
Hebei Steel merger challenging might of Baosteel

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The Hebei provincial government has grabbed the initiative to reform its steel industry to compete with the big boys, particularly Shanghai-based Baoshan Iron and Steel. Hebei Iron & Steel Group, the holding company controlled by the provincial government is believed to have asked its unlisted and listed subsidiaries to work out the details of a merger plan.

The proposed merger calls for the acquisition by the principal listed subsidiary, Tangshan Iron and Steel of the assets of the other listed subsidiaries, Handan Iron and Steel and Chengde Xinxin Vanadium and Titanium Co. When the transaction is complete, Tangsteel will be the sole remaining listed subsidiary of Hebei Iron.

In the second stage of the restructuring process, Hebei Iron said it would inject the quality assets of its unlisted subsidiaries, Wuyang Iron and Steel and Xuanhua Iron and Steel, into the remaining listed arm.

The proposed transaction, if it goes through, will catapult Tangsteel into the forefront of steel producers with an estimated annual output in excess of 30 million tons, challenging Baosteel for the top spot.

Public data showed that the remaining company after merger would produce 19.39 million tons of steel products with sales revenue of CNY 113.262 billion, ranking it as the second largest listed steel company in China by output and income.

If the quality assets of Wuyang Iron and Xuanhua Iron were to be successfully injected, it would add a further 7 million tonnes of steel products to the merged company, making it the biggest listed steelmaker at home.

Mr Zhang Tieshan an analyst with mysteel.com said that Tangsteel would be able to expand its advantage in resources, and broaden its market share, through the merger.

According to him, Handan Iron and Steel will focus its businesses on the eastern areas, such as Jiangsu, Zhejiang and Shandong provinces, while Tangsteel and Chengde Xinxin will target the northwestern and northeastern areas.

Mr Zhang said that "This is not good news for Baosteel, because Handan Iron has started developing steel plates, which used to be the exclusive preserve of Baosteel."

Mr Zheng Dong an analyst with Guosen Securities said that mergers and restructuring among steel mills from the same region, such as Anshan Steel and Benxi Steel's merger, have become the industry norm. Such a combination will help steel mills in Hebei province to band together to secure the market and face fierce competition.

He said that "But in the short term, it will take time to blend different corporate cultures into an integrated one. To exert the most strength from their merger, government support, market recognition and sophisticated management after the deal will prove pivotal."

(Sourced from China Daily)

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