

ArcelorMittal eyes controlling stake

Equity | China | Steels
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Merrill Lynch

Alexander Latzer >>

+852 2536 3453

Research Analyst
Merrill Lynch (Hong Kong)
a_latzer@ml.com

Irene Ye >>>

Research Analyst
Irene_Ye@ml.com

Reiterate Buy on ArcelorMittal's commitment

ArcelorMittal has indicated its intention to gradually secure the controlling stake in China Oriental and said it is committed to the company's development from now on. We reiterate our Buy rating on China Oriental with a PO of HK\$6.80/share, representing 10.7x 2008E P/E and 8.9x 2009E P/E, compared with 13.0x and 11.2x, respectively, for its regional peers.

How ArcelorMittal will be involved

ArcelorMittal has agreed to provide assistance in various areas, including technology, management expertise, financing channels, raw material sourcing and overseas market exploration. China Oriental's hope to expand capacity to 10mtpa by 2010 looks more attainable now, in our view.

General offer no later than 19 Dec, no lower than HK\$6.12

An unconditional mandatory general offer to all ordinary shareholders is required as the Takeovers and Mergers Panel judged that ArcelorMittal and Mr Han Jingyuan, the company's controlling shareholder, are parties acting in concert. The offer will be made no later than 19 December 2007 and the price shall not be lower than HK\$6.12/share. This was the price offered to Ms Chen Ningning, the previous 2nd largest shareholder, to gain a 28% stake in early November.

Risks to our Buy recommendation

The key risk, in our view, is government objection to ArcelorMittal's acquisition of China Oriental. While the cooperation agreement is valid subject to ArcelorMittal's shareholding of 25% or more, we fear ArcelorMittal could significantly reduce its involvement if it sees no possibility of gaining a controlling stake.

Estimates (Dec)

(CNY)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	847	1,033	1,571	1,752	2,109
EPS	0.291	0.356	0.541	0.603	0.726
EPS Change (YoY)	-31.7%	22.0%	52.1%	11.6%	20.4%
Dividend / Share	0.047	0.056	0.108	0.121	0.182
Free Cash Flow / Share	(0.182)	(0.119)	0.006	0.124	0.400

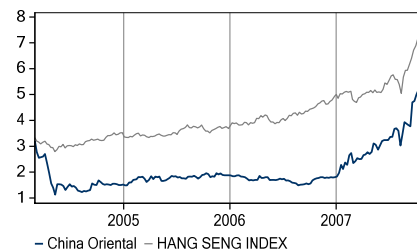
Valuation (Dec)

	2005A	2006A	2007E	2008E	2009E
P/E	19.52x	15.59x	9.47x	8.49x	7.05x
Dividend Yield	0.823%	1.01%	2.11%	2.36%	3.56%
EV / EBITDA*	12.54x	10.18x	6.71x	5.56x	4.68x
Free Cash Flow Yield*	-3.55%	-2.33%	0.109%	2.43%	7.80%

* For full definitions of *iQmethod*SM measures, see page 8.

Stock Data

Price	HK\$5.40
Price Objective	HK\$6.80
Date Established	7-Nov-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	HK\$1.73-HK\$5.98
Mrkt Val / Shares Out (mn)	US\$2,012 / 2,905.0
Average Daily Volume	498,607
ML Symbol / Exchange	CUGCF / HKG
Bloomberg / Reuters	581 HK / 0581.HK
ROE (2007E)	25.7%
Net Dbt to Eqty (Dec-2006A)	8.9%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	26.9%



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Refer to important disclosures on page 9 to 10. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

iQprofileSM China Oriental Group Company, Inc.

Key Income Statement Data (Dec)	2005A	2006A	2007E	2008E	2009E
(CNY Millions)					
Sales	9,183	9,782	14,390	18,970	22,152
Gross Profit	1,224	1,424	2,229	2,794	3,346
Sell General & Admin Expense	(159)	(184)	(246)	(324)	(379)
Operating Profit	1,065	1,241	1,983	2,470	2,967
Net Interest & Other Income	(61)	(7)	(70)	(75)	(80)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,004	1,233	1,913	2,395	2,887
Tax (expense) / Benefit	(157)	(211)	(303)	(599)	(724)
Net Income (Adjusted)	847	1,033	1,571	1,752	2,109
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	1,571	1,752	2,109
Depreciation & Amortization	208	327	396	403	447
Change in Working Capital	(694)	(1,174)	(736)	(642)	(434)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(35)	55	48	44	62
Cash Flow from Operations	326	240	1,279	1,557	2,184
Capital Expenditure	(854)	(587)	(1,263)	(1,196)	(1,024)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	33	8	(1)	0	0
Cash Flow from Investing	(821)	(578)	(1,264)	(1,196)	(1,024)
Shares Issue / (Repurchase)	2	0	0	0	0
Cost of Dividends Paid	(146)	(166)	(314)	(350)	(530)
Cash Flow from Financing	32	67	(214)	(250)	(530)
Free Cash Flow	(528)	(347)	16	361	1,161
Net Debt	930	499	798	787	156
Change in Net Debt	213	(380)	299	(10)	(631)

Key Balance Sheet Data

Property, Plant & Equipment	4,236	4,675	5,538	6,335	6,915
Other Non-Current Assets	121	125	121	118	114
Trade Receivables	714	999	1,581	2,097	2,446
Cash & Equivalents	710	435	236	347	978
Other Current Assets	2,372	1,988	3,086	4,126	4,824
Total Assets	8,153	8,221	10,562	13,023	15,277
Long-Term Debt	294	361	461	561	561
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	2,575	3,489	4,102
Total Liabilities	3,421	2,620	3,665	4,679	5,292
Total Equity	4,732	5,601	6,897	8,343	9,985
Total Equity & Liabilities	8,153	8,221	10,562	13,023	15,277

iQmethodSM - Bus Performance*

Return On Capital Employed	15.4%	16.1%	23.0%	21.2%	21.5%
Return On Equity	20.0%	20.5%	25.7%	23.6%	23.6%
Operating Margin	11.6%	12.7%	13.8%	13.0%	13.4%
EBITDA Margin	13.9%	16.0%	16.5%	15.1%	15.4%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.4x	0.2x	0.8x	0.9x	1.0x
Asset Replacement Ratio	4.1x	1.8x	3.2x	3.0x	2.3x
Tax Rate (Reported)	15.6%	17.1%	15.9%	25.0%	25.1%
Net Debt-to-Equity Ratio	19.7%	8.9%	11.6%	9.4%	1.6%
Interest Cover	14.4x	24.6x	29.5x	30.5x	33.4x

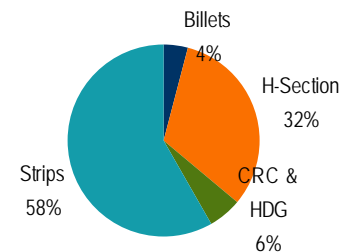
Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

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 product, 1H07



Source: Company, Merrill Lynch

Stock Data

Price to Book Value 2.2x

Reiterate Buy on promising outlook

ArcelorMittal is eyeing a controlling stake in China Oriental and we believe it is likely that China Oriental may become ArcelorMittal's H beam production base in China. Indeed, we see ArcelorMittal's support as pivotal to help China Oriental transform from a privately-owned mid-scale low-end steel producer into a multinational advanced mill.

ArcelorMittal will cooperate with China Oriental in many areas, including providing and/or helping to source raw materials, contributing to capital requirements, transferring technology and M&A expertise, as well as providing assistance in exploring potential overseas markets.

We reiterate our Buy recommendation on China Oriental with a PO of HK\$6.80/share, representing 10.7x 2008E P/E and 8.9x 2009E P/E – a discount to the trading averages of its regional peers at 13.0x 2008E P/E and 11.2x 2009E P/E, and to its global peers at 11.7x 2008E P/E and 10.1x 2009E P/E.

We believe any improvement in China Oriental's operation as a result of ArcelorMittal's involvement would narrow the stock's valuation gap with its peers and provide upside to our PO.

Trading in suspension until the offer announcement

The stock has been suspended from trading since 7 November 2007, when ArcelorMittal bought a 28% stake in China Oriental and signed a series of agreements on future cooperation and share transaction with Mr Han Jingyuan ("Mr Han"), the controlling shareholder, and the company. Stock trading will continue to be suspended until the unconditional mandatory general offer is made no later than 19 December 2007. We expect it to happen very soon, probably within this week.

Strategic alliance with ArcelorMittal

With a 28% stakeholding in the bag and expecting to gain a controlling stake going forward, ArcelorMittal has entered into a Business Cooperation Agreement with China Oriental. The agreement sets out the terms of future cooperation between the two companies and, in particular, the terms of ArcelorMittal's participation in relation to the operation of China Oriental.

What ArcelorMittal will contribute

As long as ArcelorMittal has a 25% or more stakeholding in China Oriental, it will:

- transfer, without charge or royalty, the technology, technical expertise and know-how necessary for the development of China Oriental's steel manufacturing operations;
- provide merger and acquisition expertise as well as financial and funds management expertise; and
- provide assistance in exploring overseas marketing opportunities.

Support on capacity expansion

In addition to the aforementioned general assistance, ArcelorMittal agrees to support China Oriental's capacity expansion from 6mtpa to 10mtpa by 2010. It will:

- provide assistance in the sourcing of coking coal,
- source a fixed minimum quantity of iron ore pa to be sold at par or benchmark prices, and
- contribute to China Oriental's capital requirement.

Possibly ArcelorMittal's H beam base in China

As H beam is China Oriental's major product and profit contributor, we expect ArcelorMittal's involvement will enhance and accelerate development on this product. We believe it is highly likely that China Oriental will emerge as ArcelorMittal's H beam production base in China.

Besides China Oriental, ArcelorMittal has a 29% stake in Hunan Valin Steel Tube and Wire Co. (000932 CH, Not Rated), which produces a very small amount of H beam as its main focus is tube manufacturing.

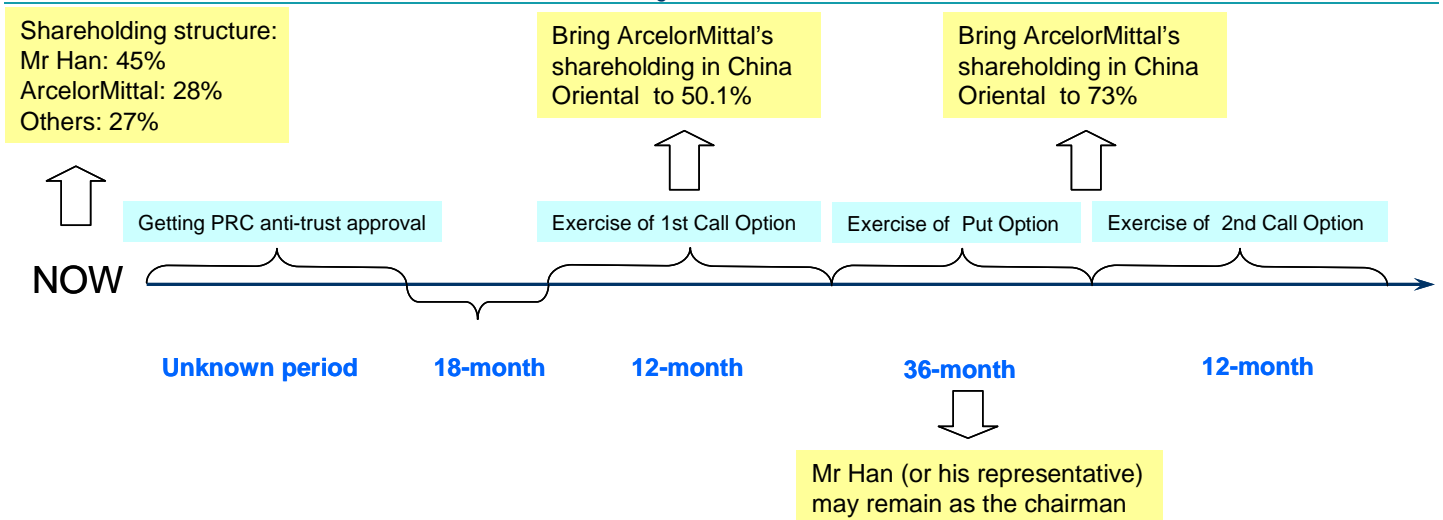
Gunning for final control

Based on the judgment file released by the Takeovers and Mergers Panel, we believe ArcelorMittal will gradually secure the controlling stake in China Oriental.

On 9 November 2007, ArcelorMittal and Mr Han, the controlling shareholder, signed the Shareholders' Agreement, while the Business Cooperation Agreement was signed between ArcelorMittal and China Oriental.

According to the Shareholders' Agreement, which provides 1st Call Option, Put Option and 2nd Call Option, the takeover procedure could unfold as follows (Chart 2).

Chart 2: China Oriental: Timeline for ArcelorMittal to secure controlling stake



Source: Company, Merrill Lynch

1. **Obtain PRC anti-trust approval:** The Shareholders' Agreement is conditional on ArcelorMittal obtaining the requisite anti-trust approval from China's Ministry of Commerce and the State Administration for Industry and Commerce for all the transactions listed in the agreement.

2. **Exercise of 1st Call Option making ArcelorMittal the controlling shareholder:** The 1st Call Option is an option granted by Mr Han to ArcelorMittal for it to purchase all (but not part) of the 1st Option shares (this will bring ArcelorMittal's shareholding to 50.1%). It is exercisable within a 12-month period which begins 18 months after the date the agreement becomes unconditional.

The purchase price under 1st Call Option shall not be less than the offer price ArcelorMittal will make in the coming mandatory offer, ie, not less than HK\$6.12/share.

3. **Exercise of Put Option:** The Put Option is granted by ArcelorMittal to Mr Han for him to sell to ArcelorMittal all or part of the Put Option shares (this is the difference between Mr Han's current shareholding and the number of Shares acquired by ArcelorMittal under the 1st Call Option). It is exercisable only once by Mr Han within 36 months from the completion of the sale and purchase of the 1st Call Option shares.

The purchase price under the Put Option shall not be less than the actual purchase price paid by ArcelorMittal for the 1st Call Option shares.

4. **Exercise of 2nd Call Option:** The 2nd Call Option is granted by Mr Han to ArcelorMittal for it to purchase the 2nd Option shares (this is the difference between Mr Han's current shareholding and the number of shares acquired under the 1st Call Option and Put Option) from Mr Han. It is exercisable by ArcelorMittal within 12 months after the expiry of the Put Option.

The purchase price under the 2nd Call Option shall not be less than the actual purchase price paid by ArcelorMittal for the 1st Call Option shares.

Other terms in the Shareholders' Agreement include:

- Mr Han (or his representative) may remain as the chairman for a 36-month period after ArcelorMittal becomes interested in more than 50% of the issued share capital.
- Mr Han may not acquire further shares without the consent of ArcelorMittal.

Mandatory general offer no later than 19 Dec

According to China Oriental's latest announcement, ArcelorMittal and Mr Han have been judged as parties acting in concert by the Takeovers and Mergers Panel. As a result, an unconditional mandatory general offer has been triggered.

We understand that ArcelorMittal and China Oriental will issue a statement as soon as practicable to announce the terms of the offer. In any event, the announcement will not be later than 19 December 2007.

Offer price will not be lower than HK\$6.12/share

ArcelorMittal has purchased 82,119,151 ordinary shares in China Oriental, representing about 28.02% of equity interest, from Smart Triumph and Ms Chen for a total consideration of about HK\$5.02bn, or HK\$6.12/share.

The general offer should not be on less favorable terms than those offered to Ms Chen, in our view. Accordingly, we believe the offer price cannot be less than HK\$6.12/share.

Intention of maintaining listing status

ArcelorMittal wishes to maintain the listing status of China Oriental on the HK Stock Exchange after the close of the unconditional mandatory general offer. It will undertake appropriate steps following the closing of the offer to endure that sufficient public float (25%) exists in the shares, which may include the sell down of its shareholding interest in the company.

Regulatory risks

In our opinion, the key risk in this deal lies in whether ArcelorMittal is able to secure the necessary approvals from the Chinese government. We have reservations over whether ArcelorMittal is allowed to control a Chinese steel mill, in addition to the anti-trust approval which has been mentioned already.

According to China's Steel Industry Development Policy, foreign investors are, in principle, not allowed to take a controlling stake in a Chinese steel mill. The policy does not differentiate between state-owned and private steel mills; hence the private status of China Oriental may not exempt it from the regulation. A way out is the fact that the listed China Oriental is not incorporated in China, but Bermuda. All said, the rule is in the hands of the Chinese government.

General offer is unconditional

At the end of the day, even if the deal fails to get any necessary government approval, the general offer will not be affected as it will be an unconditional one.

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Table 1: Global steel companies: Valuation comparison

Global Steel Universe																											
ML ticker	Bling ticker	Company Name	Rating	Mkt Cap (mn US\$)	Price Curncy	Last Price	PE (x)			PB (x)			Dividend yield (%)			ROE (%)			EV/EBITDA (x)			EPS growth (%)					
							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	28,160	HKD	24.55	16.3	14.7	11.9	2.5	2.2	2.0	3.0	3.4	4.1	20.7	19.6	21.4	7.9	6.7	5.5	19.3	11.4	23.1			
BAOSF	600019 CH	Baosteel	NEUTRAL	39,972	CNY	16.88	20.5	16.1	14.6	3.1	2.7	2.5	2.2	2.8	3.1	16.2	18.0	17.7	8.3	7.1	6.5	10.9	27.4	10.0			
CUGCF	581 HK	China Oriental	BUY	2,027	HKD	5.40	9.5	8.5	7.1	2.2	1.8	1.5	2.1	2.3	3.5	25.7	23.6	23.6	6.7	5.6	4.7	52.1	11.6	20.4			
MISCF	323 HK	Maanshan I & S-H	SELL	7,625	HKD	5.99	17.6	11.6	10.7	1.7	1.3	1.2	2.1	3.1	3.2	11.5	14.6	13.6	8.0	5.9	5.3	-13.6	51.8	8.6			
WHNIF	600005 CH	Wuhan Steel	NEUTRAL	18,484	CNY	17.44	20.6	16.0	13.4	5.2	4.4	3.7	3.0	3.9	4.4	29.4	32.5	32.6	10.9	9.0	7.5	70.0	29.2	18.8			
North America																											
ATI	ATI US	Allegheny Tech	BUY	9,737	USD	95.22	13.2	10.5		4.5	3.2		0.5	0.5		40.7	35.8		8.0	6.5		29.7	25.5				
TX	TX US	Ternium SA-ADR	BUY	8,266	USD	41.23	8.5	6.7	5.9	1.7	1.4	1.1				22.6	23.1	21.0	3.3	2.5	2.4	18.9	27.2	13.2			
NUE	NUE US	Nucor Corp.	BUY	18,577	USD	61.72	12.7	11.3	11.3	3.8	3.2	2.9	3.9	3.9	3.9	30.3	31.1	27.1	6.8	6.3	6.3	-14.1	12.7				
X	X US	U.S. Steel Corp.	NEUTRAL	12,787	USD	108.26	10.8	9.8	9.7	2.3	1.9	1.6	0.8	0.8	0.8	23.3	20.9	17.7	9.0	7.8	7.8	-17.7	10.4				
STLD	STLD US	Steel Dynamics	BUY	5,380	USD	55.73	13.3	10.5	9.9	3.1	2.5	2.1	1.1	1.1	1.1	29.3	30.4	26.8	7.4	5.8	5.5	10.1	26.5				
GNA	GNA US	Gerdau Ameri	NEUTRAL	5,812	USD	13.44	8.4	8.4	8.1	1.1	0.9	0.8	2.6	0.6	0.6	18.7	16.7	14.8	7.0	4.9	4.9	21.2	-				
AKS	AKS US	AK Steel	NEUTRAL	5,324	USD	47.75	15.9	12.3	12.5	7.6	4.7	3.4	-	-	-	65.3	47.6	31.9	10.2	9.0	9.0	164.0	29.6				
South America																											
SIDHF	CSNA3 BZ	CSN	NEUTRAL	23,723	BRL	153.40	15.3	31.9	18.7	4.6	4.5	3.9	4.0	2.3	2.3	34.9	14.2	22.4	10.3	11.4	9.7	115.8	-52.1	70.9			
GGBUF	GGBR4 BZ	Gerdau S. A.	BUY	18,827	BRL	53.40	12.6	9.8	7.3	2.9	2.4	1.9	2.3	2.8	3.7	25.1	26.4	29.1	6.5	5.0	4.2		27.8	34.8			
Europe and Africa																											
XLCMF	MT NA	ArcelorMital	BUY	108,036	EUR	50.68	10.2	8.9	8.1	1.9	1.6	1.4	2.0	2.0	2.0	19.4	19.4	18.7	6.7	6.2	5.8	26.8	13.8	10.6			
TYEKF	TKA GR	ThyssenKrupp AG	NEUTRAL	28,546	EUR	37.71	8.7	6.1	5.8	2.0	1.6	1.3	3.2	3.3	3.5	23.5	28.8	25.2	6.2	5.5	5.2	34.3	42.7	5.5			
OUTKF	OUTTV FH	Outokumpu	BUY	5,989	EUR	22.45	6.1	8.2	8.3	1.2	1.1	1.0	4.9	4.9	4.9	11.8	13.5	12.4	6.4	5.5	5.5	10.3	-25.9	-0.7			
EREGF	EREGL TI	Erdemir	NEUTRAL	7,518	TRY	10.40	9.9	7.6	3.5	1.4	1.2	0.9	1.9	2.6	8.5	15.3	17.2	29.9	7.1	5.0	2.8	29.8	29.7	116.3			
Japan																											
NISTF	5401 JP	Nippon Steel	BUY	40,462	JPY	664	13.1	13.3	12.3	2.2	2.1	1.8	1.5	1.7	1.8	19.7	18.4	18.0	8.3	7.7	7.5	0.3	-1.3	8.2			
SMMLF	5405 JP	Sumitomo Metal	BUY	20,824	JPY	483	10.2	11.9	10.2	2.5	2.2	1.9	1.4	1.4	1.7	28.3	20.4	19.9	8.1	7.6	6.9	2.5	-13.6	15.8			
JFEFF	5411 JP	JFE Holdings	BUY	31,793	JPY	5,710	11.6	11.2	10.0	2.2	2.0	1.8	2.1	2.5	2.8	21.3	19.8	19.5	6.8	6.2	5.7	-6.7	4.0	11.1			
KBSTF	5406 JP	Kobe Steel	BUY	10,234	JPY	361	10.2	11.3	10.0	1.9	1.6	1.5	1.9	1.9	2.2	19.5	15.7	15.8	6.4	5.9	5.6	29.7	-9.1	13.2			
Taiwan, India, Korea																											
SLAUF	SAIL IN	Steel Authority	BUY	28,416	INR	271.15	19.3	15.9	14.6	6.5	5.0	4.0	1.1	1.4	1.5	39.4	35.6	30.4	11.2	9.4	8.6	44.5	20.9	9.0			
GLMTF	5009 TT	Gloria Material	BUY	547	TWD	59.40	12.2	10.2	8.9	3.0	2.5	1.6	4.4	5.1		25.9	26.9	22.3	11.5	8.4	6.9	51.1	19.7				
PKXFF	005490 KS	POSCO	NEUTRAL	58,137	KRW	619,000	14.1	12.7	11.8	2.0	1.8	1.6	1	1		14.8	14.5	14.0	7.8	7.5	6.9	4.1	10.8				
CISEF	2002 TT	China Steel Corp	SELL	15,397	TWD	43	9.6	9.8	10.6	2.2	2.1	2.0	8	8		24.1	22.0	19.4	8.0	7.6	7.8	30.3	-1.8				
Australia																											
OSTLF	OST AU	OneSteel	BUY	4,881	AUD	6.29	18.2	18.4	11.6	3.5	1.5	1.4	2.9	2.9	4.5	13.0	11.6	12.8	10.3	9.0	6.7	13.9	-0.7	57.8			
SMUPF	SGM AU	Sims Group	BUY	3,148	AUD	28.32	14.3	13.8	10.6	2.7	1.2	1.1	4.2	4.7	6.2	19.6	13.2	15.2	8.5	8.1	6.2	17.7	3.2	30.6			
BLSFF	BSL AU	BlueScope Steel	BUY	6,433	AUD	9.73	10.0	8.9	8.0	1.9	1.7	1.5	4.8	5.3	5.3	20.6	19.7	19.6	6.2	5.2	4.7	19.2	11.6	11.9			
Russia																											
XVCHF	CHMF RU	SeverStal	BUY	23,127	USD	22.95	11.2	9.7	9.4	1.9	1.7	1.5	2.2	2.6	2.7	18.0	18.4	16.7	5.9	5.3	5.0	79.2	14.8	3.9			
XNVLF	NLMK RU	NLMK	BUY	25,291	USD	4.22	11.4	9.9	9.4	2.9	2.4	2.0	2.6	3.0	3.2	28.9	26.7	23.5	7.1	6.1	5.8	31.6	14.8	5.5			
XMGGF	MAGN RU	MMK	BUY	15,992	USD	1.37	8.7	8.2	8.0	2.4	1.9	1.6	2.9	3.0	3.1	33.8	25.8	22.2	5.6	5.2	5.0	13.7	5.7	3.2			
Global average							12.6	11.7	10.1	2.8	2.3	1.9	2.6	2.7	3.1	24.7	22.6	21.1	7.8	6.7	6.1	29.0	11.8	21.8			
Asia Pacific (ex. Japan) average							15.2	13.0	11.2	3.0	2.4	2.0	3.3	3.7	4.0	21.8	21.0	20.2	8.8	7.4	6.4	26.6	16.3	21.1			
Japan average							11.3	11.9	10.6	2.2	2.0	1.7	1.7	1.9	2.1	22.2	18.6	18.3	7.4	6.8	6.5	6.4	-5.0	12.1			
China average							16.9	13.4	11.5	2.9	2.5	2.2	2.5	3.1	3.7	20.7	21.7	21.8	8.4	6.8	5.9	27.7	26.3	16.2			

Source: Merrill Lynch estimates Close price on 10 December 2007

Price objective basis & risk

China Oriental (CUGCF)

Our Price Objective of HK\$6.80/sh is based on a P/E ratio of 10.7x on 2008E EPS equal to about 15% discount to the peer group, which is reasonable given COGC's competitive margins (EBIT 13% vs. 19% for Angang, 13% for Baosteel) and future growth potential with its new strategic partner. We look for upside from this valuation with positive changes to its growth strategy.

Risks: Failure of ArcelorMittal's takeover plan due to government objection or other reasons, lower-than-expected steel prices and higher-than-expected costs, disruptions to plants and current expansions, and slower-than-expected economic growth.

Analyst Certification

I, Alexander Latzer, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

*iQmethod*SM Measures Definitions

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
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

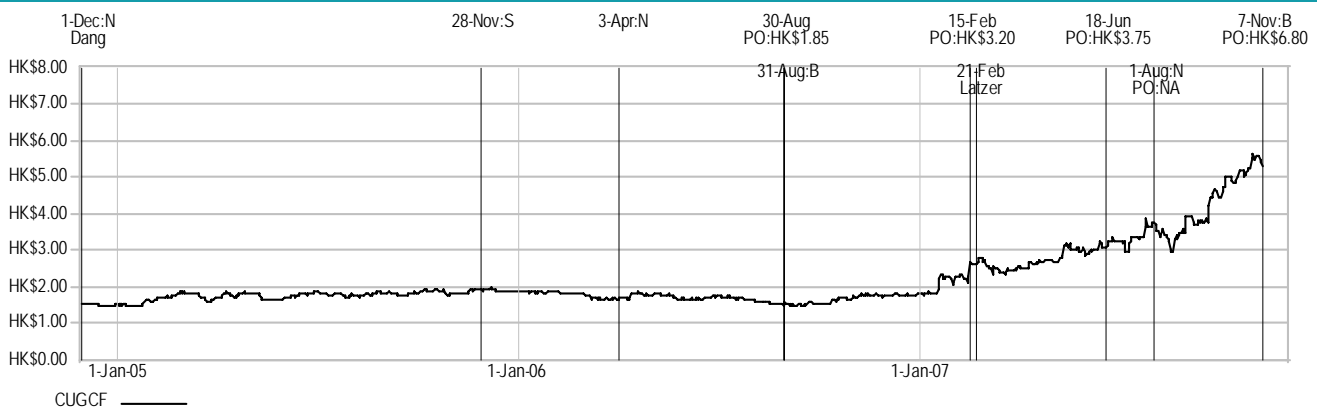
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Important Disclosures

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 November 30, 2007 or such later date as indicated.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	31	65.96%	Buy	3	12.00%
Neutral	15	31.91%	Neutral	3	21.43%
Sell	1	2.13%	Sell	0	0.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1701	47.03%	Buy	437	29.15%
Neutral	1611	44.54%	Neutral	425	29.11%
Sell	305	8.43%	Sell	58	21.09%

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