

Mettalix

Metals Monthly

22 December 2015

GLOBAL METAL DYNAMICS

Chinese net steel exports stood at 8.7 mn tonnes, ~8% and ~1% MoM and YoY increase respectively. January - November 2015 average net steel export stood at 8.2 mn tonnes (~28% higher YoY).

Chinese crude steel production for November 2015 stood at 63.3 mn, a ~4% and ~2% fall on MoM and YoY basis respectively. The average daily production stood at 2.11 mn tonnes, ~1% lower on MoM basis.

Chinese steel prices (HRC) witnessed some stability of late (marginally increased). The current price of ~US\$ 289/tonne is flat against November 2015 average prices of ~US\$ 288/tonne. However; prices are still significantly lower than April - November 2015 average price of ~US\$ 344/tonne.

After remaining range bound for couple of months (hovering around US\$ 55-60), Iron ore (CFR China 63% Fe) prices have gradually falling since mid November. The December 2015 average (till date) of ~US\$ 41/tonne is ~14% lower than November 2015 average price of US\$ 47/tonne. Iron ore inventories have increased a bit.

Global crude steel production in November 2015 witnessed a MoM and YoY fall of 4.5% and 4.1% respectively on account of lower production in China, EU, CIS and Japan. The average daily production stood at 4.23 mn tonnes, ~1.3% lower on MoM basis.

April - November 2015 global crude steel production is down by 3.2% YoY on account of lower production in China (~2.4% lower), CIS (4.3% lower); EU (2.1% lower) and Japan (5.8% lower).

Indian steel production stood at 7.1 mn tonne, a MoM fall of 3.2%. On YoY basis steel production remained flat. Post marginal improvement in the September end, Indian steel prices (long as well as flat) have resumed its declining trajectory.

Domestic prices have fallen sharply while Chinese prices (in US\$) remained more or less stable in the last 1 month. However; Domestic prices (including duties) are still trading at some premium to imported prices.

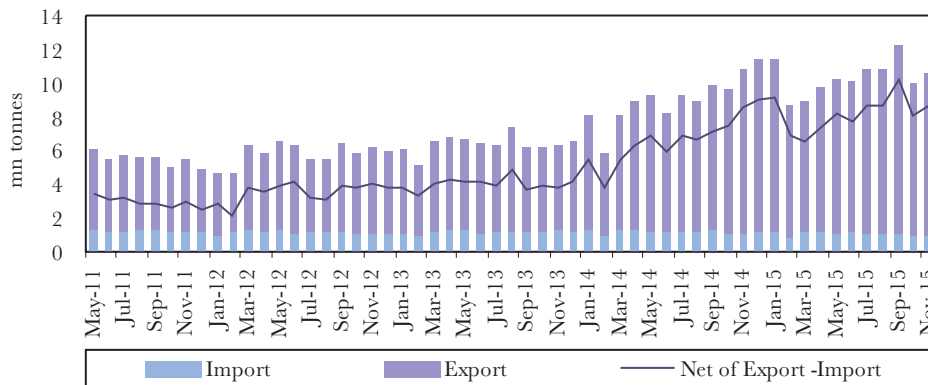
Current LME prices of aluminium, lead and copper are trading at 3%, 2% and 1% higher respectively than the beginning of the month while Zinc prices are trading at 2% lower. The current prices of aluminium, zinc, lead and copper stands at US\$ 1,500; US\$ 1,515, US\$ 1,667 and US\$ 4,654 respectively. April - November 2015 average prices of aluminium, zinc, lead and copper stood at US\$ 1,658; US\$ 1,938; US\$ 1,800 and US\$ 5,495, respectively.

Inventory levels for aluminium and copper were largely flat. Lead inventories witnessed some uptick while zinc inventories registered a decline of late.

SECTION A: FERROUS

I: China

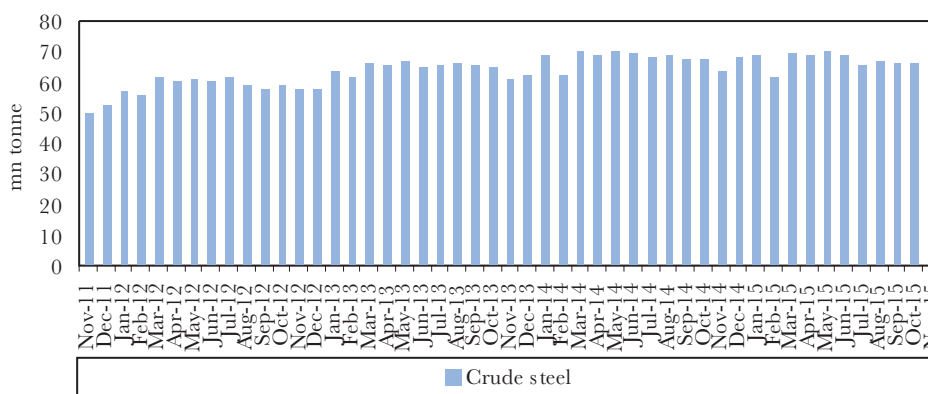
Monthly net export of steel



Source: Bloomberg

Chinese net steel exports stood at 8.7 mn tonnes, ~8% and ~1% MoM and YoY increase respectively. January - November 2015 average net steel export stood at 8.2 mn tonnes (~28% higher YoY).

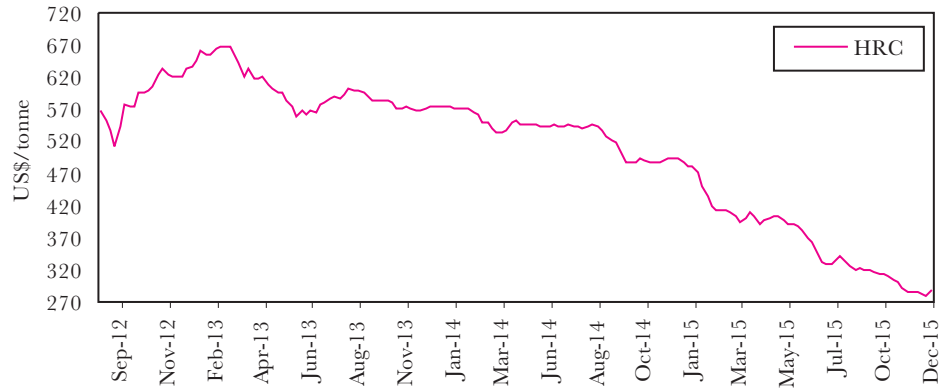
Monthly steel production



Source: Bloomberg

Chinese crude steel production for November 2015 stood at 63.3 mn, a ~4% and ~2% fall on MoM and YoY basis respectively. The average daily production stood at 2.11 mn tonnes, ~1% lower on MoM basis.

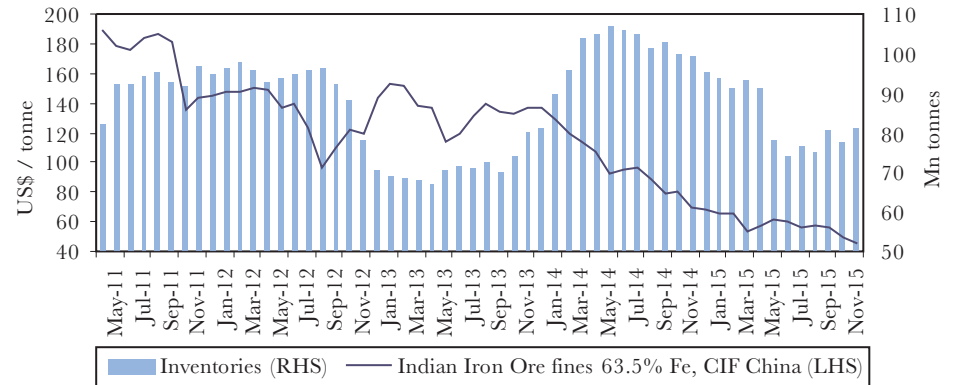
Weekly steel prices



Source: Bloomberg

Chinese steel prices (HRC) witnessed some stability of late (marginally increased). The current price of ~US\$ 289/tonne is flat against November 2015 average prices of ~US\$ 288/tonne. However, prices are still significantly lower than April - November 2015 average price of ~US\$ 344/tonne.

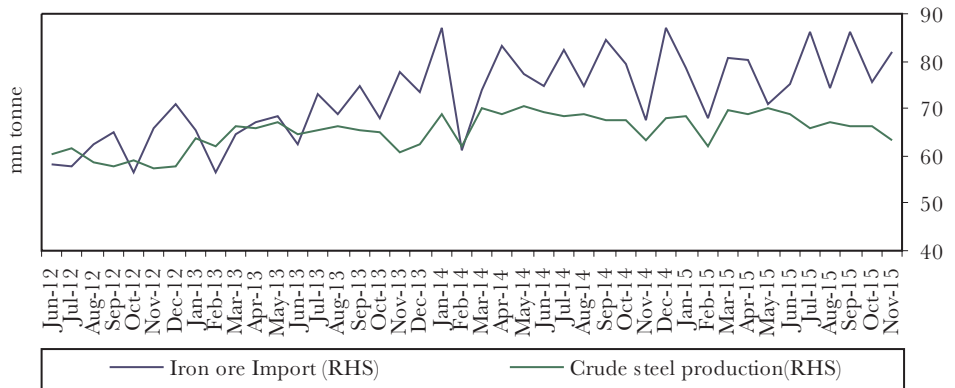
Iron ore weekly inventory versus Price



Source: Bloomberg

After remaining range bound for couple of months (hovering around US\$ 55-60), Iron ore (CFR China 63% Fe) prices have gradually falling since mid November. The December 2015 average (till date) of ~US\$ 41/tonne is ~14% lower than November 2015 average price of US\$ 47/tonne. Iron ore inventories have increased a bit.

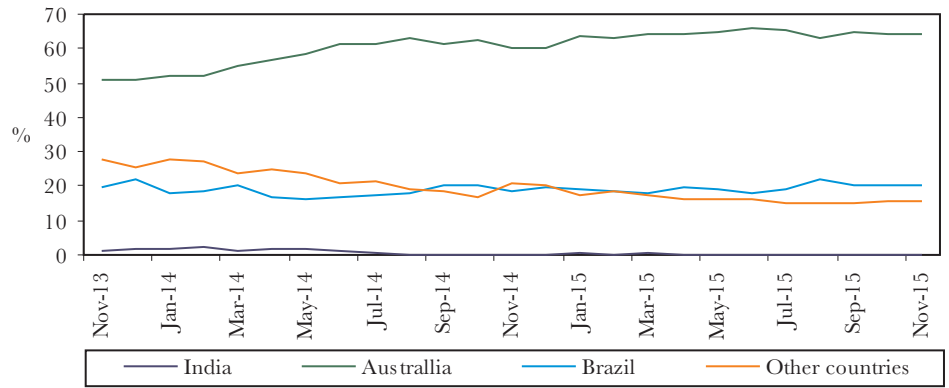
Crude steel production versus Iron ore imports



Source: Bloomberg

Chinese steel production witnessed a decline of 4.2% MoM and 1.6% YoY respectively to 63.3 mn tonnes while iron ore imports have increased on MoM basis.

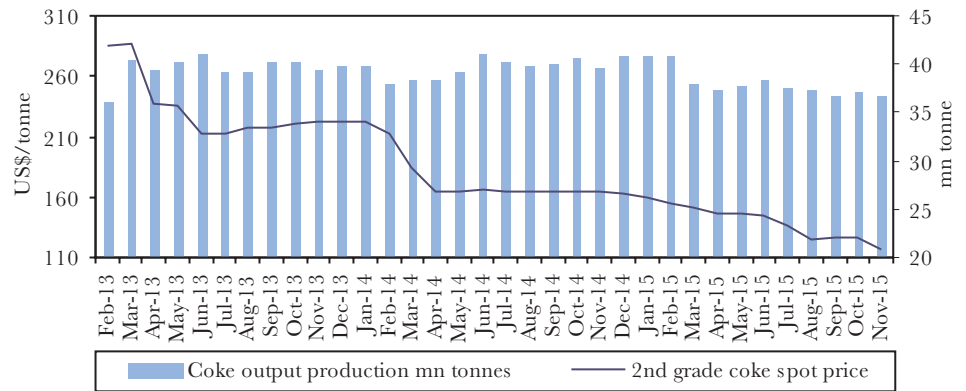
Share of iron ore exporters in Chinese iron ore imports



Source: Bloomberg

Market share of all of the exporters remained largely flat. India’s shares continues to remain negligible.

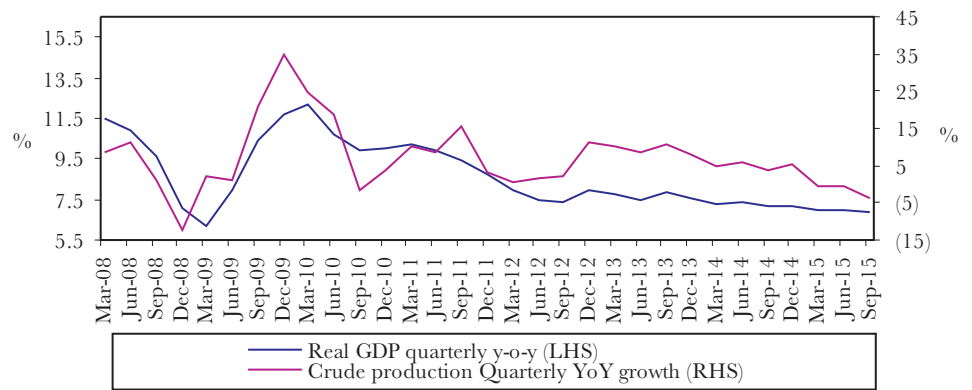
Monthly coke production and price



Source: Bloomberg

Monthly coke production for November 2015 de-grew by ~1% to 36.7 mn tonnes. Average coke spot prices witnessed a fall of ~8% on MoM basis.

GDP growth rate versus Crude steel production growth rate

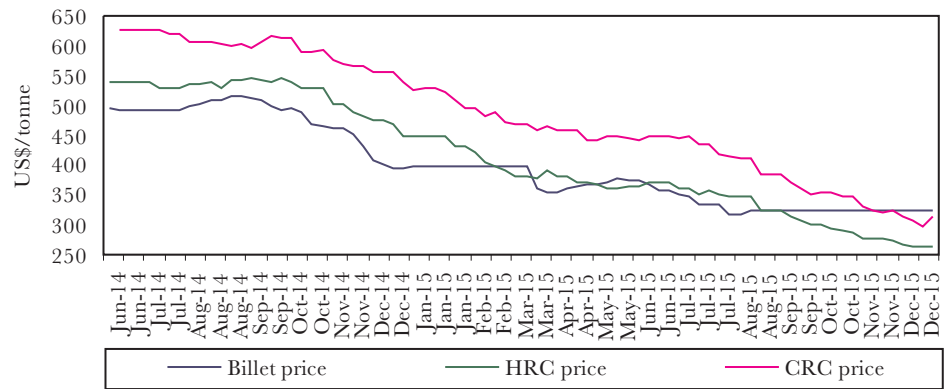


Source: Bloomberg

Chinese GDP growth on QoQ basis witnessed a fall of 10 bps YoY to 6.9% in September 2015 quarter. Moving in tandem with GDP, crude steel production de-grew by 3.7% for the same period.

II. World

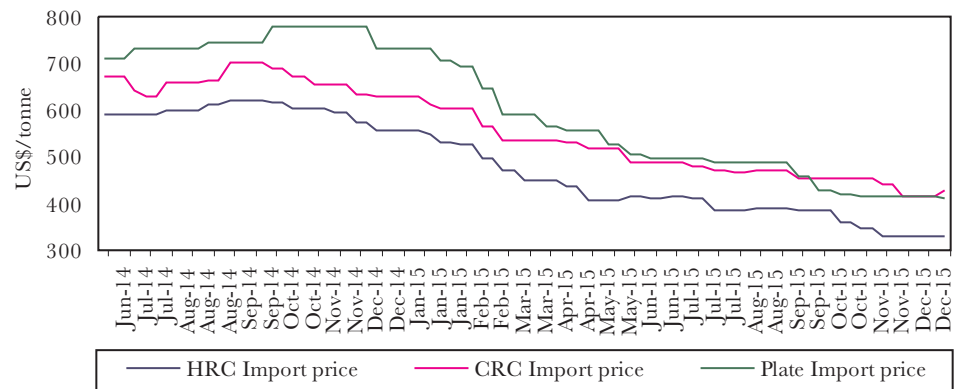
CIS steel prices



Source: Bloomberg

CRC prices have witnessed some uptick of late while HRC and billet prices remained flat.

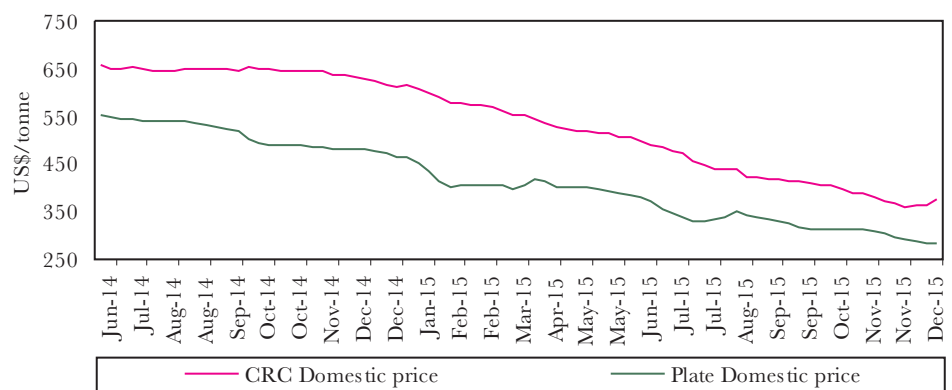
US steel prices



Source: Bloomberg

HRC and plate prices were largely stable while CRC prices have witnessed some improvement of late.

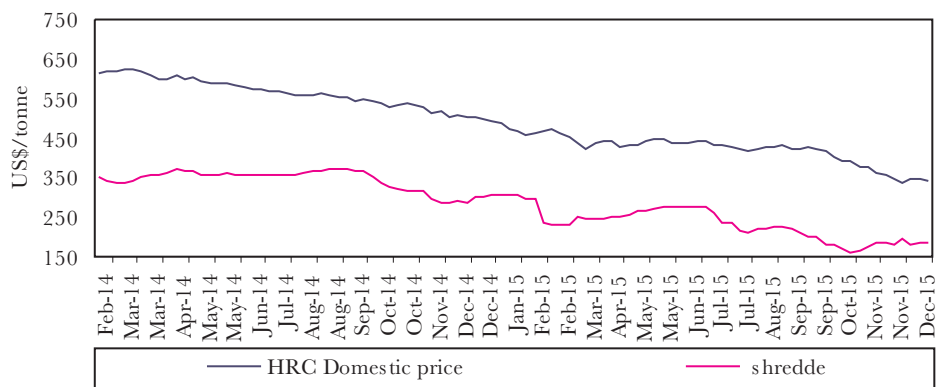
Chinese steel prices



Source: Bloomberg

CRC prices have increased a bit while plate prices witnessed marginal fall of late.

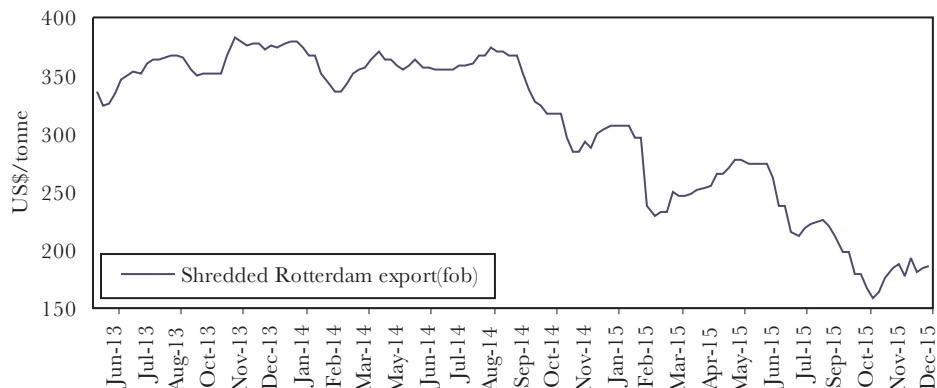
European Steel and Scrap prices



Source: Bloomberg

Europe steel (HRC) prices and scrap prices remained range bound of late.

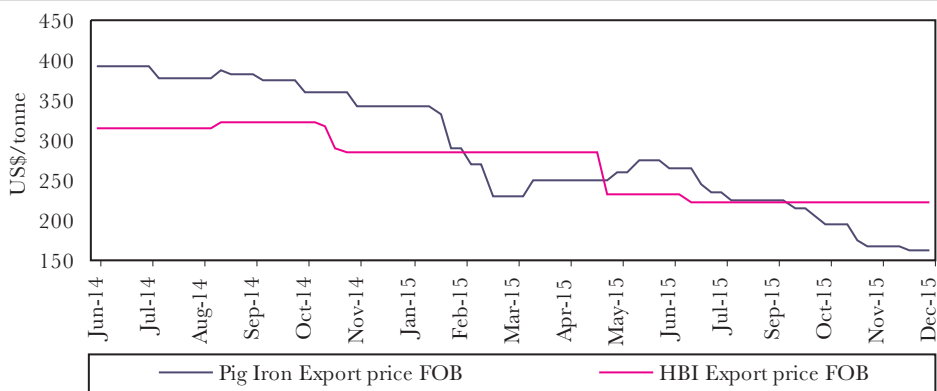
Shredded Rotterdam scrap prices on a weekly basis



Source: Bloomberg

Of late scrap prices remained range bound (hovering around US\$ 180-190/tonne).

Latin American iron prices



Source: Bloomberg

Note: HBI is the abbreviation for Hot Briquetted Iron (Sponge iron).

Both, Pig iron as well as HBI prices remained flat.

World steel production by countries and growth rates

('000 tonnes)	Nov-14	Oct-15	Nov-15	YoY (%)	MoM (%)	Apr-Nov 14	Apr-Nov 15	YoY (%)
European Union (27)								
Austria	671	618	648	(3.4)	4.9	5,260	5,040	(4.2)
France	1,384	1,170	1,180	(14.7)	0.9	10,937	9,981	(8.7)
Germany	3,592	3,639	3,482	(3.1)	(4.3)	28,400	28,629	0.8
Italy	1,852	1,899	1,859	0.4	(2.1)	15,628	14,540	(7.0)
Netherlands	592	604	552	(6.8)	(8.6)	4,607	4,743	2.9
Poland	729	761	735	0.8	(3.4)	5,777	6,256	8.3
Spain	1,245	1,251	1,209	(2.9)	(3.4)	9,676	9,929	2.6
United Kingdom	991	910	668	(32.6)	(26.6)	8,039	7,037	(12.5)
Other E.U.	3,170	3,099	2,826	(10.8)	(8.8)	24,572	24,325	(1.0)
Turkey and other Europe	2,978	3,061	2,794	(6.2)	(8.7)	24,230	22,991	(5.1)
CIS								
Russia	5,896	5,820	5,715	(3.1)	(1.8)	48,115	46,993	(2.3)
Ukraine	1,826	2,056	1,884	3.2	(8.4)	17,747	15,880	(10.5)
Other CIS	609	532	592	(2.7)	11.3	5,051	4,985	(1.3)
North America								
Canada	960	937	910	(5.2)	(2.9)	8,553	8,319	(2.7)
Mexico	1,447	1,355	1,310	(9.5)	(3.3)	12,520	12,118	(3.2)
United States	7,216	6,546	6,089	(15.6)	(7.0)	59,328	53,260	(10.2)
Other North American	105	91	85	(19.4)	(6.6)	828	736	(11.2)
South America								
Brazil	2,666	2,982	2,548	(4.4)	(14.6)	22,906	22,363	(2.4)
Other South American	968	980	900	(7.0)	(8.1)	7,589	7,249	(4.5)
Africa	1,193	1,019	1,032	(13.5)	1.3	9,214	8,893	(3.5)
Middle East	2,476	2,212	2,112	(14.7)	(4.5)	19,087	18,328	(4.0)
Asia								
China	64,350	66,125	63,320	(1.6)	(4.2)	549,143	536,152	(2.4)
India	7,157	7,377	7,140	(0.2)	(3.2)	60,009	59,588	(0.7)
Japan	9,175	9,006	8,745	(4.7)	(2.9)	74,099	69,818	(5.8)
Other Asia	8,011	7,757	7,505	(6.3)	(3.2)	63,571	60,915	(4.2)
Oceania	390	501	484	24.1	(3.4)	3,644	3,956	8.5
Total	132,226	132,828	126,825	(4.1)	(4.5)	1,103,007	1,067,380	(3.2)

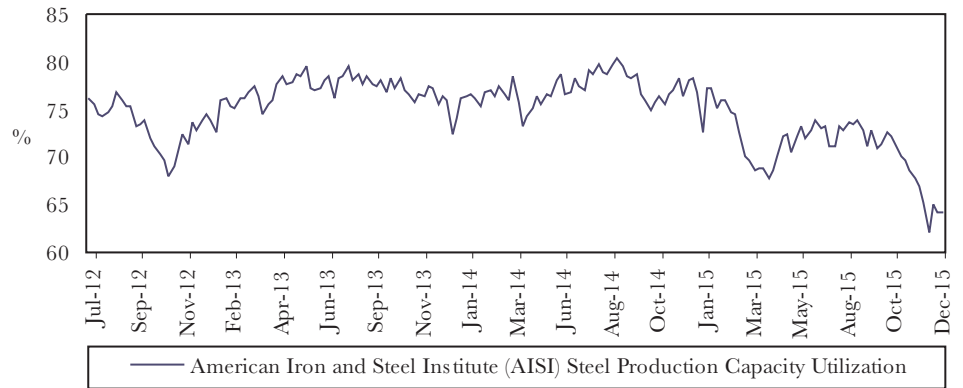
The 66 countries included in this table accounted for ~ 98% of total world crude steel production in 2014.

Source: World Steel Association

Global crude steel production in November 2015 witnessed a MoM and YoY fall of 4.5% and 4.1% respectively on account of lower production in China, EU, CIS and Japan. The average daily production stood at 4.23 mn tonnes, ~1.3% lower on MoM basis.

April – November 2015 global crude steel production is down by 3.2% YoY on account of lower production in China (~2.4% lower), CIS (4.3% lower); EU (2.1% lower) and Japan (5.8% lower).

American steel capacity utilisation levels

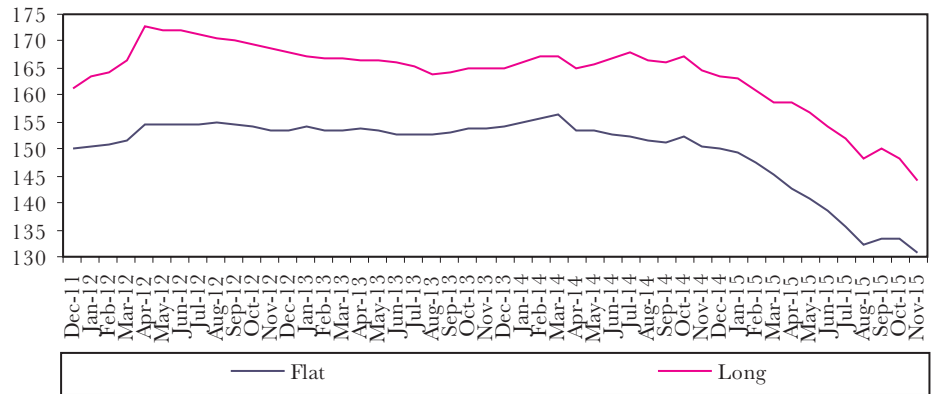


Source: Bloomberg

Post sharp fall in November, capacity utilizations are stable of late.

III: INDIA

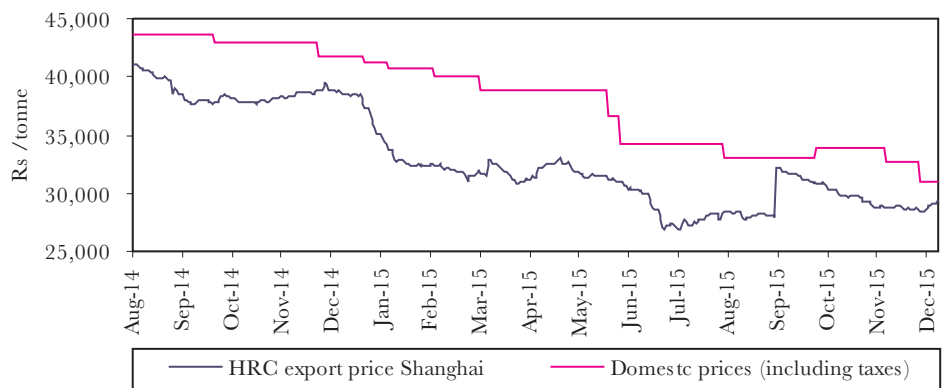
Steel prices



Source: Bloomberg

Both flat as well as long prices have resumed the declining trajectory.

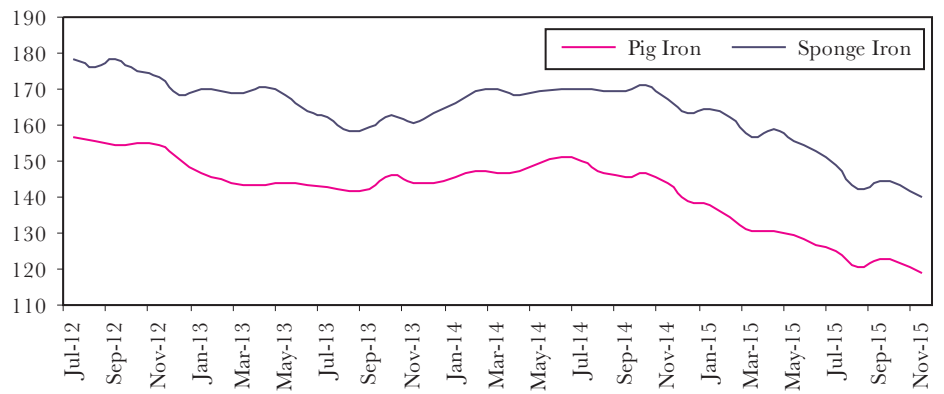
Domestic versus China import prices



Source: Bloomberg

Domestic prices have fallen sharply while Chinese prices (in US\$) remained more or less stable in the last 1 month. However; Domestic prices (including duties) are still trading at some premium to imported prices.

Pig iron and sponge iron prices



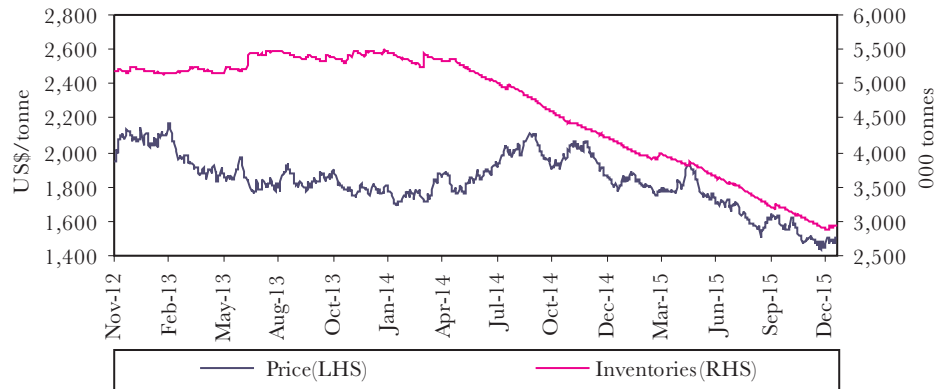
Source: Bloomberg

Both, Pig iron as well as sponge iron prices witnessed fall of late.

SECTION B: NON-FERROUS

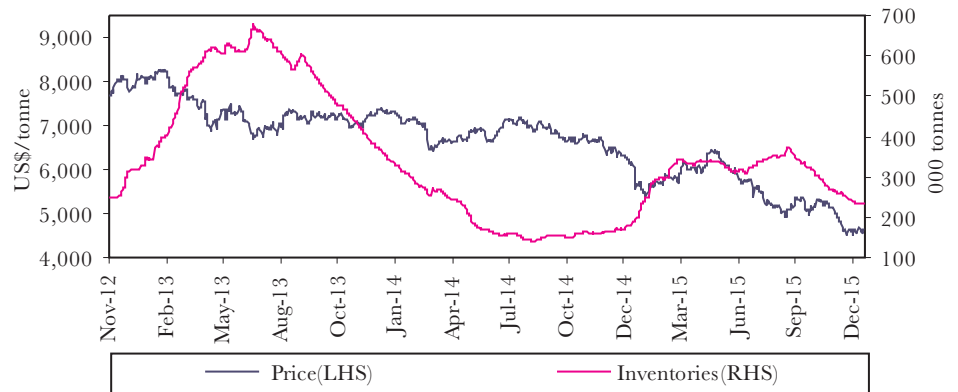
Daily LME prices and Inventories

Aluminium



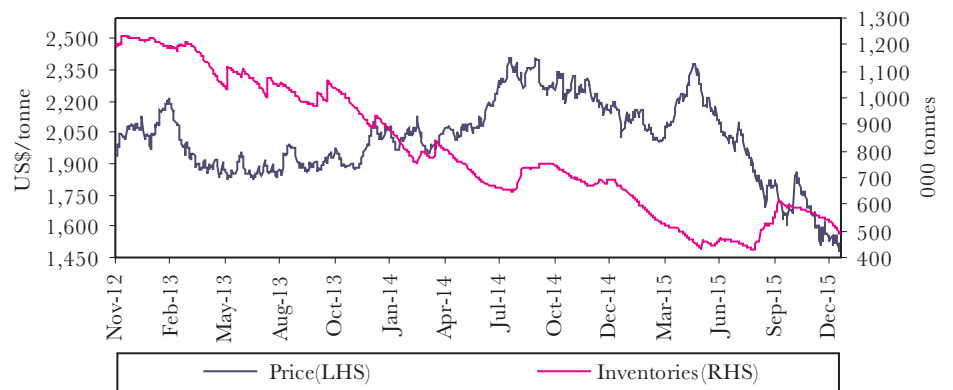
Source: Bloomberg

Copper



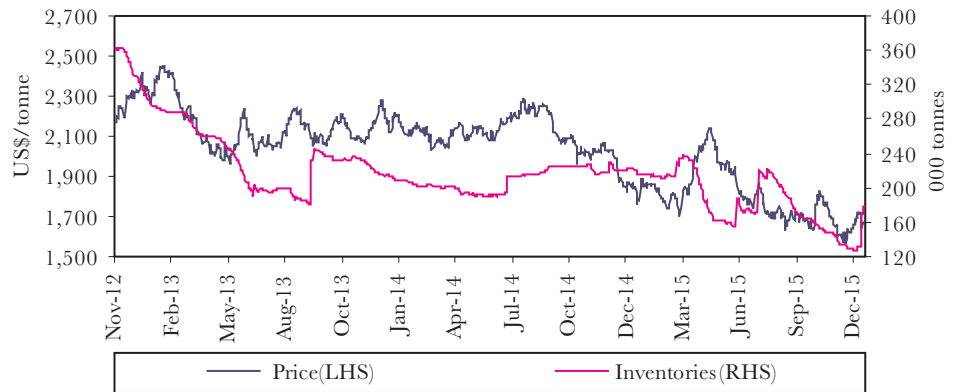
Source: Bloomberg

Zinc



Source: Bloomberg

Lead



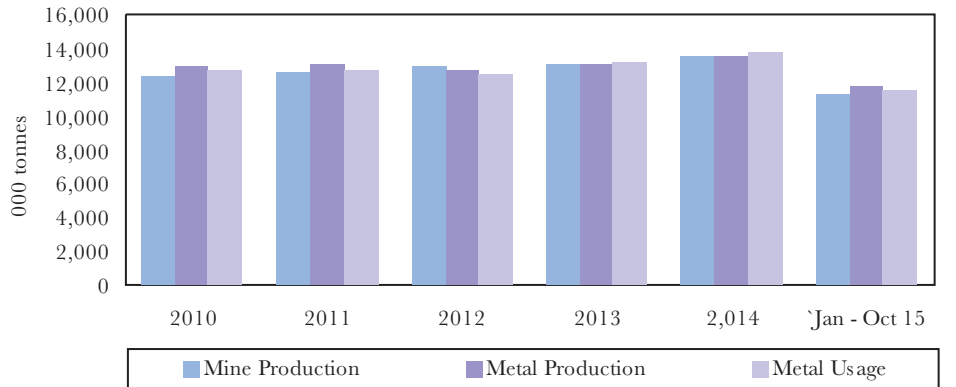
Source: Bloomberg

Current LME prices of aluminium, lead and copper are trading at 3%, 2% and 1% higher respectively than the beginning of the month while Zinc prices are trading at 2% lower. The current prices of aluminium, zinc, lead and copper stands at US\$ 1,500; US\$ 1,515, US\$ 1,667 and US\$ 4,654 respectively. April - November 2015 average prices of aluminium, zinc, lead and copper stood at US\$ 1,658; US\$ 1,938; US\$ 1,800 and US\$ 5,495, respectively.

Inventory levels for aluminium and copper were largely flat. Lead inventories witnessed some uptick while zinc inventories registered a decline of late.

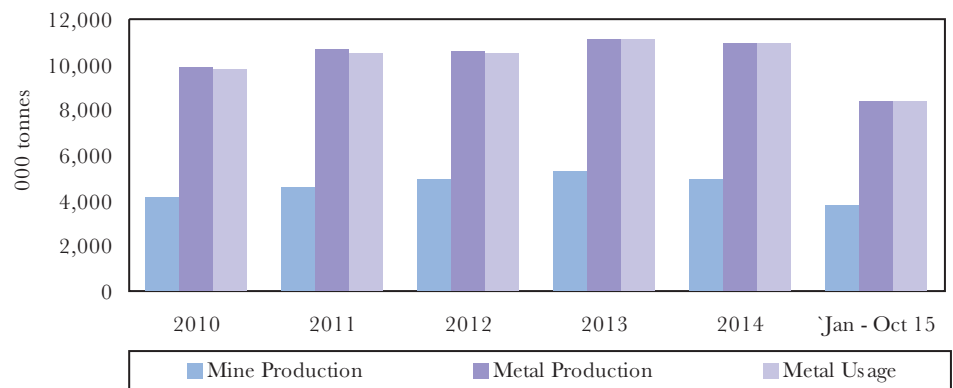
Global non-ferrous mine production, metal production and metal usage

Zinc



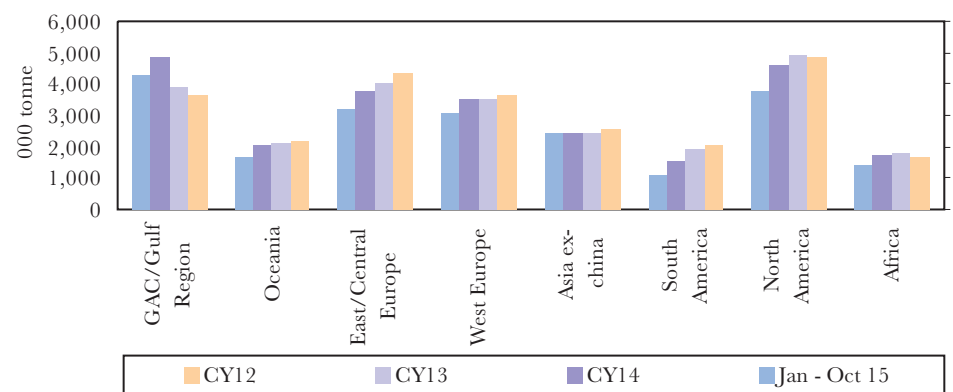
Source: ILZSG

Lead



Source: ILZSG

Primary aluminium production



Source: World Aluminium Org.

Chinese EXIM: Non-ferrous

Copper

(tonnes)	Production	MoM (%)	Net import	MoM (%)	Apparent consumption	MoM (%)
Oct-15	693,180	1.9	335,653	(2.1)	1,028,833	0.6
Sep-15	680,235	2.3	342,885	34.7	1,023,120	11.3
Aug-15	664,954	0.2	254,475	2.2	919,429	0.8
Jul-15	663,520	(4.5)	248,895	1.8	912,415	(2.9)
Jun-15	695,121	(4.3)	244,602	(4.0)	939,723	3.6
May-15	652,379	8.1	254,697	(17.6)	907,076	(0.6)

Zinc

(tonnes)	Production	MoM (%)	Net import	MoM (%)	Apparent consumption	MoM (%)
Oct-15	528,941	(1.5)	79,359	78.2	608,300	4.6
Sep-15	536,745	1.1	44,531	23.7	581,276	2.5
Aug-15	531,024	4.8	36,006	8.0	567,030	5.0
Jul-15	506,692	(9.4)	33,328	95.5	540,020	(6.3)
Jun-15	559,490	5.3	17,045	(62.7)	576,535	–
May-15	531,530	1.9	45,745	(3.2)	577,275	1.5

Aluminium

(tonnes)	Production	MoM (%)	Net export	MoM (%)	Apparent consumption	MoM (%)
Oct-15	2,674,883	(1.5)	249,176	(14.5)	2,425,707	0.1
Sep-15	2,715,557	(1.2)	291,442	8.3	2,424,115	(2.2)
Aug-15	2,748,886	1.1	269,016	(7.7)	2,479,870	2.1
Jul-15	2,720,114	(1.3)	291,469	(27.0)	2,428,645	3.1
Jun-15	2,755,814	3.3	399,258	9.6	2,356,556	2.3
May-15	2,667,677	3.1	364,380	(1.8)	2,303,297	3.9

Chinese net imports of Copper grew by ~14% YoY to 335,653 tonnes while Zinc net imports witnessed YoY growth of ~8.7x to 79,359 tonnes in the month of October 2015. Net exports for Aluminium have witness a YoY fall of ~23% to 249,176 tonnes.

Bloomberg valuations of Indian and Global metal companies

	RoE (%)	Price/Book (x)	EV/EBITDA (x) (FY16/CY15)	EV/EBITDA (x) (FY17/CY16)
Ferrous				
Tata Steel	4.7	0.6	9.3	6.9
Jindal Steel & Power	4.6	0.4	11.1	8.6
SAIL	5.2	0.4	134.3	15.5
JSW Steel	9.9	1.1	8.0	6.2
Monnet Ispat	(5.8)	NA	33.6	13.7
Bhushan Steel	2.4	0.1	NA	NA
Usha Martin	(1.5)	NA	9.6	8.8
NMDC	21.0	1.1	4.4	4.2
Vedanta	7.4	0.3	5.0	4.4
Sarda Energy & Minerals	5.0	0.3	8.8	9.5
Non ferrous				
Hindustan Zinc	19.4	1.4	4.0	3.9
Hindalco Industries	6.5	0.3	10.1	8.5
NALCO	9.9	0.9	6.2	6.6
Global				
JFE Holdings	7.8	0.6	8.1	6.8
Kobe Steel	10.4	0.6	5.8	5.2
Nippon Steel	7.6	0.8	8.3	7.2
Andang Steel	(2.2)	0.4	9.7	8.0
China Steel	3.2	0.9	11.8	10.1
Arcelormittal	(3.1)	0.2	NA	NA
Vedanta Resources	(1.8)	0.3	7.6	5.9
US Steel	(11.2)	0.4	8.6	4.0
Rio-Tinto	9.1	1.1	6.6	5.7
BHP Billiton	9.4	0.8	6.6	5.6
Peabody	(59.9)	0.1	11.1	8.9
ALCOA	4.0	0.9	7.3	5.9
Xstrata	8.1	NA	NA	NA
Korea Zinc	11.3	1.7	6.8	6.2
Rusal	6.8	0.9	7.6	7.2
CHALCO	(4.1)	0.9	16.5	13.7
Hebei Iron & Steel	1.3	0.8	14.3	NA

Source: Bloomberg

Valuations of companies under our coverage

Company	Price	Target	Reco.	Adj EPS			PER			EV/EBITDA			P/BV			RoE	
	21 Nov	price		(Rs)			(x)			(x)			(x)			(%)	
	(Rs)	(Rs)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E
Ferrous																	
Tata Steel	258	255	OP	(1.7)	9.1	27.0	–	28.3	9.6	8.4	6.3	5.0	0.7	0.7	0.7	(0.5)	2.6
Jindal Steel and Power	92	–	UR	(12.4)	(5.1)	10.0	–	–	9.2	11.8	9.3	7.2	0.4	0.4	0.4	(5.5)	(2.4)
JSW Steel	1,046	825	UP	5.6	63.9	94.3	188.2	16.4	11.1	9.9	7.1	6.0	1.1	1.1	1.0	0.6	6.7
SAIL	48	35	SELL	(7.3)	0.9	5.5	–	53.2	8.8	–	16.1	10.2	0.5	0.5	0.5	(7.3)	1.0
NMDC	91	94	UP	9.8	10.4	11.6	9.3	8.8	7.9	5.3	6.2	6.3	1.1	1.1	1.1	12.1	12.8
Monnet Ispat	34	–	UR	(146.0)	(134.2)	(132.8)	–	–	–	–	49.2	28.0	0.2	4.8	(0.3)	(68.1)	(180.7)
Usha Martin	11	13	UP	(10.3)	(9.3)	(6.4)	–	–	–	10.8	9.7	7.3	0.2	0.3	0.4	(20.1)	(22.6)
Godawari Power and Ispat	71	71	UP	(14.9)	(5.0)	6.7	–	–	10.6	8.5	6.9	5.8	0.3	0.3	0.3	(5.4)	(1.9)
Non-Ferrous																	
Vedanta	87	98	OP	10.5	9.7	10.7	8.2	9.0	8.1	2.5	2.3	2.2	0.5	0.4	0.4	5.7	5.0
Hindalco	81	70	UP	3.8	9.9	17.0	21.2	8.2	4.8	8.5	7.0	5.6	0.4	0.4	0.4	2.1	5.2
Nalco	44	50	BUY	3.8	3.6	4.5	11.5	12.4	9.9	4.6	5.3	4.0	0.9	0.8	0.8	7.6	6.8
Hindustan Zinc	148	160	OP	20.6	19.8	20.9	7.2	7.5	7.1	3.4	3.1	2.3	1.3	1.1	1.0	18.7	16.0
Pipes																	
Jindal Saw	63	75	OP	7.5	8.8	6.5	8.3	7.2	9.6	8.3	7.3	7.7	0.5	0.5	0.4	6.0	6.7
Welspun Corp	111	125	OP	10.2	10.1	6.6	10.9	11.0	16.7	4.6	4.3	4.6	1.0	0.9	0.9	9.2	8.4
Maharashtra Seamless	175	140	UP	5.1	7.7	10.3	34.5	22.7	17.0	179.1	25.8	16.5	0.5	0.5	0.5	1.5	2.3
Ratnamani	556	650	OP	36.9	40.4	43.0	15.1	13.8	12.9	8.5	7.7	7.1	2.5	2.2	1.9	17.6	16.8

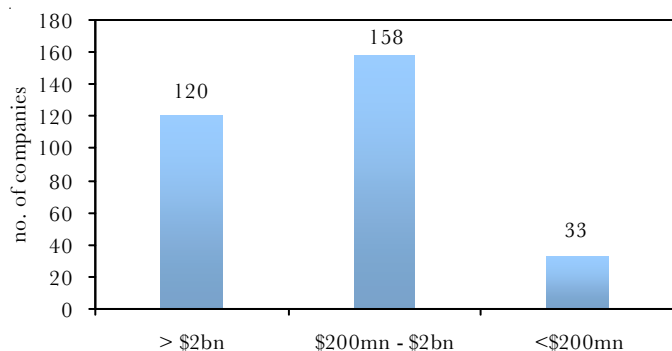
Note: OP – Outperformer, UP – Underperformer, UR – Under Review, NR – Not Rated

Parin Tanna
parin.tanna@bksec.com
+91-22-4031 7129

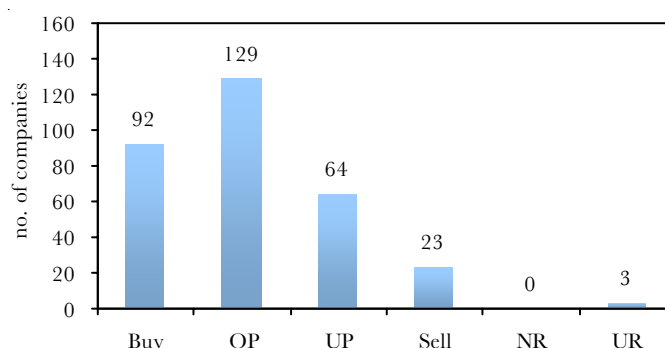
Vikash Singh
vikash.singh@bksec.com
+91-22-4031 7173

B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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B&K Investment Ratings.

	LARGE CAP (Market Cap > USD 2 bn)	MID CAP (Market Cap of USD 200 mn to USD 2 bn)	SMALL CAP (Market Cap <USD 200 mn)
BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

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