

RESEARCH
METALS & MINING

Expert call with Baosteel: Margin outlook cautious

Daily macro indicators

Indicator	19-Sep	20-Sep	Chg (%)
US 10Y yield (%)	4.36	4.41	5bps
India 10Y yield (%)	7.19	7.18	(2bps)
USD/INR	83.27	83.08	0.2
Brent Crude (US\$/bbl)	94.3	93.5	(0.9)
Dow	34,518	34,441	(0.2)
Hang Seng	17,997	17,886	(0.6)
Sensex	67,597	66,801	(1.2)
India FII (US\$ mn)	15-Sep	18-Sep	Chg (\$ mn)
FII-D	(65.5)	24.6	90.1
FII-E	36.2	(89.6)	(125.8)

Source: Bank of Baroda Economics Research

SUMMARY
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- Global steel margin could improve in Q4CY23 with seasonal demand uptick in Sep-Oct and potential production cap in China
- Medium-term margin for China steel industry to remain below historical cyclical average owing to surplus in China
- Indian ferrous players should benefit from brownfield expansion-led earnings growth, while margins remain mid-cycle; prefer TATA

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21 September 2023

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We hosted a call with Mr Sheng of Baosteel (600019 CH, Not Rated), a listed arm of China Baowu Group – the world’s largest steel producer. Key takeaways:

Limping demand recovery in China: After a slump in steel demand since H2CY22, Baosteel does not see visible signs of recovery even after a year. While China’s recent wave of policy measures could extend some support to the real estate sector (40% of steel demand), the key to stabilisation is revival of confidence in private developers. Baosteel believes the slowdown in real estate is being offset by counter-cyclical demand from infrastructure, a likely pickup in offtake from auto in H2CY23, and sustained demand from appliances, ship building and new energy applications.

China industry divided on production cuts...: Though the Chinese steel industry is divided, Baosteel expects the government to continue with its policy of implementing a yearly production cap but expects a relaxation to allow for output above last year’s level. A cap has the potential to contract production by a monthly average of 4-5mt YoY and could translate to a more than 10mt cut per month from August levels.

...but can aid margin improvement in Q4CY23: Curtailments can benefit industry margins by improving steel prices (due to a better demand-supply balance) and reducing raw material costs (due to lower demand from China).

Near-term support possible: We see the possibility of near-term margin support from seasonal demand recovery in China during September-October, followed by potential production cuts in the country during Q4CY23.

Medium-term margin outlook soft: Baosteel believes the industry margin will remain below the historical cycle average owing to surplus in China. The industry must deliver on consolidation, particularly in rebar capacity, to restore the demand-supply balance.

Read-across for Indian ferrous sector: We are constructive on Indian ferrous players given earnings prospects from ongoing expansion projects but continue to see margins at only mid-cycle levels over the medium term. We have a BUY on TATA (TP Rs 145).

Recommendation snapshot

Ticker	Price	Target	Rating
JSTL IN	778	840	HOLD
SAIL IN	94	90	HOLD
TATA IN	128	145	BUY

Price & Target in Rupees | Price as of 21 Sep 2023



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