

RESEARCH

Metals & Mining

Expert call with China's Valin Steel on 'new normal' for industry

SUMMARY

Metals & Mining

We hosted a call with the management of Valin Steel (Valin), amongst the top 5 steel producers in China. Valin believes that the 'new normal' for China's steel industry will be based on a cap on domestic steel supply, adequate demand support and decreasing costs. In the near term, the Chinese government is likely to focus on production cuts in crude steel and improving its availability for domestic use. This should help ease iron ore cost inflation and, in turn, steel prices in H2CY21.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.62	5bps	(5bps)	101bps
India 10Y yield (%)	6.05	2bps	(7bps)	(8bps)
USD/INR	74.66	0.1	(3.0)	2.0
Brent Crude (US\$/bbl)	66.42	1.2	2.9	224.6
Dow	33,985	0.0	2.8	41.0
Shanghai	3,443	0	0.7	22.5
Sensex	48,944	1.2	(0.1)	52.4
India FII (US\$ mn)	26 Apr	MTD	CYTD	MTD
FII-D	17.2	(104.8)	(2,132.1)	(104.8)
FII-E	(141.2)	(1,232.3)	6,094.0	(1,232.3)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



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Kirtan Mehta, CFA
research@bobcaps.in

Carbon neutrality to drive long-term cap on supply: China's plans to achieve peak carbon emissions and carbon neutrality could put a cap on the country's domestic supply in the long term. With the steel industry looking to achieve peak carbon emissions by CY25 as per the draft plan submitted by industry association CISA, there is a possibility of a medium-term supply squeeze as well. This is because the industry will need to curtail emissions ahead of the availability of new clean technologies. Players are likely to increase usage of scrap and enhance EAF production capacity.

Potential 20mt production cut in CY21: Valin believes that the Chinese government is considering a 20mt cut in annual crude steel production in CY21. This could translate into a significant 60-70mt reduction over May-Dec'21 as YTD production is running 30-40mt above last year's level. The cuts will likely be targeted at steelmakers with a poor environmental performance, high energy consumption and/or relatively backward technology and equipment.

Adequate demand support: While China's steel production could peak in the medium term, its steel consumption will continue to rise. The country's steel demand is likely to be supported by domestic import replacement and an increase in exports for infrastructure development overseas under the Belt and Road initiative.

Decrease in raw material costs: Besides a potential production cut in CY21, the government is likely to adjust import and export tariffs in the steel value chain to improve availability of steel for domestic use and to control raw material inflation. By lowering production, China's import demand for iron ore will reduce, in turn cooling down prices of both iron ore and steel in H2CY21. The likely increase in global supply of iron ore in CY21 will also help ease price pressures.



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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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