

**SPECIAL REPORT**

# Spotlight: China Baowu Steel

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China Baowu Steel Group Corporation Limited (A/Stable) is the world's largest steel maker, with annual capacity of over 100 million tonnes. The company has tripled its capacity in the past five years by consolidating regional steel companies. This followed its designation by the government as an executor of its plan to reshape China's steel industry. Fitch expects Baowu to continue its acquisitions in the next three to five years as China's steel-industry concentration remains low. China's 14th five-year plan (2021-2025) targets 60% concentration for the top-10 producers and 40% for the top five. Strong Product Leadership, Diversification: Baowu dominates China's steel market, especially in auto sheet and electrical steel. It has a diversified and competitive product portfolio, which is built up through continued R&D and consolidation. Its wide footprint in the domestic market is supported by China's strong economy and steel demand. Baowu is becoming a conglomerate that covers the whole industry chain. It also has a fast-expanding non-steel business based on its '1 core + 5 elements' strategy. The non-steel business includes new materials and financial services and provides higher returns as well as counter-cyclical benefits to help Baowu withstand market volatility. Solid Financial Profile Through the Cycle: Baowu is one of the world's most profitable steel makers, with strong cash flow generation, high financial flexibility and low net leverage. This is unique in the global steel industry, considering the requirement for a substantial operating scale. Baowu sustains its resilient financial structure through the cycle, even during industry downturns, due to its low cost position and strong pricing power. We expect Baowu to maintain its low leverage during its expansion due to its prudent strategy when consolidating higher-levered companies.

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