

New H beam capacity drives EPS growth



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1H'07 interim results beat expectation

China Oriental reported 1H'07 net profit of RMB769mn (EPS of RMB0.26), up 32% YoY and 12% above our estimate, but in line with market consensus. An interim dividend of HK\$0.055/shr vs. HK\$0.01/shr in 1H'06 has been proposed.

Raising earnings estimates for 2007-2009

Due to better than expected interim results, and the performance of the new H beam capacity, we are raising our 07-09E EPS by 10%, 9% and 10% to RMB0.50, RMB0.55, and RMB0.67, respectively.

New target of 10mn tonnes 2010, over 2x current capacity

Management has set a target of more than doubling steel capacity to over 10mn tonnes by 2010 vs. the current 4.3mn tonnes. Also, H-section will account for more than half of revenues post-expansion vs. about 32% now.

Need more details, but initiative looks positive

This is the 1st time management has mentioned the initiative, but given the lack of detail it is difficult to assess its feasibility. The expansion could be positive for cash flows and the valuation, but management needs to come out to meet investors/stakeholders to sell it, as the capital raising could be huge (~US\$1.9B).

Reiterate neutral rating

Communication remains limited, especially since Feb. '07 when a takeover move began from non-executive Board member, Ms. Chen. The lack of transparency and internal struggle make analysis difficult, though it has led to market expectations of better performance. The new initiative is a move in the right direction, but for now we can't be sure management is serious or can pull it off.

Estimates (Dec)

(CNY)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	847	1,033	1,457	1,595	1,942
EPS	0.291	0.356	0.502	0.549	0.669
EPS Change (YoY)	-31.7%	22.0%	41.1%	9.5%	21.8%
Dividend / Share	0.047	0.056	0.100	0.110	0.167
Free Cash Flow / Share	(0.182)	(0.119)	0.030	0.243	0.411

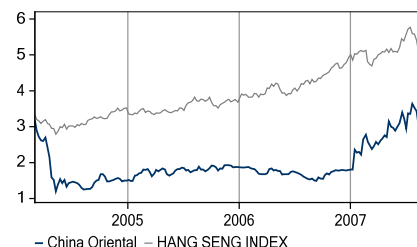
Valuation (Dec)

	2005A	2006A	2007E	2008E	2009E
P/E	13.74x	10.97x	7.34x	6.70x	5.50x
Dividend Yield	1.17%	1.43%	2.73%	2.98%	4.54%
EV / EBITDA*	9.54x	7.75x	5.37x	4.58x	3.85x
Free Cash Flow Yield*	-4.78%	-3.14%	0.781%	6.37%	10.79%

* For full definitions of *iQmethod*SM measures, see page 7.

Stock Data

Price	HK\$3.80
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	HK\$1.47-HK\$3.97
Mrkt Val / Shares Out (mn)	US\$1,416 / 2,905.0
Average Daily Volume	2,034,966
ML Symbol / Exchange	CUGCF / HKG
Bloomberg / Reuters	581 HK / 0581.HK
ROE (2007E)	24.0%
Net Dbt to Eqy (Dec-2006A)	8.9%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	24.2%



- China Oriental - HANG SENG INDEX

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Refer to important disclosures on page 8 to 9. Analyst Certification on page 7.

iQprofileSM China Oriental Group Company, Inc.

Key Income Statement Data (Dec)	2005A	2006A	2007E	2008E	2009E
(CNY Millions)					
Sales	9,183	9,782	13,376	14,188	16,214
Gross Profit	1,224	1,424	2,091	2,484	2,979
Sell General & Admin Expense	(159)	(184)	(229)	(242)	(277)
Operating Profit	1,065	1,241	1,862	2,242	2,702
Net Interest & Other Income	(61)	(7)	(59)	(61)	(46)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,004	1,233	1,803	2,181	2,656
Tax (expense) / Benefit	(157)	(211)	(308)	(545)	(664)
Net Income (Adjusted)	847	1,033	1,457	1,595	1,942
Average Fully Diluted Shares Outstanding	2,905	2,905	2,905	2,905	2,905

Key Cash Flow Statement Data

Net Income (Reported)	847	1,033	1,457	1,595	1,942
Depreciation & Amortization	208	327	398	408	454
Change in Working Capital	(694)	(1,174)	(475)	(119)	(237)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(35)	55	58	40	50
Cash Flow from Operations	326	240	1,439	1,925	2,209
Capital Expenditure	(854)	(587)	(1,353)	(1,220)	(1,016)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	33	8	(1)	0	0
Cash Flow from Investing	(821)	(578)	(1,353)	(1,220)	(1,016)
Shares Issue / (Repurchase)	2	0	0	0	0
Cost of Dividends Paid	(146)	(166)	(291)	(319)	(486)
Cash Flow from Financing	32	67	(291)	(319)	(486)
Free Cash Flow	(528)	(347)	86	705	1,193
Net Debt	930	499	705	319	(388)
Change in Net Debt	213	(380)	206	(386)	(707)

Key Balance Sheet Data

Property, Plant & Equipment	4,236	4,675	5,626	6,441	7,007
Other Non-Current Assets	121	125	121	118	114
Trade Receivables	714	999	1,374	1,462	1,651
Cash & Equivalents	710	435	229	615	1,322
Other Current Assets	2,372	1,988	2,691	2,807	3,171
Total Assets	8,153	8,221	10,041	11,442	13,265
Long-Term Debt	294	361	361	361	361
Other Non-Current Liabilities	15	56	56	56	56
Short-Term Debt	1,346	573	573	573	573
Other Current Liabilities	1,766	1,630	2,234	2,318	2,634
Total Liabilities	3,421	2,620	3,224	3,308	3,624
Total Equity	4,732	5,601	6,817	8,134	9,641
Total Equity & Liabilities	8,153	8,221	10,041	11,442	13,265

iQmethodSM - Bus Performance*

Return On Capital Employed	15.4%	16.1%	21.6%	20.0%	20.7%
Return On Equity	20.0%	20.5%	24.0%	21.9%	22.4%
Operating Margin	11.6%	12.7%	13.9%	15.8%	16.7%
EBITDA Margin	13.9%	16.0%	16.9%	18.7%	19.5%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.4x	0.2x	1.0x	1.2x	1.1x
Asset Replacement Ratio	4.1x	1.8x	3.4x	3.0x	2.2x
Tax Rate (Reported)	15.6%	17.1%	17.1%	25.0%	25.0%
Net Debt-to-Equity Ratio	19.7%	8.9%	10.3%	3.9%	-4.0%
Interest Cover	14.4x	24.6x	25.5x	30.7x	37.0x

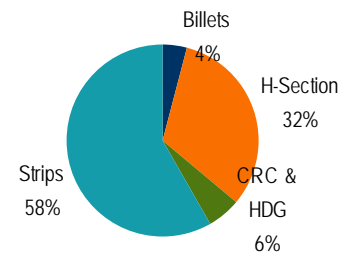
Key Metrics

* For full definitions of iQmethodSM measures, see page 7.

Company Description

China Oriental Group Co. Ltd. (COGCL) was incorporated in Nov. 2003 and listed on the Hong Kong stock market in March 2004. Its major operating asset is its 97.6% interest in Hebei Jinxi Steel. Jinxi Steel produces billets, hot-rolled strips and H beam, and total crude capacity is 4mn tonnes. Besides, it has a JV in Foshan, producing CRC and galvanized steel. The company is going to build one more H beam line in Jinxi.

Chart 1: Sales breakdown by products (1H'07)



Source: Company, Merrill Lynch

Stock Data

Price to Book Value 1.7x

Big plan of >2x capacity by 2010, little detail

We believe it's a positive move to double capacity in three years' time; however, it is difficult to assess the feasibility from management since we have no details. For example, if we assume 5mn tonnes of capacity at RMB3,000/t (~US\$385/t), then the cost of RMB15B (US\$1.95B) would result in a significant increase in debt and equity via a doubling of the shares outstanding. The expansion would be positive for cash flows and the valuation, but we think management needs to come out to meet investors/stakeholders to sell it.

Increase dividend payout ratio gradually

The Board is considering a dividend of HK\$0.055, up from HK\$0.01/sh for the 2006 interim period. However, it's pending on approval of the Executive of the Securities and Futures Commission based on the Takeovers Code.

Growth driven by new H-beam capacity

In 1H'07, H-section steel contributed about 42% of the total gross profit, or RMB457mn, significantly higher (+535%) than RMB72mn earned in 2H06A, when the line just started commercial operation.

Output exceeds design capacity

H section sales volume (633K tonnes) was higher than our est. (400K tonnes), showing that H-section production has exceeded the full capacity target of 1mn tonnes p.a.

Margins expanding

Thanks to a strong H section market environment, ASP of H section increased by 14% HoH, or 5% higher than our estimates. Meanwhile, COGS per ton cut down by 1% HoH, or 4% lower than our estimates due to increasing economies of scale. As a result, gross margin of H section steel quickly climbed to 21.7% in 1H'07 from 06A's 9.9%, and 6.9ppt higher than our estimates.

Dominant product going forward

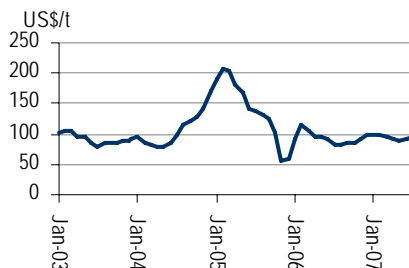
We expect the strong momentum of the H section business will continue, since the company has decided to focus more on this product line. It targets to become one of China's largest H-section steel producers and H-section should account for more than 51% of its revenue by 2010 post-expansion vs. about 32% now.

The company has already started investment in one new H-section line of 1.2mn tonnes annual capacity, which is likely to be completed in 2H'08.

Cross Reference

[China Oriental Group Company, Inc., 8 五月 2007](#)

Chart 2: CRC-HRC margin



Source: Custeel.com, Merrill Lynch

CRC loss less than expected on lower volume

Foshan JV, which makes CRC and galvanized steel, suffered a loss of RMB1.05mn in 1H'07, much less than the loss of RMB18.6mn made in 1H'06 and also better than our expectation. It seems that the company is not eager to expand the output on the CRC line yet, because the CRC-HRC margin was not very attractive for a mill without its own HRC resources.

1H'07 sales volume of CRC and galvanized steels as a total was only 73K tonnes, 35% lower than our expectation and also way below its annual capacity of 450K tonnes. The restricted sales also helped maintain a positive margin vs. our expected negative 8% gross margin.

Table 1: Interim results comparison table - China Oriental

		1H07A	1H06A	2H06A	YoY	HoH	ML Est. 1H07E	Variation vs. ML est.	2007E	YoY	2008E	YoY	2009E	YoY
Unit Sales Price:														
Billets	Rmb/t	2,519	2,331	2,388	8%	5%	2,586	-3%	2,550	9%	2,682	5%	N.A.	N.A.
Strips and strip products		2,825	2,504	2,639	13%	7%	2,831	0%	2,781	7%	2,893	4%	2,922	1%
H-Sections		3,325	0	2,917	NA	14%	3,172	5%	3,252	11%	3,264	0%	3,311	1%
CRC		4,567	3,594	3,503	27%	30%	3,838	19%	4,056	13%	3,806	-6%	3,861	1%
Galvanized		5,113	5,101	4,932	NA	4%	5,319	-4%	5,132	3%	5,275	3%	5,351	1%
Average		3,027	2,490	2,717	22%	11%	2,974	2%	2,990	15%	3,075	3%	3,184	4%
Sales Volumes:														
	'000 t													
Billets		113	853	320	-87%	-65%	200	-44%	200	-83%	300	50%	0	-100%
Strips and strip products		1,373	1,010	1,192	36%	15%	1,400	-2%	2,800	27%	2,800	0%	2,800	0%
H-Sections		633	0	250	NA	153%	400	58%	1,300	420%	1,300	0%	2,020	55%
Total steel products (except CR)		2,119	1,863	1,762	14%	20%	2,000	6%	4,300	19%	4,400	2%	4,820	10%
CRC-JV		6	37	8	-83%	-21%	45	-86%	16	-65%	40	155%	60	50%
Galvanized		67	13	64	432%	4%	68	-1%	147	91%	160	9%	200	25%
Profit & Loss														
Revenue														
	Rmb mn													
Billets		284	1,988	764	-86%	-63%	517	-45%	510	-81%	805	58%	0	-100%
Strips		3,878	2,578	3,146	50%	23%	3,964	-2%	7,788	36%	8,102	4%	8,183	1%
H-Sections		2,103	0	729	NA	189%	1,269	66%	4,228	480%	4,243	0%	6,689	58%
CRC		29	133	28	-78%	3%	173	-83%	64	-60%	152	139%	232	52%
Galvanized		342	64	317	434%	8%	359	-5%	755	98%	846	12%	1,070	26%
Others		12	-52	88	-123%	-86%	20	-40%	32	-10%	40	25%	40	0%
Total Revenue		6,648	4,710	5,072	41%	31%	6,302	5%	13,376	37%	14,188	6%	16,214	14%
Total COGS		-5,559	-3,977	-4,381	40%	27%	-5,354	4%	-11,286	35%	-11,703	4%	-13,235	13%
Gross Operational Income		1,089	734	690	48%	58%	947	15%	2,091	47%	2,484	19%	2,979	20%
SG&A		-114	-93	-90	22%	26%	-120	-5%	-229	25%	-242	6%	-277	14%
EBIT		976	641	600	52%	63%	828	18%	1,862	50%	2,242	20%	2,702	21%
Interest income		5	13	6	-59%	-14%	9	-41%	14	-27%	12	-11%	28	127%
Interest expense		-31	-23	-27	32%	13%	-37	-16%	-73	45%	-73	0%	-73	0%
Investment income		-1	-2	1	-74%	-145%	0	N.A.	0	-100%	0	NA	0	NA
Others		-13	72	-47	-118%	-72%	0	N.A.	0	-100%	0	NA	0	NA
Profit Before Tax		937	700	533	34%	76%	800	17%	1,803	46%	2,181	21%	2,657	22%
Income Tax		-148	-111	-100	34%	48%	-137	9%	-308	46%	-545	77%	-664	22%
Profit After Tax		788	590	433	34%	82%	663	19%	1,494	46%	1,636	9%	1,993	22%
Minorities		-19	-5	15	NA	-227%	24	-180%	-37	-455%	-40	9%	-49	22%
Net Income		769	585	448	32%	72%	687	12%	1,457	41%	1,595	9%	1,943	22%
EPS	Rmb/sh	0.26	0.20	0.15	32%	72%	0.24	12%	0.50	41%	0.55	9%	0.67	22%
DPS	Rmb/sh	0.06	0.01	0.05	437%	21%	-	N.A.	0.10	80%	0.11	9%	0.17	52%

Source: Merrill Lynch estimates, company

Little achievement in the takeover so far

As at 31 August, the First Closing Day, the Offeror, Start Triumph (controlled by Ms. Chen, non-executive member of the Board of China Oriental) has received acceptances in respect of 1.83% of the issued shares under the Share Offer and no acceptances under the Option Offer.

Adding the existing 28.11% shares, Start Triumph may be able to control 29.95% of the outstanding shares, far below the 50% requirement to get control of China Oriental.

The Offeror has decided to extend the offer to 14 September and it will then publish an announcement as to whether the Offers have expired or been revised or been extended. Under the current offer price, we see minimal chance of success of the Offer.

Earnings estimates revised up by ~10%

On the back of better than expected interim results, especially H section performance, we lifted our 07-09E EPS by 10%, 9% and 10% to RMB0.50, RMB0.55 and RMB0.67 respectively.

Table 2: Earnings forecasts change

	2007E			2008E			2009E		
	current	previous	chg	current	previous	chg	current	previous	chg
Profit & Loss									
Revenue									
Billets	510	1,037	-51%	805	545	48%	0	0	N.A.
Strips	7,788	7,800	0%	8,102	8,114	0%	8,183	8,195	0%
H-Sections	4,228	2,543	66%	4,243	3,264	30%	6,689	5,696	17%
CRC	64	340	-81%	152	761	-80%	232	965	-76%
Galvanized	755	707	7%	846	791	7%	1,070	803	33%
Others	32	40	-20%	40	40	0%	40	40	0%
Total Revenue	13,376	12,465	7%	14,188	13,515	5%	16,214	15,698	3%
Total COGS	-11,286	-10,595	7%	-11,703	-11,212	4%	-13,235	-12,983	2%
Gross Operational Income	2,091	1,870	12%	2,484	2,302	8%	2,979	2,716	10%
SG&A	-229	-237	-3%	-242	-257	-6%	-277	-298	-7%
EBIT	1,862	1,633	14%	2,242	2,046	10%	2,702	2,418	12%
Interest income	14	15	-10%	12	15	-17%	28	30	-8%
Interest expense	-73	-73	0%	-73	-73	0%	-73	-73	0%
Profit Before Tax	1,803	1,576	14%	2,181	1,988	10%	2,657	2,375	12%
Income Tax	-308	-269	14%	-545	-497	10%	-664	-594	12%
Profit After Tax	1,494	1,306	14%	1,636	1,491	10%	1,993	1,781	12%
Minorities	-37	19	-297%	-40	-26	56%	-49	-21	135%
Net Income	1,457	1,325	10%	1,595	1,465	9%	1,943	1,760	10%
EPS	0.502	0.456	10%	0.549	0.504	9%	0.669	0.606	10%
DPS	0.100	0.068	47%	0.110	0.076	45%	0.167	0.091	84%

Source: Merrill Lynch estimates

Neutral rating

The stock has performed well since the offer period began, reflecting market .

Under the takeover pressure, we sense the current management are more willing to make a push on strategic approaches for the company's long term development. Yet as said, it's hard for us to access the feasibility and impact on shareholders' interests now given no more information than the target itself.

Accordingly, we remain conservative and hence maintain our Neutral rating, though it's the cheapest stock in our Chinese steel universe.

06 September 2007

Table 3: Global steel universe valuation

Global Steel Universe		Company Name	Rating	Mkt Cap (mn US\$)	Price Curncy	Last Price	PE (x)			PB (x)			Dividend yield (%)			ROE (%)			EV/EBITDA (x)			EPS growth (%)					
ML ticker	Blimg ticker						07e	08e	09e	07e	08e	09e	07e	08e	09e	07e	08e	09e	07e	08e	09e	07e	08e	09e	07e	08e	09e
China																											
ANGGF	347 HK	Angang	NEUTRAL	27,166	HKD	24.95	16.4	14.2	11.4	2.4	2.1	1.9	3.1	3.5	4.4	21.4	19.8	21.7	7.4	6.2	5.2	23.4	15.7	23.6			
BAOSF	600019 CH	Baosteel	NEUTRAL	45,394	CNY	19.57	21.8	17.6	15.6	3.5	3.1	2.8	2.1	2.6	2.9	17.5	18.7	18.8	9.2	7.8	7.2	21.0	23.4	12.8			
CUCGF	581 HK	China Oriental	NEUTRAL	1,433	HKD	3.80	7.3	6.7	5.4	1.6	1.3	1.1	2.7	3.0	4.6	24.0	21.9	22.8	5.2	4.4	3.7	41.1	9.5	24.0			
MISCF	323 HK	Maanshan I & S-H	SELL	9,155	HKD	6.79	20.4	13.0	12.2	1.9	1.6	1.5	1.8	2.7	2.9	11.2	14.7	13.7	9.9	7.0	6.2	-13.8	56.3	7.2			
WHNIF	600005 CH	Wuhan Steel	NEUTRAL	19,497	CNY	18.78	22.6	17.9	15.3	5.6	4.8	4.1	2.7	3.5	3.9	29.0	31.5	31.4	11.9	10.1	8.5	67.2	26.2	17.2			
North America																											
ATI	ATI US	Allegheny Tech	BUY	9,932	USD	97.17	12.1	10.7		4.4	3.1		0.5	0.5		44.1	34.7		7.4	6.6		44.0	13.0				
TX	TX US	Ternium SA-ADR	BUY	6,098	USD	30.42	7.7	7.2	8.5	1.5	1.3	1.2				20.1	19.2	14.4	4.2	4.1	4.8	-2.9	7.1	-15.4			
NUE	NUE US	Nucor Corp.	BUY	15,858	USD	52.95	10.6	9.6	10.0	3.0	2.6	2.2	4.6	4.6	2.6	29.4	28.5	23.8	5.7	5.3	5.4	-12.0	10.0				
X	X US	U.S. Steel Corp.	NEUTRAL	11,083	USD	93.75	8.8	8.8		2.0	1.6		0.9	0.9		26.3	21.4		6.5	6.1		-8.2	-0.9				
STLD	STLD US	Steel Dynamics	BUY	3,973	USD	43.82	10.5	9.7	10.1	2.8	2.2	1.9	1.4	1.4	1.4	30.1	26.8	21.2	5.7	5.3	5.4	10.6	7.9				
GNA	GNA US	Gerdau Ameri	NEUTRAL	3,515	USD	11.49	7.2	7.7		1.5	1.3		3.0	0.7		23.7	18.4		4.6	4.6		21.2	-6.3				
AKS	AKS US	AK Steel	NEUTRAL	4,592	USD	41.20	12.1	10.6		5.7	3.7		-	-		61.9	42.6		9.1	8.3		198.2	14.7				
South America																											
SIDHF	CSNA3 BZ	CSN	BUY	15,886	BRL	114.70	11.2	10.2	8.1	3.4	2.9	2.3	2.7	4.5	4.1	35.5	30.5	31.7	6.1	5.4	4.7	124.4	9.8	25.9			
GGBUF	GGBR4 BZ	Gerdau S. A.	NEUTRAL	14,852	BRL	46.65	9.8	9.7	11.2	2.6	2.2	1.9	3.0	3.1	2.7	28.9	24.4	18.3	6.6	6.3	6.8	9.8	0.7	-13.0			
Europe and Africa																											
MTTFF	MT NA	ArcelorMittal	BUY	92,224	EUR	47.66	9.1	8.0	7.5	1.6	1.4	1.2	2.3	2.3	2.3	18.8	18.9	17.6	6.0	5.5	5.4	24.1	13.6	6.6			
MTLSF	MLA SJ	Mittal Steel	NEUTRAL	78	ZAR	128.00	9.1	8.6	8.5	2.7	2.3	1.9	3.7	3.9	3.9	28.8	28.9	24.4	5.5	5.1	5.1	35.7	5.5	0.8			
TYKFF	TKA GR	ThyssenKrupp AG	NEUTRAL	29,525	EUR	41.92	9.6	6.8	6.4	2.2	1.8	1.5	2.9	3.0	3.2	23.5	28.8	25.2	6.5	5.8	5.4	34.3	42.7	5.5			
OUTKF	OUT1V FH	Outokumpu	SELL	5,524	EUR	21.89	5.4	7.7	8.1	1.1	1.0	0.9	5.0	5.0	5.0	22.1	13.7	12.1	4.0	5.3	5.5	-23.8	-30.1	-4.8			
EREGF	EREGL TI	Erdemir	NEUTRAL	6,663	TRY	10.10	9.7	8.5	6.6	1.4	1.2	1.0	2.0	2.4	6.0	15.2	15.2	17.0	6.9	5.8	4.7	28.4	14.2	28.3			
Japan																											
NISTF	5401 JP	Nippon Steel	BUY	48,040	JPY	814	15.8	14.5	13.5	2.7	2.5	2.1	1.2	1.4	1.5	19.7	20.1	19.3	9.5	8.2	8.0	-0.9	8.8	7.8			
SMMLF	5405 JP	Sumitomo Metal	BUY	24,334	JPY	584	12.1	12.4	10.8	3.1	2.7	2.3	1.2	1.2	1.4	28.3	23.4	23.1	9.4	8.1	7.4	4.0	-1.8	14.6			
JFEFF	5411 JP	JFE Holdings	BUY	40,126	JPY	7,540	15.0	13.7	12.1	2.9	2.6	2.2	1.6	1.9	2.1	21.3	20.8	20.5	8.3	7.2	6.6	-6.7	9.9	12.7			
KBSTF	5406 JP	Kobe Steel	BUY	11,154	JPY	413	11.6	13.3	11.3	2.1	1.9	1.7	1.7	1.7	1.9	19.5	15.2	15.8	6.9	6.5	6.1	29.7	-12.5	17.0			
Taiwan, India, Korea																											
SLAUF	SAIL IN	Steel Authority	BUY	16,760	INR	164.90	11.7	9.7	8.9	4.0	3.0	2.4	1.9	2.3	2.5	39.4	35.6	30.4	6.6	5.6	5.1	44.5	20.9	9.0			
GLMTF	5009 TT	Gloria Material	BUY	603	TWD	68.70	14.9	11.5	10.0	3.5	3.0	2.5	3.8	4.4		24.7	27.8	27.4	11.9	9.0	7.6	42.9	29.6				
PKXFF	005490 KS	POSCO	BUY	55,395	KRW	596,000	12.0	10.5	9.8	1.8	1.6	1.4	1	1		15.9	16.0	15.0	6.9	6.4	6.0	12.8	14.3				
Australia																											
OSTLF	OST AU	OneSteel	BUY	4,675	AUD	6.51	18.6	16.0	10.4	3.5	1.6	1.5	2.9	3.3	5.2	13.0	13.6	14.5	10.4	8.2	6.2	13.9	16.4	52.9			
SMUPF	SGM AU	Sims Group	NEUTRAL	3,126	AUD	30.10	14.7	12.9	12.4	2.9	2.4	2.1	4.8	5.1	5.3	20.2	20.8	19.3	8.7	7.7	7.2	19.8	14.0	3.7			
BLSFF	BSL AU	BlueScope Steel	NEUTRAL	6,233	AUD	10.31	10.7	12.4	14.6	2.0	1.9	1.8	4.5	5.0	5.0	20.6	15.6	12.5	6.6	6.7	7.3	19.2	-13.8	-14.9			
Russia																											
XVCHF	CHMF RU	Severstal	BUY	16,939	USD	16.81	9.6	8.2	9.1	1.4	1.3	1.2	2.6	3.0	2.7	15.5	16.5	13.2	5.1	4.5	4.8	52.9	16.6	-10.1			
XNVLF	NLMK RU	NLMK	BUY	19,418	USD	3.24	8.9	8.1	9.0	2.2	1.9	1.6	3.3	3.7	3.3	28.1	25.2	19.5	5.6	5.1	5.6	27.5	10.3	-9.7			
XMGFF	MAGN RU	MMK	BUY	13,074	USD	1.12	7.9	6.5	7.9	2.0	1.6	1.4	3.2	3.8	3.2	31.4	27.4	19.2	5.6	4.7	5.5	4.1	21.1	-16.8			
Global average							12.0	10.7	10.2	2.7	2.2	1.9	2.5	2.8	3.4	25.3	23.0	20.1	7.2	6.3	6.0	27.7	11.5	7.7			
Asia Pacific (ex. Japan) average							15.6	12.9	11.5	3.0	2.4	2.1	2.9	3.3	4.1	21.5	21.4	20.7	8.6	7.2	6.4	26.5	19.3	15.1			
Japan average							13.6	13.4	11.9	2.7	2.4	2.1	1.4	1.5	1.7	22.2	19.9	19.7	8.5	7.5	7.0	6.5	1.1	13.0			
China average							16.8	12.5	10.9	3.1	2.6	2.2	2.4	3.1	3.8	21.4	22.7	22.7	9.0	7.2	6.1	31.5	30.7	16.2			

Source: Merrill Lynch estimates

Analyst Certification

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Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

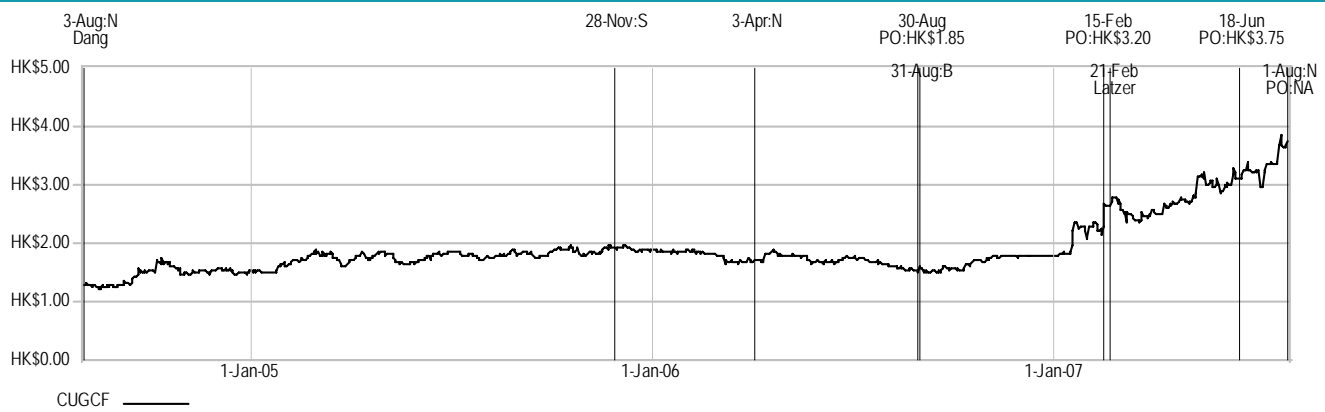
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CUGCF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of July 31, 2007 or such later date as indicated.

Investment Rating Distribution: Steel Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	22	51.16%	Buy	0	0.00%
Neutral	20	46.51%	Neutral	4	22.22%
Sell	1	2.33%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Neutral	1633	45.97%	Neutral	438	29.67%
Sell	244	6.87%	Sell	47	21.66%

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