Jiangsu Shagang Group Co., Ltd.'s 2019-1 Medium-Term Notes

Ratings:
Long-term credit rating of the issuer: AAA
Credit rating of the medium-term notes (MTN): AAA
Rating outlook: Stable

MTN issue size: CNY 1 billion
Maturity of this issue: 3 years
Debt servicing method: Annual interest payment, repayment of principal at maturity
Use of proceeds: To supplement the working capital and repay interest-bearing debts

Date of rating: February 1, 2019

Financial data

Item	2015	2016	2017	Sep. 2018
Cash assets (CNY 100mn)	98.49	120.38	144.97	168.50
Total assets (CNY 100mn)	1088.71	1214.93	1368.99	1486.81
Owners' equity (CNY 100mn)	437.21	458.47	587.08	680.59
Short-term liabilities (CNY 100mn)	463.05	387.65	305.41	385.80
Long-term liabilities (CNY 100mn)	57.32	146.98	166.71	124.51
Total liabilities (CNY 100mn)	520.37	534.63	472.13	510.31
Total operating income (CNY 100mn)	1205.19	1116.15	1238.56	1038.17
Total profit (CNY 100mn)	13.90	39.29	174.54	149.17
EBITDA (CNY 100mn)	81.54	104.52	241.10	--
Net cash flow from operating activities (CNY 100mn)	60.58	78.70	214.81	117.17
Operating profit margin (%)	4.00	7.96	15.75	18.01
ROE (%)	2.30	7.06	22.88	--
Debt-to-asset ratio (%)	59.84	62.26	57.12	54.22
Total debt capitalization ratio (%)	54.34	53.83	44.57	42.85
Current ratio (%)	87.83	91.34	123.17	121.99
Operating cash flow-to-current liabilities ratio (%)	10.33	13.25	37.63	--
Total liabilities/EBITDA (x)	6.38	5.12	1.96	--
EBITDA-to-interest cover (x)	4.00	5.75	13.75	--

Notes: Monetary funds with restricted use and notes receivable have already been removed from the Company's 2015-2017 cash assets; financial data provided by the Company for the first three quarters of 2018 have not been audited.

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Rationale

The ratings assigned by China Lianhe Credit Rating Co., Ltd.'s (hereinafter referred to as "Lianhe Ratings") to Jiangsu Shagang Group Co., Ltd. (hereinafter referred to as the "Company") reflect the fact that the Company, as an extra-large Chinese steel producer, has across-the-board competitive advantages in terms of production scale, competitiveness in the regional market, technology development as well as the R&D capacity. Thanks to the supply-side structural reform implemented in the iron and steel industry in recent years, prices of the Company's products have increased sharply with a substantial improvement in its profitability. On the other hand, it has come to the attention of Lianhe Ratings that rising prices of raw materials, the Company's heavy reliance on external iron ore supplies and deficiencies in its debt structure have led to adverse effects on the Company's credit fundamentals.

Going forward, the Company will continue to restructure the product lines revolving around its core business - steel production, increase the proportion of high value-added products relative to the total product volume by technically renovating existing production lines, and step up investment into environmental protection operations. The overall competitiveness of the Company is expected to improve further accordingly. Lianhe Ratings assigns a "stable" rating outlook to the Company.

Offering of the medium-term notes only has a limited impact on the Company's debt level, and the Company's operating cash flow and EBITDA offer high coverage against the MTN.

Based on an overall assessment of the Company's long-term credit profile and its ability to repay the MTN, Lianhe Ratings concludes that the risk of nonpayment of this MTN is extremely low.

Strengths

1. The Company is the largest private steel producer in China, and its headquarters is the largest single-steelmaker (by production capacity) in the world and therefore boasts a clear advantage in terms of economies of scale; the Company is widely noted for its strong R&D capacity and overall competitiveness.
2. Thanks to the ongoing supply-side structural reform implemented in the steel industry in recent years, prices of the Company's products have increased sharply, with substantial improvement achieved in both earnings and profitability.
3. The Company is based in the Yangtze River Delta, a region with a highly-developed local economy and strong downstream demand, which creates a favorable external environment for the Company's development; furthermore, the Company's ports and related facilities give it a competitive edge in procurement and transportation.
4. The Company has a relatively small headcount, strong cost control capacity and high operating efficiency; its expense ratio remained low during the reporting period, with a high level of financial flexibility observed.
5. The Company's sizable cash flow and EBITDA from operating activities offer a high degree of coverage for this MTN.

Concerns

1. Given the high proportion of industrial and building materials in the Company's total product volume, its product structure and the added-value of its products need to be further improved.
2. The Company relies heavily on imported iron ore; and rising raw material prices and increasing competition between market players place certain amount of pressure on earnings of the Company.
3. Short-term debts account for the majority of the Company's liabilities, so its debt structure needs to be further improved; the significant amount of other accounts receivable exposes the Company to a certain level of collection risk; and the high proportion of undistributed profits to the owner's total equity indicates a low degree of equity stability.