

CMBI Credit Commentary - SHDOIS

Shandong Iron & Steel Group: recommend OW on SHDOIS curve, Buy '24 at 99.5 (YTM~5.05%)

Shandong SASAC announced it is planning strategic restructuring of Shandong Iron and Steel Group (SHDOIS) with China Baowu Steel (A-/Stable) on 14 July 2021. China Baowu Steel Group is the largest steel manufacturer in China, 90% owned by Central SASAC and 10% owned by Social Security Fund.

Since then, there are a series of asset transfer/reorganization to streamline SHDOIS's non-steel operations, in preparation for consolidation of SHDOIS's core steel business with China Baowu Steel.

- On 19 Oct, 2021, SHDOIS proposed to transfer 100% Jinan Iron & Steel Group stake to Jinan City SASAC for free. Jinan Iron & Steel operates the non-steel segment of SHDOIS (i.e. machinery manufacturing, commodity trading) and accounts for 22.9% of net asset and 0.3% of net profit of SHDOIS.
- On 15 Nov, 2021, Jigang Group completed its transfer of 30.26% stake in Shandong Iron&Steel List co. (600022.CH) to SHDOIS for free.
- Subsequently on 1 Dec, 2021, **SHDOIS proposed to transfer 26.05% stake of Zhongtai Securities to Zaozhuang Mining Group and 5.32% stake to Shandong Hi-Speed**. After this share transfer, Zhongtai Securities' controlling shareholder will be changed to Zaozhuang Mining, from SHDOIS previously, but it will remain under Shandong SASAC.

We do not have a comprehensive information of the financial impact to SHDOIS from the above asset transfer, as the key depends on how much debt will be carved out from SHDOIS, **but we view these asset transfer has a neutral to negative impact to SHDOIS's credit profile**, given Zhongtai Securities is lower in leverage and will be deconsolidated from SHDOIS.

However, given the above asset transfer is related to strategic restructuring of Shandong Iron and Steel Group (SHDOIS) with China Baowu Steel on 14 July 2021, based on their respective announcement. We believe holistically SHDOIS is on track to

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become a stronger SOE, after China Baowu Steel's eventual acquisition of SHDOIS (the 7th largest steel company in China).

From onshore investors perspective, SHDOIS's onshore SCP issuance interest cost has significantly fell to 2.9%-3.1% in 2H21, from 4.7%-5.9% in 1H2021, ever since Shandong SASAC's announcement on 14 July, 2021, on expectation of an eventual consolidation with China Baowu Steel.

Among SHDOIS '22 – '24 of YTM 3.6% - 5%, we recommend Buy on SHDOIS '24 99.5 (YTM~5.05%) with prospect to be acquired by a stronger SOE (A-/rated) and its decent yield.

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