
Hunan Valin may buy Lengshuijiang Steel

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CBN reported that Hunan Valin Iron & Steel Group Co Ltd, which keeps looking for suitable steel assets in China for its expansion, is eying Hunan Lengshuijiang Iron & Steel Co Ltd and has started the due diligence.

As per report, over 74% stake of Lengshuijiang Steel belongs to Hunan Bochang Holdings Group Co Ltd whose over 80% of stake are held by the workers. So, if Valin wants to regroup Lengshuijiang Steel, Valin needs to reform the latter's share structure first.

However, there still are risks after Valin acquires Lengshuijiang Steel as it is not clear that how Valin would benefits from Lengshuijiang Steel, which has a simple product mix and an unsatisfying profitability.

Lengshuijiang Steel, a rebar and low end construction steel producer has a very different product mix with Valin which focused auto sheet high strength ship plate and oil pipe, though Lengshuijiang has a 3 million tonnes per year steel capacity including 1.5 million tonnes per year rebar capacity.

The insider said, "It will be easy for the acquisition in one province. Valin, attracted by Lengshuijiang Steel's steelmaking capacity wins local governments' support in the acquisition. But, Lengshuijiang Steel assets don't belong to quality steel assets, since the mill mainly produces rebar a product without strong profitability in long term. Lengshuijiang Steel has a far way to catch Valin present subsidiaries like Xiangtan Steel, Lianyuan Steel and Hengyang Steel in fields of product mix, facilities, profitability, sustainable growth rate and management."

Valin produced 10.83 million tonnes of crude steel, realized CNY 70 billion of sales revenue and CNY 3.1 billion of profit in 2008. Valin remains in the second tier steelmakers compared with Baosteel and Hebei Steel. Mr Li Xiaowei Chairman of Valin told to the paper that Valin would carry out expanding plan by merging or acquiring other steel assets to wedge in the first tier.

Sourced from CBN

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