initiate on China Steel Corporation (CSC) with a Neutral (V) rating and TWD40/share target. We consider CSC a well run Taiwanese champion attractive for high yield investors but lacking a significant catalyst. While growth is on its way (capacity to grow to 20mt from 13mt), it shouldn't be until 2010 that we would see any meaningful impact.
- ▶ **Angang – Growth indigestion.** We initiate on Angang with an Underweight (V) rating and target prices of RMB12.00 for its A-shares; HKD12.65 for its H shares. Angang is in the midst of a significant growth program having recently absorbed its parent's assets and currently completing a

5mt expansion. While we remain positive on its long-term prospects, challenging headwinds lie ahead. A rights issue will result in an 8% EPS dilution and recent cuts to VAT rebates should hurt its exports (25% of sales).

- ▶ **Maanshan Iron & Steel - Re-weighting mix from Longs to Flats.** We initiate coverage of Maanshan with an Underweight (V) rating and price targets of RMB5.15 for its A-shares and HKD4.60 for its H-shares. Primarily a long (construction) steel producer, Maanshan is aggressively moving up the value chain and product mix to flat steel (from long steel). However, given that Maanshan (A shares in particular) is the most expensive stock in our coverage universe at 16.5x PE and armed with a high gearing level (2006 ND/E 85%), we believe a capital raising is highly likely.
- ▶ **BlueScope Steel – Punching above its weight.** We initiate on BlueScope with an Underweight (V) rating and a AUD9.35/share target. Australia’s leading player punches above its weight for its high quality assets and geographic spread of assets. However, its Asian downstream growth strategy is under attack from changing government regulations and competition stepping up.

HSBC Asian steel equities: Ratings and target prices

Company	Currency	Price	Target	Dividend yield	Potential total return	Country	Benchmark return	Volatility flag	Return band	Rating
POSCO	KRW	387,500	400,000	2%	6%	Korea	10.50	V	+0.5 to 20.5	Neutral
Baosteel	RMB	11.30	11.50	4%	5%	China	12.00	V	+2.0 to 22.0	Neutral
China Steel Corp	TWD	39.65	40.00	10%	11%	Taiwan	11.00	V	+1.0 to 21.0	Neutral
Angang - A	RMB	17.99	12.00	4%	-30%	China	12.00	V	+2.0 to 22.0	Underweight
Angang - H	HKD	16.38	12.65	4%	-18%	Hong Kong	12.00	V	+2.0 to 22.0	Underweight
Maanshan - A	RMB	8.23	5.15	2%	-35%	China	12.00	V	+2.0 to 22.0	Underweight
Maanshan - H	HKD	5.38	4.60	3%	-10%	Hong Kong	12.00	V	+2.0 to 22.0	Underweight
BlueScope Steel	AUD	11.69	9.35	4%	-16%	Australia	9.00	V	-1.0 to 19.0	Underweight

Source: Company data, HSBC estimates

HSBC Asian steel comparables, calendar year basis

Year end 31 Dec	Share	Market cap	2005	2006	2007E	2008E	2009E	2005	2006	2007E	2008E	2009E
			EPS					DPS				
	Price (local)	(USDm)										
Baosteel	11.30	25,639	0.72	0.74	0.99	0.88	0.82	0.32	0.32	0.40	0.40	0.40
Bluescope	11.69	7,178	1.09	0.77	0.98	0.62	0.73	0.64	0.45	0.45	0.45	0.45
Posco	387500	36,390	45816	40705	47357	41985	36241	0.16	0.19	0.19	0.19	0.19
China Steel	39.65	13,213	4.83	3.55	4.71	3.15	2.66	4.10	3.08	4.02	3.45	2.96
Maanshan - A Shares	8.23	4,973	0.45	0.37	0.50	0.43	0.47	0.16	0.13	0.18	0.15	0.18
Maanshan - H Shares	5.38	1,207	0.45	0.37	0.50	0.43	0.47	0.16	0.13	0.18	0.15	0.18
Angang - A Shares	17.99	11,754	0.71	1.20	1.37	1.18	1.30	0.36	0.58	0.65	0.65	0.65
Angang - H Shares	16.38	1,865	0.71	1.20	1.37	1.18	1.30	0.36	0.58	0.65	0.65	0.65
Average		102,224										

	DCF/share (local)	Market Prem / (Disc)	Price/Earnings					FCF Yield (%)				
			2005	2006	2007E	2008E	2009E	2005	2006	2007E	2008E	2009E
Baosteel	8.42	34%	15.6	15.2	11.4	12.8	13.7	11%	11%	19%	14%	17%
Bluescope	7.50	56%	10.8	15.2	11.9	18.9	16.0	10%	3%	11%	9%	11%
Posco	325,280	19%	8.5	9.5	8.2	9.2	10.7	18%	16%	18%	17%	16%
China Steel	37.98	4%	8.2	11.2	8.4	12.6	14.9	10%	15%	15%	11%	9%
Maanshan - A Shares	4.13	99%	18.3	22.2	16.5	19.2	17.5	16%	14%	14%	14%	18%
Maanshan - H Shares	4.13	30%	11.9	14.5	10.8	12.5	11.4	11%	9%	9%	9%	12%
Angang - A Shares	10.27	75%	25.2	15.0	13.1	15.3	13.8	5%	10%	14%	13%	14%
Angang - H Shares	10.27	59%	22.9	13.7	11.9	13.9	12.6	2%	9%	13%	12%	13%
Average		47%	12.9	12.7	10.1	12.3	12.9	13%	12%	16%	14%	14%

	Reuters	EV/tonne	EV/EBITDA					ROE (%)				
			2005	2006	2007E	2008E	2009E	2005	2006	2007E	2008E	2009E
Baosteel	600019.SS	1217	6.8	5.8	4.7	5.1	5.0	22%	17%	20%	16%	14%
Bluescope	BSL.AX	1280	5.6	12.0	6.5	7.5	7.9	31%	15%	23%	16%	13%
Posco	005490.KS	1061	4.0	5.2	4.8	5.5	6.1	20%	16%	15%	12%	9%
China Steel	2002.TW	910	5.1	7.3	5.1	7.4	8.6	26%	20%	25%	17%	16%
Maanshan - A Shares	600808.ss	826	7.3	9.7	8.1	7.8	6.8	18%	13%	16%	12%	13%
Maanshan - H Shares	0323.HK	826	7.3	9.7	8.1	7.8	6.8	18%	13%	16%	12%	13%
Angang - A Shares	898.SZ	1088	24.1	8.2	6.4	6.8	6.0	20%	33%	25%	19%	20%
Angang - H Shares	0347.HK	1088	24.1	8.2	6.4	6.8	6.0	20%	33%	25%	19%	20%
Average		1,085	7.8	6.8	5.3	6.1	6.3	22%	19%	20%	15%	13%

Source: Company data, HSBC estimates

HSBC Asian steel comparables, calendar year basis

Year end 31 Dec	Rating	2005	2006	Price/Book			2005	2006	ROIC		
				2007E	2008E	2009E			2007E	2008E	2009E
Baosteel	N	2.7	2.4	2.1	2.0	1.8	21%	16%	19%	16%	14%
Bluescope	U	2.6	2.7	2.3	2.2	2.1	23%	9%	15%	12%	11%
Posco	N	1.6	1.4	1.2	1.0	0.9	57%	18%	17%	12%	10%
China Steel	N	2.1	2.2	2.2	2.2	2.3	83%	28%	40%	25%	21%
Maanshan - A Shares	U	2.0	1.8	1.6	1.5	1.4	25%	8%	9%	7%	7%
Maanshan - H Shares	U	3.0	2.7	2.4	2.3	2.2	25%	8%	9%	7%	7%
Angang - A Shares	U	8.3	3.1	2.7	2.5	2.3	17%	15%	15%	15%	16%
Angang - H Shares	U	9.5	3.6	3.1	2.9	2.6	17%	15%	15%	15%	16%
Average		3.0	2.2	1.9	1.8	1.7	42%	17%	19%	15%	13%

	Price target	Return to target	REP; (EV/IC)/(ROIC/COC)					EPS Growth (%)				
			2005	2006	2007E	2008E	2009E	2005	2006	2007E	2008E	2009E
Baosteel	11.50	5.3%	1.13	1.35	1.05	1.16	1.27	-3.7%	2.7%	33.4%	-10.9%	-6.8%
Bluescope	9.35	-16.2%	0.87	2.13	1.11	1.41	1.56	68.8%	2.7%	33.4%	-10.9%	-6.8%
Posco	400,000	3.2%	0.35	0.91	0.82	1.04	1.23	0.0%	-11.2%	16.3%	-11.3%	-13.7%
China Steel	40.00	11.0%	0.37	1.10	0.71	1.14	1.38	0.0%	-22.7%	32.4%	-31.8%	-12.4%
Maanshan - A Shares	5.15	-35.2	0.80	1.80	1.82	2.27	2.10	0.0%	-17.7%	34.7%	-14.1%	9.6%
Maanshan - H Shares	4.60	-10.1%	3.32	1.01	1.08	1.41	1.33	17.8%	-17.7%	34.7%	-14.1%	9.6%
Angang - A Shares	12.00	-29.7%	0.80	1.80	1.82	2.27	2.10	0.0%	67.3%	14.7%	-14.2%	10.7%
Angang - H Shares	12.65	-17.9%	3.32	1.01	1.08	1.41	1.33	17.8%	67.3%	14.7%	-14.2%	10.7%
Average		0.8	1.3	1.0	1.3	1.4	5.1%	1.9%	24.8%	-14.4%	-6.7%	

	2006 NDt / (ND+ E)	EBITDA Margin					Div Yield				
		2005	2006	2007E	2008E	2009E	2005	2006	2007E	2008E	2009E
Baosteel	10%	24%	21%	26%	24%	23%	2.2%	2.8%	3.5%	3.5%	3.5%
Bluescope	38%	21%	11%	17%	15%	14%	3.6%	3.8%	3.8%	3.8%	3.8%
Posco	7%	34%	27%	28%	28%	27%	2.1%	2.1%	2.4%	2.1%	1.9%
China Steel	0%	38%	27%	33%	27%	25%	10.4%	7.8%	10.2%	8.7%	7.5%
Maanshan - A Shares	30%	18%	16%	15%	15%	17%	1.9%	1.6%	2.2%	1.8%	2.2%
Maanshan - H Shares	30%	18%	16%	15%	15%	17%	3.0%	2.4%	3.3%	2.8%	3.3%
Angang - A Shares	38%	15%	25%	29%	27%	26%	2.0%	3.2%	3.6%	3.6%	3.6%
Angang - H Shares	38%	15%	25%	29%	27%	26%	2.2%	3.5%	4.0%	4.0%	4.0%
Average		28%	23%	27%	25%	24%	3.3%	3.3%	4.0%	3.7%	3.5%

Source: Company data, HSBC estimates

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Sentiment turning

- ▶ Sentiment is starting to turn as buyers resist further price hikes
- ▶ Falling scrap prices removes a key supporting cost factor (price surcharge); 3Q historically a weaker period for steel prices
- ▶ A wave of new HRC capacity coming on line in 2H 2007

Price resistance emerges

Asian buyers resisting higher prices

We have picked up a notable change in sentiment over recent weeks. While we fully expect that Chinese exporters will attempt to test the market with higher prices in coming weeks in an attempt to recover recent cuts to VAT rebates, the outcome will depend on market demand. Asian steel may be softening as buyer resistance to paying higher prices is becoming increasingly evident.

Chinese HRC prices in mid-March slipped as negative sentiment took over, but have since recovered on strong export markets. In our view, once the recent cuts to China's export VAT rebate settles in to the market, Chinese domestic prices will come under renewed downward pressure.

European price hikes hard to hold

We understand that Southern European steel producers are finding it difficult to boost coil prices in this second quarter. Our contacts indicate that Spanish price increases of up to EUR20/tonne for hot rolled coils and hot-dip galvanised that were recently announced (bringing HRC prices up to some EUR530-540/t and HDG to EUR620-630/t) have not been effective yet, as the market seems to be reluctant to take up price increases

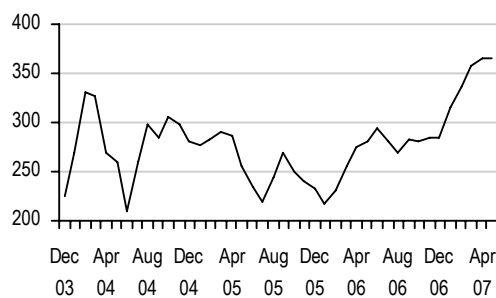
when prices are at a high level and inventories are not low.

Scrap prices starting to turn...

3Q seasonally weaker for scrap

We are entering the seasonally weaker period for scrap prices. The Northern hemisphere summer typically shows an increase in supply as access to scrap is made easier. Scrap prices represent the key raw material feed to steel production for electric arc furnaces (mini mills). Globally, mini-mills account for 25% of world steel production, but in Asia the proportion is 40%. With this key input starting to soften, the impetus for cost-push price increases has been removed.

Scrap prices (USD/tonne) - East Asia HMS 1&2 (80:20)

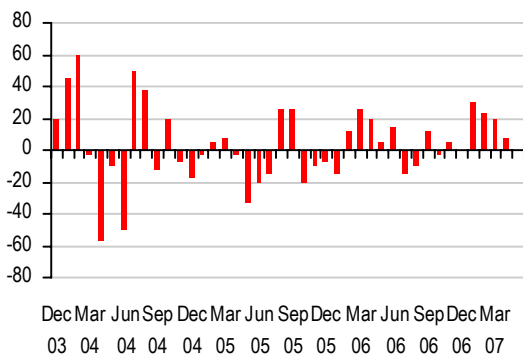


Source: Steel Business Briefing, HSBC estimates

...affecting long steel prices

We understand that weaker billet prices (semi-finished long steel produced from scrap) are being offered from China, with prices also weakening in Russia and the Ukraine. According to several traders, the decrease in buying activity first became noticeable about two weeks ago. With buyers staying out of the market, May production order books are believed to be still only half full.

East Asia import scrap price - monthly movement (USD/t, HMS 1 & HMS 2, 80:20)



Source: Steel Business Briefing, HSBC estimates

Indian government resisting price hikes

The Indian government has also become involved in steel prices. Earlier this month, India's steel producers agreed not to increase domestic prices of hot rolled coil in April after lengthy negotiations with the government. The Indian government remains concerned that any increase in steel prices could affect inflation levels. In March, producers were forced to roll back prices to help check inflation in India.

A wave of HRC capacity coming on line in 2H

Perhaps the greatest challenge facing current euphoria in steel markets is a wave of new projects ramping up to full production as we approach the 2H. Many of these projects were commissioned during the past 12 months and will be running at full speed by 2H 2007. With nearly 40mt of new capacity, this will hit at steel's leading barometer, HRC prices.

China - Major steel projects in 2006-07 (tonnes in millions)

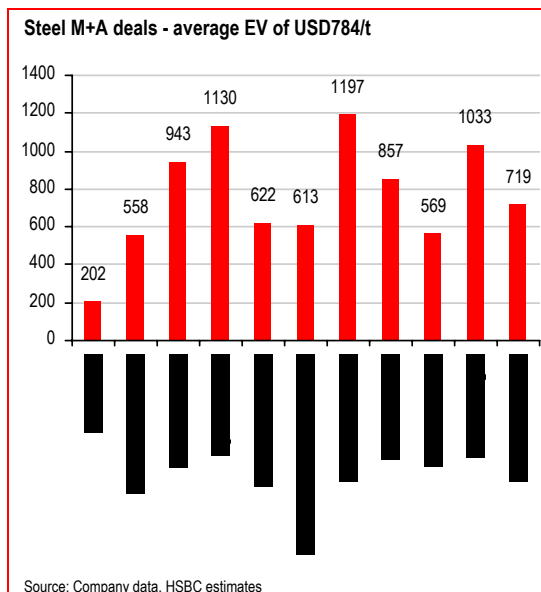
Company	Project	Capacity	Commission time
Tonghua Steel	1450mm HR	1.3	2005
Jiuquan Steel	1810mm CSP	2.0	2005
Shagang	1700mm HR	2.0	2005-06
Jinan Steel	1700mm HR	2.5	2005-06
Benxi Steel	1700mm HR	2.85	2006
Taiyuan Steel	2250mm HR	4.85	2006
Anshan Steel	2150mm ASP	5.0	2006
Tangshan Steel	1700mm HR	2.5	2006
Bayi Steel	1750mm HR	1.5	2006
Shougang	2160mm HR	4.0	2006
Shougang	4300mm plate	1.2	2006
Jinxi Steel	H-section	1.0	2006
Shuicheng Steel	Wire rod	1.0	2006
Ningbo Jianlong	1780mm HR	3.0	2007
Maanshan Steel	2250mm HR	4.0	2007
Baosteel	1880mm HR	2.8	2007
Baosteel	plate mill	1.5	2007
Tiantie Steel	1780mm HR	3.8	2007
Wuhan Steel	HR mill	2.8	2007-2008
Flat steel		47.6	
HR		37.9	
Long steel		2.0	
Total		49.6	

Source: China Metals, HSBC.

Valuations now exceed recent M+A deals

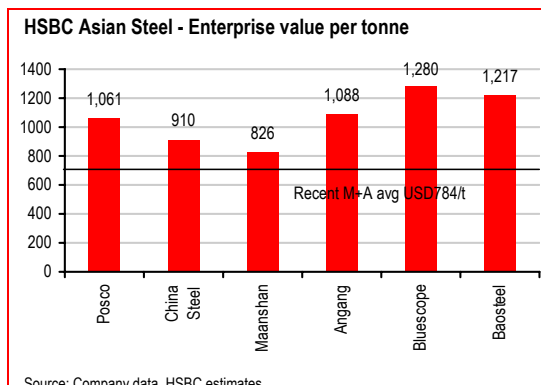
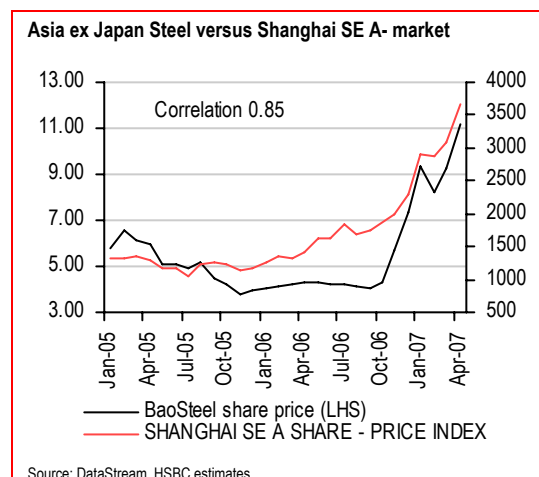
In recent results presentations, we have also noticed that senior management has expressed the view that valuations are not compelling for acquisitions within the steel sector.

Our analysis of recent deals against current market valuations of the stocks in our universe supports this view. Recent M+A deals have been concluded at an average enterprise value (EV) of USD768/tonne. Current valuations however have surpassed USD1000/t.



A near perfect correlation with China's A-share market

Apart from the strong correlation that steel stocks have with that of its underlying key driver, steel prices, an area investors will increasingly need to monitor is the Chinese A share market. We estimate that the correlation between the Asia ex-Japan steel index to the Shanghai A share market is remarkably high at 0.95! As HSBC's China strategist, Steven Sun, recently warned in his latest China Investment Atlas (Issue 4), "We caution against bubble level valuations in the A-share market ...28x 12-month forward PE."



China – Growing pains

- ▶ In just seven years, China has grown to become the world's largest supplier accounting for 36% of global steel markets
- ▶ China's steel industry is big but fragmented; attempts at consolidation have generally met with resistance and failed
- ▶ Recent VAT rebate cuts unlikely to curb exports... a prolonged steel price downturn is required, in our view

An adolescent giant that keeps growing

Big and still growing strongly

Producing 36% of a 1.2bt global market (422mt in 2006), China is big. It has reached this position in record time having recorded average growth of over 20% pa since 2000. While production growth may slow this year, incremental growth remains large from a massive base.

This phenomenal growth has caused seismic shifts in world trade patterns as China now also holds the position as the world's largest exporter.

Within a period of only three years, China has gone from being a 35mt net importer to a net exporter of 31mt (in 2006).

The numbers are simply staggering! But China continues to grow – March production figures indicated record production levels of 40.2mt, annualising 480mtpa and a growth rate of 22% y-o-y.

Crude steel production – China vs World, 1997-Q1 2007 (tonnes in millions)

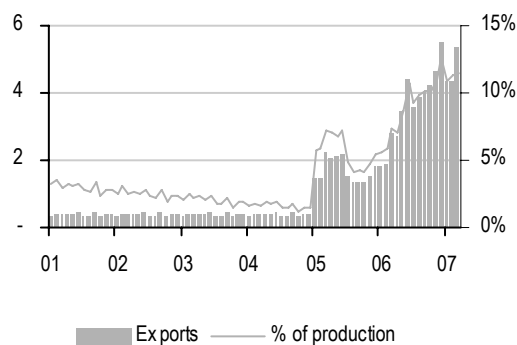
	China	Rest of World	World	China % of world
1997	108.9	690.0	798.9	13.6%
1998	114.6	662.7	777.3	14.7%
1999	124.0	665.0	789.0	15.7%
2000	127.2	720.4	847.7	15.0%
2001	150.9	699.5	850.4	17.7%
2002	182.2	721.7	903.9	20.2%
2003	222.4	747.3	969.7	22.9%
2004	280.5	788.2	1,068.6	26.2%
2005	355.8	783.0	1,138.8	31.2%
2006	418.8	820.7	1,239.5	33.8%
Q1 2007	114.4	203.7	318.2	36.0%
Addition				
1997	7.67	41.18	48.85	15.7%
1998	5.68	(27.30)	(21.62)	-26.3%
1999	9.37	2.28	11.65	80.4%
2000	3.28	55.42	58.70	5.6%
2001	23.67	(20.93)	2.74	863.2%
2002	31.34	22.17	53.51	58.6%
2003	40.16	25.64	65.81	61.0%
2004	58.07	40.84	98.92	58.7%
2005	75.30	(5.16)	70.14	107.4%
2006	63.01	37.70	100.71	62.6%
Q1 2007	21.90	10.80	31.70	66.9%

Source: IISI, HSBC.

Exports surge

In 2006, China's crude steel and finished steel production was 422mt and 467mt, up 19% y-o-y and 17.6% y-o-y respectively. Finished steel apparent consumption were 442mt, up 10% y-o-y. Apparent consumption growth lagged production growth and resulted in an increase of exports by 110% y-o-y. 2006 finished steel net exports were 24.5mt compared to a net importer of 5.3mt in 2005.

China - monthly finished steel exports and share of production (tonnes in millions)



Source: China Metals, CEIC, HSBC.

China finished steel exports surged from around 6mt in 2000-03 to 14mt in 2004, 21mt in 2005 and 43mt in 2006. In Jan-Mar 2007, China's finished steel exports were up 118% y-o-y to 14mt. China's net exports of flat products were 4.8mt in 2006 compared to a net importer of 14mt in 2005. Exports of flat products rose 141% y-o-y to 20.38mt (+11.9mt). Strong exports were needed, given output growth of 40.3% y-o-y to 190mt (+54mt) in 2006.

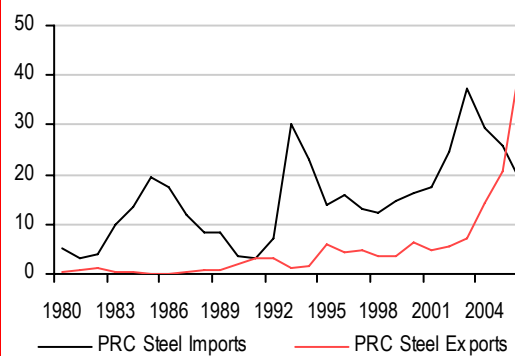
China has increased its exports from 7mt in 2003 to 43mt in 2006, accounting for 11.2% of its production in Q1 2007. According to China Iron and Steel Association (CISA) officials, they believe they are exporting its steel to fill in the gap of the global steel demand growth.

China - finished steel production and exports, 2003-Q1 2007 (tonnes in millions)

	Production	Exports	y-o-y%	
			% Production	Exports
2003	233.4	7.0	3.0%	27.5%
2004	295.6	14.2	4.8%	104.6%
2005	369.3	20.5	5.6%	44.2%
2006	467.0	43.0	9.2%	109.6%
Q1 2007	126.3	14.1	11.2%	118.4%

Source: CEIC, HSBC.

China - finished steel imports and exports, 1980-2006 (tonnes in millions)



Source: China Metals, PRC Statistical Yearbook, HSBC.

While we take CISA's point that China is only exporting a small proportion of its output (9% in 2006), China's sheer size means that it accounts for 17% of global steel trade or 70% of additional growth in the steel trade in 2006.

Top steel exporters, 2005-06* (tonnes in millions)

Ranking	2006	2005	Countries	Exports		% share	
				2006*	2005 y-o-y%	2006*	2005
1	5		China	49.2	25.7	91%	17%
2	1		Japan	34.2	31.7	8%	12%
3	3		Russia	31.0	30.4	2%	11%
4	2		EU25	30.3	30.9	-2%	11%
5	4		Ukraine	30.3	27.1	12%	11%
6	6		South Korea	17.3	15.5	12%	6%
7	8		Turkey	12.8	12.2	5%	5%
8	7		Brazil	12.5	12.4	1%	4%
9	9		Taiwan	10.4	9.0	16%	4%
10	10		USA	9.0	8.9	1%	3%
11	12		India	6.5	5.5	18%	2%
12	11		Canada	5.9	5.7	4%	2%
			Other	34.2	34.9	-2%	14%
			Total	283.6	249.9	13%	100%

Products included: semis, long products, flat products and tubes
Excludes EU25 intra trade
* 2006 contains some estimates.
Source: ISSB, HSBC.

Increased trade action and cuts to export VAT rebates

In our view, mounting international pressure to curb its exports led to China's decision to cut the export VAT rebate effective 15 April 2007. The tax rebate has been reduced to 5% for 76 products including CR, galvanised, specialty and stainless steel, and eliminated for another 83 products including HR, thin plate, steel wire, section, bar and H-beam. China's government may impose further policies on exports and make structural adjustments to the iron and steel industry in the future.

After months of speculation, Chinese steel mills passed on the additional tax to international markets. With the digestion of these increases, we believe it has had the effect of encouraging further output growth. In our view, the rebate cuts will have little impact on Chinese exports, given current international prices.

China – exports tax rebates on steel

	before	1 Jan 04	1 May 05	15 Sep 06	15 Apr 07
Finished Steel	13%	13%	11%	8%	0-5%
Steel billets, slabs	13%	0%	0%	0%	0%

Source: State Administration of Taxation, China Metals, NDRC, Ministry of Finance.

China – imports and exports tax on iron and steel, effective 1 Nov 2006 (%)

	Before 1-Nov-06	1-Nov-06
Import tax adjustment		
Iron and steel scrap	2	0
Export tax adjustment		
Billet and slab	0	10
Pig iron and sponge iron	0	10
Iron ore	0	10

Source: Metal Bulletin, Ministry of Finance.

Government guided consolidation?

The ongoing consolidation of the Chinese steel industry is taking place under the guidance of the PRC government. According to the PRC steel policy announced in 2005, the Chinese government intends to consolidate the sector by creating five major steel groups in China. The policy does not allow foreign control of Chinese steel companies.

China – top 10 steel producers, 2006 (tonnes in millions)

China	World	Company	Output	% of China
1	6	Shanghai Baosteel	22.53	5.4%
2	9	Tangshan	19.06	4.6%
3	16	Anshan	15	3.6%
4	17	Jiangsu Shagang	14.63	3.5%
5	18	Wuhan	13.76	30.0%
6	24	Jinan	11.24	2.7%
7	25	Maanshan	10.91	2.6%
8	26	Laiwu	10.79	2.6%
9	27	Shougang	10.55	2.5%
10	28	Hunan Valin Group	9.91	2.4%
Top 10		138.38		33.0%
Total China		418.8		100.0%

Source: Metal Bulletin, HSBC.

Small steel mills have been growing at a faster rate than the large steel mills, even after the PRC steel policy was released in 2005. In 2006, the top 10 mills accounted for 33% of China's crude steel output, compared with 35.4% in 2005. The output addition contributed by large and medium enterprise has declined from 62.7% in 2004 to 42.3% in 2006 and accounts for 60.4% of China's output in 2006 compared to 76.3% in 2003.

In our view, the consolidation of the Chinese steel is not the same as elimination of capacity. There will be a race for larger steel mills to expand output to become consolidators in the steel industry rather than being the targets for acquisition.

In addition, smaller mills will have the incentive to continue to increase their capacity and even export their products whenever profitable, so as to avoid closure. Competition may become more

intense as capacity is further released during 2007. There is a chance for steel mills to cut their prices in order to maintain their market share.

China – finished steel exports and addition (tonnes in millions)

	Production			Addition		
	China	Large & Medium Enterprises	%	China	Large & Medium Enterprise	%
2002	5.45	4.02	73.7%			
2003	6.96	4.89	70.3%	1.50	0.87	57.9%
2004	14.23	9.95	69.9%	7.28	5.06	69.6%
2005	20.52	13.05	63.6%	6.29	3.09	49.2%
2006	43.01	24.99	58.1%	22.48	11.94	53.1%

Source: CEIC, HSBC.

Why has consolidation failed?

In spite of the constant stream of edicts from China's central government, there appears to be little progress in the long desired consolidation of China's highly fragmented steel sector. With the top 10 producers accounting for 33% of the country's production, the remainder is largely made up of over 4,000 small to medium-scale steel companies, with capacity of less than 5mt.

Firstly, the benefits of being acquired remain unclear for many small mills under government mandated M+A. Secondly, for local governments, the loss of large tax paying steel mills is something to be avoided.

State-owned enterprises versus local enterprises...

Steelmakers in China are largely state-owned, but they are administered at different levels. The big four steel firms, Baosteel, An-Ben Steel, Wuhan Steel and New Tangsham Steel, plus Panshihua Steel, are overseen by the State Administration of State Owned Assets, a central government agency. This means that they pay corporate income taxes to the central government first. Local governments receive a cut based on:

- ▶ The income of the subsidiary in their jurisdiction

- ▶ The staff numbers of those subsidiaries
- ▶ The proportion of local assets to group assets

On top of this, the central government also receives the bulk of value-added taxes.

In contrast, steelmakers who are directly controlled by local governments pay taxes to local authorities, which then remit a portion to the central government based on a set formula.

Paper weddings

A prime example of the challenges surrounding Chinese consolidation efforts is provided by the August 2005 merger of the two northern steel groups, Anshan Iron and Steel and Benxi Iron & Steel. The central government controls Anshan and wants the amalgamation but the provincial government controlling Benxi does not. The combination was created via an administrative arrangement but each company's finance, procurement, sales, planning, and tax paying functions are still managed separately. The only noticeable union is in monthly sales, made up of the combined respective sales figures and presented as the results of China's second largest steel group.

As HSBC's Global steel analyst, Alan Coats, wrote in his report *No New Era*:

A period of weak demand and loss is needed to consolidate the industry in our view – Ispat (the Mittal vehicle) showed the impact on share prices of weak trade although it subsequently survived and prospered.

HSBC World Steel Model

- ▶ Steel overcapacity will remain and is politically getting less attention than before
- ▶ Steel demand growth expected to slow; no more major positive demand surprises
- ▶ Supply constraint is less effective than strong demand in generating strong prices

Demand

Consumption growth to slow

Growth in global demand has been strong since 2002. It has grown at over 5% a year between 2002 and 2006; even excluding China, growth amounted to 3% a year in most years. Ex China, demand grew 8% in 2006 and is forecast to grow 5% in 2007. We expect demand growth to return to a normal rate of growth of 2.8% in 2008 and 2.3% in 2009, with construction demand being weaker.

China's consumption growth rate is slowing from 28% in 2005 to 8% in 2009. We know that about two thirds of steel goes into construction in China and so any slowdown in building and construction will slow growth of steel demand. Moves have been made by the Chinese authorities to constrain export shipments but existing capacity should be adequate to cover any realistic needs. China is unlikely to import steel in any quantity.

If we look at the pattern of finished steel consumption, from the cyclical peak in 2000 to 2005, then the importance of Asia is clear. It accounts for 82% of demand growth in the period. The developed markets of America and Europe

showed negligible growth even during this major period of expansion. Looking forward we have to realise that the steel market is an Asian growth story; the market is growing in an area where price sensitivity is most pronounced.

Supply

Overcapacity remains

Capacity growth in China is slowing and is expected to keep in balance with production but China still has adequate capacity to act as a "swing producer" for the world. The imposition of export tariffs will limit export sales in weak price markets but when the market is strong Chinese suppliers will export over the export tariff.

Outside of China we expect supply growth from India, Middle East and "Other Asia". In the Middle East and "Other Asia", the increased supply may replace imports. We expect most of the Indian capacity to be used internally but if demand grows slower than expected then low cost steel may be available for the international market. Tata has already indicated the possibility of shipping steel slabs to the US. A number of projects have been developed in Brazil to supply slabs to the US and Europe.

Production

Increases in production will be focused on low cost areas, particularly India and Brazil, and there may even be cutbacks in the US and Europe if companies choose to import slab rather than the iron ore and coal needed to make steel.

The pattern of production may change with some of the higher cost areas (Europe and Japan) focusing increasingly on high value steels and abandoning some commodity grades. Emerging steel producers may start near the bottom of the value chain, in some cases taking advantage of their low costs.

Russian producers were significant suppliers to the world market but the growth in domestic demand has taken more of their output and they have yet to increase production to retain their presence in world markets.

HSBC World Steel model

	2000	2001	2002	2003	2004	2005	2006	2007e	2008e	2009e	2010e
Crude Steel Production (mt)											
Europe	202.5	198.0	200.9	206.4	220.6	214.2	232.2	232.2	227.7	222.8	223.6
Former USSR	96.5	102.8	99.9	106.2	113.1	111.8	119.5	120.1	121.9	125.2	125.8
NAFTA	133.0	118.3	121.7	122.4	131.6	125.4	131.7	118.0	121.5	125.4	121.5
Central and South America	40.2	38.6	42.2	44.4	47.2	46.6	45.4	46.1	47.2	49.8	52.8
Asia Pacific	328.5	341.6	388.1	435.3	494.6	577.7	658.7	707.6	774.7	821.8	852.6
(of which) China	126.3	142.5	179.6	219.4	273.9	351.2	422.1	485.4	541.2	584.0	600.0
Africa and Middle East	21.5	24.8	26.5	29.0	30.2	32.2	32.0	36.9	39.3	44.4	49.8
World	822	824	879	944	1,037	1,108	1,220	1,261	1,332	1,389	1,426
	7.2%	0.2%	6.7%	7.3%	9.9%	6.8%	10.1%	3.4%	5.7%	4.3%	2.7%
World ex-China	695.8	681.6	699.7	724.3	763.3	756.8	797.4	775.4	791.1	805.3	826.2
	8.1%	-2.0%	2.6%	3.5%	5.4%	-0.9%	5.4%	-2.8%	2.0%	1.8%	2.6%
Finished steel consumption (mt)											
European Union (15)	147.7	144.0	140.8	141.2	147.1	140.5	142.6	143.9	144.8	145.7	157.0
Other Europe	37.7	35.8	38.7	42.3	48.7	50.2	52.3	54.2	55.1	56.2	57.2
Europe	185.4	179.9	179.6	183.4	195.8	190.7	194.9	198.1	200.0	201.9	183.0
Former USSR	33.5	36.3	33.7	41.3	41.6	43.0	53.0	58.6	62.9	65.2	65.9
NAFTA	154.6	136.5	140.2	138.5	156.7	144.9	149.0	151.0	152.0	153.1	154.2
Central and South America	25.5	26.7	25.0	25.3	29.9	29.4	32.2	33.1	33.6	34.2	34.7
Asia Pacific	327.0	353.7	399.8	453.1	505.2	567.5	633.0	679.7	726.3	773.0	812.3
of which, China	124.3	153.6	186.3	234.1	270.0	327.0	360.0	396.0	435.0	471.0	495.0
Africa and Middle East	35.2	40.7	45.6	50.2	52.5	58.7	63.4	79.5	86.4	90.3	93.3
World	761	774	824	892	982	1,034	1,126	1,200	1,261	1,318	1,343
	7.7%	1.6%	6.5%	8.2%	10.1%	5.4%	8.8%	6.6%	5.1%	4.5%	2.0%
World ex-China	636.9	620.1	637.5	657.7	711.6	707.3	765.5	804.0	826.2	846.6	848.5
	9.0%	-2.6%	2.8%	3.2%	8.2%	-0.6%	8.2%	5.0%	2.8%	2.5%	0.2%

Source: IISI, HSBC estimates

HSBC steel quarterly price forecasts

Quarterly Prices		Q106	Q206	Q306	Q406	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408
Europe USD	USD/t	497	596	619	619	607	684	662	570	542	552	528	507
q-o-q change		3.7%	19.8%	4.0%	(0.0%)	(2.0%)	12.8%	(3.2%)	(14.0%)	(4.9%)	1.8%	(4.2%)	(4.1%)
HRC Asia USD	USD/t	388	528	525	472	503	578	540	487	462	472	448	427
q-o-q change		(5.7%)	36.1%	(0.6%)	(10.2%)	6.7%	14.9%	(6.6%)	(9.9%)	(5.1%)	2.2%	(4.9%)	(4.8%)
HRC North America	USD/t	606	652	685	621	578	640	600	527	557	587	563	542
q-o-q change		0.0%	7.6%	5.1%	(9.4%)	(6.9%)	10.7%	(6.3%)	(12.2%)	5.7%	5.4%	(4.0%)	(3.8%)
Average global price	USD/t	497	592	610	571	563	634	601	528	520	537	513	492

Source: Metal Bulletin, HSBC estimates

Pricing forecasts

Steel companies can point to stable average pricing over the past 3-4 years. In our calculation prices have been for HRC 2004 USD561 a tonne, 2005 USD536, 2006 USD564 and we expect USD581 in 2007. These average prices hide very pronounced seasonal patterns and do not fully reflect the recent increases in costs.

In our view, pricing will weaken into the fourth quarter of 2007, with seasonally weaker demand and we assume lower pricing 2008-09 in the absence of a new spurt of demand. Current steel prices appear demand driven and are reinforced by cost push inflation from iron ore and materials suppliers. Longer term there is no shortage of iron ore and it will be easier for supply and demand to be balanced once the supply industry has caught

up with a 48% increase in steel production in the period 2000-06.

We made the point earlier that demand is growing in areas which are the most price sensitive; once demand stabilises then pressure on prices could be intense.

HSBC Steel price forecasts

Annual Prices		2006	2007e	2008e	2009e	2010e
HRC Europe	USD per tonne	583	631	532	508	486
y-o-y change		4.0%	8.2%	(15.6%)	(4.5%)	(4.3%)
HRC Asia	USD per tonne	478	527	452	428	406
y-o-y change		(5.4%)	10.2%	(14.2%)	(5.3%)	(5.2%)
HRC North America	USD per tonne	641	586	562	543	485
y-o-y change		6.9%	(8.6%)	(4.1%)	(3.4%)	(10.7%)
Average global price	USD per tonne	567	581	515	493	459
Change in price per tonne	USD per tonne	12	14	- 66	- 22	- 34

Source: Metal Bulletin, HSBC estimates

HSBC World Steel model

	2000	2001	2002	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Net Exports/(Imports) (mt)											
European Union (15)	1.2	1.3	4.1	5.1	9.0	9.8	17.5	15.7	15.1	10.3	-7.1
Other Europe	-1.3	0.0	0.1	0.2	-1.8	-5.6	-0.8	-2.3	-7.7	-9.4	-8.6
Europe	-0.2	1.3	4.3	5.4	7.2	4.2	16.7	13.4	7.4	1.0	-15.7
Former USSR	49.0	48.5	53.4	56.7	62.4	58.7	56.9	51.9	49.3	50.0	-6.9
NAFTA	-33.0	-25.0	-27.6	-14.9	-33.3	-28.3	-26.5	-28.5	-28.5	-29.6	-3.1
Central and South America	7.8	7.0	10.9	12.6	13.5	13.0	10.8	10.5	11.0	12.8	2.0
Asia Pacific	-10.8	-16.1	-24.3	-32.0	-50.1	-41.8	-27.0	-28.8	-13.5	-16.9	10.0
China	-9.6	-18.1	-22.4	-34.7	-18.0	-7.4	28.4	50.5	62.9	66.3	37.9
Africa and Middle East	-13.8	-18.5	-20.8	-21.9	-27.6	-32.5	-37.1	-49.2	-54.5	-53.9	-16.8
World	-1.0	-2.8	-4.1	5.9	-27.9	-26.6	-6.2	-30.8	-28.7	-36.6	-30.4
By Process (mt)											
BOF	497	505	541	608	675	739	817	859	931	977	999
EAF	288	288	306	317	353	360	366	370	375	389	406
OHF	38	36	35	34	34	32	37	32	26	23	21
BOF	60.4%	60.9%	61.4%	63.4%	63.6%	65.3%	67.0%	68.1%	69.9%	70.3%	70.1%
EAF	35.0%	34.7%	34.7%	33.1%	33.2%	31.8%	30.0%	29.3%	28.1%	28.0%	28.5%
OHF	4.6%	4.4%	3.9%	3.5%	3.2%	2.8%	3.0%	2.5%	2.0%	1.7%	1.5%
Capacity											
European Union (15)	187.8	185.7	179.0	180.0	180.0	194.6	197.0	199.5	201.3	197.6	197.6
Other Europe	65.7	66.5	66.6	66.8	67.0	68.2	68.2	68.2	68.2	68.2	68.2
Europe	253.5	252.2	245.6	246.8	247.0	262.8	265.2	267.7	269.5	265.8	265.8
Former USSR	114.7	112.9	111.9	113.9	114.4	133.0	135.0	137.0	141.0	143.0	143.0
NAFTA	149.3	136.4	142.9	145.4	146.4	149.2	151.0	151.0	156.0	156.0	156.0
Central & South America	47.8	49.3	50.6	52.0	52.6	53.1	58.0	65.6	74.2	81.7	89.2
Asia Pacific	418.0	458.1	500.3	524.1	590.1	746.5	803.3	856.8	936.4	966.4	990.4
China	137.9	160.0	200.0	245.0	305.0	457.0	510.0	560.0	630.0	650.0	667.0
Africa and Middle East	35.6	37.2	39.9	41.5	41.5	44.4	50.1	53.1	58.4	64.4	70.4
World	1,019	1,046	1,091	1,124	1,192	1,389	1,463	1,531	1,636	1,677	1,715
World ex-China	881	886	891	879	887	932	953	971	1,006	1,027	1,048
	0.4%	2.7%	4.3%	3.0%	6.1%	16.5%	5.3%	4.7%	6.8%	2.6%	2.2%
	0.6%	0.6%	0.6%	-1.4%	1.0%	5.1%	2.2%	2.0%	3.5%	2.2%	2.0%
Capacity Utilisation											
European Union (15)	87%	85%	89%	89%	94%	85%	88%	87%	86%	86%	86%
Other Europe	61%	59%	64%	70%	76%	72%	82%	83%	76%	75%	75%
Europe	80%	79%	82%	84%	89%	81%	88%	87%	85%	84%	84%
Former USSR	84%	91%	89%	93%	99%	84%	88%	88%	86%	88%	88%
NAFTA	89%	87%	85%	84%	90%	84%	87%	78%	78%	80%	78%
Central & South America	84%	78%	83%	85%	90%	88%	78%	70%	64%	61%	59%
Asia Pacific	79%	75%	78%	83%	84%	77%	82%	83%	83%	85%	86%
China	92%	89%	90%	90%	90%	77%	83%	87%	86%	90%	90%
Africa and Middle East	60%	67%	66%	70%	73%	73%	64%	69%	67%	69%	71%
World	81%	79%	81%	84%	87%	80%	83%	82%	81%	83%	83%
World ex China	79%	77%	79%	82%	86%	81%	84%	80%	79%	78%	79%

Source: IISI, HSBC estimates

Baoshan Iron & Steel Co., Ltd – The chosen one

- ▶ BaoSteel likely to play a starring role in domestic consolidation
- ▶ While a steel price downturn will impact earnings and valuations, Baosteel may benefit from more attractive M&A opportunities
- ▶ Fairly valued at current prices, we initiate with a Neutral (V) rating

Initiate with Neutral (V) rating

To play a leading role in Chinese consolidation

Steel prices aside, Chinese steel players face a significant challenge in 2007 to maintain margins, as a result of reductions to export tax rebates, an appreciating RMB, increasing environmental obligations and iron ore price increases. Being the largest and most efficient steel producer in China, BaoSteel is well placed to withstand these issues and, in our opinion, will likely use any downturn to its advantage. We expect the company to play a leading role in the consolidation of the Chinese Steel industry.

With current annual capacity of 26mt (including parent's output), BaoSteel has ambitious plans to double annual capacity to 50mt by 2012. Baosteel expects much of this (c20mt) growth to be driven by M&A activity. In our view, this may be difficult given current euphoric steel market valuations and potentially stiff competition from other regional players.

In the absence of acquisitions, we believe BaoSteel should trade at a fair value of RMB11.50/share. With DPS of RMB0.37, we calculate total shareholder return of +5% at the current price. Under HSBC's rating system, we initiate with a Neutral (V) rating.

SWOT Analysis.

Strengths

- ▶ China's largest and most efficient steel producer
- ▶ Dominant market shares in major downstream segments, eg. 52% of auto sheet market, 52% of specialty steel, 20% of stainless
- ▶ Industry leading role in iron ore negotiations

Weakness

- ▶ Raw material exposure – Remains fully exposed to raw material price volatility.
- ▶ Low free-float due to the 78% holding by its parent, BaoSteel Group Corporation (a state-owned holding company)

Opportunities

- ▶ Participate in local industry consolidation
- ▶ Recent acquisition of Xinjiang Bayi Iron & Steel Group this January provides a beachhead for its westward push
- ▶ US ADR listing to further diversify shareholder register and increase free float

Risks

- ▶ Competitors aggressively pursue BaoSteel's market leadership
 - ▶ Developing oversupply in China's stainless steel market
-

Financials & valuation: Baoshan Iron & Steel

Neutral (V)

Financial statements

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Profit & loss summary (CNYm)						
Revenue	126,608	157,791	165,034	169,246	172,536	173,499
EBITDA	30,657	33,388	42,947	40,175	39,871	41,074
Depreciation & amortisation	-10,731	-12,453	-15,814	-18,095	-19,519	-19,746
Operating profit/EBIT	19,926	20,935	27,133	22,079	20,352	21,328
Net interest	-1,134	-1,542	-773	-1,160	-866	-197
HSBC PBT	18,311	19,007	26,407	20,966	19,533	21,178
Taxation	-5,777	-5,545	-8,397	-4,990	-4,649	-5,040
Net profit	12,666	13,010	17,358	15,459	14,402	15,615
HSBC net profit	12,666	13,010	17,358	15,459	14,402	15,615

Cash flow summary (CNYm)

Cash flow from operations	22,722	21,596	38,471	28,157	32,954	36,241
Capex	-9,834	-17,904	-22,700	-22,000	-20,000	-20,000
Cash flow from investment	-34,714	-17,220	-22,700	-22,000	-20,000	-20,000
Dividends	-7,395	-7,069	-6,585	-5,482	-5,482	-5,482
Change in net debt	12,773	-3,623	-5,968	2,544	-4,253	-7,418
FCF equity	12,827	10,995	16,055	8,734	13,904	16,127

Balance sheet summary (CNYm)

Intangible fixed assets	1,298	1,351	1,351	1,351	1,351	1,351
Tangible fixed assets	90,096	94,749	106,886	114,656	117,410	118,954
Current assets	47,098	51,611	49,267	51,819	52,273	52,217
Cash & others	4,884	5,349	5,349	5,349	5,349	5,349
Total assets	142,024	151,060	158,140	168,462	171,670	173,158
Operating liabilities	44,486	48,731	51,365	50,627	50,629	50,863
Gross debt	18,612	15,453	9,485	12,029	7,776	358
Net debt	13,727	10,104	4,136	6,680	2,427	-4,991
Shareholders funds	74,475	81,961	92,375	100,891	108,350	117,022
Invested capital	89,122	93,631	100,790	111,850	115,056	116,310

Ratio, growth and per share analysis

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Y-o-y % change						
Revenue	115.9	24.6	4.6	2.6	1.9	0.6
EBITDA	30.9	8.9	28.6	-6.5	-0.8	3.0
Operating profit	35.0	5.1	29.6	-18.6	-7.8	4.8
PBT	34.8	3.8	38.9	-20.6	-6.8	8.4
HSBC EPS	6.4	-7.1	33.4	-10.9	-6.8	8.4

Ratios (%)

ROIC	20.7	16.2	19.0	15.8	13.7	14.0
Keu	10.0	10.0	10.0	10.0	10.0	10.0
EV/IC (x)	2.3	2.2	2.0	1.8	1.7	1.7
ROIC/Keu (x)	2.1	1.6	1.9	1.6	1.4	1.4
REP (x)	1.1	1.4	1.1	1.2	1.3	1.2
ROE	21.8	16.6	19.9	16.0	13.8	13.9
EBITDA margin	24.2	21.2	26.0	23.7	23.1	23.7
Operating profit margin	15.7	13.3	16.4	13.0	11.8	12.3
Net debt/equity	17.4	11.6	4.3	6.3	2.1	-4.1
Net debt/EBITDA (x)	0.4	0.3	0.1	0.2	0.1	-0.1

Per share data (CNY)

EPS Rep (fully diluted)	0.80	0.74	0.99	0.88	0.82	0.89
HSBC EPS	0.80	0.74	0.99	0.88	0.82	0.89
CFPS	1.30	1.23	2.20	1.61	1.88	2.07
DPS	0.32	0.32	0.40	0.40	0.40	0.40

Key forecast drivers

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Sales volume (000t)	17,997	21,859	22,592	25,850	27,884	28,209
HRC realised price (RMB/t)	4,242	3,513	3,732	3,335	3,300	3,326
CRC realised price (RMB/t)	5,929	5,305	5,838	5,209	5,035	4,941
Exchange Rate	8.2	7.9	7.7	7.3	7.0	6.2

Sensitivity & valuation range (% change in EPS, CNY/share)

(-) 5% (% change in EPS)	2007e	2008e	2009e
Impact on EPS from:-			
(-) 5% change in HRC Prices	-10.3%	-12.9%	-14.3%
(-) 5% change in Iron Ore Prices	1.7%	2.8%	2.6%
(-) 5% change in Exchange Rate	-7.2%	-8.1%	-9.8%

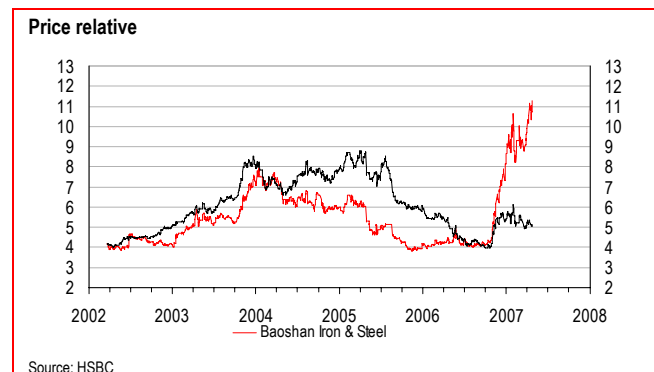
Valuation data

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
EV/EBITDA	6.8	6.1	4.7	5.1	5.0	4.7
PE*	14.1	15.2	11.4	12.8	13.7	12.7
P/CFPS	8.7	9.2	5.1	7.0	6.0	5.5
P/FCF equity	15.4	18.0	12.3	22.7	14.2	12.3
Dividend yield (%)	2.8	2.8	3.5	3.5	3.5	3.5

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (CNY)	11.30	Target price (CNY)	11.50	Potent'l tot rtn (%)	5.3
Reuters (Equity)	600019.SS	Bloomberg (Equity)	600019 CH		
Market cap (USDm)	25,618	Market cap (CNYm)	197,886		
Free float (%)	22	Enterprise value (CNYm)	202,022		
Country	China	Sector	Metals & Mining		
Analyst	Daniel Kang	Contact	+852 2996 6669		



Note: price at close of 23 Apr 2007

Valuation

Target price of RMB11.50/share

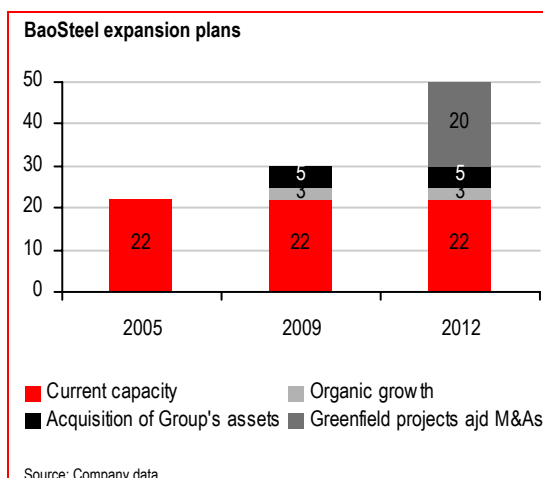
In the near to medium term, we believe Baosteel's key valuation driver will be its PE relative to the Chinese A share market. Baosteel has traded at a PE relative discount of 47% since 2006. HSBC estimates a fair value PE of 17-26x for the China A-share market. Using the midpoint PE multiple of 21.5x and Baosteel's historical discount (47%), we deem a PE multiple of 11.4x appropriate. At our 2007 EPS RMB1.01, we set a 12-month price target of RMB11.50/share.

While our NPV, using a 10% WACC is below this at RMB8.23/share, we believe acquisitions would boost this value, and be in part reflected in the share price.

Catalysts

Capacity growth

BaoSteel has significant plans to more than double capacity by 2012. The company expects organic growth (+3mt) and acquisitions of group assets (+5mt) to take it to 30mtpa by 2009. On top of this, M&A and greenfield opportunities are expected to take the total to 50mt by 2012.



Parent actively seeking M&A

While BaoSteel has yet to significantly participate in M&A activity, its parent and largest

shareholder, BaoSteel Group Corp. (BGC), has already begun the process. In due course, we would envisage BaoSteel acquiring its parent's steel assets, in line with its five-year plan.

Parent acquires controlling stake in Ba Yi Iron & Steel Group

In January 2007, BGC acquired a controlling 69.61% stake in Xinjiang Ba Yi Iron & Steel group, a 3mtpa long steel producer, paying RMB3bn (USD385m). Subsequently, the State-owned Supervision and Administration Commission (SASAC) approved BGC for the free acquisition of an additional 15% of Ba Yi, thereby increasing its holding to 84.61%. We understand BGC has agreed not to sell its holding for 12 months.

At an effective cost of USD184/t, the controlling stake is attractively priced, but the key concern is the distance from BaoSteel's existing operations. Xinjiang is a remote region, bordering Pakistan and other Central Asian countries, and is some 3400km away from BaoSteel's Shanghai operation. Given China's poorly developed transport networks, cost synergies would be difficult to extract. That said, it does springboard the BaoSteel's westward push.

Baotou Steel Group

After ending talks with Arcelor Mittal (for it to acquire a 49% stake) in March 2007 – due to opposition from the Central Government, we understand (from Bloomberg reports) that BaoSteel Group Corp (BGC) has stepped in to hold merger discussions to acquire a controlling stake in Baotou Steel. Recently, Shanghai-listed Baotou Steel Ltd effectively completed the takeover of Baotou Steel Group - its parent company. The move allows the full Baotou Steel Group to be listed in Shanghai, enabling steel capacity to increase to 15mtpa from 8.5mt. BaoSteel's investment will grant it access to

Baotou Steel's large iron ore resources in Inner Mongolia.

Iron ore price negotiations

Being China's chosen steel champion carries with it some heavy responsibilities. One of which is the role of chief negotiator for iron ore price negotiations, where Baosteel represented all Chinese steel mills for the JFY07 price negotiations.

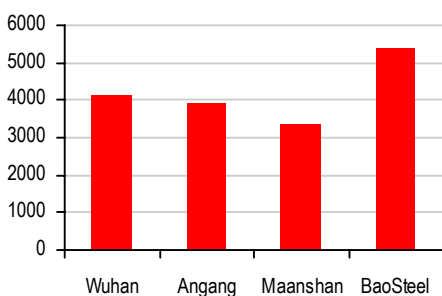
The upcoming negotiation for JFY08 is set to be a tough one. HSBC expects iron ore prices to rise by another 10% despite having risen over 100% in the past three years. With the boycott of India's iron ore due to the introduction of tariffs, supply remains constrained in an environment of surging spot prices.

Investment positives

Focus on growth of strategic products

Like POSCO, Baosteel aims to focus on high-end value-added steel products, which it refers to as 'strategic products'. These include automotive sheets, silicon, stainless steel, high-grade alloys. Its high-end focus is reflected in Baosteel's higher revenue per tonne than its domestic peers.

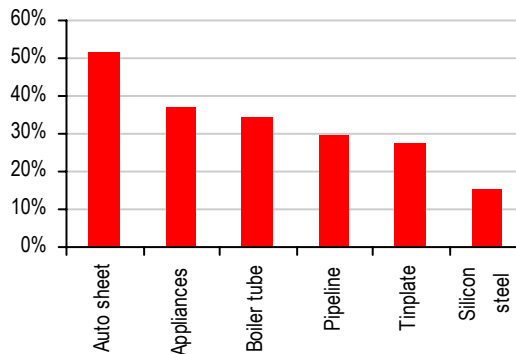
Revenue per tonne - Chinese peer analysis



Source: Company data, HSBC estimates

Leading market positions

BaoSteel domestic market share (2005)



Source: Company data

BaoSteel holds significant market positions in many of the downstream industries which it serves. A core objective is to maintain and grow its leading market positions. With a strategy of promoting sales of 'Only 1' and 'Number 1' products, BaoSteel aims to extend its leadership in key product segments. In 2006, sales of 'Only 1 and No. 1' products reached 5mt. Management have indicated that they will continue to inject RMB19-20bn annually over coming years to further optimise quality and value-adding.

Low cost operations

Located in Shanghai, Baosteel is close to its customers and also close to port facilities for exports and imports of raw materials. This comparative advantage, together with the company's modern, large scale facilities has seen Baosteel consistently rank in the low end of the industry cost curve.

Investment concerns

Increasing domestic competition

In spite of recent consolidation activity, the top 10 producers in China accounted for a reduced market share of 33% in 2006 (from 35%). In part, this has been due to the localisation of global players in China. This may in turn make it harder for Baosteel to maintain its leading market positions.

Share price highly correlated to the China A-share market

BaoSteel's correlation to the Chinese A-share market is almost perfect; we calculate 0.97 since the beginning of 2006 (0.85 since 2005). As HSBC's China strategist, Steven Sun, recently warned in his latest *China Investment Atlas (Issue 4)*, 'we caution against bubble level valuations in the A-share market ...28x 12month forward PE'. We would expect any correction in the A-share market to translate to Baosteel's performance.



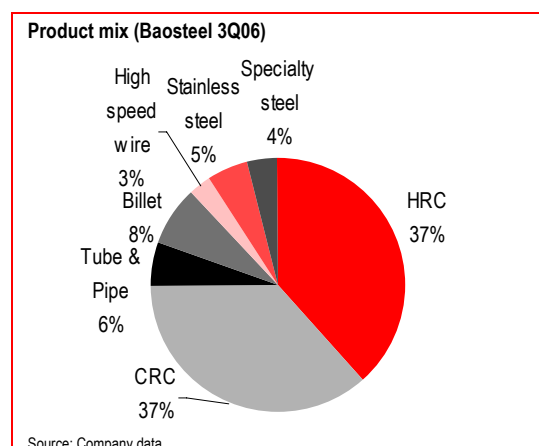
Company background

Baoshan Iron & Steel Co., Ltd. (Baosteel Co., Ltd.), a subsidiary of Shanghai Baosteel Group Corporation, was set up on 3 February 2000 and listed at the Shanghai Security Exchange on 12 December 2000. Baosteel Co., Ltd. is the biggest and most modern iron and steel complex in China

and one of the most competitive steel enterprises in the world with its comprehensive competitiveness rated in the second place by WSD, the world's authoritative iron and steel magazine, in 2003.

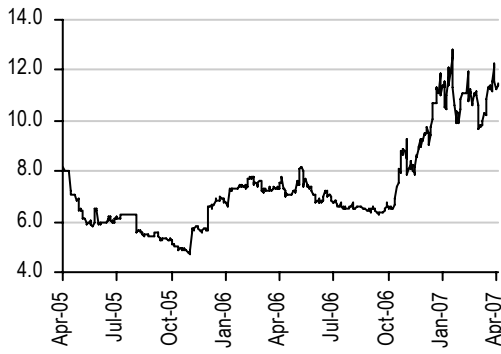
Having commissioned its first blast furnace in 1985, by the end of 1994, Baosteel was operating three blast furnaces. In 1998, the company was merged with Shanghai Metallurgical Holding Group and Nanjing Meishan Steel to establish Baoshan Iron & Steel Co., Ltd, which was subsequently listed on the Shanghai Stock Exchange in November 2000.

Baosteel makes steel formed as billets, tubes, pipes, bars, and plates, and iron and tin products. Its markets include the appliance, auto, construction, oil, and shipbuilding industries, both in China and abroad. Baosteel produces more than 20 million tons of steel annually. Its metallurgical activities are supported by more than 20 subsidiaries and affiliated companies, including operations in construction, finance, information technology, international trade, real estate, and transportation. Baosteel is state-owned.



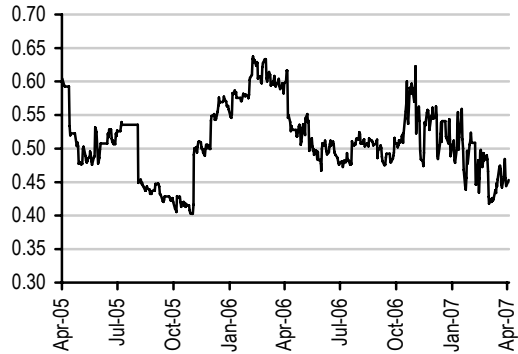
Valuation charts

PE – BaoSteel historical one-year forward



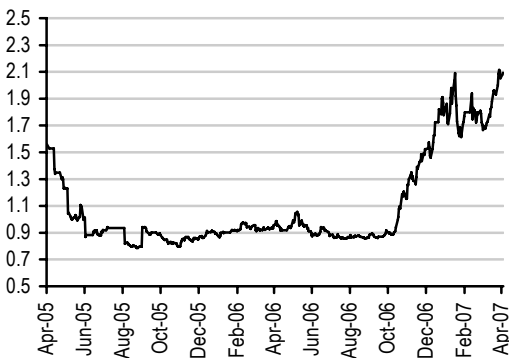
Source: DataStream, HSBC estimates

PE Relative – BaoSteel relative to China A-share market



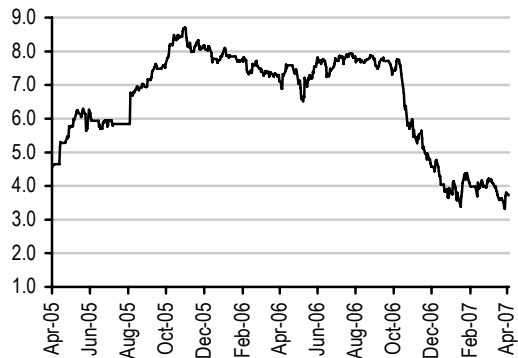
Source: DataStream, HSBC estimates

P/Book - BaoSteel historical one-year forward



Source: DataStream, HSBC estimates

Dividend yield - Historical



Source: DataStream, HSBC estimates

BlueScope Steel – Punches above its weight

- ▶ Australia’s leading player punches above its weight for its high quality assets and geographic spread of assets
- ▶ BlueScope’s Asian downstream growth strategy is under attack from changing regulations and competition stepping up
- ▶ In our view BlueScope also punches well above fair value with valuations at historic highs. We initiate with Underweight (V) rating

Valuation stretched - Initiate with Underweight (V) rating

Global downstream ambitions

With the rebound in steel prices, BlueScope has recovered well from some major setbacks in FY06. Strategically, BlueScope’s long-term focus on building out its downstream business has had its hits and misses. Coated Products North America has turned out to be a stunning success despite PEB not being a core competence for the group. However, the

AUD2bn Asian growth strategy has not performed as well. With increasing competition and rapidly changing ground rules (eg Vietnam), the coast is still not clear for BlueScope’s AUD2bn investment. While near-term momentum remains positive, the looming downturn in steel prices in 2H07, and with valuations at historical highs, we initiate with an Underweight (V) rating and AUD9.35/share target.

SWOT analysis

Strengths	Weakness
<ul style="list-style-type: none"> ▶ World-class, low-cost upstream assets with close proximity to coal mines. Good footprint of downstream assets ▶ Total Shareholder Return focus has seen strong capital management initiatives since listing ▶ Strong board and experienced management team with good track record of acquisitions and consolidation 	<ul style="list-style-type: none"> ▶ Asian downstream business is exposed to an increasingly competitive region with ever growing capacity ▶ Raw material price exposure – Remains fully exposed to raw material price volatility ▶ Balance sheet currently fully stretched
Opportunities	Risks
<ul style="list-style-type: none"> ▶ Acquisition of Smorgon Steel distribution assets plus long-term supply contract with OneSteel ensures stable home market ▶ JV in Castrip LLC (47.5% BSL, 47.5% Nucor) a technology enabling molten steel to directly cast into thin HRC. 	<ul style="list-style-type: none"> ▶ Increasing supply of regional downstream product may threaten BlueScope’s current stable home market prices ▶ Open shareholder register makes it vulnerable to a hostile takeover

Source: HSBC.

Financials & valuation: BlueScope Steel

Underweight (V)

Financial statements

Year to Jun	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Profit & loss summary (AUDm)						
Revenue	7,965	8,031	9,176	9,093	8,835	8,912
EBITDA	1,664	850	1,560	1,334	1,230	1,293
Depreciation & amortisation	-306	-294	-317	-321	-329	-331
Operating profit/EBIT	1,358	556	1,243	1,014	901	962
Net interest	-41	-87	-137	-139	-124	-99
HSBC PBT	1,316	469	1,106	875	777	863
Taxation	-334	-126	-330	-260	-232	-259
Net profit	982	470	759	593	524	582
HSBC net profit	982	470	759	593	524	582

Cash flow summary (AUDm)

Cash flow from operations	889	232	938	792	901	901
Capex	-600	-741	-471	-358	-223	-225
Cash flow from investment	-622	-753	-782	-358	-223	-225
Dividends	-342	-456	-270	-327	-327	-327
Change in net debt	471	946	-39	-107	-351	-349
FCF equity	344	-152	566	460	661	664

Balance sheet summary (AUDm)

Intangible fixed assets	192	227	228	0	0	0
Tangible fixed assets	3,650	3,990	4,062	4,050	3,944	3,838
Current assets	2,469	2,742	3,522	3,754	3,756	3,893
Cash & others	85	62	58	108	108	158
Total assets	6,569	7,261	8,157	8,149	8,046	8,077
Operating liabilities	1,666	1,435	1,739	1,659	1,685	1,727
Gross debt	1,029	1,952	1,909	1,852	1,501	1,202
Net debt	944	1,890	1,851	1,744	1,393	1,044
Shareholders funds	3,217	3,034	3,666	3,932	4,129	4,384
Invested capital	4,561	5,461	6,015	6,037	5,907	5,847

Ratio, growth and per share analysis

Year to Jun	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Y-o-y % change						
Revenue	38.8	0.8	14.3	-0.9	-2.8	0.9
EBITDA	50.6	-48.9	83.5	-14.4	-7.8	5.1
Operating profit	66.0	-59.1	123.7	-18.4	-11.1	6.7
PBT	63.8	-54.3	84.0	-20.9	-11.2	11.1
HSBC EPS	68.8	-49.4	60.3	-23.4	-11.5	11.0

Ratios (%)

ROIC	23.4	8.8	15.2	11.8	10.6	11.5
Keu	10.0	10.0	10.0	10.0	10.0	10.0
EV/IC (x)	2.0	1.9	1.7	1.7	1.6	1.6
ROIC/Keu (x)	2.3	0.9	1.5	1.2	1.1	1.1
REP (x)	0.9	2.1	1.1	1.4	1.6	1.4
ROE	30.9	15.0	22.6	15.6	13.0	13.7
EBITDA margin	20.9	10.6	17.0	14.7	13.9	14.5
Operating profit margin	17.0	6.9	13.5	11.2	10.2	10.8
Net debt/equity	29.0	61.3	49.6	43.4	32.9	23.1
Net debt/EBITDA (x)	0.6	2.2	1.2	1.3	1.1	0.8

Per share data (AUD)

EPS Rep (fully diluted)	1.31	0.66	1.06	0.82	0.72	0.80
HSBC EPS	1.31	0.66	1.06	0.82	0.72	0.80
CFPS	1.19	0.33	1.32	1.09	1.24	1.24
DPS (¢)	42	44	45	45	45	45

Key forecast drivers

Year to Jun	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Steel despatches	6,283	6,681	6,592	6,592	6,592	6,592
HRC Price (USD/t)	554	505	520	490	439	411
Iron ore price (fines, USD/t)	25	38	47	52	56	52
Coking coal price (USD/t)	58	126	111	97	92	89
USDAUD	0.75	0.74	0.78	0.78	0.77	0.73

Sensitivity & valuation range (% change in EPS, AUD/share)

(-) 5% (% change in EPS)	2007e	2008e	2009e
Impact on EPS from:-			
(-) 5% change in HRC Prices	-5%	-10%	-7%
(-) 5% change in Iron Ore Prices	1%	4%	4%
(-) 5% change in Exchange Rate	-10%	-24%	-26%

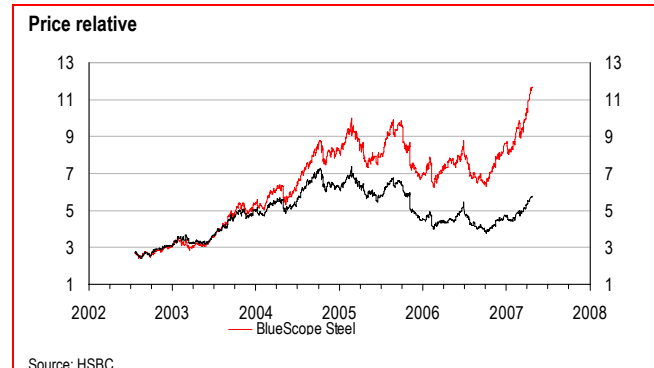
Valuation data

Year to Jun	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
EV/EBITDA	5.6	12.0	6.5	7.5	7.9	7.3
PE*	8.9	17.6	11.0	14.3	16.2	14.6
P/CFPS	9.8	35.7	8.9	10.7	9.4	9.4
P/FCF equity	24.9	-56.3	15.1	18.6	13.0	12.9
Dividend yield (%)	359.3	376.4	384.9	384.9	384.9	384.9

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (AUD)	11.69	Target price (AUD)	9.35	Potent'l tot rtn (%)	-20.0
Reuters (Equity)	BSL.AX	Bloomberg (Equity)	BSL AU		
Market cap (USDm)	7,144	Market cap (AUDm)	8,571		
Free float (%)	100	Enterprise value (AUDm)	10146		
Country	Australia	Sector	Metals & Mining		
Analyst	Daniel Kang	Contact	+852 2996 6669		



Note: price at close of 23 Apr 2007

Disclaimer & Disclosures. This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, that form part of it.

Valuation

Fair value at AUD9.35/share

We calculate normalised EPS for BlueScope at AUD0.82/share (under long-term assumptions). If we include an additional 3c/share from the acquisition of Smorgon's distribution business, this suggests normalised EPS will be lifted to AUD0.85/share.

At the current share price, BlueScope would be trading at a 13.5x normalised PE. We deem this to be an excessive valuation for a deep cyclical stock. Applying a 10% premium to the sectors long term PE multiple, we use a fair value PE on BSL's normalised EPS of AUD0.85/share to arrive at a target price of AUD9.35/share.

Catalysts

Smorgon distribution acquisition

BlueScope's recent decision to purchase the distribution assets of Smorgon Steel Group comes after a prolonged stalemate. In June 2006, OneSteel proposed a merger with Smorgon Steel. Recognising the threat of two of its largest customers becoming one, BlueScope responded with an on-market raid by acquiring a 19.9% stake in Smorgon Steel. This had the effect of providing BlueScope with a seat on the negotiating table.

While BlueScope had hoped for more, the final agreement recently agreed sees BlueScope with Smorgon Steel's distribution assets at a purchase price of AUD700m along with a long-term contract to supply HRC to OneSteel's enlarged Pipe and Tube business (c500ktpa).

After deducting profit from its sale of Smorgon shares and including the dividends it has received and will receive, BlueScope has made a healthy profit gain of cAUD96m. This means the effective cost of Smorgon Distribution assets to BlueScope will be in the order of

AUD604m. Based on our forecast of Smorgon Distribution's FY07 EBIT of AUD71m, BlueScope has paid 8.5x EBIT (excluding synergies), an attractive entry price, in our opinion. While the company has not indicated, we believe pull-through volume in the order of 300kt plus some freight advantages offers BlueScope tangible synergies.

Smorgon Steel Distribution – Acquisition analysis (AUDm)

Purchase cost	700.0
less: Profits from Smorgon transaction	96.0
Net cost to BlueScope	604.0
EBIT (FY07 forecast, excluding LSB)	96.0
Less: Pipe & Tube EBIT	25.0
Steel Distribution EBIT	71.0
Interest cost on borrowings (@ 7%pa)	42.3
EBT	28.7
Less: tax (@ 30%)	8.6
PAT	20.1
Shares	727
EPS (c)	2.8

Source: HSBC

New CEO, potential for clearing the decks?

After seven years as CEO, Mr Kirby Adams will be stepping down in July 2007. While external candidates will be reviewed, in our opinion, an internal appointment is most likely. Leading internal candidates include Mr Brian Kruger, currently President of Coated Products Australia (ex-CFO) or Lance Hockridge, President North America and Noel Cornish, President Hot Rolled Products, Australia. While we do not anticipate much change to BlueScope's long-term strategy, any new CEO is likely to review the current portfolio of operations. This may lead to some rationalisation and perhaps further restructuring expenses. We consider the Coated Products business in Australia and Asia at greatest risk.

Investment positives

Low cost upstream assets

BlueScope's total (share of) crude steel production amounted to 6.7mtpa in FY06. All three of its steelmaking facilities hold significant comparative advantages enabling the cost of production of each to rank in the lowest quartile. Port Kembla is located in close proximity to its source of coal; New Zealand Steel has captive iron sands and BlueScope's 50% interest in NorthStar, is one of the newest and lowest cost mini mills in Ohio, America.

Takeover appeal?

BlueScope's open share-register, world-class upstream assets and a well-established Asia/Pacific footprint are key attractions for a potential predator. It currently is involved in joint venture and technology relationships with Tata Steel, Nucor and Nippon Steel, who have often been linked as potential predators. In our view, however, BlueScope's greatest defence is its current high valuation and smaller scale of operations in the global steel industry.

A reinvigorated home market

Australia's infrastructure boom will ensure that steel consumption remains firm over coming years. A long-term HRC contract to supply OneSteel's Pipe and Tube business would ensure stability after several years of a fractured relationship with Smorgon Steel. At times, BlueScope was forced to sell into the less profitable export market due to differences in opinion on price. A long-term supply contract should remove much of the risks.

Investment concerns

Asian competition intensifies

Growing capacity in high-end flat products will impact BlueScope's existing operations. While BlueScope's established brand has a significant

following in Australia, it is not as recognisable in Asia. The Asian business has shown significant volatility after reaching peak earnings in FY04. In our view, this may be a reflection of growing competition in the region with increasing local capacity of coated and painted steel.

Chinese net imports of coated and painted steel peaked in FY04 and have been steadily declining since. While demand for coated and painted steel continues to grow, should the region move into oversupply, BlueScope's home market, where it enjoys dominant market position, could come under attack.



Moving downstream where margins and returns are lower

In most capital intensive industries, it can be said that the further 'downstream' you progress, the lower the returns and margins. This may be due to higher labour and marketing costs along with greater fragmentation amongst downstream players and customers, which make it more difficult to control prices.

Since listing in 2002, BlueScope has invested nearly AUD2bn in its downstream strategy. While the strategy may offer it more stable earnings, (which in our opinion has yet to be proven), we believe the strategy will reduce

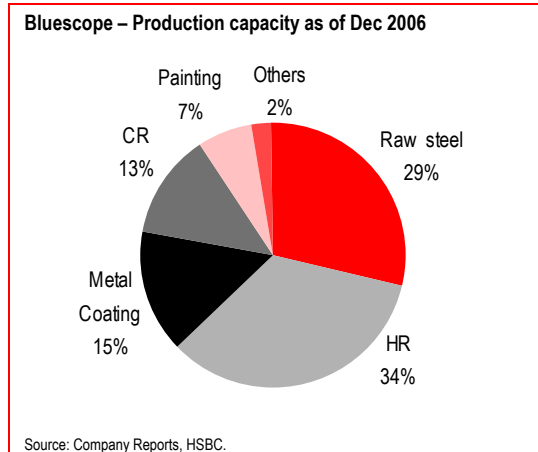
longer-term sustainable group margins and returns.

With much of the downstream growth focused in the Asian region, where downstream prices move in sync with HRC prices, there is a risk that group earnings will not show less volatility. Consequently, investors may not reward BlueScope with a higher valuation rating. In such a scenario, BlueScope would have been far better off to have focused its investments in growing its upstream operations.

Company background

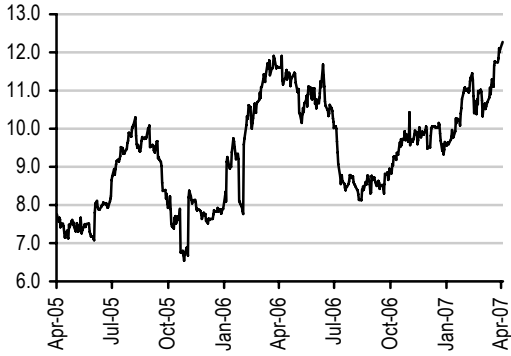
BlueScope Steel (formerly known as BHP Steel Limited) was listed on the Australian Stock Exchange on 15 July 2002 following its demerger from BHP Billiton. The company is the leading steel company in Australia and New Zealand. It produces the majority of flat steel products sold in the two markets, as well as steel building products for landmark buildings and cutting-edge architecture.

The company is also a designer and supplier in pre-engineered buildings and has a No. 2 market position in North America and No. 1 in China. It currently operates three steelmaking facilities including Port Kembla Steelworks in Australia; New Zealand Steel near Auckland; and a joint venture with Cargill Inc through North Star BlueScope Steel in Ohio, USA. Exports account for roughly 31% of its sales.



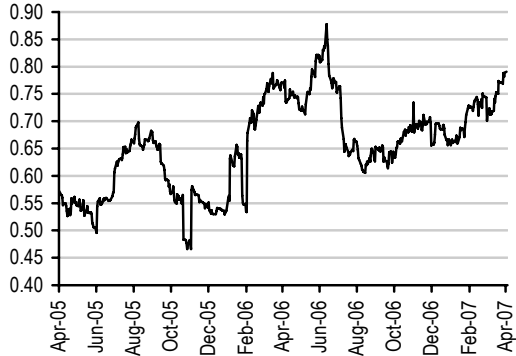
BlueScope Steel - Valuations reaching all-time highs

PE - Historical one-year forward



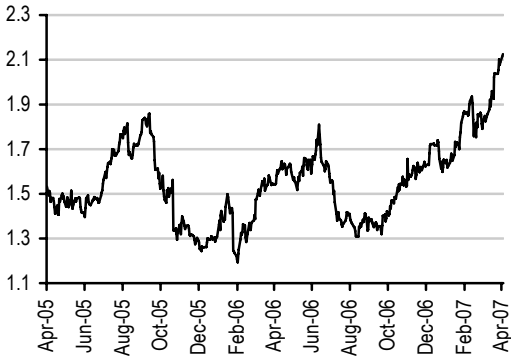
Source: DataStream, HSBC estimates

PE relative



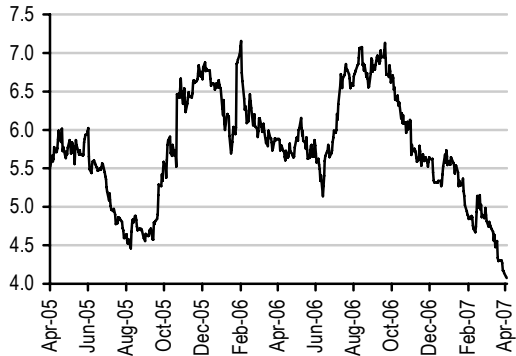
Source: DataStream, HSBC estimates

P/Book - Historical one-year forward



Source: DataStream, HSBC estimates

Dividend yield



Source: DataStream, HSBC estimates

POSCO – A visionary regional leader

- ▶ Strategically and technologically, we regard POSCO as the region's leader
- ▶ Three-pronged growth strategy focused on greenfield expansions, lifting sales of strategic products and security of raw materials
- ▶ Valuations (PE, P/B) now at historical highs, but relative valuations remain supportive. Initiate with Neutral (V) rating

Initiate with Neutral (V) rating

Regional leader with global vision

In our view, POSCO is the premier regional steel leader with world-class assets that have consistently achieved above industry average margins and returns. While POSCO's strong medium-term growth potential should enable it to maintain this regional leadership, we believe it is fairly valued at current levels. Armed with strong margins from an outstanding suite of production assets, POSCO is better positioned to weather a steel price downturn, but, in our

view, cannot avoid it.

Our largest issue though concerns management's current focus on defensive strategies in order to: a) avoid a hostile takeover approach or b) protect domestic sales tonnage. Recent press speculation (Dow Jones) highlights POSCO's interest in purchasing a key customer, Daewoo Shipbuilding & Marine Engineering. Apart from the price, a key risk lies in POSCO steering away from its key core skills. We initiate with a Neutral (V) rating and a KRW420,000/share target.

SWOT analysis

Strengths

- ▶ World-class assets with focus on high-end flat steel products
- ▶ Visionary management team with proven track record of executing major organic growth projects
- ▶ 1000 strong R&D team enabling market leadership for technology and innovation

Weakness

- ▶ Largest export market for China – although VAT rebate cuts may assist in reducing this threat
- ▶ Raw material exposure – Remains fully exposed to raw material price volatility due to lack of captive mines
- ▶ Lack of acquisition track record

Opportunities

- ▶ Finex technology due to be launched. Reduces operating and capex costs by 20% and 15% respectively
- ▶ Stainless steel 400 series – Nickel-free stainless that has potential to take market share away from traditional 300 series

Risks

- ▶ Open shareholder register makes POSCO vulnerable to a takeover. However, national interests likely to protect this
- ▶ Defensive tactics against a hostile takeover may lead to a poor acquisition

Source: HSBC.

Financials & valuation: POSCO

Neutral (V)

Financial statements

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Profit & loss summary (KRWb)						
Revenue	21,695	20,040	22,128	19,619	18,815	18,095
EBITDA	7,394	5,447	6,100	5,410	4,996	4,116
Depreciation & amortisation	-1,482	-1,558	-1,640	-1,679	-1,701	-1,725
Operating profit/EBIT	5,912	3,889	4,460	3,731	3,295	2,392
Net interest	-88	-79	-55	-49	-61	-60
HSBC PBT	5,354	4,115	4,778	4,218	3,620	2,706
Taxation	-1,360	-912	-1,200	-1,039	-870	-620
Net profit	3,995	3,203	3,578	3,179	2,750	2,086
HSBC net profit	3,995	3,203	3,576	3,171	2,737	2,074

Cash flow summary (KRWb)

Cash flow from operations	11,212	7,906	9,654	8,791	7,766	6,137
Capex	-3,123	-3,088	-5,900	-3,800	-2,626	-2,650
Cash flow from investment	-3,293	-3,097	-5,900	-3,800	-2,626	-2,650
Dividends	681	636	639	674	594	499
Change in net debt		1,390	-414	483	689	-825
FCF equity	3,257	2,665	-1,379	980	1,132	686

Balance sheet summary (KRWb)

Intangible fixed assets	278	229	229	229	229	229
Tangible fixed assets	10,899	12,466	16,726	18,847	18,847	18,847
Current assets	8,337	7,871	7,914	7,417	7,282	7,275
Cash & others	250	512	512	512	512	512
Total assets	24,207	26,363	30,666	32,290	32,155	32,148
Operating liabilities	3,818	1,752	2,180	1,694	1,389	2,844
Gross debt	483	2,135	1,721	2,205	2,894	2,069
Net debt	233	1,623	1,209	1,692	2,381	1,556
Shareholders funds	19,510	21,792	25,191	28,613	31,681	34,182
Invested capital	15,445	18,302	22,177	24,287	24,457	22,995

Ratio, growth and per share analysis

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
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Y-o-y % change

Revenue		-7.6	10.4	-11.3	-4.1	-3.8
EBITDA		-26.3	12.0	-11.3	-7.6	-17.6
Operating profit		-34.2	14.7	-16.4	-11.7	-27.4
PBT		-23.1	16.1	-11.7	-14.2	-25.2
HSBC EPS		-11.2	16.3	-11.3	-13.7	-24.2

Ratios (%)

ROIC	57.1	17.9	16.5	12.1	10.3	7.8
Keu	10.6	10.1	10.3	10.3	10.1	10.4
EV/IC (x)	1.9	1.6	1.3	1.2	1.2	1.3
ROIC/Keu (x)	5.4	1.8	1.6	1.2	1.0	0.8
REP (x)	0.4	0.9	0.8	1.0	1.2	1.7
ROE	40.9	15.5	15.2	11.8	9.1	6.3
EBITDA margin	34.1	27.2	27.6	27.6	26.6	22.7
Operating profit margin	27.2	19.4	20.2	19.0	17.5	13.2
Net debt/equity	1.2	7.4	4.8	5.9	7.5	4.6
Net debt/EBITDA (x)	0.0	0.3	0.2	0.3	0.5	0.4

Per share data (KRW)

EPS Rep (fully diluted)	45816	40705	47376	42101	36409	27627
HSBC EPS	45816	40705	47357	41985	36241	27469
CFPS	128602	100468	127834	116406	102828	81257
DPS	8061	7893	9183	8141	7027	5326

Key forecast drivers

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Production (Mt)	31	30	31	32	32	32
HRC steel prices (USD/t)	506	478	527	452	428	406
CRC steel prices (USD/t)	620	598	642	567	543	521
Iron Ore (USD/t)	35	44	50	54	50	43
Coking coal (USD/t)	109	117	102	94	91	89
Exchange Rate (USD/KRW)	1,028	970	918	899	964	1,034

Sensitivity & valuation range (% change in EPS, KRW/share)

(-) 5% (% change in EPS)	2007e	2008e	2009e
Impact on EPS from:-			
(-) 5% change in HRC Prices	-18.8%	-19.9%	-18.9%
(-) 5% change in Iron Ore Prices	2.4%	3.1%	2.9%
(-) 5% change in Exchange Rate	-9.9%	-10.2%	-9.9%

Valuation data

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
EV/EBITDA	4.0	5.4	4.8	5.5	6.1	7.2
PE*	8.5	9.5	8.2	9.2	10.7	14.1
P/CFPS	3.0	3.9	3.0	3.3	3.8	4.8
P/FCF equity	10.4	12.7	-24.5	34.5	29.8	49.2
Dividend yield (%)	2.1	2.0	2.4	2.1	1.8	1.4

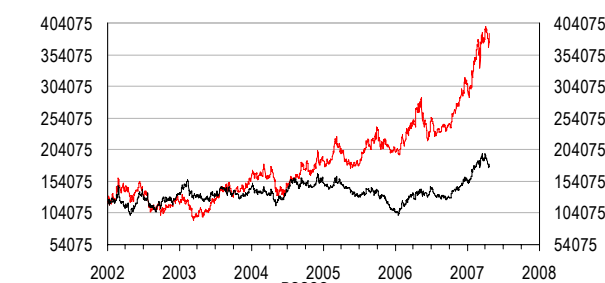
Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (KRW) 387,500 Target price (KRW) 400,000 Potential tot rtn (%) 3.2

Reuters (Equity)	005490.KS	Bloomberg (Equity)	005490 KS
Market cap (USDm)	36,475	Market cap (KRWb)	33,785
Free float (%)	100	Enterprise value (KRWb)	29,197
Country	Korea, Rep Of (South)	Sector	Metals & Mining
Analyst	Daniel Kang	Contact	+852 2996 6669

Price relative



Source: HSBC

Note: price at close of 23 Apr 2007

Strategically, POSCO has a three-pronged objective to:

- ▶ **Target capacity lift to 50mtpa by 2010** – With current output of 32mt, POSCO plans to raise capacity to 50mt by 2010. Capacity should be added by the launch of POSCO's 1.5mtpa Finex plant and strip casting demo plant this year, the high-profile 12mtpa greenfield blast furnace in India by 2012. In addition, a 3mtpa greenfields plant in Vietnam is also currently being considered.
- ▶ **Lift value-added sales** - Increasing the ratio of high-end steel products (strategic products) to 80% of its portfolio (currently 57%). POSCO's strategic products are products considered strategically important to the company's success, achieving higher profitability and exhibiting stable order cycles. It includes auto steel, high grade API steel, TMCP steel for ships and STS 400 series products. The target for strategic product sales is 24mt by 2008 - an additional 10mt from 2005 levels.
- ▶ **Security of raw materials** - Bring at least 30% of iron ore and coal from overseas mines where it's involved in production (and equity ownership).

Valuation

Fair value at KRW400,000/share

POSCO is now trading at historical highs but remains at a relative discount to its peers. While the latter point is supportive of its shares, we estimate POSCO's normalised EPS at KRW42,000/share (includes POSCO's Indian project). Applying a the sector's fair value historical PE rating of 10.0x, we arrive at our fair value estimate of KRW420,000/share.

Catalysts

The predator?...

At its recent 1Q conference call, management conveyed that it remains on the lookout for M&A opportunities. However, with regard to steel opportunities, management conceded that valuations are currently stretched and value is hard to find... a view that we share.

At the time of writing, POSCO indicated its interest in acquiring one of its largest customers, Daewoo Shipbuilding & Marine Engineering. We interpret this as largely a defensive move given Daewoo's recent threat of sourcing up to 75% of its plate requirements from Chinese mills (currently mostly from POSCO). Valued at over USD7bn (market value), it is nearly a quarter of POSCO's size. Its valuation is also steeper than POSCO at 14x PE, but perhaps the biggest concern for investors is that shipbuilding cannot be considered part of POSCO's core competency (steelmaking). For that matter, nor are large-scale acquisitions.

... Or the prey?

Given its open shareholding register, POSCO has long been a press favourite as an acquisition target in the global consolidation game. While we cannot rule it out, given strong political opposition to a foreign owner, plus POSCO's defensive tactics to shore up 'friendly' shareholders, we view this as a low probability.

Underutilised balance sheet

POSCO has long been criticised for its lack of balance sheet use. POSCO maintains the view that shareholders are better served by management finding suitable investment opportunities. Having completed its most recent buy back of shares (to treasury stock), there are no fresh plans to undertake a further buy-back. If the Daewoo Shipbuilding transaction progresses, we now know why.

Investment positives

World-class operations

Outstanding operations have enabled POSCO to continually outperform its peers in achieving higher margins and returns. With continued investment in upgrading and migrating toward higher-end product via its strategy of raising sales of strategic products, we believe POSCO's sustainable margins can be lifted.

Technology advantage

POSCO has access to a +1,000 strong team of researchers from its R&D centre (671 researchers) and the Research Institute of Industrial Science and Technology (RIST – 467 researchers). Having maintained such a large team of researchers and sown the seeds of many innovative projects for many years, POSCO may just be entering the harvesting period of its long term investments.

Commercialisation of the Finex project iron-making technology is due to commence. This leading edge technological advantage is part of the reason that POSCO is reluctant to pursue acquisition opportunities in China. Even if foreign investors are granted a minority ownership position (due to China's 50% ownership rule), they will be required to contribute their technology expertise. POSCO has no intention of sharing its competitive advantage with the Chinese.

One major initiative POSCO plans to introduce is a new stainless steel substitute product, a 400-grade stainless product that has no nickel content but can substitute for 300-grade products. It will reduce its demand for nickel by 14 percent in 2007 and the company will also turn to cheaper nickel scrap instead of refined nickel in making stainless steel, used in products ranging from kitchenware to machinery to airplanes.

The current 400-grade stainless steel, which uses chrome, was known to be less tough compared to nickel-containing austenitic stainless steel, especially in the welded condition. Soaring nickel prices have widened the price gap between 300-grade products and 400-grade products to four times, from two times few years ago. The price of the new 400-grade line will be a third of the 300-grade.

Greenfield opportunities in India and Vietnam

POSCO's showcase Indian project has grabbed significant press space in recent times. Despite strong opposition from locals POSCO remains confident of the Indian government's support and views the high-profile status that the project has attained, should work in its favour. As further milestones are achieved on this project, we'd expect investors to begin to price this project into the share price.

In the meantime, we understand that the Vietnamese government is now courting POSCO with the opportunity of a greenfield plant. Our contacts believe that this could be a 3mtpa project utilising the Vietnamese local ore. POSCO is currently reviewing this opportunity and expect to make a decision by mid 2007.

Investment concerns

Defensive tactics

In an attempt to ward off predators, POSCO has entered into alliances and cross-shareholding arrangements with 'friendly' shareholders. POSCO is targeting up to a third of its outstanding shares to be held by friendly partners (eg Nippon Steel 5.0%, Mitsubishi Corp 1.4%). However, such a strategy is not without risks. During the downturn of 1987, Japanese mills unwound 'friendly' shareholdings in order to fund restructuring

efforts. As such, in the event of a downturn, friendly shareholdings may become a significant overhang, thereby exaggerating the impact of the downturn.

In a further defensive measure, the company won shareholders' approval earlier this year to issue bonds with warrant and convertible bonds up to KRW2,000bn (USD2.1bn), double its earlier ceiling. These would be issued to investors it considers 'friendly' in the event of a hostile bid, enabling the dilution of the predator.

Poor acquisition

POSCO has indicated in recent times of utilising its strong balance sheet to actively pursue acquisitions. Recent press reports (Dow Jones) have suggested local opportunities such as Dongbu Steel or Union Steel or its major customer, Daewoo Shipbuilding & Marine Engineering.

While new Japanese antitrust rules have moved to interpret market share in the context of the global steel market, Korean anti-trust rules have not changed and continue to assess market power in the context of the home market. Given POSCO's dominant market share positions in its home market, we view an acquisition of either Dongbu or Union Steel as an unlikely scenario.

Daewoo Shipbuilding is an interesting proposition as it is one of POSCO's largest customers and recently threatened POSCO with the sourcing its plate requirements from China's mills. While a play on Daewoo can be interpreted as a defensive move, our greatest concern is that shipbuilding cannot be considered POSCO's core competency and Daewoo's market value of over USD7bn, is nearly a quarter of POSCO's size.

Perhaps the biggest issue for POSCO is that it is entering uncharted territories, M&A. Having relied on organic growth throughout its history,

M&A is an area where it has very little track record. Where POSCO has ventured outside of its comfort zone, it has been burnt, eg SK Telecom and Powercomm. To be fair, these were legacy issues of prior management.

Raw material exposure

POSCO is fully exposed to the volatility of key raw materials such as iron ore, coking coal and nickel (for stainless production). The current price strength and volatility in input costs is something the company accepts but security of supply is more the issue. To address this issue, POSCO aims to lift its equity ownership of raw material mines. The target is to lift investments in raw material sources to 30% of its requirements by 2010. Currently, equity holdings in iron ore and coal mines provide for 14% and 21% of its raw material requirements.

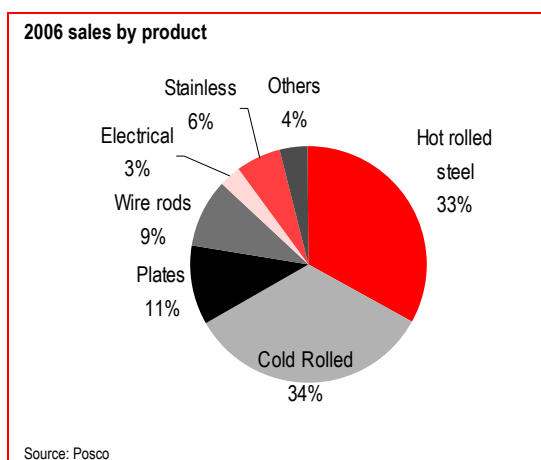
Company description

Incorporated in 1968, POSCO (formerly known as Pohang Iron & Steel Company) started commercial production in 1970, with financial and technical aid from Japan. POSCO, based in South Korea, is the third largest steel producer in the world after Arcelor-Mittal, Nippon Steel and JFE Steel. It is listed on the Tokyo Stock Exchange and New York Stock and London Stock Exchanges.

With production capacity of 32MT of crude steel, it is the largest and only fully integrated steel producer in Korea. Selling primarily to the Korean market, domestic sales account for ~25% of total sales volume. Key export markets include China and Japan which accounted for 56% export sales.

POSCO's product mix includes hot rolled coil (HRC), cold rolled coil (CRC), steel plate, wire rod, electrical steel and stainless steel. Primarily a flat steel manufacturer, POSCO has now been increasingly focusing on value-added products,

so as to reduce vulnerability to steel cycles and steel imports from China, which are largely of commodity nature. Over the past five years, there has been a significant increase in the proportion of cold rolled steel and stainless steel in its sales mix, driven, among other factors, by growth in requirement for automotive steel in both Korea and China.



Manufacturing facilities

Pohang Steel Works

Located along the south east coast of Korea, Pohang Steel Works operates a large steel plant, with production capacity of 13MT of crude steel. This unit produces HRC, CRC, steel plate, electrical steel and stainless steel. Pohang Steel Works has production capacity of 2MT of stainless steel. POSCO is planning to implement the low-cost eco-friendly technology FINEX in its Pohang unit, which is expected to provide substantial cost and operational benefits.

Gwangyang Steel Works

Located on the southern coast of Korea, Gwangyang Steel Works has capacity of 17MT of crude steel. It primarily produces HRC, CRC and downstream value-added steel products.

Zhangjiagang

POSCO installed a production facility in Zhangjiagang, China, in 2006 for producing

600kt of stainless steel and hot metal. Expanded by another 200kt in July 2006, the facility is strategically located and has helped POSCO cater to the growing demand of stainless steel in China, Japan and South East Asia

Projects

India

POSCO is aggressively planning to enhance its production capacity through both greenfield and brownfield projects. It has announced investment of USD12bn for setting up a 12MT capacity integrated steel plant in Orissa, India. The same will be commissioned in three phases and is expected to complete by 2016. The MoU has been signed and the iron ore mines have already been allotted. However, the viability of the project seems to be uncertain at this stage because of the opposition faced from the local people in acquiring the land.

Vietnam

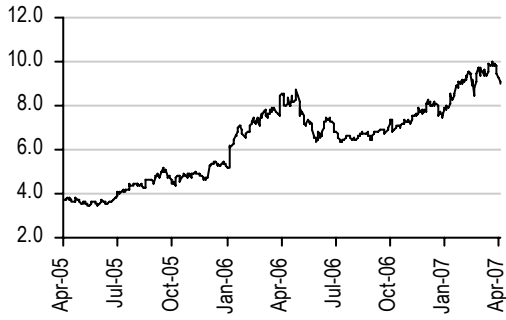
POSCO has outlined an estimated investment of USD1.13bn in two phases to set up steel manufacturing facilities in Vietnam. In the first phase, the company proposes to set up a 700kt cold roll mill, entailing investment of USD361m. The same is scheduled to commence production by Dec 2009. In the second phase plan, the company intends to set up a hot roll mill and a continuous galvanised steel line (CGL), with a 3MT and 400kt capacity, respectively, as well as enhance the cold rolling capacity by another 400kt. The total investment earmarked for the second phase plan is estimated at USD767m, with completion target of end-2010.

Mexico

POSCO has proposed to set up a CGL to produce 400kt of value-added automotive sheets per annum. The project is expected to commence production by June 2009.

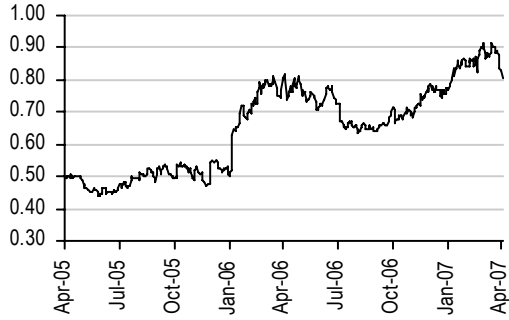
POSCO valuation charts

POSCO PE (1-year forward)



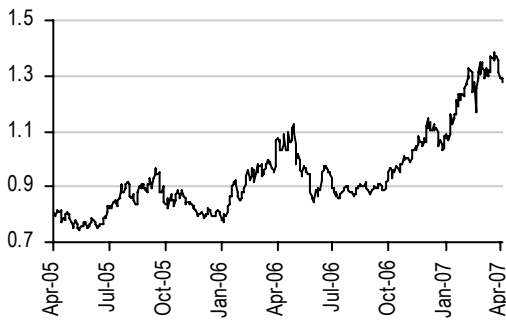
Source: DataStream, HSBC estimates

POSCO PE relative to KOSPI (1-year forward)



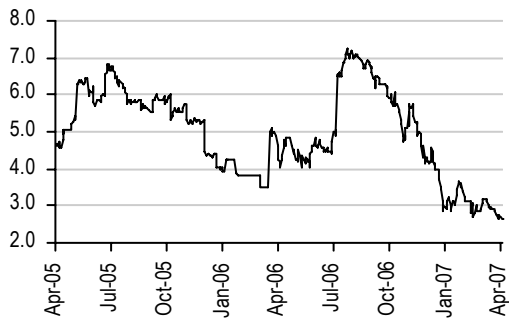
Source: DataStream, HSBC estimates

POSCO P/B



Source: DataStream, HSBC estimates

POSCO Dividend yield



Source: DataStream, HSBC estimates

China Steel – A high yielding national hero

- ▶ A well run Taiwanese champion attractive for high yield investors
- ▶ 5 year plan sees CSC increase capacity to 20mt from 13mt
- ▶ Stock fairly valued - Initiate with Neutral (V) rating

Initiate with Neutral (V) rating

High yield with growth in 2010

While China Steel Corporation's (CSC) share performance in the year to date (+16%) has been impressive, it has lagged behind its regional peers (average gain of +40%). In part, we believe this is due to investor perception of CSC being a 'dull' but high yielding, low-growth stock. CSC aims to address this with plans to boost capacity to 20mt (+50%) over the next five years.

The key issue for CSC is that its plans arrive at a time when significant new capacity will be commencing from its regional competitors. In the meantime, CSC will remain tied to the steel business cycle and with 25% of its sales reliant on exports, the continuing strength of international markets will be critical. With China's

overcapacity and increasing exports, CSC faces the risk of being crowded out.

While an improved product mix via organic growth initiatives toward value-added and high-end flat products will assist, CSC remains strongly tied to the steel cycle. 2006 profits fell by 23% in a year when HRC prices fell by only 5%. While 2007 will be a stronger year for CSC largely due to a strong 1H, our forecasts of a 20% fall in HRC prices from the 2Q07 peak, sees profits declining by 36% into 2008.

Nevertheless, CSC's strong dividend yield (HSBC forecast 9.5% for 2007), and potential capital management initiatives will provide support for its shares. We initiate with a Neutral (V) rating and TWD40/share target price.

SWOT analysis

Strengths

- ▶ Largest and only blast furnace steelmaker in Taiwan
- ▶ Dominant market share in domestic markets
- ▶ Shareholder focus with high payout ratio

Weakness

- ▶ Under geared balance sheet with a net cash position
- ▶ Exposure to raw material price volatility
- ▶ A dominant controlling shareholder who has strong influence

Opportunities

- ▶ TWD200bn expansion program. Blast furnace projects at Dragon Steel + JV East Asia to lift capacity to 20mt (from 13mt)
- ▶ Upward vertical integration to secure raw materials

Risks

- ▶ Potential share overhang from government's stake
 - ▶ 25% of exports to Japan and HK/China vulnerable to Chinese overcapacity
-

Source: HSBC.

Financials & valuation: China Steel Corp

Neutral (V)

Financial statements

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
Profit & loss summary (TWDm)						
Revenue	186,318	177,658	200,394	176,319	169,621	158,718
EBITDA	70,058	47,608	66,559	46,826	41,609	49,876
Depreciation & amortisation	-9,506	-9,864	-9,330	-9,720	-10,077	-10,320
Operating profit/EBIT	60,551	37,745	57,228	37,106	31,532	39,556
Net interest	-194	-198	-651	-651	-651	-228
HSBC PBT	65,112	47,679	66,591	46,469	40,895	49,342
Taxation	-14,466	-8,482	-13,318	-9,294	-8,179	-9,868
Net profit	50,590	39,102	53,216	37,118	32,659	39,417
HSBC net profit	50,590	39,102	53,216	37,118	32,659	39,417

Cash flow summary (TWDm)

Cash flow from operations	49,294	47,651	58,937	48,099	43,192	54,598
Capex	-16,029	-12,912	-14,067	-14,067	-14,067	-9,500
Cash flow from investment	-25,536	-15,804	-14,067	-14,067	-14,067	-9,500
Dividends	-42,914	-33,787	-45,947	-41,195	-36,827	-37,919
Change in net debt		115	-7,148	8,735	8,721	-11,790
FCF equity	28,660	47,434	48,707	33,683	27,617	45,347

Balance sheet summary (TWDm)

Intangible fixed assets	0	0	0	0	0	0
Tangible fixed assets	109,029	115,849	117,614	121,962	125,952	125,132
Current assets	75,852	75,046	94,175	83,952	74,616	78,010
Cash & others	29,933	33,448	49,364	40,630	31,909	40,905
Total assets	250,762	265,627	286,521	280,645	275,299	277,874
Operating liabilities	40,640	44,967	43,574	43,289	43,073	42,276
Gross debt	13,496	17,126	25,894	25,894	25,894	23,100
Net debt	-16,437	-16,322	-23,470	-14,735	-6,015	-17,805
Shareholders funds	196,627	203,533	217,052	211,461	206,332	212,497
Invested capital	114,308	112,480	118,851	121,995	125,586	119,961

Ratio, growth and per share analysis

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
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Y-o-y % change

Revenue	-4.6	12.8	-12.0	-3.8	-6.4	
EBITDA	-32.0	39.8	-29.6	-11.1	19.9	
Operating profit	-37.7	51.6	-35.2	-15.0	25.4	
PBT	-26.8	39.7	-30.2	-12.0	20.7	
HSBC EPS	-22.7	32.4	-31.8	-12.4	18.2	

Ratios (%)

ROIC	82.5	27.7	39.7	24.8	20.5	25.9
Keu	9.9	9.9	9.9	9.9	9.9	9.9
EV/IC (x)	3.1	3.1	2.9	2.9	2.8	2.9
ROIC/Keu (x)	8.3	2.8	4.0	2.5	2.1	2.6
REP (x)	0.4	1.1	0.7	1.1	1.4	1.1
ROE	51.5	19.5	25.3	17.3	15.6	18.8
EBITDA margin	37.6	26.8	33.2	26.6	24.5	31.4
Operating profit margin	32.5	21.2	28.6	21.0	18.6	24.9
Net debt/equity	-8.4	-8.0	-10.8	-7.0	-2.9	-8.4
Net debt/EBITDA (x)	-0.2	-0.3	-0.4	-0.3	-0.1	-0.4

Per share data (TWD)

EPS Rep (fully diluted)	4.81	3.72	4.93	3.36	2.94	3.48
HSBC EPS	4.81	3.72	4.93	3.36	2.94	3.48
CFPS	4.71	4.55	5.48	4.37	3.91	4.84
DPS	4.10	3.08	4.02	3.45	2.96	2.93

Key forecast drivers

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
US\$/TWD	32.2	32.6	32.9	32.2	32.2	26.6
Hot rolled steel product price	506	478	527	452	428	426
Cold rolled steel product price	620	598	642	567	543	541
Steel plate price (US\$/t)	494	536	612	585	568	566
Wire rod price (US\$/t)	390	418	465	430	406	404
Crude Steel Production (MT)	9	12	12	12	12	14

Sensitivity & valuation range (% change in EP, TWD/share)

(-) 5% (% change in EPS)	2007e	2008e	2009e
Impact on EPS from:-			
(-) 5% change in HRC Prices	-13.6%	-17.4%	-17.1%
(-) 5% change in Iron Ore Prices	4.0%	6.6%	6.5%
(-) 5% change in Exchange Rate	-6.4%	-7.1%	-10.2%

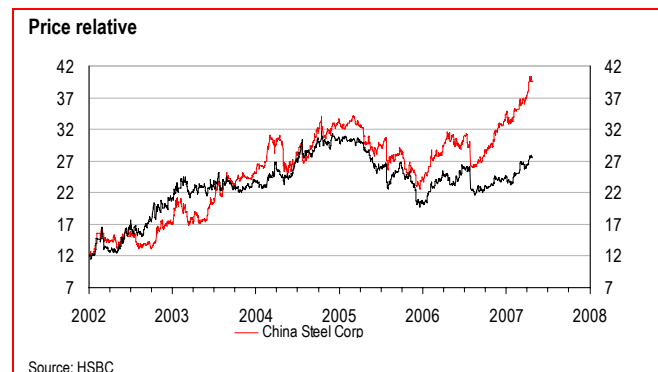
Valuation data

Year to Dec	2005 a	2006 a	2007 e	2008 e	2009 e	2010 e
EV/EBITDA	5.1	7.3	5.1	7.4	8.6	6.9
PE*	8.2	10.7	8.0	11.8	13.5	11.4
P/CFPS	8.4	8.7	7.2	9.1	10.1	8.2
P/FCF equity	15.3	9.2	9.0	13.0	15.9	9.7
Dividend yield (%)	10.3	7.8	10.1	8.7	7.5	7.4

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (TWD)	39.65	Target price (TWD)	40.00	Potent'l tot rtn (%)	0.9
Reuters (Equity)	2002.TW	Bloomberg (Equity)	2002.TT		
Market cap (USDm)	13,213	Market cap (TWDm)	438,281		
Free float (%)	77	Enterprise value (TWDm)	340,080		
Country	Taiwan	Sector	Metals & Mining		
Analyst	Daniel Kang	Contact	+852 2996 6669		



Note: price at close of 23 Apr 2007

Valuation

Target of TWD40.00/share

In our view, it is the dividend yield that drives China Steel's valuation. Applying CSC's historical average dividend yield of 10% with our forecast of DPS of TWD4.02 into 2007, we arrive at our target price of TWD40.00/share. This target price equates to a 5% premium to our assessed NPV of TWD37.98/share, based on a WACC of 10%. Given China Steel's growth phase, we believe this premium is warranted.

Catalysts

Capital management initiatives

With a clean balance sheet which we forecast will quickly move back into a net cash position, CSC is capable of more efficiently utilising its balance sheet.

As recently as 20 December 2005, the board approved to implement the redemption of 200,000,000 CSC common shares between 21 December 2005 and 20 February 2006 at the prices between TWD16.8 per share and TWD37.9 per share for the purpose of transferring them to CSC employees. Only 1,600,000 (0.8% of total outstanding shares) CSC common shares were purchased by the company during that period at an average price of TWD24.7. In our opinion, any steel downturn will likely trigger the board into a new common share buy-back program.

Approval of Blast Furnace II expansion

Through its 48% held equity investment in Dragon Steel, a major expansion program is currently underway. The first phase, which has commenced is the construction of the TWD78.9bn (USD2.5bn) 2.5mtpa blast furnace at Taichung Harbor. A second expansion, Blast Furnace II, adding a further 2.5mt has also been submitted but approval has yet to be received.

Investment positives

Strong dividend yield

CSC has maintained a strong record of shareholder dividend returns. Over the past eight years, CSC has paid a consistent high dividend payout ratio averaging 89%. Dividend payments tend to be split up between cash and stock dividends. The latter provides a slight drag to forward EPS.

China Steel Corporation - EPS and DPS

Year	EPS	Cash dividends	Stock dividends	Payout ratio %
1999	1.75	1.30	0.20	86
2000	2.12	1.50	0.30	85
2001	0.82	0.80	0.20	122
2002	1.86	1.40	0.15	83
2003	3.94	3.00	0.35	85
2004	5.26	3.90	0.50	84
2005	4.83	3.75	0.35	85
2006	3.56	2.78	0.30	87

Source: Company data, HSBC estimates

Dominant market share positions

Given its position as the only integrated producer in Taiwan with capacity of 13mtpa, it is not be surprising that CSC dominates the domestic market (apparent consumption 24mt). That said, CSC does have a strong opponent in Chun Hung Steel (formerly Yieh Long Enterprise)

Taiwan market shares - 2006

	China Steel Corp	Chung Hung	Others
Hot rolled products	53%	27%	20%
Cold-Rolled Products	47%	12%	41%
Plates	65%	35%	0%
Bars & wire rods	47%	53%	0%
Electrogalvanised	51%	49%	0%
Electrical sheets	69%	31%	0%

Source: Company data, HSBC estimates

Investment concerns

Exports vulnerable to China oversupply

In the 2006 period, CSC exported 25% of its output. With nearly 70% of exports destined for Hong Kong/China (35%) and Japan (34%), CSC is vulnerable to China's overcapacity.



Controlling shareholder

Taiwan's Ministry of Economic Affairs is the company's single largest shareholder with a 22.66% stake and controls the board. Given CSC's history of listing in 1974, then returning to becoming a state owned enterprise in 1977, before finally re-listing on the Taiwan stock exchange in 1995, the government is an influential shareholder.

Politics got in the way as recently as late-2005 when the former chairman of CSC, Mr Lin Wen-yuan, was effectively forced to resign following a public and political uproar over his stock bonuses. Critics depicted the chairman's bonus as another example of greed by officials opposed to large bonuses for government appointees.

While it will continue to play an influential role in CSC's future, the Taiwan government has been progressively selling down its interests in a long-term privatisation program. As such, CSC's largest shareholder may act as a potential share overhang.

What's in a name anyway?

In recent months, Taiwanese leader Chen Shui-bian has been pushing for increased use of 'Taiwan' rather than the island's official designation of Republic of China (ROC). CSC is currently studying the feasibility of changing its name at the request of the government.

While three state-run companies changed their names last month, CSC is the first private, publicly traded company to have been asked by the government to study a name change. The key concern is that these actions are viewed as a step toward Taiwan's independence from China.

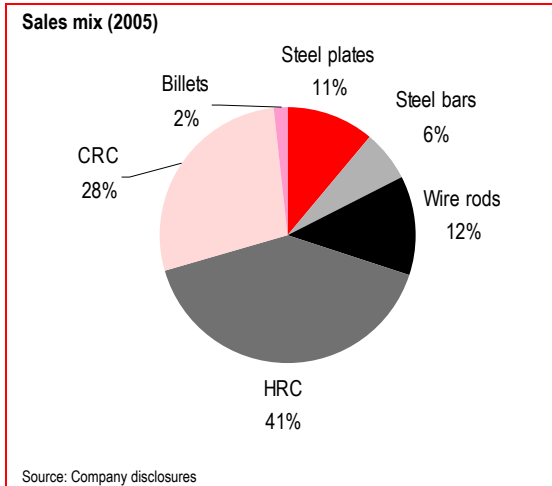
Company description

Large single-location facility

Incorporated on 3 December 1971, CSC became a state enterprise on 1 July 1977 and enjoyed the status for 18 years before it was privatised on 12 April 1995. CSC, headquartered in Kaohsiung, is listed on the Taiwan Stock Exchange since 26 December 1974. With a 22.66% stake, the Ministry of Economic Affairs is the company's largest shareholder.

CSC's manufacturing facility is located in Kaohsiung, Taiwan. Its crude steel production was 12.4 million tonnes (MT) in 2006. Approximately 75% of the total volume was sold in the domestic market, whereas the remaining was exported to Hong Kong/China, Japan and South East Asia.

The company sells flat products, long products as well as semi finished steel, with flat products constituting c80% of its mix. The chart below shows CSC's sales mix in 2005. A substantial portion of the company's domestic sales are to re-rollers and steel service centres.



CSC sources its raw materials (iron-ore and coking coal) mainly from Australia. Brazil (for iron-ore) and Canada (for coking coal) are other important suppliers.

Projects

Expansion/de-bottlenecking

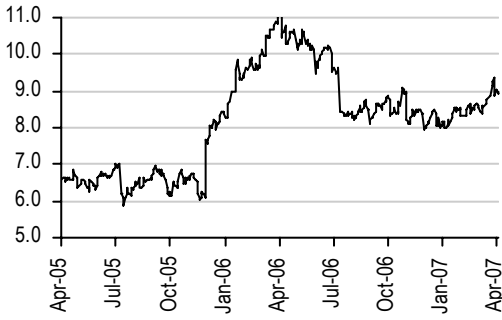
CSC is expanding its existing facilities. The major expansion initiatives are the revamping of one of its blast furnaces (to increase hot metal capacity by 0.35MT), addition of another continuous hot-dip galvanising line (to increase capacity of galvanized steel products by 0.12MT and galvanized iron products by 0.18MT), addition of an annealing and coating line (to increase capacity of high grade non-oriented electrical sheets by 0.2MT) and addition of another slab caster (to increase capacity of liquid steel by 0.55MT).

Greenfield projects

CSC has lined up substantial expansion programmes in the near future. The company intends to invest TWD200bn over the next five years in new projects, which include setting up new production facilities for wire rods and cold rolled steel products, thereby enhancing its production capacity to 20MT. CSC also intends to support affiliate Dragon Steel in setting up two blast furnaces.

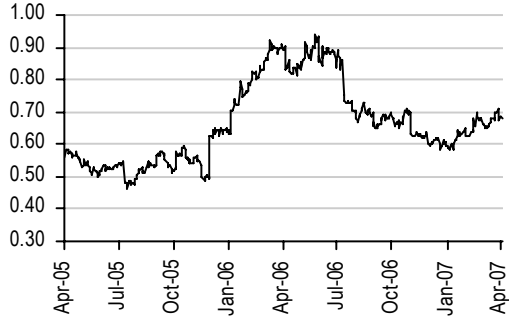
China Steel Corporation - Valuation charts

China Steel PE (One year forward)



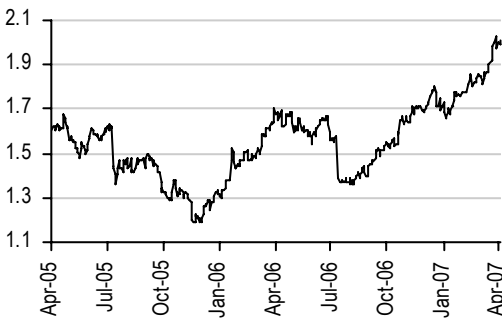
Source: DataStream, HSBC estimates

PE relative to Taiwan Index



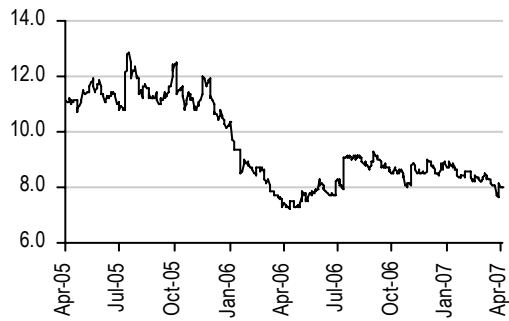
Source: DataStream, HSBC estimates

China Steel P/Book



Source: DataStream, HSBC estimates

China Steel Dividend yield



Source: DataStream, HSBC estimates

Maanshan – Re-weighting mix from Longs to Flats

- ▶ Primarily a long (construction) steel producer, Maanshan is aggressively moving up the value chain to flat steel
- ▶ Product mix shifting from 60:40 longs to flats, to 40:60 by 2009
- ▶ Long term benefits priced in, initiate with Underweight (V) rating

Initiate with Underweight (V) Rating

Restructuring more than priced in

With the imminent completion of Maanshan's new high-value added steel plates expansion, the company is changing past perceptions of it being a low-end steel producer. By 2009, Maanshan's product mix is set to shift to 60% flat steel from its current position of 60% long steel.

Strong output growth of +33% in 2007 to 14.5mt (from 10.9mt) and improved sales mix (increased high-end steel) should contribute to a healthy earnings rebound of 15% in 2007. However, we

expect it will be a tale of two halves given our forecast of weaker steel prices in the 2H. Export sales will be hit by recent cuts in export tax rebates but exports should represent only 8% of total sales, so the company is less vulnerable than its peers.

Maanshan is a company that is certainly not standing still. Having spent RMB20bn capex on raising capacity of steel plates to 5mt from 3mt, it is now looking to gain approval to relocate its 71% Heifei facilities to Maanshan City at a cost of CNY19bn. Integration success remains crucial. While the long-term outlook remains positive, in our view the share price has more than captured these benefits. At 18x 2007 EPS (A-shares),

SWOT analysis

Strengths

- ▶ A strategic alliance with China's largest steel mill, Baosteel
- ▶ Leading producer of high margin train wheels
- ▶ Parent also investing in the iron ore reserves, which may ensure iron ore supplies for the company

Weakness

- ▶ Exposure to raw material price fluctuations
- ▶ Maanshan enjoyed a preferential tax rate of 15%, which may not continue under the new corporate tax law to be effective in 2008

Opportunities

- ▶ Potential relocation of its 3m tpy Hebei capacity to its new plant in Maanshan City may further increase its capacity
- ▶ Further growth in rail given higher margins in this segment

Risk to performance

- ▶ The company's earnings may be impacted by any slow down in the domestic market
- ▶ The company's earnings are largely driven by steel prices. We believe steel prices should peak in 2Q07
- ▶ Cuts in export VAT rebates and potential for further measures on exports negatively impacts Maanshan's export sales

Financials & valuation: Maanshan Iron & Steel

Underweight (V)

Financial statements

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

Profit & loss summary (CNYm)

Revenue	32,083	34,320	45,944	47,639	49,136
EBITDA	5,758	5,345	6,994	7,366	8,135
Depreciation & amortisation	-2,065	-2,324	-2,881	-3,310	-3,738
Operating profit/EBIT	3,693	3,022	4,113	4,057	4,397
Net interest	-340	-262	-252	-290	-279
HSBC PBT	3,366	2,800	3,861	3,767	4,118
Taxation	-415	-347	-579	-942	-1,030
Net profit	2,910	2,395	3,227	2,773	3,039
HSBC net profit	2,910	2,395	3,227	2,773	3,039

Cash flow summary (CNYm)

Cash flow from operations	5,616	4,894	4,879	4,725	6,165
Capex	-8,351	-14,055	-8,500	-4,644	-3,000
Cash flow from investment	-8,580	-14,052	-8,500	-4,644	-3,000
Dividends	-1,420	-1,033	-843	-1,167	-973
Change in net debt		9,540	4,669	1,085	-2,192
FCF equity	-2,620	-8,502	-3,140	625	3,685

Balance sheet summary (CNYm)

Intangible fixed assets	109	114	0	0	0
Tangible fixed assets	27,052	41,280	47,129	48,463	47,725
Current assets	11,243	12,734	13,957	13,704	13,732
Cash & others	3,269	4,161	4,697	4,111	3,803
Total assets	38,934	54,716	61,650	62,731	62,020
Operating liabilities	9,519	12,749	11,906	11,566	11,566
Gross debt	10,762	21,194	26,399	26,899	24,399
Net debt	7,494	17,034	21,703	22,788	20,596
Shareholders funds	17,482	19,623	21,982	23,293	24,682
Invested capital	25,616	37,217	44,484	46,490	46,087

Ratio, growth and per share analysis

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

Y-o-y % change

Revenue		7.0	33.9	3.7	3.1
EBITDA		-7.2	30.8	5.3	10.4
Operating profit		-18.2	36.1	-1.4	8.4
PBT		-16.8	37.9	-2.4	9.3
HSBC EPS		-18.1	34.7	-14.1	9.6

Ratios (%)

ROIC	25.3	8.4	8.6	6.7	7.1
Keu	9.3	8.7	10.0	10.0	10.1
EV/IC (x)	0.8	0.8	0.8	0.8	0.7
ROIC/Keu (x)	2.7	1.0	0.9	0.7	0.7
REP (x)	0.3	0.9	0.9	1.2	1.1
ROE	33.3	12.9	15.5	12.2	12.7
EBITDA margin	17.9	15.6	15.2	15.5	16.6
Operating profit margin	11.5	8.8	9.0	8.5	8.9
Net debt/equity	42.5	85.5	98.7	97.8	83.4
Net debt/EBITDA (x)	1.3	3.2	3.1	3.1	2.5

Per share data (CNY)

EPS Rep (fully diluted)	0.45	0.37	0.50	0.43	0.47
HSBC EPS	0.45	0.37	0.50	0.43	0.47
CFPS	0.87	0.75	0.75	0.73	0.95
DPS	0.16	0.13	0.18	0.15	0.18

Key forecast drivers

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

Finished Steel Production	8,890	10,190	12,596	14,226	15,235
Exchange Rate	8.2	7.9	7.6	7.2	6.5
Hot Rolled Coil (RMB/t)	3,370	3,019	3,230	2,850	2,677
Cold Rolled Coil (RMB/t)	4,590	4,193	4,588	4,012	3,797

Sensitivity & valuation range (% change in EPS, RMB/share)

(-) 5% (% change in EPS) 2007e 2008e 2009e

Impact on EPS from:-			
(-) 5% change in HRC Prices	-56.7%	-39.8%	-37.4%
(-) 5% change in Iron Ore Prices	20.9%	21.2%	18.1%
(-) 5% change in Exchange Rate	-17.3%	-10.1%	-10.3%

Valuation data

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

EV/EBITDA	3.7	5.8	5.0	4.9	4.2
PE*	11.8	14.4	10.7	12.4	11.3
P/CFPS	6.1	7.0	7.1	7.3	5.6
P/FCF equity	-5.4	-1.7	-4.5	22.7	3.8
Dividend yield (%)	3.0	2.4	3.4	2.8	3.4

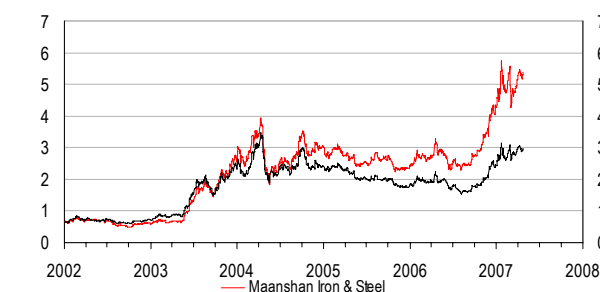
Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (HKD) 5.38 Target price (HKD) 4.60 Potent'l tot rtn (%) 0.0

Reuters (Equity)	0323.HK	Bloomberg (Equity)	323 HK
Market cap (USDm)	1,832	Market cap (HKDm)	14,319
Free float (%)	41	Enterprise value (CNYm)	35293
Country	Hong Kong Sar	Sector	Metals & Mining
Analyst	Daniel Kang	Contact	+852 2996 6669

Price relative



Source: HSBC

Note: price at close of 23 Apr 2007

Maanshan is the most expensive stock in our universe. We initiate with an Underweight (V) rating.

Valuation

A-share target HKD4.60/share, H-share target RMV5.15/share

Maanshan shares are dual listed on the Hong Kong and Chinese Shanghai stock markets. Since 2006, Maanshan H shares have traded at a PE discount of 51% relative to the Hong Kong share market. Using this discount to the Hong Kong market together with Baosteel's fair value PE of 11.4x (as an appropriate valuation for the China shares), we take the midpoint of both, as Maanshan's fair value PE multiple of 9.8x.

- ▶ **H-Share target HK4.60/share** - Based on our on our normalised EPS forecast of RMB0.47, and applying a PE multiple of 9.8x, we set a target price of HKD4.60/share for Maanshan's primary H-shares.
- ▶ **A-Share target RMB5.15/share** - For its A shares, which have traded at an average discount of 12% to the A class shares since 2005, we have assigned this premium to our target price for Maanshan's A-share and set a target price of HKD5.15/share.

Catalysts

Strategic alliance with Baosteel

Maanshan signed a strategic agreement with Baosteel in early 2006 to cooperate on technology and management including R&D, raw materials purchasing, finished steel sales and transportation. While there has been press speculation that this may be a first step for the two groups to merge, we believe it may be premature to arrive at such a conclusion given the significant growth plans both have on their plates.

High margin train segment

The company is one of the leading producers of train wheels and wheel rims in China. The segment represented approximately 2% of its output, but contributed to 21.8% of its operating profit in 2006 under PRC GAAP. Its operating margin was 42.4% in 2006 vs 27.1% in 2005.

Capacity growth

The company plans to invest RMB21.74bn to expand its cold and hot rolled sheet products by 5mt, which is expected to be completed by mid-2007. Company forecasted ROIC of the investment to be around 14-15%. Investment cost per tonne is RMB4,349/t, in line with Angang's investment cost of new plant of RMB4,250/t. The company has raised RMB5.5bn of bonds with warrants, which are convertible into new A-shares to finance the new plant.

In addition, Maanshan is considering relocating its old capacity from its Hebei JV to its new plant in Maanshan City, with potential for further capacity expansion.

Maanshan – 5m tpy mills investment

Total investment (RMBm)	21,744
Capacity (Tonnes million)	5
Investment cost per tonne (RMB/t)	4,349
Funding (Rmb Mil)	
Internal financing (40%)	8,697
External debt (60%)	13,046

Source: Company reports, HSBC.

Investment positives

Parent to supply 30% of iron ore needs

The parent is investing in new iron ore mines, which will commence operations in 2 years with annual capacity of 6mt pa. This should provide iron ore supply to support the company's expansion plan. Maanshan expects its parent to satisfy 28-30% of its iron ore requirements (vs. 22% in 2006). We understand Maanshan re-negotiates its supply contract with the parent every three years.

Investment concerns

Volatile historical earnings

The company's earnings were volatile in the past, influenced by underlying steel price movements. In 1998, the company expanded into H beams, but the products have failed to enhance profitability until 2003. In 1999, the company received a subsidy income of RMB110m to prevent it from reporting two consecutive years of earnings losses. According to PRC listing rules, a company with two consecutive years of earnings losses can be de-listed. The company's EPS was only RMB0.001 and RMB0.002 in 1998 and 1999.

In addition, the company has a record of having difficulties in recovering money lent to third parties. The overdue Hong Kong dollar fixed deposit as of 31 December 2006 was HKD119m.

Exposure to raw material prices

The majority (75%) of Maanshan's iron ore requirements are sourced externally (outside of its parent) and it is exposed to market price volatility. The company does not have a similar iron ore cost advantage to Angang. Costs of production were on the rise in China, in particular costs of coking coal, alloy, labour and energy costs were rising in China. Maanshan's operating margin in 2006 was 13% compared to Angang's 24%. Maanshan's net margin in 2006 was 7%.

Government measures on steel sector

The Chinese government has reduced the export VAT rebate effective 15 April 2007 from 8% to 0-5%. In addition, they may impose policies on exports and structural adjustment of the iron and steel industry in the future. Furthermore, any move on the part of the Chinese government to ease over-investment in the construction and automobile industries would affect demand and Maanshan's earnings.

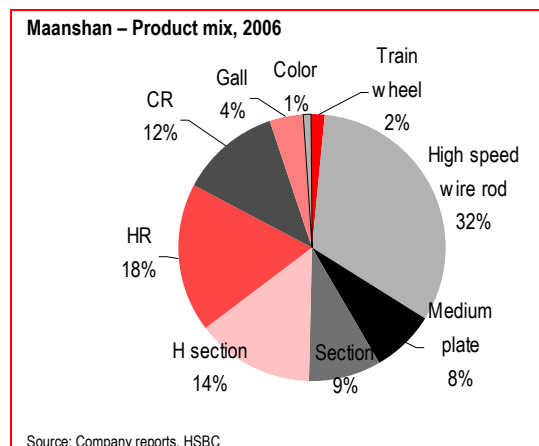
Margin pressure

Maanshan's net margin for 2006 was 6.6% compared to 8.9% in 2005 under PRC GAAP. Operating margin was 12.1% compared to 14.2% in 2005. The falling margin was a result ASP falling faster than cost reductions. During 2006, Maanshan's revenue per tonne was down 7.1% y-o-y to RMB3,351/t, which is in line with the movement of spot prices, which were down by roughly 10% in 2006. Unit cost per tonne was RMB2,923/t, down 4.8% y-o-y. Net profit per tonne was down 30.6% y-o-y to RMB222/t, compared to Angang's 2006 net profit per tonne of RMB488/t.

Company description

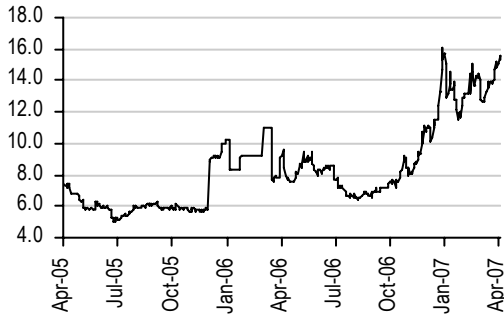
Maanshan, a subsidiary of Magang Group, was set up and listed in both the Hong Kong and Shanghai stock exchanges in 1993-1994. Magang Group currently holds 60% of Maanshan.

The company is principally engaged in the manufacture and sale of iron and steel products. The company's principal products include flat products, shaped steel, wire rods and train wheels and tires. Over 90% of its products are sold in the domestic market. Roughly 35% of Maanshan's products are flat products and this proportion is expected to rise to 57% by 2009e when the new plant is in full operation.



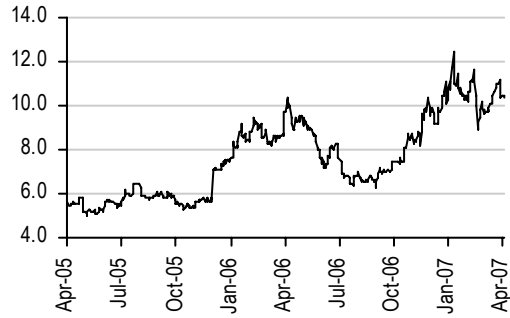
Maanshan Iron & Steel – Valuation charts

Maanshan A - PE (one year forward)



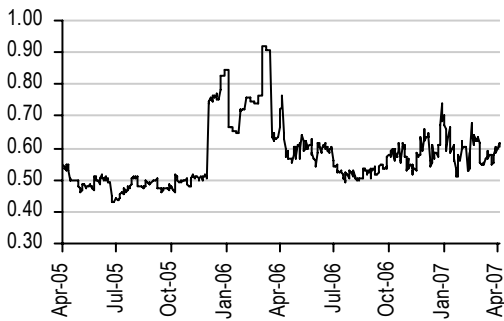
Source: DataStream, HSBC estimates

Maanshan H - PE (one year forward)



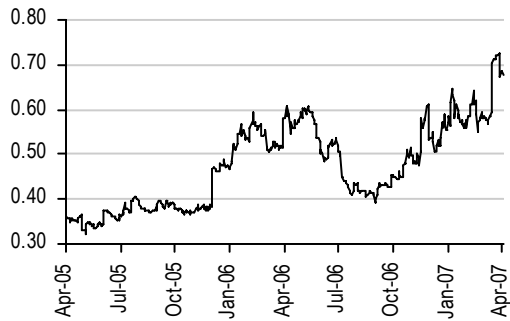
Source: DataStream, HSBC estimates

Maanshan A - PE relative to China A market



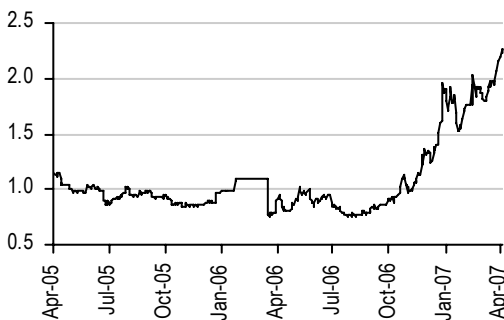
Source: DataStream, HSBC estimates

Maanshan H - PE relative to Hong Kong market



Source: DataStream, HSBC estimates

Maanshan A - P/B



Source: DataStream, HSBC estimates

Maanshan H - P/B



Source: DataStream, HSBC estimates

Maanshan – Key operating statistics under PRC GAAP, 2005-2006 ('000 tonnes, RMB/t)

(RMBm)	2005	Q1 06	Q2 06	Q3 06	Q4 06	2006	QoQ % chge Q4 06	YoY %chg Q4 06	2006
Margin									
Principal operating profit	14.2%	8.1%	14.3%	11.4%	14.1%	12.1%			
Net operating profit	10.4%	4.9%	10.5%	7.6%	7.7%	7.8%			
Profit before tax	10.4%	4.9%	10.9%	7.9%	8.0%	8.0%			
Net profit margin	8.9%	4.0%	8.8%	6.5%	6.8%	6.6%			
Tax rate	13.1%	16.2%	17.5%	15.3%	12.0%	15.3%			
Production volume ('000 t)									
Revenue per tonne	3,608.9	3,101.8	3,652.3	3,445.3	3,214.9	3,351.6	-6.7%	5.5%	-7.1%
Cost of good sold per tonne	-3,070.2	-2,831.1	-3,102.5	-3,033.7	-2,737.3	-2,922.9	-9.8%	-0.9%	-4.8%
Gross profit per tonne	514.0	250.1	521.8	391.1	452.5	405.2	15.7%	69.1%	-21.2%
SG & A per tonne	-138.6	-98.1	-138.3	-130.1	-206.2	-145.0	58.5%	-3.5%	4.6%
Net operating profit per tonne	375.4	152.1	383.5	261.0	246.3	260.2	-5.6%	357.3%	-30.7%
Profit before tax per tonne	373.7	153.1	396.6	272.0	256.7	269.2	-5.6%	561.1%	-28.0%
Net profit per tonne	320.3	125.6	322.8	224.1	217.3	222.3	-3.1%	211.6%	-30.6%

Source: Company Reports, HSBC.

Maanshan – Gross operating margin and contribution to principal operating profit by products under PRC GAAP, 2005-2006

(RMBm)	2005	Q1 06	Q2 06	Q3 06	Q4 06	2006
Gross operating margin						
Flat products	16.2%	5.6%	14.3%	11.9%	11.0%	10.9%
Shaped steel	17.2%	7.9%	10.3%	10.9%	8.4%	9.4%
Wire rods	7.1%	8.0%	7.2%	6.9%	9.1%	7.8%
Train wheels and tyres	27.1%	44.5%	40.3%	43.5%	41.0%	42.4%
Pig iron	NA	NA	NA	NA	NA	NA
Steel billets	NA	NA	NA	NA	NA	NA
Other income	25.8%	-9.8%	52.4%	10.1%	44.2%	30.1%
Total	14.9%	8.7%	15.1%	12.3%	14.9%	12.8%
% of principal operating profit						
Flat products	40.1%	21.3%	31.4%	34.0%	24.7%	28.4%
Shaped steel	27.1%	21.9%	16.5%	20.1%	13.6%	17.2%
Wire rods	13.7%	26.1%	14.5%	18.4%	20.1%	18.8%
Train wheels and tyres	8.7%	38.0%	17.5%	25.7%	15.4%	21.8%
Pig iron	NA	NA	NA	NA	NA	NA
Steel billets	NA	NA	NA	NA	NA	NA
Other income	10.4%	-7.3%	20.0%	1.7%	28.1%	13.8%
of which connected transaction	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company reports, HSBC.

Angang Steel – Growth indigestion

- ▶ Angang is in the midst of a significant growth program having absorbed its parent's assets and completing a 5mt expansion
- ▶ Challenging headwinds lie ahead with a rights issue that will result in 7-10% EPS dilution plus cuts to VAT export rebates
- ▶ Initiate with an Underweight (V), target prices of RMB12.00 for A-shares; HKD12.65 for H-shares

Underweight (V) rating

Challenging headwinds lie ahead

Having recently digested its parent's assets in 2006, Angang's aggressive expansion schedule will see it introduce a new 5mt Bayuquan plant by 2008. Being China's third largest steel producer and given the government's encouragement of further consolidation, we would expect Angang to be a key industry consolidator in China.

While its growth outlook is impressive, Angang

faces challenging near-term hurdles. Firstly, we expect funding for the Bayuquan via a rights issue will result in EPS dilution in the order of 7 to 10%. The benefit though is that Angang will become largely debt free. Secondly, Angang is a significant exporter (largest exporter in our coverage universe of Chinese steel stocks) and will be negatively impacted by recent cuts to export VAT rebates. With Angang's valuations now at record levels, its H-share PE rel is now 76% above its historical average, we initiate with a Underweight rating.

SWOT analysis

Strengths

- ▶ Angang is the third largest steel company in China based on 2006 output
- ▶ Together with Benxi Group, Anben Group was the largest steel enterprise in China, accounted for 5% of China's output
- ▶ Parent company has captive iron ore reserves at a discount
- ▶ Well-recognized brand in China and overseas

Weakness

- ▶ High export reliance – 22% of China's cuts to export VAT rebate to 0-5% from 8% effective 15 Apr 2007

Opportunities

- ▶ Participate in local industry consolidation
- ▶ Angang's steel prices are below of Baosteel and have chances to increase with improvement in sales and distribution

Risk to performance

- ▶ Potential further measures to curb Chinese exports
 - ▶ Angang's new 5m tpy new mill will use imported iron ore. Iron ore cost subsidies may diminish gradually
 - ▶ The company's earnings are largely driven by steel prices. We believe steel prices should peak in 2Q07
-

Source: HSBC.

Financials & valuation: Angang Steel

Underweight (V)

Financial statements

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

Profit & loss summary (CNYm)

Revenue	26,397	54,596	64,834	63,360	70,452
EBITDA	3,894	13,721	18,920	17,117	18,151
Depreciation & amortisation	-839	-3,619	-4,710	-5,075	-5,796
Operating profit/EBIT	3,055	10,102	14,210	12,042	12,355
Net interest	-37	-735	-2,542	-2,737	-2,132
HSBC PBT	3,037	9,387	11,668	9,305	10,223
Taxation	-919	-2,293	-3,532	-2,326	-2,556
Net profit	2,117	7,094	8,136	6,978	7,667
HSBC net profit	2,117	7,094	8,136	6,978	7,667

Cash flow summary (CNYm)

Cash flow from operations	2,463	9,912	13,598	12,869	14,057
Capex	-2,673	-10,855	-19,100	-4,100	-4,100
Cash flow from investment	-2,674	-10,855	-19,100	-4,100	-4,100
Dividends	-889	-1,067	-3,856	-3,441	-3,856
Change in net debt	1,070	17,323	9,422	-5,328	-6,100
FCF equity	143	-1,015	-6,427	7,773	9,176

Balance sheet summary (CNYm)

Intangible fixed assets	24	48	5,621	5,619	5,618
Tangible fixed assets	9,251	41,235	45,901	39,550	38,131
Current assets	4,564	11,994	13,532	13,174	13,599
Cash & others	562	1,698	3,193	2,522	2,622
Total assets	14,224	58,936	71,939	69,610	67,558
Operating liabilities	1,567	9,071	6,877	7,011	7,148
Gross debt	1,406	19,864	30,782	24,782	18,782
Net debt	843	18,166	27,588	22,260	16,160
Shareholders funds	11,251	30,002	34,280	37,818	41,628
Invested capital	11,709	42,509	54,983	48,811	47,578

Ratio, growth and per share analysis

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

Y-o-y % change

Revenue	13.9	106.8	18.8	-2.3	11.2
EBITDA	8.4	252.3	37.9	-9.5	6.0
Operating profit	9.7	230.6	40.7	-15.3	2.6
PBT	14.0	209.1	24.3	-20.3	9.9
HSBC EPS	17.8	235.0	14.7	-14.2	9.9

Ratios (%)

ROIC	20.2	28.2	20.3	17.4	19.2
Keu	12.0	10.3	9.6	10.3	10.8
EV/IC (x)	9.0	2.8	2.3	2.4	2.3
ROIC/Keu (x)	1.7	2.7	2.1	1.7	1.8
REP (x)	5.4	1.0	1.1	1.4	1.3
ROE	19.9	34.4	25.3	19.4	19.3
EBITDA margin	14.8	25.1	29.2	27.0	25.8
Operating profit margin	11.6	18.5	21.9	19.0	17.5
Net debt/equity	7.5	60.6	80.5	58.9	38.8
Net debt/EBITDA (x)	0.2	1.3	1.5	1.3	0.9

Per share data (CNY)

EPS Rep (fully diluted)	0.36	1.20	1.37	1.18	1.29
HSBC EPS	0.36	1.20	1.37	1.18	1.29
CFPS	0.42	1.67	2.29	2.17	2.37
DPS	0.36	0.58	0.65	0.58	0.65

Key forecast drivers

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

Crude Steel Output	na	15,167	17,118	18,552	21,787
Finished Product Output	6,012	14,024	14,885	16,290	19,517
Exchange Rate	8.2	7.9	7.6	7.2	6.5
Hot Rolled Coil (RMB/t)	NA	3,278	3,690	3,255	2,998
Cold rolled coil (RMB/t)	4,726	3,992	4,376	3,924	3,641

Sensitivity & valuation range (% change in EPS, RMB/share)

(-) 5% (% change in EPS) 2007e 2008e 2009e

Impact on EPS from:-			
(-) 5% change in HRC Prices	-56.7%	-39.8%	-37.4%
(-) 5% change in Iron Ore Prices	20.9%	21.2%	18.1%
(-) 5% change in Exchange Rate	-17.3%	-10.1%	-10.3%

Valuation data

Year to Dec 2005 a 2006 a 2007 e 2008 e 2009 e

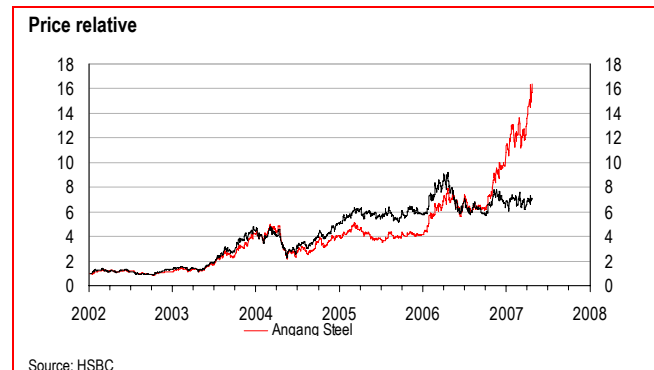
EV/EBITDA	27.1	8.6	6.7	6.8	6.1
PE*	45.4	13.5	11.8	13.8	12.5
P/CFPS	39.0	9.7	7.1	7.5	6.8
P/FCF equity	733.2	-103.5	-16.4	13.5	11.5
Dividend yield (%)	2.2	3.6	4.0	3.6	4.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (HKD) 16.38 Target price (HKD) 12.65 Potent'l tot rtn (%) -20.6

Reuters (Equity)	0347.HK	Bloomberg (Equity)	347 HK
Market cap (USDm)	13,610	Market cap (HKDm)	106,362
Free float (%)	33	Enterprise value (CNYm)	125835
Country	China	Sector	Metals & Mining
Analyst	Daniel Kang	Contact	+852 2996 6669



Note: price at close of 23 Apr 2007

Valuation

A-share target HKD12.65/share, H-share target RMB12.00/share

Angang's shares are dual listed on the Hong Kong and China's Shenzhen markets. Since 2005, Angang's H shares have traded at a PE discount of 58% relative to the Hong Kong share market. Using this discount to the Hong Kong market PE of 16.7x together with Baosteel's fair value PE of 11.4x, we take the midpoint of both, as Maanshan's fair value PE multiple of 9.2x. However, this multiple is lower than Maanshan's fair value PE of 9.8x. Given Angang's superior margins and returns, we do not believe this discount is not warranted. As such, we apply the same PE multiple of 9.8x for Angang as for Maanshan.

- ▶ **H-Share target HK12.65/share** – Based on our normalised EPS forecast of RMB1.29/share, and applying a PE multiple of 9.8x, we set a target price of RMB12.65/share to Angang's H-shares.
- ▶ **A-Share target RMB12.00/share** - For Angang's A shares, which have traded at an average discount of 5% to the A class shares since 2005, we have assigned this discount to our target price for Angang's A-share and set a target price of RMB12.00/share.

Catalysts

Rights issue to fund Bayuquan project

Angang has proposed a rights issue to fund the 5mt Bayuquan project located in Yingkou port, Liaoning Province. Terms of the issue have not been finalised by Angang, which has indicated an issue on the basis of 2 or 3 rights shares for every 10 existing shares. With net debt to equity as of end-2006 at 65%, and having spent only RMB5.1bn on the RMB22.6bn project, a share issue is likely. Based on our calculations (table

below) on the basis of a 2.5 for 10 rights issue, issued capital would be raised by 25%.

Rights issue - Assuming 2.5 shares for every 10 owned

	Before rights issue	Shares from rights issue	Total post rights	% held
State-owned shares (held by Angang Holding)	3,990	998	4,987	67%
H shares	890	223	1,112	15%
A shares	1,053	263	1,316	18%
	5,933	1,483	7,416	
% of current shares		25%		

Source: Company data, HSBC estimates

At this level and at the current share prices, the issue would raise nearly RMB22bn, assuming a 5% rights discount (at the lower share price of H shares), more than sufficient to cover remaining capex commitments of cRMB17.5bn. It should also wipe out most of Angang's borrowings making it largely debt free.

EPS dilution of 8%

The inclusion of 20-30% of new shares will result in dilution to EPS forecasts. We had assumed debt funding for the Bayuquan project, so there will be some offset from savings to borrowing costs. On a net basis, assuming a 2.5:10 rights issue, we calculate a net EPS dilution of 8%.

Rights issue analysis – net 8% dilution to 2008 EPS

Share price	Share price	Discount	Rights issue price	Amount raised RMBm
State-owned shares	15.66	5%	14.88	14,839
A shares	15.66	5%	14.88	3,917
H shares	15.66	5%	14.88	3,310
				22,066
Interest saving	RMB22bn	@ 6% rate		1,324
Tax				331
After tax interest saving				993
NPAT benefit % (2008)				17%
Additional new shares				(25%)
Net EPS dilutionary impact				(8%)

Source: Company data, HSBC estimates

Cuts to tax rebates on steel exports

The Chinese government has reduced export VAT rebates effective 15 April 2007 from 8% to 0-5%.

In addition, they may impose policies on exports and structural adjustment of the iron and steel industry in the new future. The policies should be negative for Angang which relies strongly on exports (around 20-25% of its sales). In addition, any move on the part of the Chinese government to ease over-investment in the construction and automobile industries would affect demand.

Investment positives

Iron ore cost advantage

The purchase price of domestic iron ore from the parent is made with reference to import prices, according to Chinese customs statistics, with a 10% price discount. The company indicated their iron ore cost from parent is around RMB520/t (i.e. cost subsidies from parent would be around RMB52/t). Angang's margins and operating profit per tonne are higher compared to its peers due to its iron ore cost advantage. Its flat product operating margin was around 25% compared to Magang of 11%.

Largest steel group in China

The parent companies of Angang and Bengang (12th largest) formed Anben Steel in 2005. According to Angang, they have a strategic cooperation but currently have no formal plan on changes in equities. The two companies combined had the largest output in China in 2006 of 23mt, accounted for 5.4% of China's output and 1.8% of global output in 2006. The merger allows Angang to become a potential consolidator in the Chinese steel industry as the Chinese government aims to create five major steel enterprises in China with capacity of 50mtpa.

Investment concerns

Reduced iron ore cost advantage

Iron ore reserves are owned by Angang's parent, Angang Holding. On 25 May 2005, Angang holding made an undertaking that it will provide a discount equal to 10% of the 'Average Import Price' (as reported to the PRC customs in the preceding half-year reported period). While Angang is not immune from a rising iron ore cost environment, it does hold this comparative advantage to its domestic rivals.

However, Angang's new 5m tpa new mill at Bayuquan, which will require 7.3m tpa of iron ore, will not enjoy this benefit, and Angang will need to rely on imports. It implies Angang's comparative advantage will gradually diminish.

Export reliance

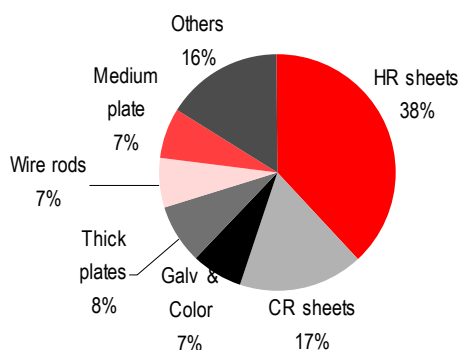
Angang typically exports around 20% of output each year. Effective 15 April 2007, China has cut export tax rebates on steel products to 0-5% (from 8%). Clearly this will reduce margins for exports, but with current strong international prices, it is unlikely export volume will be reduced.

Company description

Angang, a subsidiary of Angang Holding, was set up and listed in both the Hong Kong and Shenzhen stock exchanges in 1997. In 2006, Angang acquired all the steel production assets from its parent. Angang Holding, which currently holds 67.25% of Angang.

Its products include wire rods, medium/thick plates, hot rolled sheets, cold rolled sheets, galvanized steel sheet, color coating plates, seamless tube and large steel products. The company is the third largest steel producer in 2006.

Angang Steel – Product mix, 2006



Source: Company reports, HSBC.

Margin improvement on cost cuts

Angang's margin improvement in 2006 was mainly due to cost reductions rather than ASP improvement. Revenue per tonne was down 11% y-o-y to RMB3,893/t, which is in line with the movement of in spot prices, down by roughly 10% in 2006. Unit cost per tonne was RMB2,941/t, down 21% y-o-y. Net profit per tonne was up 42% y-o-y to RMB488/t.

We see a risk that Angang's earnings may peak in 2007 as we expect steel prices to peak in 2Q 2007. In 2007, Angang's earnings will hinge on steel prices as the company expects only a marginal growth in output from 14mt in 2006 to 15mt in 2007.

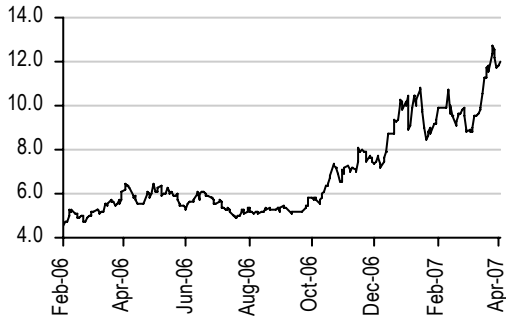
Angang Steel – Key operating statistics under PRC GAAP, 2005-2006 ('000 tonnes, RMB/t.)

	2005	Q1 06	Q2 06	Q3 06	Q4 06	2006	QoQ% Q4 06	YoY% Q4 06	YrY% 2006
Principal operating profit	14.2%	18.6%	27.7%	27.4%	21.0%	23.8%			
Net operating profit	11.3%	12.6%	21.6%	21.3%	14.6%	17.6%			
Profit before tax	11.3%	12.5%	21.2%	20.6%	13.1%	16.9%			
Profit after tax	7.9%	9.1%	15.0%	14.5%	11.2%	12.5%			
Tax rate	30.3%	27.2%	29.0%	29.5%	14.1%	25.7%			
Dividend payout	51.3%					50.3%			
Production volume ('000 tonnes)	6,047.3	NA	NA	3,525.7	3,744.9	14,023.5	6.2%	141.7%	131.9%
Revenue per tonne	4,380.2	NA	NA	4,116.2	4,027.8	3,893.2	-2.1%	16.3%	-11.1%
Cost of good sold per tonne	-3,744.2	NA	NA	-2,956.8	-3,166.8	-2,941.2	7.1%	5.3%	-21.4%
Gross profit per tonne	621.0	NA	NA	1,128.8	846.0	925.6	-25.1%	91.7%	49.0%
SG & A per tonne	-127.6	NA	NA	-250.9	-256.9	-240.5	2.4%	87.0%	88.5%
Net operating profit per tonne	493.4	NA	NA	877.9	589.0	685.1	-32.9%	93.8%	38.8%
Profit before tax per tonne	493.2	NA	NA	848.8	526.4	657.0	-38.0%	73.4%	33.2%
Net profit per tonne	343.9	NA	NA	598.2	452.0	488.1	-24.4%	91.3%	41.9%

Source: Company reports, HSBC.

Angang Steel – Valuation charts

Angang A - PE (one-year forward)



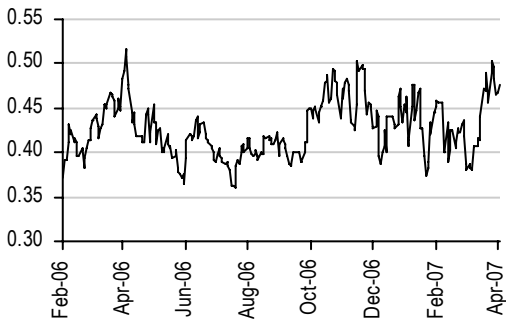
Source: DataStream, HSBC estimates

Angang H - PE (one-year forward)



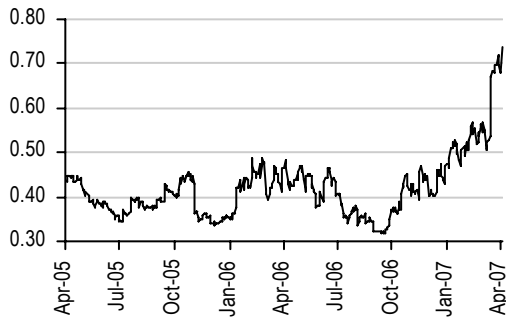
Source: DataStream, HSBC estimates

Angang A - PE Rel (China A market)



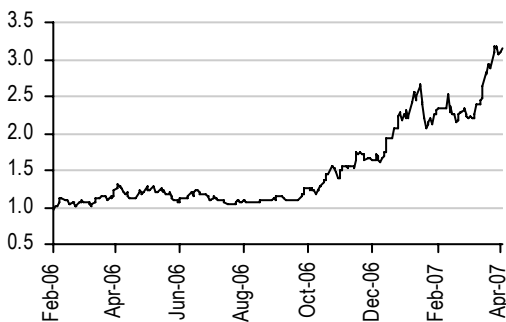
Source: DataStream, HSBC estimates

Angang H - PE Rel (HK market)



Source: DataStream, HSBC estimates

Angang A - P/Book



Source: DataStream, HSBC estimates

Angang H - P/Book



Source: DataStream, HSBC estimates

Angang Steel – Production and revenue per tonne by products under PRC GAAP, 2005-2006 ('000 tonnes, RMB/t)

	2005	Q3 06	Q4 06	2006	QoQ% Q4 06	YoY% Q4 06	YrY% 2006
Production volume							
Hot rolled sheets	NA	1,294.3	1,470.4	5,440.3	13.6%	NA	NA
Cold rolled sheets	1,842.2	652.8	717.8	2,385.6	10.0%	46.1%	29.5%
Galvanized sheet and color coating sheets	854.3	257.2	253.7	1,004.3	-1.4%	8.5%	17.6%
Thick plates	1,150.1	276.3	278.1	1,097.5	0.7%	-4.7%	-4.6%
Wire rods	880.8	252.1	256.2	943.8	1.6%	27.0%	7.2%
Large steel products	1,319.9	180.0	189.4	716.1	5.2%	-42.7%	-45.7%
Silicon steel	NA	NA	NA	800.4	NA	NA	NA
Medium plate	NA	NA	NA	947.9	NA	NA	NA
Seamless tube	NA	NA	NA	555.1	NA	NA	NA
Others		613.0	579.3	132.5	-5.5%	NA	NA
Revenue per tonne							
Hot rolled sheets	NA	3,768	3,323	3,278	-11.8%	NA	NA
Cold rolled sheets	4,726	4,029	4,072	3,992	1.1%	24.1%	-15.5%
Galvanized sheet and color coating sheets	5,008	NA	5,758	5,171	NA	NA	3.2%
Thick plates	4,593	4,219	4,361	4,391	3.4%	8.3%	-4.4%
Wire rods	3,178	NA	NA	3,033	NA	NA	-4.5%
Large steel products	3,484	NA	NA	3,439	NA	NA	-1.3%
Silicon steel	NA	NA	NA	4,174	NA	NA	NA
Medium plate	NA	NA	NA	3,494	NA	NA	NA
Seamless tube	NA	NA	NA	4,484	NA	NA	NA
Others	NA	4,484	4,490	20,823	0.1%	NA	NA

Source: Company reports, HSBC.

Angang Steel – Gross operating margin and contribution to principal operating profit by products under PRC GAAP, 2005-06

	2005	Q1 06	Q2 06	Q3 06	Q4 06	2006
Gross operating margin						
Hot rolled sheets	NA	14.0%	30.8%	31.0%	22.1%	25.5%
Cold rolled sheets	9.7%	24.7%	37.2%	29.7%	23.5%	28.4%
Galvanized sheet and color coating sheets	5.3%	17.3%	NA	NA	20.0%	20.5%
Thick plates	30.5%	31.6%	29.4%	31.3%	29.9%	30.6%
Wire rods	13.9%	NA	NA	NA	NA	20.6%
Large steel products	13.8%	NA	NA	NA	NA	20.3%
Silicon steel	NA	NA	NA	NA	NA	13.5%
Medium plate	NA	NA	NA	NA	NA	25.6%
Seamless tube	NA	NA	NA	NA	NA	26.8%
Others	17.5%	17.6%	22.7%	24.5%	17.4%	18.1%
of which connected transaction	16.7%	17.8%	14.8%	22.4%	24.7%	10.0%
Total	14.5%	19.3%	28.7%	28.2%	21.4%	24.5%
% of principal operating profit						
Hot rolled sheets	NA	19.0%	40.8%	37.0%	33.5%	34.1%
Cold rolled sheets	21.9%	20.1%	20.9%	19.1%	21.3%	20.3%
Galvanized sheet and color coating sheets	5.9%	10.2%	NA	NA	9.1%	8.0%
Thick plates	41.9%	18.4%	8.6%	8.9%	11.2%	11.0%
Wire rods	10.1%	NA	NA	NA	NA	4.4%
Large steel products	16.5%	NA	NA	NA	NA	3.7%
Silicon steel	NA	NA	NA	NA	NA	3.4%
Medium plate	NA	NA	NA	NA	NA	6.4%
Seamless tube	NA	NA	NA	NA	NA	5.0%
Others	3.7%	32.2%	29.8%	35.0%	24.9%	3.7%
of which connected transaction	12.9%	11.2%	4.7%	8.8%	-19.3%	1.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company reports, HSBC.

Appendices

China key statistics

- ▶ China crude steel production up 19% y-o-y to 422mt in 2006
- ▶ Net exporter of finished steel of 24.5mt (net importer 5.3mt 2005)

China - crude steel apparent consumption, 2000-March 2007 (tonnes in millions)

	Production	Imports	Exports	Net Imports	Apparent Consumption	y-o-y%				
						Production	Imports	Exports	Net Imports	Apparent Consumption
2000	127.24	4.75	4.34	0.41	127.65	2.7%	122.5%	86.4%	NM	3.1%
2001	148.93	8.36	2.73	5.63	154.56	17.0%	76.1%	-37.1%	1273.9%	21.1%
2002	179.10	4.69	1.35	3.33	182.44	20.3%	-44.0%	-50.5%	-40.8%	18.0%
2003	219.34	5.93	1.49	4.44	223.78	22.5%	26.6%	10.4%	33.2%	22.7%
2004	282.90	2.17	5.89	-3.73	279.17	29.0%	-63.5%	295.2%	NM	24.8%
2005	352.00	1.35	7.23	-5.88	346.12	24.4%	-37.6%	22.7%	57.7%	24.0%
2006	418.78	0.51	9.08	-8.57	410.21	19.0%	-62.5%	25.5%	45.8%	18.5%
Jan-06	30.17	0.02	0.30	-0.28	29.89	20.2%	-83.0%	-48.7%	-41.0%	21.4%
Feb-06	29.46	0.04	0.30	-0.27	29.20	18.8%	-77.6%	-65.8%	-63.2%	21.2%
Mar-06	32.89	0.05	0.31	-0.25	32.64	19.4%	-62.4%	-80.1%	-81.8%	24.8%
Apr-06	33.71	0.04	0.48	-0.45	33.26	20.0%	-71.9%	-40.2%	-34.2%	21.4%
May-06	35.93	0.04	0.69	-0.65	35.29	20.9%	-71.4%	14.7%	39.4%	20.6%
Jun-06	36.62	0.04	1.04	-1.00	35.62	28.3%	-68.7%	79.7%	122.9%	26.8%
Jul-06	36.09	0.03	0.83	-0.81	35.29	23.4%	-76.7%	27.9%	51.5%	22.9%
Aug-06	36.70	0.05	1.13	-1.09	35.61	20.5%	-42.0%	198.2%	263.2%	18.1%
Sep-06	36.16	0.07	1.07	-1.00	35.16	19.1%	-39.0%	655.6%	4070.8%	15.9%
Oct-06	37.68	0.03	0.94	-0.91	36.78	19.0%	-41.1%	482.6%	761.9%	16.5%
Nov-06	37.96	0.07	1.48	-1.41	36.55	24.5%	-33.7%	273.9%	387.5%	21.1%
Dec-06	38.08	0.04	0.50	-0.46	37.62	18.9%	-52.6%	-6.4%	1.3%	19.1%
Jan-07	38.12	0.03	0.57	-0.54	37.58	26.4%	50.0%	91.6%	94.3%	25.7%
Feb-07	36.14	0.03	0.54	-0.52	35.62	22.6%	-25.7%	81.3%	95.5%	22.0%
Mar-07	40.16	0.03	0.66	-0.63	39.53	22.1%	-43.4%	116.4%	150.0%	21.1%
Jan-Mar 07	114.70	0.08	1.77	-1.69	113.01	24.0%	-21.7%	96.6%	112.3%	23.2%

Source: China Metals, NSB, CEIC, Mysteel, HSBC.

China - steel production by product group, 2003-06 (tonnes in thousands)

	2003	2004	2005	2006	y-o-y%			
					2003	2004	2005	2006
Iron Ore	257,498	289,955	420,493	573,970	11.9%	12.6%	45.0%	36.5%
Pig Iron	200,754	250,059	330,405	405,401	19.3%	24.6%	32.1%	22.7%
Crude Steel	219,341	269,238	349,362*	421,456	22.5%	22.7%	29.8%	20.6%
Finished Steel	233,382	291,468	371,170*	466,993	22.2%	24.9%	27.3%	25.8%
Wire Rod	40,370	48,883	60,511	71,697	14.0%	21.1%	23.8%	18.5%
Heavy Rail	1,226	1,676	1,925	2,004	-9.6%	36.7%	14.9%	4.1%
Light Rail	280	397	402	882	5.6%	42.0%	1.3%	119.5%
Heavy Section	3,094	6,222	7,478	9,246	15.5%	101.1%	20.2%	23.6%
Medium, light and others	87,524	102,641	122,619	146,955	21.3%	17.3%	19.5%	19.8%
Flat Products	77,394	98,491	135,642	190,266	24.7%	27.3%	37.7%	40.3%
Thick Plate	1,329	1,855	2,425	3,235	28.4%	39.6%	30.7%	33.4%
Medium Plate	32,087	50,803	66,497	82,678	30.4%	58.3%	30.9%	24.3%
Sheet	23,878	17,194	24,074	37,197	6.8%	-28.0%	40.0%	54.5%
Strip	20,101	28,639	42,646	67,157	42.7%	42.5%	48.9%	57.5%
Pipe & Tube	17,004	21,259	26,142	36,718	35.1%	25.0%	23.0%	40.5%
Seamless tube	7,011	8,840	10,471	14,910	15.5%	26.1%	18.4%	42.4%
Welded Pipe	9,993	12,419	15,671	21,807	53.4%	24.3%	26.2%	39.2%

* Production was adjusted by NSB. 2004 crude steel to 282.9mt and finished steel to 319.8mt. 2005 crude steel to 352mt and finished steel to 397mt.
Source: China Metals, HSBC.

China - finished steel apparent consumption, 2000-March 2007 (tonnes in millions)

	Apparent					y-o-y%					Apparent				
	Production	Imports	Exports	Net Imports	Consumption	Production	Imports	Exports	Net Imports	Consumption	Production	Imports	Exports	Net Imports	Consumption
2000	131.97	16.10	6.21	9.89	141.86	11.6%	8.3%	68.8%	-11.6%	9.6%					
2001	157.45	17.27	4.76	12.52	169.97	19.3%	7.3%	-23.4%	26.6%	19.8%					
2002	190.93	24.54	5.50	19.04	209.96	21.3%	42.0%	15.6%	52.1%	23.5%					
2003	233.38	37.26	6.99	30.27	263.65	22.2%	51.9%	27.1%	59.0%	25.6%					
2004	319.80	29.35	14.25	15.10	334.90	37.0%	-21.2%	103.8%	-50.1%	27.0%					
2005	397.00	25.82	20.52	5.29	402.29	24.1%	-12.0%	44.0%	-64.9%	20.1%					
2006	466.85	18.51	43.01	-24.50	442.36	17.6%	-28.3%	109.6%	NM	10.0%					
Jan-06	32.47	1.57	1.81	-0.23	32.23	24.3%	-18.6%	20.9%	NM	21.4%					
Feb-06	31.82	1.26	1.85	-0.60	31.22	25.4%	-21.6%	24.2%	NM	22.6%					
Mar-06	38.00	1.79	2.81	-1.03	36.98	24.0%	-27.6%	27.1%	NM	19.6%					
Apr-06	38.31	1.67	2.70	-1.03	37.28	29.7%	-35.1%	30.1%	NM	24.1%					
May-06	40.23	1.46	3.49	-2.03	38.20	29.3%	-32.8%	64.9%	NM	22.6%					
Jun-06	41.20	1.67	4.43	-2.76	38.44	35.7%	-33.8%	100.9%	NM	25.3%					
Jul-06	38.66	1.53	3.58	-2.05	36.61	23.3%	-28.3%	133.5%	NM	14.5%					
Aug-06	38.97	1.63	3.86	-2.23	36.74	19.2%	-24.6%	188.3%	NM	9.6%					
Sep-06	40.08	1.58	4.07	-2.50	37.58	24.3%	-36.8%	199.5%	NM	12.6%					
Oct-06	41.59	1.39	4.25	-2.86	38.74	25.6%	-28.0%	216.1%	NM	15.0%					
Nov-06	41.75	1.48	4.63	-3.16	38.59	26.3%	-29.9%	197.3%	NM	14.8%					
Dec-06	43.92	1.50	5.55	-4.05	39.87	30.2%	-17.7%	205.3%	NM	18.2%					
Jan-07	40.44	1.48	4.38	-2.90	37.54	24.6%	-6.2%	142.3%	NM	16.5%					
Feb-07	38.57	1.22	4.38	-3.16	35.41	21.2%	-2.6%	136.1%	426.9%	13.4%					
Mar-07	46.95	1.57	5.38	-3.81	43.14	23.6%	-12.1%	91.3%	271.0%	16.7%					
Jan-Mar 07	126.34	4.27	14.13	-9.87	116.48	23.5%	-7.5%	118.4%	430.7%	16.0%					

Source: China Metals, NSB, EIC, Mysteel, HSBC.

China - iron ore production vs. crude steel production, 2000-March 2007 (tonnes in millions)

	Iron ore Production	Iron ore Imports	Steel Scrap Imports	Crude Steel Production	y-o-y%			
					Iron ore Production	Iron ore Imports	Steel Scrap Imports	Crude Steel Production
2000	224	70	5.2	127.2	-5.6%	26.6%	54.6%	2.7%
2001	217	92.3	9.8	148.9	-3.1%	31.9%	89.1%	17.0%
2002	231.4	111.5	7.9	181.6	6.6%	20.8%	-19.8%	21.9%
2003	257.5	148.2	9.3	219.3	11.3%	32.9%	18.3%	20.8%
2004	289.8	208.1	9.1	282.9	12.5%	40.4%	-2.0%	29.0%
2005	420.5	275.3	10.1	352	45.1%	32.3%	11.4%	24.4%
2006	588.2	326.3	5.4	418.8	39.9%	18.5%	-46.9%	19.0%
Jan-07	25.2	26.6	0.6	30.2	16.4%	27.4%	-33.6%	20.2%
Feb-07	29.5	24.8	0.6	29.5	42.3%	36.7%	-25.5%	18.8%
Mar-07	45.6	29.5	0.7	32.9	52.5%	21.8%	-22.8%	19.4%
Apr-07	40.5	27.3	0.6	33.7	28.1%	12.4%	-20.7%	20.0%
May-07	46.1	24.6	0.4	35.9	44.7%	13.0%	-48.4%	20.9%
Jun-07	54.4	28.7	0.4	36.6	55.0%	30.7%	-54.1%	28.3%
Jul-07	50.3	24.7	0.3	36.1	52.7%	14.6%	-68.6%	23.4%
Aug-07	53.7	32.8	0.5	36.7	43.4%	42.1%	-45.1%	20.5%
Sep-07	53.1	28.1	0.5	36.2	54.6%	22.3%	-58.6%	19.1%
Oct-07	55.5	22	0.2	37.7	45.0%	-1.4%	-69.4%	19.0%
Nov-07	59.3	28.6	0.3	38	50.3%	4.7%	-51.3%	24.5%
Dec-07	60.9	28.6	0.2	38.1	39.9%	7.0%	-65.0%	18.9%
Jan-07	41.4	35.8	NA	38.1	64.6%	34.9%	NA	26.4%
Feb-07	42.2	28.7	NA	36.1	43.2%	15.8%	NA	22.6%
Mar-07	NA	35.6	NA	40.2	NA	20.7%	NA	22.1%
Jan-Mar 07	NA	100.2	NA	114.7	NA	23.9%	NA	24.0%

Source: China Metals, CEIC, Mysteel, CEIC.

China - steel trade by products, 2003-06 (tonnes in thousands)

	2003	2004	2005	2006	y-o-y%			
					2003	2004	2005	2006
Imports								
Iron Ore	148,198	208,071	275,260	326,330	32.9%	40.4%	32.3%	18.6%
Steel Scrap	9,294	9,108	10,143	5,386	18.3%	-2.0%	11.4%	-46.9%
Pig Iron	576	900	342	220	-17.2%	56.3%	-62.0%	-35.6%
Crude Steel	5,934	2,167	1,353	507	26.6%	-63.5%	-37.6%	-62.5%
Finished Steel	37,264	29,357	25,816	18,519	51.9%	-21.2%	-12.1%	-28.3%
Bars & Wire Rods	1,686	1,845	1,461	1,449	16.1%	9.4%	-20.8%	-0.8%
Angles, Shapes & Sections	761	656	621	299	264.3%	-13.8%	-5.4%	-51.9%
Flat Products	33,250	25,070	22,428	15,541	57.0%	-24.6%	-10.5%	-30.7%
Tubes, Pipes	1,150	1,355	1,124	1,014	-17.4%	17.7%	-17.0%	-9.8%
Exports								
Iron Ore	1	6	2	5	1885.7%	371.1%	-67.5%	137.0%
Steel Scrap	4	6	2	40	-33.0%	55.7%	-66.6%	1949.6%
Pig Iron	818	1,775	2,602	975	93.8%	117.1%	46.6%	-62.5%
Crude Steel	1,491	5,893	7,231	9,078	10.4%	295.2%	22.7%	25.5%
Finished Steel	6,992	14,256	20,523	43,037	27.1%	103.9%	44.0%	109.7%
Bars & Wire Rods	2,791	5,041	6,735	12,110	57.1%	80.6%	33.6%	79.8%
Angles, Shapes & Sections	241	468	831	2,654	-32.8%	94.5%	77.5%	219.2%
Flat Products	1,799	5,782	8,449	20,380	0.2%	221.3%	46.1%	141.2%
Tubes, Pipes	1,986	2,783	4,349	7,548	37.1%	40.1%	56.3%	73.6%
Net Imports/(Exports)								
Iron Ore	148,197	208,065	275,259	326,326	32.9%	40.4%	32.3%	18.6%
Steel Scrap	9,290	9,103	10,141	5,346	18.4%	-2.0%	11.4%	-47.3%
Pig Iron	-242	-875	-2,261	-756	NM	262.0%	158.4%	-66.6%
Crude Steel	4,443	-3,727	-5,878	-8,571	33.2%	NM	57.7%	45.8%
Finished Steel	30,272	15,101	5,294	-24,518	59.0%	-50.1%	-64.9%	NM
Bars & Wire Rods	-1,105	-3,196	-5,274	-10,661	240.8%	189.4%	65.0%	102.2%
Angles, Shapes & Sections	520	188	-211	-2,355	NM	-63.9%	NM	1018.8%
Flat Products	31,451	19,288	13,979	-4,839	62.3%	-38.7%	-27.5%	NM
Tubes, Pipes	-835	-1,428	-3,225	-6,534	1393.0%	70.9%	125.9%	102.6%

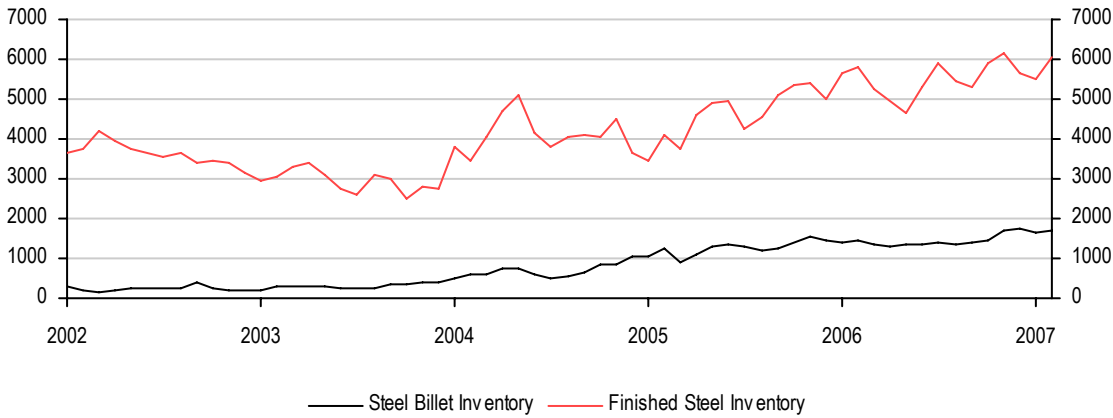
Source: China Metals, HSBC.

China - finished steel imports and exports by countries, 2003-06 (tonnes in thousands)

	2003	2004	2005	2006	% of total			y-o-y%		
					2004	2005	2006	2004	2005	2006
Imports										
Total	37,262	29,357	25,816	18,510	100.0%	100.0%	100.0%	-21.2%	-12.1%	-28.3%
Japan	7,262	7,812	6,253	6,614	26.6%	24.2%	35.7%	7.6%	-20.0%	5.8%
Taiwan	6,026	4,912	4,891	3,875	16.7%	18.9%	20.9%	-18.5%	-0.4%	-20.8%
Korea	5,179	4,963	4,433	3,820	16.9%	17.2%	20.6%	-4.2%	-10.7%	-13.8%
Russia	3,446	2,338	2,548	NA	8.0%	9.9%	NA	-32.1%	9.0%	NA
Others	15,350	9,332	7,691	4,201	31.8%	29.8%	22.7%	-39.2%	-17.6%	-45.4%
Exports										
Total	6,991	14,254	20,523	43,007	100.0%	100.0%	100.0%	103.9%	44.0%	109.6%
Korea	1,517	3,419	5,527	8,817	24.0%	26.9%	20.5%	125.3%	61.7%	59.5%
Hong Kong	1,058	1,154	1,492	2,040	8.1%	7.3%	4.7%	9.0%	29.3%	36.7%
USA	714	1,947	2,376	5,400	13.7%	11.6%	12.6%	172.6%	22.1%	127.3%
Others	3,702	7,736	11,128	26,750	54.3%	54.2%	62.2%	109.0%	43.9%	140.4%

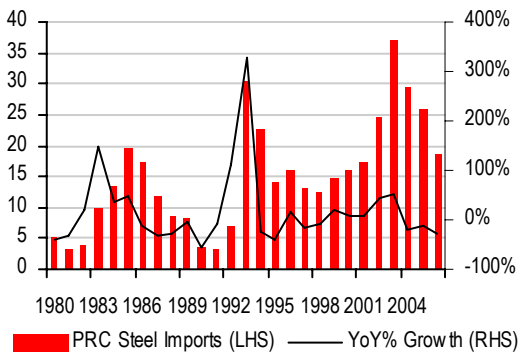
Source: China Metals, HSBC.

China - large and medium-sized enterprises, finished steel and billets inventory, end of month, 2002-Feb 2007 (tonnes in thousands)



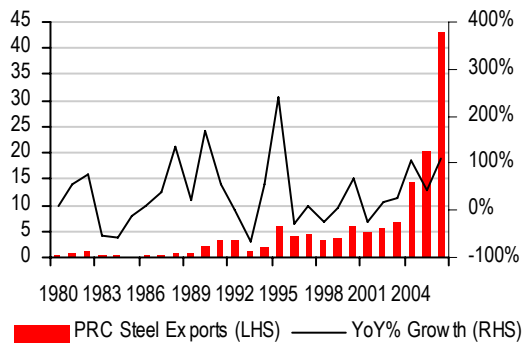
Source: CEIC, HSBC.

China finished steel imports and y-o-y% growth, 1980-2006 (tonnes in millions)



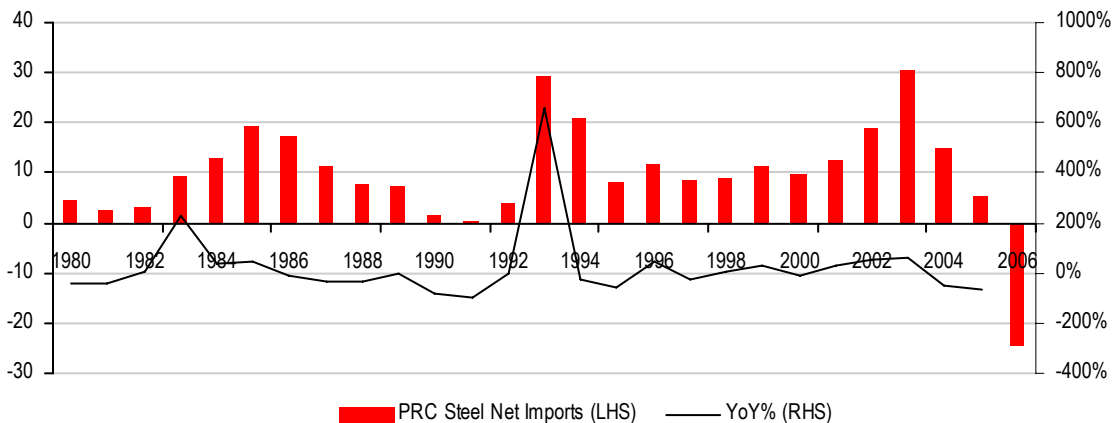
Source: China Metals, PRC Statistical Yearbook, HSBC.

China finished steel exports and y-o-y% growth, 1980-2006 (tonnes in millions)



Source: China Metals, PRC Statistical Yearbook, HSBC.

China finished steel net imports (exports) and y-o-y% growth, 1980-2006 (tonnes in millions)



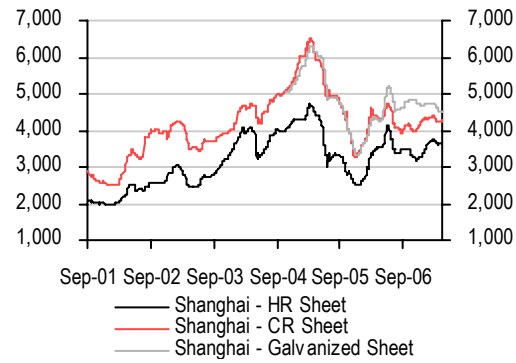
Source: China Metals, PRC Statistical Yearbook, HSBC.

Shanghai domestic prices ex-VAT – Rebar and Wire Rod, Aug 2001-Apr 2007 (RMB per tonne)



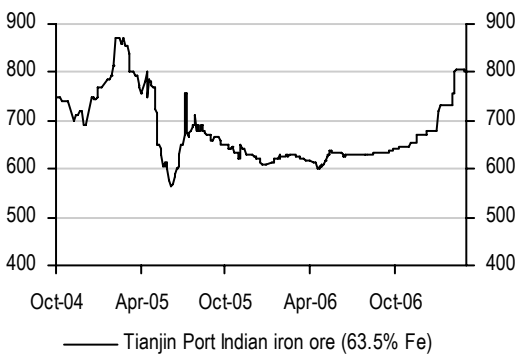
Source: Mysteel, HSBC.

Shanghai domestic prices ex-VAT – HR Sheet, CR Sheet and Galvanized Sheet, Sep 2001-Apr 2007 (RMB per tonne)



Source: Mysteel, HSBC.

China – Indian iron ore import price at Tianjin Port inclusive of VAT (RMB/t), Oct 2004-Apr 2007



Source: Mysteel, HSBC.

China – Shanghai Spot Coke Price ex-VAT, 2002-Apr 2007 (RMB/t)



Source: Mysteel, HSBC.

Shanghai domestic month end steel price ex-VAT, Apr 2006 to Apr 2007 (RMB per tonne)

		Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-12
Wire rod	6.5	2,641	2,983	2,761	2,632	2,709	2,709	2,632	2,650	2,641	2,701	2,752	2,769	2,761
Rebar	12mm	2,487	2,709	2,547	2,436	2,530	2,564	2,487	2,538	2,538	2,675	2,709	2,675	2,667
Plate	20mm	3,120	3,556	3,590	3,017	3,094	3,137	3,068	3,103	3,265	3,410	3,521	3,547	3,547
HRC	3mm	3,521	3,863	3,846	3,402	3,462	3,479	3,308	3,188	3,402	3,624	3,761	3,590	3,675
CRC	0.5mm	4,359	4,530	4,872	4,530	4,530	4,615	4,615	4,615	4,615	4,658	4,701	4,701	4,701
Galvanized Sheet	0.5mm	4,641	5,085	5,325	4,829	4,829	5,000	5,085	4,974	4,974	5,043	5,060	5,000	5,000
Coated Sheet	0.476mm	5,667	6,154	6,624	6,026	6,068	6,068	6,085	6,026	6,154	6,282	6,308	6,496	6,436
m-o-m%														
Wire rod		2.7%	12.9%	-7.4%	-4.6%	2.9%	0.0%	-2.8%	0.6%	-0.3%	2.3%	1.9%	0.6%	-0.3%
Rebar		-1.0%	8.9%	-6.0%	-4.4%	3.9%	1.4%	-3.0%	2.1%	0.0%	5.4%	1.3%	-1.3%	-0.3%
Plate		4.6%	14.0%	1.0%	-16.0%	2.5%	1.4%	-2.2%	1.1%	5.2%	4.5%	3.3%	0.7%	0.0%
HRC		2.5%	9.7%	-0.4%	-11.6%	1.8%	0.5%	-4.9%	-3.6%	6.7%	6.5%	3.8%	-4.5%	2.4%
CRC		-3.8%	3.9%	7.5%	-7.0%	0.0%	1.9%	0.0%	0.0%	0.0%	0.9%	0.9%	0.0%	0.0%
Galvanized Sheet		2.5%	9.6%	4.7%	-9.3%	0.0%	3.5%	1.7%	-2.2%	0.0%	1.4%	0.3%	-1.2%	0.0%
Coated Sheet		-3.5%	8.6%	7.6%	-9.0%	0.7%	0.0%	0.3%	-1.0%	2.1%	2.1%	0.4%	3.0%	-0.9%

Source: Mysteel, HSBC.

Taiwan

- ▶ Taiwan's export volumes rose 20% y-o-y in Jan-Nov 2006
- ▶ Imports from China up 45.3% y-o-y in Jan-Nov 2006

Taiwan – steel production by product type, 2003-Nov 2006 (tonnes in thousands)

	2003	2004	2005	Jan-Nov 2006	y-o-y%		
					2004	2005	Jan-Nov 2006
Crude Steel	18,903	19,587	19,194	18,370	3.6%	-2.0%	7.6%
Ordinary steel	35,703	37,363	35,685	32,931	4.6%	-4.5%	0.2%
Speciality steel	2,845	2,640	2,705	2,843	-7.2%	2.4%	13.1%
Hot rolled sheet/coil	13,321	13,925	12,673	11,291	4.5%	-9.0%	-3.9%
Cold rolled sheet/coil	6,330	6,543	6,564	5,688	3.4%	0.3%	-6.6%
HD Galvanized sheet	2,624	2,429	2,160	1,946	-7.5%	-11.1%	-1.9%
Rebar	6,079	6,597	6,746	6,602	8.5%	2.3%	8.1%
Wire rod	2,798	2,821	2,517	2,236	0.8%	-10.8%	-3.6%
H beams	1,164	1,319	1,118	1,269	13.3%	-15.2%	26.1%
Welded Pipe	804	902	821	822	12.1%	-8.9%	10.5%

Source: TSIIA, HSBC.

Taiwan – imports and exports of ordinary steel products by countries, 2003-Nov 2006 (tonnes in thousands)

	2003	2004	2005	Jan-Nov 06	% of total				y-o-y%		
					2003	2004	2005	Jan-Nov 06	2004	2005	Jan-Nov 06
Imports											
Japan	1,622	1,702	1,136	999	51.5%	42.5%	36.4%	35.7%	4.9%	-33.3%	-8.3%
China	69	424	634	876	2.2%	10.6%	20.3%	31.3%	518.4%	49.5%	45.3%
South Korea	262	319	265	435	8.3%	8.0%	8.5%	15.5%	21.6%	-16.8%	82.9%
Russia	233	404	233	75	7.4%	10.1%	7.5%	2.7%	73.2%	-42.3%	-67.3%
Others	961	1,158	851	412	30.5%	28.9%	27.3%	14.7%	20.5%	-26.5%	-48.3%
Total	3,147	4,007	3,120	2,798	100.0%	100.0%	100.0%	100.0%	27.3%	-22.1%	-5.4%
Exports											
Hong Kong & PRC	5,008	3,687	3,755	2,828	62.2%	47.6%	50.7%	34.3%	-26.4%	1.8%	-19.4%
US	104	815	415	1,585	1.3%	10.5%	5.6%	19.3%	679.9%	-49.1%	354.3%
Japan	833	812	896	859	10.3%	10.5%	12.1%	10.4%	-2.5%	10.4%	1.7%
Malaysia	544	609	466	554	6.8%	7.9%	6.3%	6.7%	11.9%	-23.5%	27.8%
South Korea	166	86	174	361	2.1%	1.1%	2.4%	4.4%	-48.4%	103.4%	140.2%
Vietnam	229	340	331	347	2.8%	4.4%	4.5%	4.2%	48.2%	-2.7%	12.3%
Thailand	171	211	212	203	2.1%	2.7%	2.9%	2.5%	23.4%	0.2%	1.3%
Philippines	112	161	163	167	1.4%	2.1%	2.2%	2.0%	43.6%	1.0%	6.3%
Others	887	1,024	999	1,328	11.0%	13.2%	13.5%	16.1%	15.4%	-2.4%	44.7%
Total	8,056	7,744	7,402	8,232	100.0%	100.0%	100.0%	100.0%	-3.9%	-4.4%	19.9%

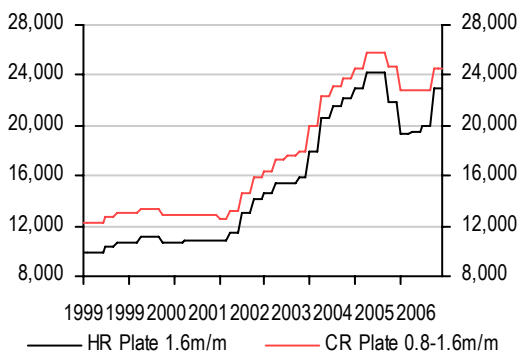
Source: TSIIA, HSBC.

Taiwan – ordinary steel trade by products, 2003-Nov 2006 (tonnes in thousands)

	2003	2004	2005	Jan-Nov 2006	y-o-y%		
					2004	2005	Jan-Nov 2006
Imports							
Ordinary steel	3,142	3,911	3,087	2,703	24.5%	-21.1%	-7.6%
Hot rolled	1,606	2,076	1,495	1,162	29.3%	-28.0%	-18.5%
Cold rolled	149	195	137	98	31.0%	-29.6%	-24.4%
Coated sheet	589	664	629	612	12.8%	-5.2%	2.2%
Wire, bar and rods	487	583	513	599	19.7%	-12.0%	24.4%
Beams & sections	79	149	92	87	88.9%	-38.0%	1.1%
Welded Pipe	37	48	41	35	29.0%	-13.9%	-7.9%
Exports							
Ordinary steel	8,053	7,744	7,402	8,065	-3.8%	-4.4%	17.5%
Hot rolled	1,928	1,767	1,810	2,009	-8.4%	2.5%	19.2%
Cold rolled	2,364	2,376	2,203	2,304	0.5%	-7.3%	12.4%
Coated sheet	2,726	2,744	2,571	2,531	0.7%	-6.3%	6.7%
Wire, bar and rods	449	385	343	528	-14.2%	-10.8%	65.1%
Beams & sections	336	186	257	391	-44.8%	38.6%	62.3%
Welded Pipe	234	265	203	245	12.9%	-23.1%	31.9%
Net Imports							
Ordinary steel	-4,911	-3,833	-4,315	-5,362	-21.9%	12.6%	36.1%
Hot rolled	-322	309	-315	-847	NM	NM	226.6%
Cold rolled	-2,215	-2,181	-2,066	-2,206	-1.5%	-5.3%	14.9%
Coated sheet	-2,137	-2,080	-1,941	-1,920	-2.7%	-6.7%	8.3%
Wire, bar and rods	38	198	169	72	415.5%	-14.4%	-55.9%
Beams & sections	-258	-37	-165	-303	-85.7%	346.6%	96.6%
Welded Pipe	-197	-217	-162	-210	9.9%	-25.2%	42.1%

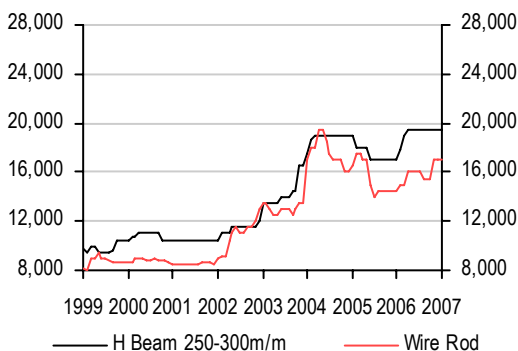
Source: TSIIA, HSBC.

Taiwan – domestic HR & CR plate selling price, 1999-Dec 2006 (NTD per tonne)



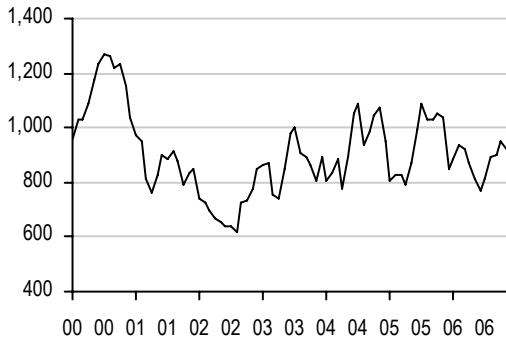
Source: TSIIA, HSBC.

Taiwan – domestic H-Beam and Wire Rod selling price, 1999-Dec 2006 (NTD per tonne)



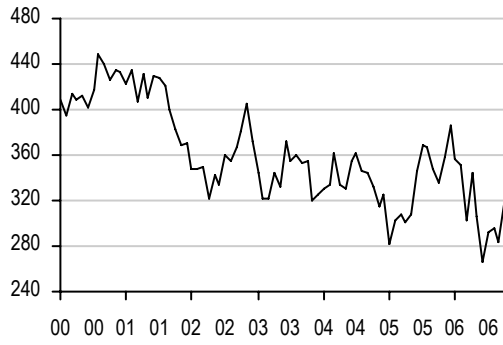
Source: TSIIA, HSBC.

Taiwan – Hot Rolled inventory, 2000-Nov 2006 (tonnes in thousands)



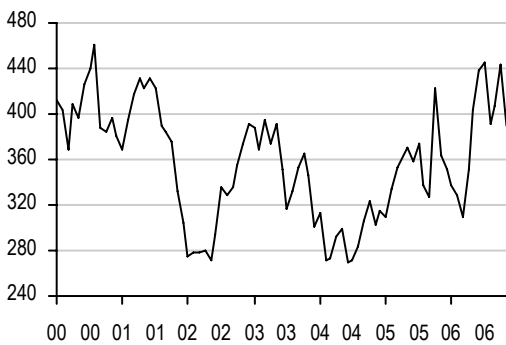
Source: TSIIA, HSBC

Taiwan – Cold Rolled inventory, 2000-Nov 2006 (tonnes in thousands)



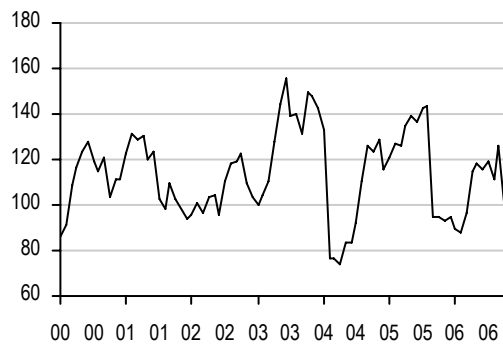
Source: TSIIA, HSBC

Taiwan – Rebar inventory, 2000-Nov 2006 (tonnes in thousands)



Source: TSIIA, HSBC

Taiwan – H Beam inventory, 2000-Nov 2006 (tonnes in thousands)



Source: TSIIA, HSBC

Japan

- ▶ In 2006, Japan steel exports rose 7.9% y-o-y, with major growth in HR products
- ▶ 43% of its exports went to China and South Korea

Japan – steel exports by products, 2003-06 (tonnes in thousands)

	2003	2004	2005	2006	% of total				y-o-y%		
					2003	2004	2005	2006	2004	2005	2006
Semi-finished products	2,976	3,058	4,025	4,502	8.6%	8.7%	12.3%	12.8%	2.8%	31.6%	11.8%
Ordinary steel products											
Rails	316	334	267	328	0.9%	0.9%	0.8%	0.9%	5.6%	-19.9%	22.7%
Steel sheet pilings	69	78	98	130	0.2%	0.2%	0.3%	0.4%	13.5%	25.8%	32.8%
Sections	1,022	887	731	844	3.0%	2.5%	2.2%	2.4%	-13.1%	-17.6%	15.5%
Bars	920	739	652	533	2.7%	2.1%	2.0%	1.5%	-19.6%	-11.8%	-18.2%
Wire rod	628	657	550	495	1.8%	1.9%	1.7%	1.4%	4.7%	-16.4%	-9.8%
Heavy plate	2,078	2,587	2,769	2,977	6.0%	7.3%	8.5%	8.5%	24.5%	7.0%	7.5%
Medium plate	36	28	19	19	0.1%	0.1%	0.1%	0.1%	-23.5%	-31.3%	0.1%
Hot-rolled sheet	26	29	14	29	0.1%	0.1%	0.0%	0.1%	13.2%	-51.4%	104.4%
Hot-rolled wide strip	7,351	6,935	5,775	6,751	21.4%	19.6%	17.7%	19.2%	-5.7%	-16.7%	16.9%
Hot-rolled narrow strip	146	108	49	69	0.4%	0.3%	0.2%	0.2%	-26.0%	-54.5%	38.9%
Cold-rolled sheet	85	78	74	55	0.2%	0.2%	0.2%	0.2%	-8.4%	-5.1%	-25.6%
Cold-rolled wide strip	3,157	3,469	3,120	2,924	9.2%	9.8%	9.6%	8.3%	9.9%	-10.1%	-6.3%
Cold-rolled narrow strip	77	80	77	84	0.2%	0.2%	0.2%	0.2%	4.6%	-4.0%	9.1%
Electricalsheet and strip	768	857	868	782	2.2%	2.4%	2.7%	2.2%	11.6%	1.4%	-9.9%
Tin plate	625	553	478	459	1.8%	1.6%	1.5%	1.3%	-11.5%	-13.5%	-4.0%
Tin-free steel	277	273	219	182	0.8%	0.8%	0.7%	0.5%	-1.7%	-19.6%	-16.9%
Galvanized sheet	4,865	5,211	4,569	4,884	14.1%	14.8%	14.0%	13.9%	7.1%	-12.3%	6.9%
Other metallic-coated sheet	260	267	244	292	0.8%	0.8%	0.7%	0.8%	2.9%	-8.5%	19.5%
Seamless pipes and tubes	698	766	748	707	2.0%	2.2%	2.3%	2.0%	9.7%	-2.3%	-5.5%
Welded pipes and tubes	1,717	2,004	1,714	1,797	5.0%	5.7%	5.3%	5.1%	16.7%	-14.5%	4.8%
Total ordinary steel products	25,121	25,941	23,038	24,342	73.0%	73.5%	70.7%	69.2%	3.3%	-11.2%	5.7%
Other products - including specialty and secondary steel products	6,316	6,304	5,542	6,341	18.4%	17.9%	17.0%	18.0%	-0.2%	-12.1%	14.4%
Total iron and steel	34,412	35,302	32,604	35,185	100.0%	100.0%	100.0%	100.0%	2.6%	-7.6%	7.9%

Source: JIFA, HSBC.

Japan – steel trade by destination, 2003-06 (tonnes)

	2003	2004	2005	2006	% of total				y-o-y%		
					2003	2004	2005	2006	2004	2005	2006
Exports											
China	6,435	6,894	5,783	6,198	18.7%	19.5%	17.7%	17.6%	7.1%	-16.1%	7.2%
South Korea	8,978	8,952	7,738	8,758	26.1%	25.4%	23.7%	24.9%	-0.3%	-13.6%	13.2%
Taiwan	3,280	3,235	3,605	3,528	9.5%	9.2%	11.1%	10.0%	-1.4%	11.4%	-2.1%
India	356	392	320	532	1.0%	1.1%	1.0%	1.5%	10.1%	-18.4%	66.0%
Thailand	3,593	3,863	4,099	3,724	10.4%	10.9%	12.6%	10.6%	7.5%	6.1%	-9.2%
Other Asia	6,450	6,358	5,460	5,409	18.7%	18.0%	16.7%	15.4%	-1.4%	-14.1%	-0.9%
Asia	29,093	29,695	27,004	28,148	84.5%	84.1%	82.8%	80.0%	2.1%	-9.1%	4.2%
Middle East	1,172	1,001	1,383	1,550	3.4%	2.8%	4.2%	4.4%	-14.6%	38.2%	12.1%
Europe	742	1,098	768	782	2.2%	3.1%	2.4%	2.2%	47.9%	-30.1%	1.9%
North America	1,307	1,642	1,680	2,355	3.8%	4.7%	5.2%	6.7%	25.6%	2.3%	40.1%
USA	1,076	1,428	1,451	1,991	3.1%	4.0%	4.4%	5.7%	32.7%	1.6%	37.2%
Latin America	1,033	997	910	1,487	3.0%	2.8%	2.8%	4.2%	-3.5%	-8.7%	63.5%
Africa	364	312	331	368	1.1%	0.9%	1.0%	1.0%	-14.3%	5.8%	11.2%
Oceania	700	556	529	495	2.0%	1.6%	1.6%	1.4%	-20.6%	-4.9%	-6.3%
Total	34,412	35,302	32,604	35,185	100.0%	100.0%	100.0%	100.0%	2.6%	-7.6%	7.9%
Imports											
China	156	545	825	590	5.5%	15.8%	19.5%	15.7%	250.4%	51.2%	-28.5%
South Korea	1,675	1,891	2,367	2,147	58.9%	54.7%	55.9%	57.3%	12.9%	25.2%	-9.3%
Taiwan	829	801	892	910	29.1%	23.2%	21.1%	24.3%	-3.4%	11.4%	2.0%
India	26	13	1	0	0.9%	0.4%	0.0%	0.0%	-50.3%	-95.1%	-41.7%
Thailand	17	26	26	18	0.6%	0.7%	0.6%	0.5%	47.7%	2.3%	-33.4%
Other Asia	28	42	19	9	1.0%	1.2%	0.5%	0.2%	48.9%	-54.0%	-53.4%
Asia	2,731	3,318	4,130	3,674	96.0%	96.0%	97.6%	98.0%	21.5%	24.5%	-11.0%
Middle East	0	-	0	-	0.0%	0.0%	0.0%	NM	NM	NM	NM
Europe	33	75	47	31	1.2%	2.2%	1.1%	0.8%	126.8%	-37.6%	-33.9%
North America	11	8	18	11	0.4%	0.2%	0.4%	0.3%	-26.5%	115.1%	-40.2%
USA	10	8	16	9	0.4%	0.2%	0.4%	0.2%	-25.6%	108.6%	-41.7%
Latin America	22	9	0	10	0.8%	0.3%	0.0%	0.3%	-58.8%	-94.6%	1939.4%
Africa	14	13	6	0	0.5%	0.4%	0.1%	0.0%	-11.6%	-53.4%	-97.9%
Oceania	33	32	31	23	1.2%	0.9%	0.7%	0.6%	-3.4%	-2.8%	-26.9%
Total	2,845	3,456	4,233	3,749	100.0%	100.0%	100.0%	100.0%	21.4%	22.5%	-11.4%
Net exports											
China	6,280	6,349	4,958	5,608	19.9%	19.9%	17.5%	17.8%	1.1%	-21.9%	13.1%
South Korea	7,303	7,061	5,371	6,611	23.1%	22.2%	18.9%	21.0%	-3.3%	-23.9%	23.1%
Taiwan	2,451	2,434	2,713	2,617	7.8%	7.6%	9.6%	8.3%	-0.7%	11.4%	-3.5%
India	330	379	320	531	1.0%	1.2%	1.1%	1.7%	15.0%	-15.7%	66.2%
Thailand	3,576	3,837	4,072	3,706	11.3%	12.0%	14.4%	11.8%	7.3%	6.1%	-9.0%
Other Asia	6,423	6,317	5,441	5,400	20.3%	19.8%	19.2%	17.2%	-1.6%	-13.9%	-0.7%
Asia	26,362	26,377	22,874	24,474	83.5%	82.8%	80.6%	77.9%	0.1%	-13.3%	7.0%
Middle East	1,172	1,001	1,383	1,550	3.7%	3.1%	4.9%	4.9%	-14.6%	38.2%	12.1%
Europe	709	1,023	721	751	2.2%	3.2%	2.5%	2.4%	44.2%	-29.5%	4.2%
North America	1,296	1,634	1,663	2,344	4.1%	5.1%	5.9%	7.5%	26.1%	1.7%	41.0%
USA	1,066	1,420	1,435	1,981	3.4%	4.5%	5.1%	6.3%	33.2%	1.0%	38.1%
Latin America	1,011	988	909	1,477	3.2%	3.1%	3.2%	4.7%	-2.3%	-7.9%	62.5%
Africa	350	300	325	367	1.1%	0.9%	1.1%	1.2%	-14.4%	8.3%	13.2%
Oceania	666	523	497	472	2.1%	1.6%	1.8%	1.5%	-21.4%	-5.0%	-5.0%
Total	31,567	31,847	28,372	31,436	100.0%	100.0%	100.0%	100.0%	0.9%	-10.9%	10.8%

Source: JIFA, HSBC.

South Korea

- ▶ In Jan-Oct 2006, steel production rose 4.6% y-o-y to 45mt
- ▶ Exports to EU, US and Taiwan rose by 101%, 58% and 31% y-o-y respectively

South Korea – steel production, 2003-Oct 2006 (tonnes in thousands)

	2003	2004	2005	Jan-Oct 2006	y-o-y%			
					2003	2004	2005	Jan-Oct 2006
Sections	4,538	4,747	4,634	3,845	-2.4%	4.6%	-2.4%	1.3%
Bars	2,171	2,386	2,458	2,078	1.2%	9.9%	3.1%	2.5%
Rebar	11,405	10,736	9,483	8,295	4.1%	-5.9%	-11.7%	6.2%
Wire Rod	1,183	1,151	903	716	-39.0%	-2.7%	-21.5%	-7.4%
Rail	137	91	137	93	-5.0%	-33.7%	50.6%	-15.9%
Long Products	19,435	19,111	17,616	15,028	-2.0%	-1.7%	-7.8%	3.5%
Medium & Heavy Plate	5,198	5,570	5,922	5,341	-0.2%	7.1%	6.3%	18.6%
HR Sheet & Strip	7,286	7,449	7,255	5,053	5.0%	2.2%	-2.6%	-16.9%
CR Sheet	113	100	71	59	69.7%	-11.5%	-29.0%	3.7%
CR Strip	5,372	5,852	5,721	4,618	-3.1%	9.0%	-2.2%	-3.6%
CR Hoop	261	297	305	260	-6.5%	13.9%	2.5%	2.2%
Stainless CR Sheet	896	1,003	995	860	10.4%	11.9%	-0.8%	2.2%
Electrical Sheet	651	701	158	1,118	10.1%	7.6%	-77.5%	76.4%
Tin Plate	766	818	760	654	2.4%	6.7%	-7.1%	1.6%
Hot dipped Galvanized	2,600	2,944	3,172	3,283	13.8%	13.2%	7.8%	24.1%
Electrolytic Galvanized	1,724	1,731	1,696	1,535	11.7%	0.4%	-2.1%	9.9%
Color Sheet	1,836	1,666	1,765	1,589	1.3%	-9.3%	6.0%	8.1%
Other Coated Sheet	703	848	914	917	3.3%	20.6%	7.8%	20.6%
Flat Products	27,407	28,980	28,734	25,288	3.4%	5.7%	-0.8%	5.0%
Pipes & Tubes	4,256	4,282	4,072	3,503	3.2%	0.6%	-4.9%	5.3%
Castings	127	139	145	114	11.0%	9.6%	4.3%	-5.4%
Forgings	689	863	939	852	25.9%	25.2%	8.8%	10.8%
Castings & Forgings	816	1,002	1,083	967	23.4%	22.8%	8.2%	8.6%
Total finished steel	52,704	54,162	51,505	44,786	3.1%	2.8%	-4.9%	4.6%

Source: Korea Iron and Steel Association, HSBC.

South Korea – finished steel trade by product, 2002-Oct 2006 (tonnes in thousands)

	2002	2003	2004		2005		y-o-y%			
			Jan-Oct 2005	2004	Jan-Oct 2005	2005	2003	2004	2005	Jan-Oct 2006
Exports										
Rolled Steel	12,406	13,591	14,557	12,742	15,656	14,600	9.6%	7.1%	7.6%	14.6%
Hot-rolled Coil	2,399	2,732	2,637	2,060	2,683	2,715	13.9%	-3.5%	1.7%	31.8%
Heavy Plate	613	989	715	632	771	875	61.2%	-27.7%	7.9%	38.5%
Wire Rod	209	204	274	296	383	433	-2.5%	34.1%	40.0%	46.2%
Cold-rolled Coil	2,870	2,982	3,068	2,649	3,172	2,673	3.9%	2.9%	3.4%	0.9%
Galvanized Sheet	1,872	2,101	2,181	1,875	2,299	2,322	12.2%	3.8%	5.4%	23.9%
Rebar	73	12	76	367	430	184	-84.0%	549.9%	468.6%	-49.8%
Sections	1,225	1,030	1,302	1,194	1,431	1,218	-15.9%	26.3%	9.9%	2.0%
Welded Pipe	1,060	1,007	1,014	894	1,127	1,075	-5.0%	0.7%	11.1%	20.3%
Imports										
Rolled Steel	10,465	11,061	12,890	11,816	13,942	14,421	5.7%	16.5%	8.2%	22.0%
Hot-rolled Coil	5,297	4,649	5,141	4,749	5,486	5,496	-12.2%	10.6%	6.7%	15.7%
Heavy Plate	1,358	1,641	2,736	2,361	2,893	3,113	20.8%	66.7%	5.8%	31.9%
Wire Rod	1,089	1,077	1,230	1,089	1,284	1,230	-1.1%	14.2%	4.4%	12.9%
Cold-rolled Coil	218	265	279	326	380	404	21.4%	5.2%	36.4%	23.9%
Galvanized Sheet	340	600	827	543	637	403	76.1%	37.9%	-22.9%	-25.8%
Rebar	319	981	727	743	862	797	207.3%	-25.9%	18.5%	7.2%
Sections	733	663	511	553	695	1,206	-9.5%	-22.9%	35.9%	118.0%
Welded Pipe	260	233	328	330	390	402	-10.3%	40.6%	18.8%	22.1%
Net exports/(imports)										
Rolled Steel	1,940	2,530	1,667	926	1,714	179	30.4%	-34.1%	2.8%	-80.7%
Hot-rolled Coil	(2,898)	(1,917)	(2,505)	(2,689)	(2,804)	(2,781)	-33.9%	30.7%	11.9%	3.4%
Heavy Plate	(745)	(652)	(2,021)	(1,730)	(2,122)	(2,239)	-12.5%	209.8%	5.0%	29.4%
Wire Rod	(880)	(873)	(956)	(793)	(900)	(797)	-0.8%	9.6%	-5.9%	0.5%
Cold-rolled Coil	2,652	2,717	2,789	2,324	2,791	2,269	2.5%	2.7%	0.1%	-2.4%
Galvanized Sheet	1,532	1,501	1,354	1,332	1,662	1,919	-2.0%	-9.8%	22.7%	44.1%
Rebar	(246)	(969)	(651)	(376)	(431)	(613)	293.2%	-32.8%	-33.8%	62.9%
Sections	492	367	791	641	736	12	-25.4%	115.4%	-6.9%	-98.2%
Welded Pipe	800	774	686	564	737	673	-3.3%	-11.4%	7.4%	19.2%

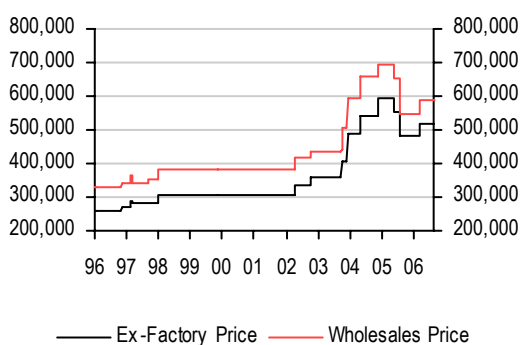
Source: Korea Iron and Steel Association, HSBC.

South Korea – finished steel trade by countries (tonnes in thousands)

	2003	2004	2005	Jan-Oct 06	% of total				y-o-y%		
					2003	2004	2005	Jan-Oct 06	2004	2005	Jan-Oct 06
Total steel exports	13,591	14,557	15,656	14,600	100.0%	100.0%	100.0%	100.0%	7.1%	7.6%	14.6%
Europe	575	576	584	967	4.2%	4.0%	3.7%	6.6%	0.1%	1.5%	100.6%
US	1,126	1,609	1,774	2,130	8.3%	11.1%	11.3%	14.6%	43.0%	10.2%	57.5%
Australia	190	198	263	223	1.4%	1.4%	1.7%	1.5%	4.3%	32.8%	-1.0%
Others	1,821	2,412	2,849	3,646	13.4%	16.6%	18.2%	25.0%	32.4%	18.1%	74.4%
Total Asia	9,879	9,762	10,185	7,634	72.7%	67.1%	65.1%	52.3%	-1.2%	4.3%	-11.1%
Japan	1,869	2,205	2,716	1,971	13.8%	15.1%	17.3%	13.5%	18.0%	23.2%	-13.5%
China	5,406	4,875	4,601	3,299	39.8%	33.5%	29.4%	22.6%	-9.8%	-5.6%	-15.4%
Malaysia	384	442	444	369	2.8%	3.0%	2.8%	2.5%	15.0%	0.5%	0.2%
Taiwan	349	439	434	467	2.6%	3.0%	2.8%	3.2%	25.7%	-1.2%	31.4%
Rest of SE Asia	1,870	1,801	1,990	1,528	13.8%	12.4%	12.7%	10.5%	-3.7%	10.5%	-9.6%
Total steel imports	11,061	12,890	13,942	14,421	100.0%	100.0%	100.0%	100.0%	16.5%	8.2%	22.0%
Europe	1,233	1,378	889	353	11.2%	10.7%	6.4%	2.4%	11.7%	-35.5%	-56.2%
US	28	50	58	34	0.3%	0.4%	0.4%	0.2%	75.0%	16.9%	-34.2%
Australia	37	13	90	113	0.3%	0.1%	0.6%	0.8%	-64.2%	574.2%	27.6%
Others	703	570	720	456	6.4%	4.4%	5.2%	3.2%	-18.8%	26.1%	-9.4%
Total Asia	9,060	10,878	12,186	13,465	81.9%	84.4%	87.4%	93.4%	20.1%	12.0%	29.9%
Japan	7,292	7,350	6,087	5,746	65.9%	57.0%	43.7%	39.8%	0.8%	-17.2%	10.4%
China	1,497	3,271	5,694	7,206	13.5%	25.4%	40.8%	50.0%	118.4%	74.1%	47.9%
Taiwan	232	158	268	440	2.1%	1.2%	1.9%	3.1%	-31.9%	69.3%	132.9%
Rest of SE Asia	39	100	136	73	0.3%	0.8%	1.0%	0.5%	158.7%	36.9%	-27.8%
Net exports/(imports)	2,530	1,667	1,714	179							
Europe	(659)	(802)	(304)	613							
US	1,097	1,560	1,716	2,096							
Australia	153	185	173	109							
Others	1,119	1,841	2,130	3,190							
Total Asia	820	(1,117)	(2,001)	(5,831)							
Japan	(5,423)	(5,145)	(3,371)	(3,775)							
China	3,909	1,605	(1,093)	(3,907)							
Taiwan	117	281	166	27							
Rest of Asia	1,447	1,259	1,410	1,085							

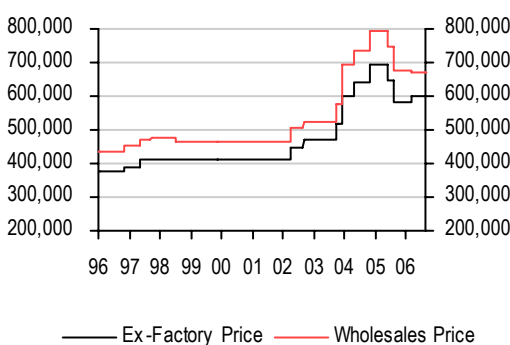
Source: Korea Iron and Steel Association, HSBC.

South Korea – selling price of Hot Rolled products, Jun 96-Jan 07 (KRW per tonne)



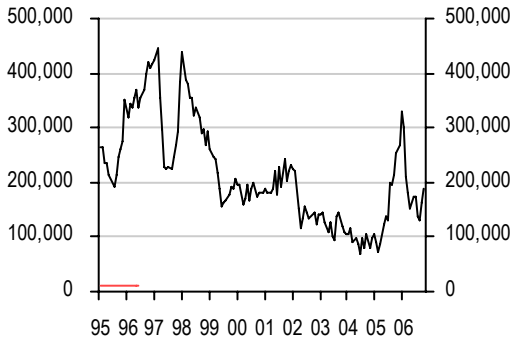
Source: Company reports, HSBC.

South Korea – selling price of Cold Rolled products, Jun 96-Jan 07 (KRW per tonne)



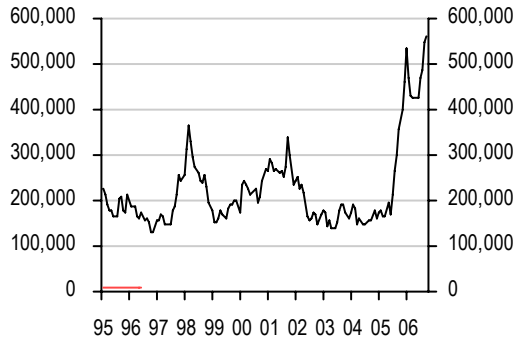
Source: Company reports, HSBC.

South Korea – producers' inventory of Hot Rolled, 1995-Oct 2006 (tonnes)



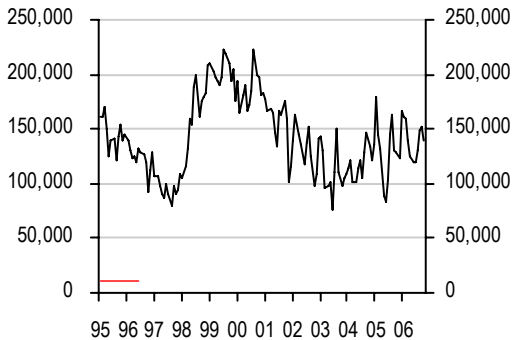
Source: Korea Iron and Steel Association, HSBC.

South Korea – producers' inventory of Cold Rolled, 1995-Oct 2006 (tonnes)



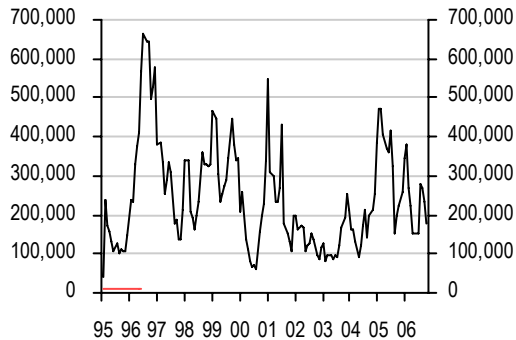
Source: Korea Iron and Steel Association, HSBC.

South Korea – producers' inventory of Heavy Plate, 1995-Oct 2006 (tonnes)



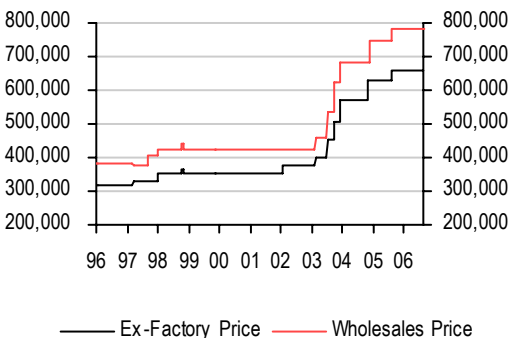
Source: Korea Iron and Steel Association, HSBC.

South Korea – producers' inventory of Rebar, 1995-Oct 2006 (tonnes)



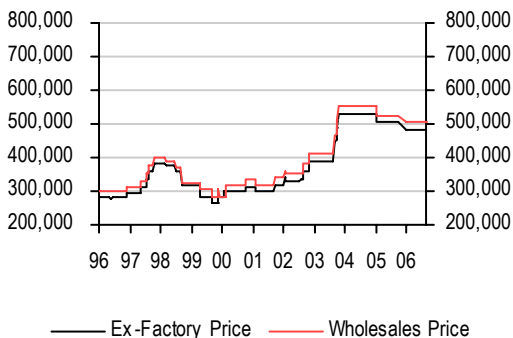
Source: Korea Iron and Steel Association, HSBC.

South Korea – selling price of Heavy Plate, Jun 96- Jan 07 (KRW per tonne)



Source: Company reports, HSBC.

South Korea – selling price of Rebar, Jun 96- Jan 07 (KRW per tonne)



Source: Company reports, HSBC.

Major steel producing companies

Top 30 steel producers in the world, 2005-06 (tonnes in millions)

Ranking				Output			% of world	
2006	2005	Company	Country of origin/main domicile	2006	2005	y-o-y % change	2006	2005
1	1	Mittal Steel (1)	Netherlands	63.66	49.89	27.60	5.1%	4.4%
2	2	Arcelor (2)	Luxembourg	54.32	46.65	16.44	4.4%	4.1%
3	3	Nippon Steel	Japan	33.70	32.91	2.40	2.7%	2.9%
4	5	JFE Steel	Japan	32.02	29.57	8.29	2.6%	2.6%
5	4	Posco	South Korea	31.20	31.42	-0.70	2.5%	2.8%
6	6	Shanghai Baosteel	China	22.53	22.73	-0.88	1.8%	2.0%
7	7	US Steel	USA	21.25	19.26	10.33	1.7%	1.7%
8	8	Nucor	USA	20.31	18.45	10.08	1.6%	1.6%
9	26	Tangshan (3)	China	19.06	16.08	18.51	1.5%	1.4%
10	9	Corus	UK	18.30	18.18	0.66	1.5%	1.6%
11	10	Riva	Italy	18.19	17.53	3.76	1.5%	1.5%
12	12	Severstal (4)	Russia	17.60	15.16	16.09	1.4%	1.3%
13	11	ThyssenKrupp	Germany	16.80	16.55	1.51	1.4%	1.5%
14	13	Evrz	Russia	16.10	13.85	16.25	1.3%	1.2%
15	14	Gerdau Group	Brazil	15.57	13.70	13.65	1.3%	1.2%
16	18	Anshan (5)	China	15.00	11.90	26.05	1.2%	1.0%
17	22	Jiangsu Shagang (6)	China	14.63	12.02	21.70	1.2%	1.1%
18	16	Wuhan (7)	China	13.76	13.05	5.45	1.1%	1.1%
19	15	Sumitomo Metal Ind	Japan	13.58	13.48	0.74	1.1%	1.2%
20	17	Sail	India	13.50	12.22	10.47	1.1%	1.1%
21	20	Techint (8)	Argentina	12.83	11.42	12.35	1.0%	1.0%
22	19	China Steel Corp (9)	Taiwan	12.48	11.65	7.12	1.0%	1.0%
23	21	Magnitogorsk	Russia	12.45	11.38	9.40	1.0%	1.0%
24	24	Jinan	China	11.24	10.43	7.77	0.9%	0.9%
25	27	Maanshan	China	10.91	9.65	13.08	0.9%	0.8%
26	25	Laiwu	China	10.79	10.34	4.35	0.9%	0.9%
27	23	Shougang (10)	China	10.55	10.44	1.02	0.9%	0.9%
28	31	Hunan Valin Group	China	9.91	8.45	17.22	0.8%	0.7%
29	28	Imidro (11)	Iran	9.79	9.41	4.04	0.8%	0.8%
30	21	Ind Union/Donbass (12)	Ukraine	9.52	8.55	11.35	0.8%	0.8%
Top 10 Producers				316.35	285.14	10.9%	25.5%	25.0%
Top 20 Producers				471.08	424.60	10.9%	38.0%	37.3%
Top 30 Producers				581.55	526.32	10.5%	46.9%	46.2%
Others				657.95	613.28	7.3%	53.1%	53.8%
Total World				1,239.50	1,139.60	8.8%	100.0%	100.0%

Source: Metal Bulletin, IISI, HSBC.

(1) The 2006 figure is Mittal Steel's liquid steel, rather than crude steel, production.

(2) Includes full-year production from Sonasid (Morocco) and Dofasco (Canada), through the latter retains a separate listing because of the special status of its ownership; also includes part-year production figures from Acesita (Brazil) and Huta Warszawa.

(3) In our 2005 table we published a figure of 10.07mt of Tangshan. That was because steelmakers Xuanhua and Chengde did not become part of Tangshan until late in the year. In this year's table we have compared like with like.

(4) The 2005 figure includes only a part-year contribution from Lucchini (Italy).

(5) We continue to list Anshan and Benxi separately; although officially merged, the two are still operating as separate companies.

(6) The 2005 figure is higher than that published last year because it includes a full-year contribution from Hu'aian special steel, which only became part of Shagang part-way through the year.

(7) Wuhan continues to exclude Liuzhou's output from its own production total, even though Wuhan took over 51% of Liuzhou in January 2005.

(8) The Techint figures are the totals of two steel companies, both controlled by Argentina's Rocca family: Latin American steel group Ternium (9.72mt) and tube group Tenaris (3.11m).

(9) Includes slab contribution from joint venture with SMI.

(10) Shougang, which has been Suicheng's largest shareholder since April 2005.

(11) The totals given for these two producers are the same as those given to the IISI as the totals for the countries where they are located, but there should be a difference as both countries have other crude steelmakers.

(12) First appearance. The 2005 figure represents the totals of Alchevsk, Dneprovsky, part of the output of Dunafer (Hungary) and Huta Czeszochowa (Poland). The 2006 figure represents the total outputs of all four in full.

Top China steel producers, 2005-06 (tonnes in millions)

China ranking 2006	World ranking		Company	Output			% of world		% of China	
	2006	2005		2006	2005	y-o-y% change	2006	2005	2006	2005
1	6	6	Shanghai Baosteel	22.53	22.73	-0.88	1.8%	2.0%	5.4%	6.4%
2	9	26	Tangshan (1)	19.06	16.08	18.51	1.5%	1.4%	4.6%	4.6%
3	16	18	Anshan (2)	15.00	11.90	26.05	1.2%	1.0%	3.6%	3.4%
4	17	22	Jiangsu Shagang (3)	14.63	12.02	21.70	1.2%	1.1%	3.5%	3.4%
5	18	16	Wuhan (4)	13.76	13.05	5.45	1.1%	1.1%	3.3%	3.7%
6	24	24	Jinan	11.24	10.43	7.77	0.9%	0.9%	2.7%	3.0%
7	25	27	Maanshan	10.91	9.65	13.08	0.9%	0.8%	2.6%	2.7%
8	26	25	Laiwu	10.79	10.34	4.35	0.9%	0.9%	2.6%	2.9%
9	27	23	Shougang (5)	10.55	10.44	1.02	0.9%	0.9%	2.5%	3.0%
10	28	31	Hunan Valin Group	9.91	8.45	17.22	0.8%	0.7%	2.4%	2.4%
11	35	33	Handan	7.92	7.34	7.90	0.6%	0.6%	1.9%	2.1%
12	37	34	Benxi (2)	7.55	6.51	15.98	0.6%	0.6%	1.8%	1.8%
13	38	32	Baotou	7.49	7.02	6.70	0.6%	0.6%	1.8%	2.0%
14	41	41	Anyang	7.02	5.80	21.03	0.6%	0.5%	1.7%	1.6%
15	44	39	Panzhuhua	6.77	6.19	9.43	0.5%	0.5%	1.6%	1.8%
16	45	51	Jiuquan	6.68	5.65	18.23	0.5%	0.5%	1.6%	1.6%
17	48	43	Taiyuan	6.26	5.39	16.20	0.5%	0.5%	1.5%	1.5%
18	49	52	Jianlong Steel	6.02	5.01	20.16	0.5%	0.4%	1.4%	1.4%
19	53	56	Liuzhou (4)	5.35	4.55	17.58	0.4%	0.4%	1.3%	1.3%
20	54	83	Beitai	5.25	4.55	15.32	0.4%	0.4%	1.3%	1.3%
21	55	77	Tangshan Guofeng	5.18	4.54	14.07	0.4%	0.4%	1.2%	1.3%
22	57	59	Jiangxi Xinyu	5.09	4.02	26.49	0.4%	0.4%	1.2%	1.1%
23	58	53	Nanjing	4.90	4.38	11.83	0.4%	0.4%	1.2%	1.2%
24	60	49	Kunming	4.79	3.83	25.17	0.4%	0.3%	1.1%	1.1%
25	61	61	Tonghua	4.42	2.93	50.99	0.4%	0.3%	1.1%	0.8%
26	64	57	Shaoguan	4.26	3.54	20.34	0.3%	0.3%	1.0%	1.0%
27	67	62	Pingxiang	3.97	3.37	18.99	0.3%	0.3%	0.9%	1.0%
28	69	73	Hebei Jinxi	3.83	3.37	15.82	0.3%	0.3%	0.9%	1.0%
29	74	71	Xinjiang Bayi	3.50	2.84	27.11	0.3%	0.2%	0.8%	0.8%
30	76	76	Tianjin Tiantie	3.47	3.43	1.49	0.3%	0.3%	0.8%	1.0%
31	81	102	Hangzhou	3.32	3.00	10.67	0.3%	0.3%	0.8%	0.8%
32	81	80	Guangzhou	3.25	3.03	9.41	0.3%	0.3%	0.8%	0.9%
33	83	78	Qingdao	3.22	3.09	5.24	0.3%	0.3%	0.8%	0.9%
34	86	84	Fujian Sangang	3.15	3.00	6.00	0.3%	0.3%	0.8%	0.8%
35	87	93	Chongqing	3.09	2.66	18.57	0.2%	0.2%	0.7%	0.8%
36	89	115	Tianjin Tiangang	2.99	2.08	44.76	0.2%	0.2%	0.7%	0.6%
37	91	-	Rockcheck Steel	2.91	2.15	39.07	0.2%	0.2%	0.7%	0.6%
38	92	-	Jiangsu Yonggang	2.89	1.94	50.00	0.2%	0.2%	0.7%	0.5%
39	93	119	Shuicheng (5)	2.87	2.01	43.78	0.2%	0.2%	0.7%	0.6%
40	97	99	Xingtai	2.63	2.38	13.11	0.2%	0.2%	0.6%	0.7%
41	98	112	Nanchang	2.61	2.14	22.90	0.2%	0.2%	0.6%	0.6%
42	100	107	Shuanwei	2.58	2.22	17.25	0.2%	0.2%	0.6%	0.6%
43	106	117	Shaanxi Longmen	2.51	2.02	24.70	0.2%	0.2%	0.6%	0.6%
44	108	117	Chanzhou Zhongtian	2.50	2.02	23.96	0.2%	0.2%	0.6%	0.6%
45	110	-	Yingkou Heavy Plate	2.43	1.55	58.58	0.2%	0.1%	0.6%	0.4%
46	111	106	Shanxi Haixin	2.37	2.23	9.15	0.2%	0.2%	0.6%	0.6%
47	114	-	Jiangyin Xingcheng	2.24	1.93	16.89	0.2%	0.2%	0.5%	0.5%
48	115	-	Handan Zongheng	2.22	1.88	19.36	0.2%	0.2%	0.5%	0.5%
49	116	114	Lingyuan	2.22	2.11	5.36	0.2%	0.2%	0.5%	0.6%
50	116	-	Changzhi	2.15	1.42	56.34	0.2%	0.1%	0.5%	0.4%
51	121	-	Hebei Jingye	2.13	1.80	18.33	0.2%	0.2%	0.5%	0.5%
52	125	109	Shijiazhuang	2.01	2.16	-4.49	0.2%	0.2%	0.5%	0.6%
53	126	-	Taishan Iron & Steel	2.00	1.50	34.00	0.2%	0.1%	0.5%	0.4%
54	127	-	Jiyuan	1.70	1.70	17.88	0.0%	0.1%	0.0%	0.5%
Top 10 China Producers				138.38	125.09	10.6%	11.2%	11.0%	33.0%	35.4%
Top 20 China Producers				204.69	183.10	11.8%	16.5%	16.1%	48.9%	51.8%
Top 54 China Producers				308.39	271.37	13.6%	24.9%	23.8%	73.6%	76.8%
Others				110.41	82.03	34.6%	8.9%	7.2%	26.4%	23.2%
Total China				418.80	353.40	18.5%	33.8%	31.0%	100.0%	100.0%

Source: Metal Bulletin, IISI, HSBC.

- (1) In our 2005 table we published a figure of 10.07mt of Tangshan. That was because steelmakers Xuanhua and Chengde did not become part of Tangshan until late in the year. In this year's table we have compared like with like.
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(4) Wuhan continues to exclude Liuzhou's output from its own production total, even though Wuhan took over 51% of Liuzhou in January 2005.
(5) Shougang, which has been Suicheng's largest shareholder since April 2005.

Disclosure appendix

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The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the views expressed herein accurately reflect their personal view(s) about the subject security(ies) and issuer(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Alan Coats, Daniel Kang and Sarah Mak

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Company	Ticker	Recent price	Price Date	Disclosure
ANGANG STEEL	0347.HK	16.46	24-Apr-2007	4
BLUESCOPE STEEL	BSL.AX	11.59	24-Apr-2007	6, 7
CHINA STEEL CORP	2002.TW	39.85	24-Apr-2007	6, 7
MAANSHAN IRON & STEEL	0323.HK	5.41	24-Apr-2007	4
POSCO	005490.KS	400000.00	24-Apr-2007	2, 6, 7

Source: HSBC

- 1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC is a market maker in securities issued by this company.
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- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
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- 1 This report is dated as at 25 April 2007.
- 2 All market data included in this report are dated as at close 23 April 2007, unless otherwise indicated in the report.
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