

June 23, 2017

Metals Monthly

Declining Chinese steel exports to augur well

- In the last couple of months, international coking coal prices have declined from US\$263/tonne on April 21, 2017 to \$144/tonne as on June 22, 2017, indicating a decline of 45%
- On a monthly basis, base metal prices witnessed an upward trend wherein prices of zinc, lead and copper increased 3%, 6% and 1%, respectively. However, aluminium prices declined ~4% MoM
- After declining 14% MoM to 6.5 million tonne (MT) in April 2017, Chinese steel exports registered an increase of 8% MoM to 7.0 MT in May 2017. During the month, Chinese rebar prices increased 2% MoM

Exhibit 1: Key events

Company / Industry	Event
Tata Steel	Tata Sons plans to buy out Tata Steel's stake of 2.85% in Tata Motors on or after June 23, 2017. It cited restructuring of investment portfolio as the reason for the planned deal. Accordingly, Tata Sons will buy about 83.6 million shares in Tata Motors at or around the prevailing price of the stock on the date of the planned acquisition
Zinc	As per ILZSG, the global market for refined zinc metal was in deficit by 112 kilo tonne (KT) over the first four months of 2017 (January-April). During the period, global usage of refined zinc metal increased 3.7% YoY. For the year CY17, ILZSG has forecasted zinc metal deficit of ~226 KT, which is likely to support zinc prices
JSW Steel	JSW Steel reported crude steel production of 13.57 lakh tonnes for May 2017 compared to 13.48 lakh tonnes in May 2016, recording growth of 1%. Production of flat rolled products rose 1% to 9.39 lakh tonnes in May 2017 over May 2016. Production of long rolled products rose 4% YoY to 3.09 lakh tonnes in May 2017
Vedanta	India Ratings has revised the outlook on the credit rating of Vedanta to Stable from Negative (earlier). The outlook revision reflects the completion of merger with Cairn India within the timelines envisaged by the company. The credit rating of Ind AA was re-affirmed
Coal India	Coal India reported provisional production and offtake numbers for May 2017. Production during the month was 40.7 million tonne (MT), down 4.3% YoY, up 6% MoM. Offtake during the month was at 46.4 MT, up 1.9% YoY, 2.5% MoM. For April-May 2017, coal production was at 79.2 MT, down 4.5% from 82.9 MT a year ago while sales volumes were at 91.7 MT, up 4% from 88.2 MT in April-May 2016

Source: ICICIdirect.com Research

Chinese supply side restructuring, NSP 2017 augur well for Indian steel...

On account of stringent protectionist measures across the globe, Chinese exports declined significantly during the current year. Cumulatively, for the first five months of CY17, Chinese steel exports were down ~26% YoY to 34.2 MT against 46.3 MT a year ago. Furthermore, China has achieved ~85% of the targeted capacity cuts in steel amounting to ~42.4 MT (out of ~50 MT). Declining exports from China have not only aided domestic steel players to enhance their share in domestic markets but also enter exports market. Indian steel exports have gained momentum during FY17, increasing 102% YoY, turning India into a net exporter of steel during the year. Overall, the supply side restructuring along with the new steel policy outlining demand prospects augurs well for the domestic steel industry in the medium term. On the non-ferrous front, zinc remains best placed backed by healthy fundamentals.

Monthly Update

Sectoral View

Equal Weight

Index Performance

Return %	1M	3M	6M	12M
BSE Metals	0	-5	9	33
BSE	2	6	19	17
NSE	2	7	21	17

Source: Reuters, ICICIdirect.com Research

Coverage Performance

Return (%)	1M	3M	6M	12M
Coal India	-10	-16	-15	-23
Tata Steel	6	6	31	55
JSW Steel	3	6	26	42
Hindustan Zinc	2	-11	6	58
Vedanta	2	-10	8	85
HEG	21	40	105	88
Graphite India	40	42	114	109
Mah. Seamless	19	17	72	71

Source: Reuters, ICICIdirect.com Research

Top Pick of sector

Hindustan Zinc

Domestic steel production

Month on Month (MT)	May-17	May-16	YoY %	Apr-17	MoM %
Finished Steel Production	9.1	8.7	4.4	8.5	6.9
Imports	0.6	0.5	2	0.5	10.7
Exports	0.6	0.4	69	0.7	(14.1)
Consumption	7.5	7.4	1	6.3	19.0

Source: JPC India, ICICIdirect.com Research, provisional numbers

April-May (MT)	FY17	FY16	YoY %
Finished Steel Production	17.5	16.4	6.7
Imports	1.1	1.2	(11.4)
Exports	1.4	0.7	101.6
Consumption	13.8	13.2	4.2

Source: JPC India, ICICIdirect.com Research

Metal Prices

Change (%)	22-Jun-17	1 Month	3 Month	6 Month	12 Month
Zinc	2,697	3	-5	3	32
Lead	2,186	6	-8	4	27
Copper	5,724	1	-1	4	20
Aluminium	1,861	-4	-3	7	14
China (Rebar)	573	2	-1	10	61
Indian (HRC)	35,750	-1	-8	-3	16

Source: Bloomberg, ICICIdirect.com Research

(All prices in US\$/tonne, except Indian HRC price which are in ₹/tonne)

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Exhibit 2: World crude steel production

In Million Tonne	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
World Crude Steel Production	139	136	134	134	133	137	132	134	137	127	145	142	143
Chinese Crude Steel Production	71	69	67	69	68	69	66	67	67	61	72	73	72
Indian Crude Steel Production	8	8	8	8	8	8	8	8	8	8	9	8	9
Rest of the World	61	58	59	57	57	60	58	58	61	57	64	61	63

Source: World Steel Association (WSA), ICICIdirect.com Research

For May 2017, world crude steel production for 67 countries reporting to World Steel Association (WSA) was at 143.3 million tonne (MT), up 2% YoY. Crude steel capacity utilisation ratio in May 2017 was at 71.8%, up 50 bps compared to 71.3% in May 2016. For May 2017, Chinese crude steel production was at 72.3 MT, up 1.8% YoY.

For the first five months of CY17, world crude steel production was at 693.5 MT, up 5.2% YoY. Chinese crude steel production was at 345.4 MT, up 3.9% YoY while India's crude steel production for the five months' period was at 42.1 MT, up 10.6% YoY.

World Steel Association (WSA) recently released its Short Range Outlook for CY17 and CY18, wherein it has upward revised its CY17 global steel demand forecast. WSA forecasts that global steel demand will increase 1.3% to 1,535.2 million tonne (MT) in CY17 (upward revised from 0.5% earlier). In CY18, it was forecast that global steel demand would grow 0.9% to 1548.5 MT. WSA expects China's steel demand to remain flat in CY17 and then decline 2% in CY18 while steel demand in developed economies is expected to increase 0.7% in CY17 and 1.2% in CY18. As per WSA, steel demand in emerging and developing economies excluding China, accounts for 30% of world total. It is expected to grow 4.0% in CY17 and then 4.9% in CY18.

Exhibit 3: Indian steel scenario

In Million Tonne	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Finished Steel Production	8.3	8.2	7.6	8.2	8.0	8.2	7.6	8.4	9.0	8.8	9.8	8.4	9.1
Finished Steel Consumption	7.6	6.8	6.3	7.0	6.7	7.1	6.2	7.2	7.4	7.3	8.0	6.0	7.5
Finished Steel Imports	0.5	0.6	0.6	0.6	0.6	0.5	0.6	0.8	0.6	0.5	0.8	0.5	0.6
Finished Steel Exports	0.4	0.5	0.5	0.7	0.7	0.5	0.7	0.7	0.9	0.8	1.6	0.7	0.6

Source: JPC India, ICICIdirect.com Research *Provisional Numbers

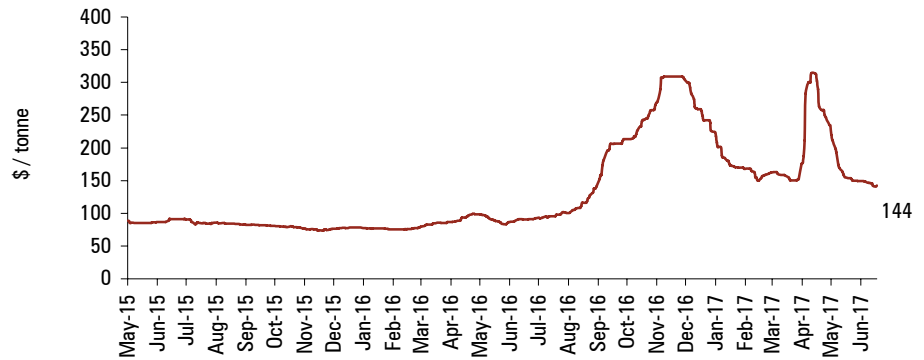
Among all major steel producing countries, India emerged in a sweet spot reporting moderate growth in demand compared to the decline in other major steel producing economies. India's finished steel consumption witnessed 3.0% YoY growth in FY17. Finished steel consumption during the period was at 83.9 MT vs. 81.5 MT in FY16. Measures taken by the Government of India enabled import substitution and cutting down the cheap influx of metal, reducing the gap between imports and exports. Indian finished steel exports were up ~102% YoY to 8.2 MT in FY17 while imports declined ~37% YoY to 7.4 MT

Indian finished steel production, consumption continue upward trend...

Indian finished steel production during May 2017 came in at 9.1 MT, up 7% YoY, 4.4% MoM. Imports during the month were up 2.4% YoY, 10.7% MoM to 0.5 MT while exports were up 69% YoY, down 14.1% MoM to 0.6 MT. Finished steel consumption during the month was at 7.5 MT, up 1% YoY, 19% MoM.

Exhibit 4: Spot hard coking coal prices (fob Australian east coast port)

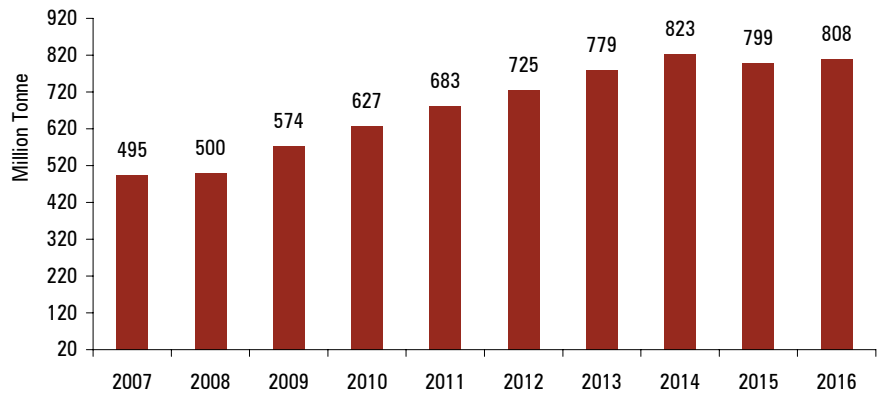
On account of cyclone Debbie in Australia in end March 2017, spot coking coal prices increased sharply by 109% from US\$150/tonne on March 29, 2017 to US\$314/tonne on April 17, 2017. However, over the last couple of month, prices of coking coal have been on a declining trend. Spot prices of hard coking coal (fob Australia east coast port) have declined sharply from US\$263/tonne as on April 21, 2017 to US\$144/tonne on June 22, 2017, indicating a decline of ~45%



Source: Bloomberg, ICICIdirect.com Research

Exhibit 5: Chinese crude steel production

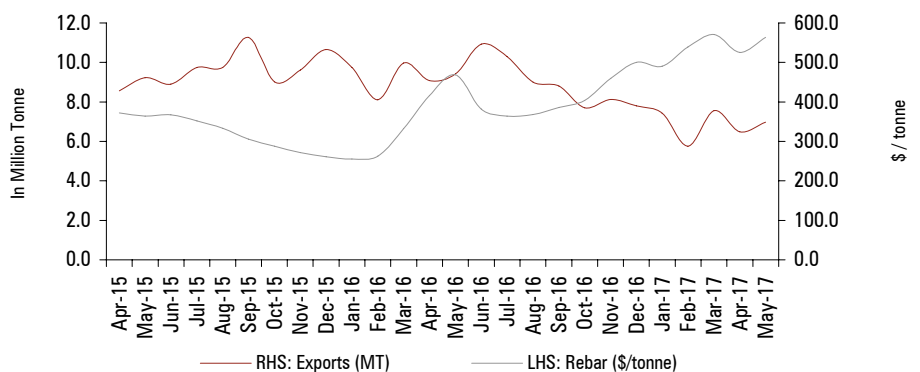
China's economic planning agency aims to cut 50 million tonne (MT) steel capacity and 150 MT of coal output in CY17. In the preceding year, China had exceeded its capacity cut target. However, majority of production cuts came from idle capacity. Despite the production curbs, Chinese steel production increased in CY16. As per media sources, China has cut 42.4 million tonne (MT) or ~85% of its steel capacity reduction target by end of March 2017.



Source: Company, ICICIdirect.com Research

Exhibit 6: Movement of Chinese exports & rebar prices

Chinese steel exports after declining 14% MoM to 6.5 million tonne (MT) in April 2017, registered an increase of 8% MoM to 7.0 MT in May 2017. Chinese rebar prices during the last month increased 2% MoM. Chinese steel prices (CIS) declined ~1.1% during the month to US\$440/tonne as on June 19, 2017 from US\$445/tonne a month ago



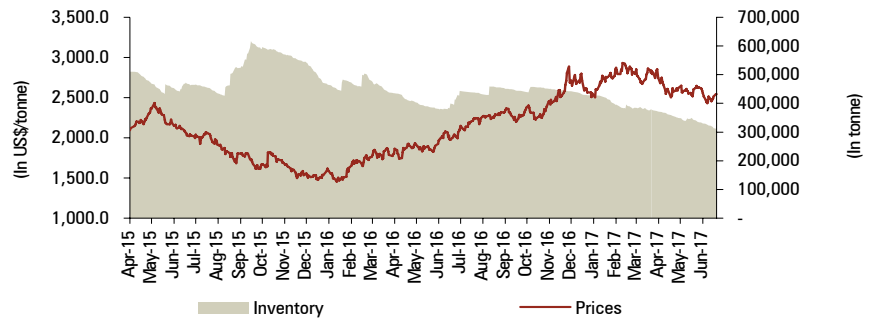
Source: Bloomberg, ICICIdirect.com Research

Non ferrous metals...

Zinc

During last month, zinc prices increased ~3% MoM. As per the International Lead and Zinc Study Group (ILZSG), after increasing 3.1% in 2016, global demand for refined zinc metal is forecast to rise by a further 2.6% to 14.30 million tonnes (MT) in 2017. Global zinc mine production, after declining 5.5% in 2016, is forecast to rise 6.7% to 13.7 MT in 2017. Regarding the global market balance, despite the expected increase in zinc mine supply the group continues to expect that global demand for refined zinc metal will comfortably exceed supply in 2017. The extent of the deficit is forecast at 226,000 tonnes

Exhibit 7: LME zinc (price and inventory movement)

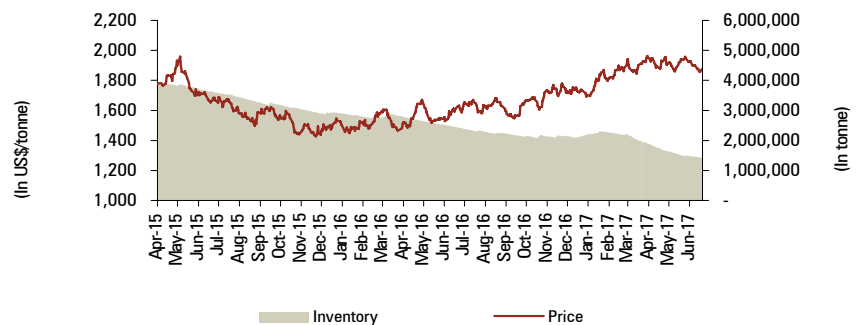


Source: Bloomberg, ICICIdirect.com Research

Aluminium

During last month, aluminium prices were down 4% MoM

Exhibit 8: LME aluminium (price and inventory movement)

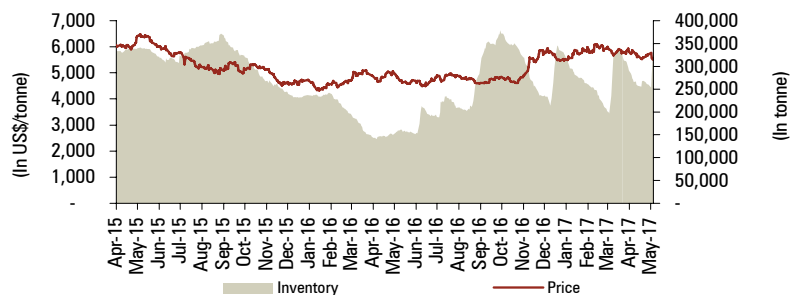


Source: Bloomberg, ICICIdirect.com Research

Copper

During last month, copper prices increased 1% MoM

Exhibit 9: LME Copper (price and inventory movement)

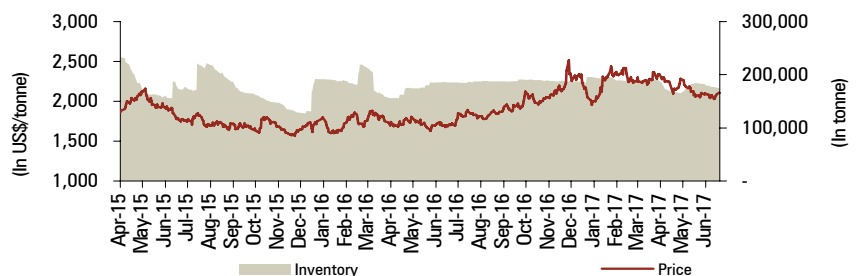


Source: Bloomberg, ICICIdirect.com Research

Lead

During last month, lead prices have increased ~6% MoM

Exhibit 10: LME Lead (price and inventory movement)



Source: Bloomberg, ICICIdirect.com Research

Valuations: Global companies

Exhibit 10: Valuations - Global peers

Particulars	Currency	CMP	M.Cap (US\$ Mn)	PE (x)		EV / EBITDA (x)		ROE (%)	
				CY 17	CY 18	CY 17	CY 18	CY 17	CY 18
BHP Billiton Ltd	US\$	22.1	111,307	11.8	13.4	5.2	5.5	12.9	10.8
Fortescue Metals Group Ltd	US\$	4.5	14,152	4.6	7.8	2.9	4.1	24.4	12.9
Rio Tinto Ltd	US\$	58.1	93,229	9.5	12.6	4.7	5.6	19.8	14.1
Vale SA	BRL	7.8	39,715	6.1	7.7	4.3	5.0	16.6	11.4
ArcelorMittal	US\$	17.8	18,226	7.3	7.4	4.3	4.4	8.1	7.3
POSCO	KRW	267.5	23,322	8.9	8.4	5.3	5.3	5.9	5.9
United States Steel Corp	US\$	21.1	3,682	25.9	10.7	5.9	4.6	4.2	13.1
Nucor Corp	US\$	56.1	17,908	13.0	12.2	6.8	6.4	17.2	16.4
JFE Holdings Inc	JPY	1785.5	1,097	20.2	10.3	8.9	7.0	2.8	5.4
Gerdau SA	BRL	9.0	15,494	22.0	11.4	6.7	5.4	2.7	5.1
Angang Steel Co Ltd	CNY	5.4	38,278	16.0	13.6	7.7	7.0	5.1	5.8
Alcoa Corp	US\$	30.5	5,610	11.0	12.3	4.1	4.5	9.3	6.5
Norsk Hydro ASA	NOK	45.0	93,022	12.7	11.7	5.6	5.4	8.8	8.7
United Co RUSAL PLC	US\$	3.7	56,670	6.1	5.4	8.3	8.0	29.8	24.6
KAZ Minerals PLC	US\$	465.0	2,077	8.2	6.0	6.8	5.3	41.7	35.4
Southern Copper Corp	US\$	33.7	26,027	19.9	17.4	10.4	9.3	19.7	21.6
Antofagasta PLC	US\$	755.5	7,448	19.1	17.3	6.3	6.0	7.5	7.3
Lundin Mining Corp	US\$	6.9	5,022	16.9	15.1	4.8	5.2	8.7	15.7

Source: Bloomberg, ICICIdirect.com Research

ICICIdirect.com coverage universe (Metals & Mining)

Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Coal India	254	280	Hold	157,389	14.9	18.8	20.3	17.8	14.2	13.1	9.3	8.0	7.0	33.5	37.9	37.4	37.8	39.2	37.2
Tata Steel	522	550	Buy	154,877	42.2	47.0	64.2	11.5	10.3	7.5	7.4	7.2	6.0	9.4	9.4	11.1	10.8	13.8	16.2
JSW Steel	200	215	Buy	48,284	14.3	18.8	20.8	13.5	10.2	9.3	7.2	6.7	6.3	13.3	14.5	14.5	15.3	17.4	16.4
Hindustan Zinc	253	300	Buy	106,977	19.7	23.9	25.5	13.8	11.3	10.6	9.3	7.3	6.1	26.9	33.2	30.3	27.0	27.0	24.3
Vedanta	242	260	Hold	71,605	15.1	30.5	34.4	9.3	16.3	15.9	4.8	4.1	3.6	12.1	14.2	14.8	9.3	16.3	15.9
Graphite India	144	105	Hold	2,812	3.1	3.6	5.4	45.7	39.9	26.5	14.5	43.6	14.5	4.4	(0.3)	3.4	3.5	3.8	5.9
HEG	281	275	Hold	1,124	(3.5)	26.0	35.6	22.3	11.9	9.3	2.1	1.5	1.3	(3.2)	1.7	3.7	0.9	5.3	7.4
Mah. Seamless	404	325	Hold	2,705	5.8	14.6	19.0	39.5	15.8	12.2	35.4	7.8	6.2	0.2	2.6	3.7	1.4	3.4	4.2

Source: Company, ICICIdirect.com Research

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Sector view:

Over weight compared to index

Equal weight compared to index

Under weight compared to index

Index here refers to BSE 500



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