中鴻鋼鐵
CHUNG HUNG STEEL

member of CSC Group 中鋼集團

Stock Code:**2014**

CHUNG HUNG STEEL CORPORATION

2022 Q3 INVESTOR CONFERENCE

2022.09.29

SOURCE: 綠宣文創

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Company Profile

Name	Chung Hung Steel Corporation
Date of establishment	September 29, 1983
Address	317, Yu Liao Road, Chiao Tou District, Kaohsiung City 82544, Taiwan (R.O.C.)
Paid-in capital	NTD 14,355,444,460
Chairman of the Board	Min-Hsiung Liu
President	Kuei-Sung Tseng
Main products	Hot-rolled coil, Cold-rolled coil and Steel pipe & Tube
Mills	Kaohsiung： Hot Rolling Mill, Cold Rolling Mill, Steel Pipe & Tube mills (Da-fa) and Pickling & Galvanizing Mill Changhua(Zhang-bin Industrial Park)： Tube mills (Lu-kang)
Main stockholder	China Steel Corporation(40.59%)

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World Economic Growth Forecast

- The IMF forecasts that global growth will be 3.2% in 2022, down 0.4% from the previous forecast. The downward risks of global economy are gradually emerging, the outlook express more uncertainties.
- The US CPI increased 9.1% year on year in June, the largest increase in 40 years. Global financing conditions tightened as central banks in advanced countries raised interest rates to combat inflation.
- With further rising inflation, although the risk of recession increases gradually, **still expecting global economy a modest improvement of 2.9% in 2023.**

Manufacturing PMI

- **In India,** August manufacturing growth continues to trend higher strongly. Output and new orders increase to a 9 months high. Easing inflation pressures drive strong PMI performance.
- **United States, Japan and ASEAN**, PMI growth slowed down, inflation and interest rate hikes dampen order book volume, but supply chain delay is starting to ease, whole manufacturing sector keeps expanding.
- **Euro area and South Korea**, The Eurozone was hit by soaring energy costs, while South Korea was hit by weak semiconductor demand, so output and new order slip in both regions, the manufacturing sector contracts.
- **In China,** Affected by previous repeated epidemics and power cuts, PMI kept contracting but rising slightly in August. With the Official increases more stabilizing growth policies, it is expected that the figures in the third quarter will continue to be improved.

Global Crude Steel Production Forecast

- According to the latest report dated 26th July, 2022 from World Steel Dynamic (WSD), global crude steel output is expected to be 1,863 million tons in 2022, and rise 1.0% year on year to 1,881 million tons in 2023.

- In addition, China’s crude steel output will slip 1.45% year on year in 2022 to 1,016 million tons and increase slightly by 0.8% to 1,024 million tons in 2023, **but crude steel production is expected to continue to contract, driven by the Chinese authority keeps on track of “ carbon neutrality policy ".**

Global Steel Demand Forecasts

- The World Steel Association (WSA) forecasts global steel demand will reach 1,840.2 million tons in 2022, rising 2.7% form 2021 basis, and rise 2.2% further to 1,881.4 million tons in 2023.

- In addition, the European Iron and Steel Association (Eurofer) said in its 3rd quarter report that steel consumption in EU will continue to decline in 2022 H2 as supply chain disruptions, rising energy prices, inflation and the Russian-Ukrainian conflict continue to affect the European steel industry , **but the market will recover in 2023, EU steel demand is expected to grow by 5.6% year-on-year in 2023**, higher than the previous forecast of 5.1%.

Steel price trend-Hot Rolled (international market)

2022.Q2-2022.Q3 Steel Price Trend Recap and Outlook (International)

- 2022.Q2 : Long lasting warfare between Ukraine and Russia continue to influence industry supply and demand, and recent panic re-stocking in the downstream industries had already overdraw some demand. With correction in raw material, rainy season in Asia, seasonal factor such as Ramadan, and lock-down in China, international steel market obviously enters into a correction period. However, the lock-down in China have improved since June, with State Council of PRC rolls out 33 measure to stabilize economy, the downstream manufacturing industry is expected to revive at a faster pace. Along with infrastructure plan driving strong demand in various countries, brings promising development in steel market in second half of the year. Further, due to energy supply tension in various countries, price of coal remains high, hence expecting pressure of production cost at steel mill remains high, and the high cost will also provide support to steel price.

Steel price trend-Hot Rolled (international market)

2022.Q2-2022.Q3 Steel Price Trend Recap and Outlook (International)

•2022.3Q : International steel market has entered a traditional slow season, along with the continuous impact of global inflation, major countries in Europe and the United States have enlarged interest rate hikes, which significantly contain terminal demand and market confidence, also keep steel prices fluctuating at low level.

•In China, high temperature resulted in power shortage in Sichuan and the middle and lower reaches of the Yangtze River in late August, also the repeated epidemics in many places dampened an overall demand of manufacturing sector, so the constant impact to economy has gradually emerged. However, in order to meet economic growth target, Chinese government keeps increasing the easing policies in the 3rd quarter to boost its internal demand.

•In Europe, market price level was affected by soft demand during summer vacation, continuous rising energy costs forced steel mills to react by trying to increase price or reducing production. As of 6th Sept., 15 steel mills have already stopped production or planned to stop production.

Steel price trend-Hot Rolled (international market)

2022.2Q-2022.3Q Steel Price Trend Recap and Outlook (International)

•In general, as global steel price has been significantly adjusted in the 2nd quarter, mills face pressure of sales price lower than production cost, hence choose to cut production. Long lasting warfare between Ukraine and Russia may keep global energy supply being tense till the final quarter, it is expected the cost of steel mills remains at high level.

•In addition, as the weather condition improves, Chinese local authorities have accelerated the construction of infrastructure, and the effect of the previous official economic stabilization policy may come out in the fourth quarter.

•Meanwhile, downstream purchasing activities have increased gradually after the European summer break and South Korean major steelmaker POSCO suspended production in Pohang works from 6th Sept. due to facilities to be damaged by a typhoon. Therefore, it is expected the supply-demand imbalance of global steel market will be trimmed in the 4th quarter, steel price to rebound from the bottom on above-mentioned support.

Steel Market Outlook(1/2)

- IMF adjusts global growth in 2022 to 3.2%, and expects a modest growth of 2.9% in 2023, although the uncertainty of economic outlook has increased as well. WSA forecasts the restricted demand will recover gradually, global steel demand will increase 2.2% in 2023.

- Furthermore, according to the 3th quarter report from the European Steel Association (Eurofer), although the European steel industry will continue to be affected by rising energy price in short-term, inflation and the Russian-Ukraine conflict, the market will rebound in 2023, EU steel demand will grow by 5.6% year-on-year in 2023, higher than previous forecast of 5.1%.

- **Ongoing Russia-Ukraine conflict remains an uncertain factor to current main steel market,** not only makes energy price soar, but also affects global raw materials costs. The Europe got a direct impact from energy crisis, so some energy-intensive sectors, including of aluminum and zinc, chemical fertilizer, paper, steel, choose to shut-down or reduce production. **ArcelorMittal also announced a price increasing in early August, and shut down several blast furnaces to reflect soaring energy cost**. The same, some US mills attempt to set a floor for steel price by increasing product price.

Steel Market Outlook(2/2)

- As of 6th Sept., 15 steel mills had stopped production or planned to stop production. In the same time, Korean steelmaker, POSCO, halted operations in Pohang works due to the impact by a typhoon. Although 3 BFs were already back to work, rolling production is expected to be suspended for few months due to bad damaged facilities. In addition, Chinese government keeps practicing leveling control policy of crude steel production this year, which means total crude steel output in 2022 is not allowed to exceed 2021, so **steel supply in the 4th quarter is expected to restricted still**.

- On the other hand, China Sichuan and the middle and lower reaches of the Yangtze River troubled with power shortage in late August due to hot weather, as well as the repeated epidemics in many places, slowdown the demand of whole manufacturing sector. Follow by recent better weather condition, Chinese local authorities have accelerated to process infrastructure construction. **Plus the 20th National Congress will be held officially on 16th Oct., expecting the government will release more stimulus packages to help some industries, such as construction, car manufacturing, and house appliance, to release steel demand**.

- **Forward looking into the future, governments are expected to reduce levy or increase public sector spending to support real economic growth under an easing global inflation**. Soaring energy price will not only increase steel mill's cost to support steel price, but also cause some mills to reduce production due to significant deficit. **As countries continue headed toward "carbon neutral" goal, we expect the supply-demand imbalance of global steel market will be improved gradually, and hard to lower steel price.**

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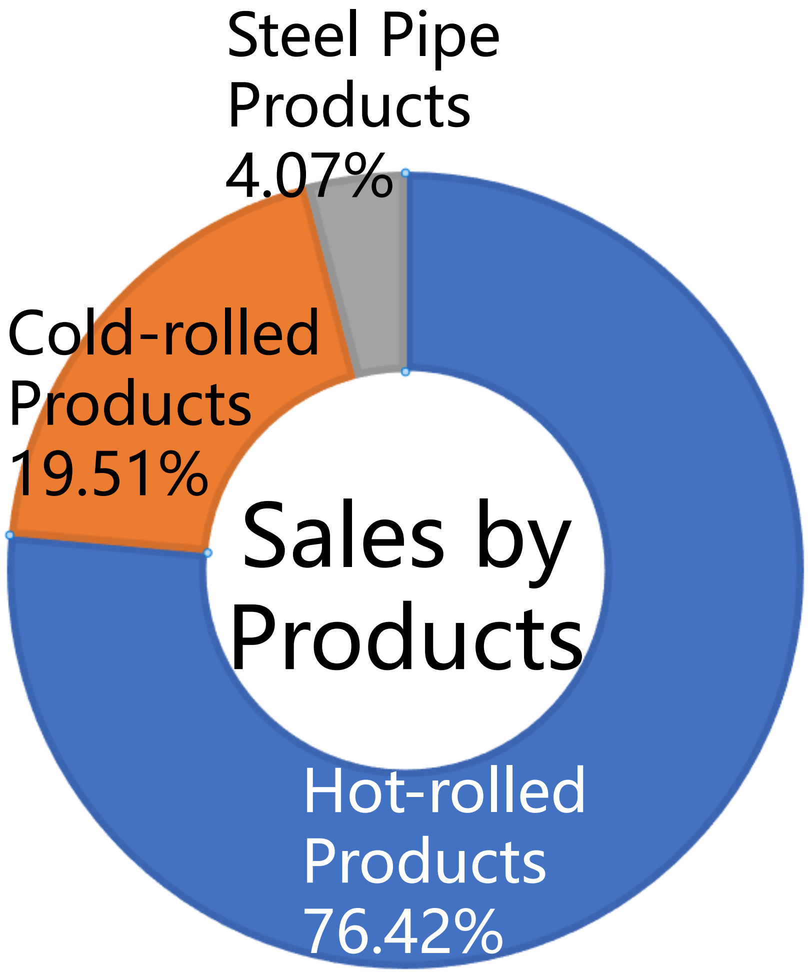
Financial Overview (1/4)

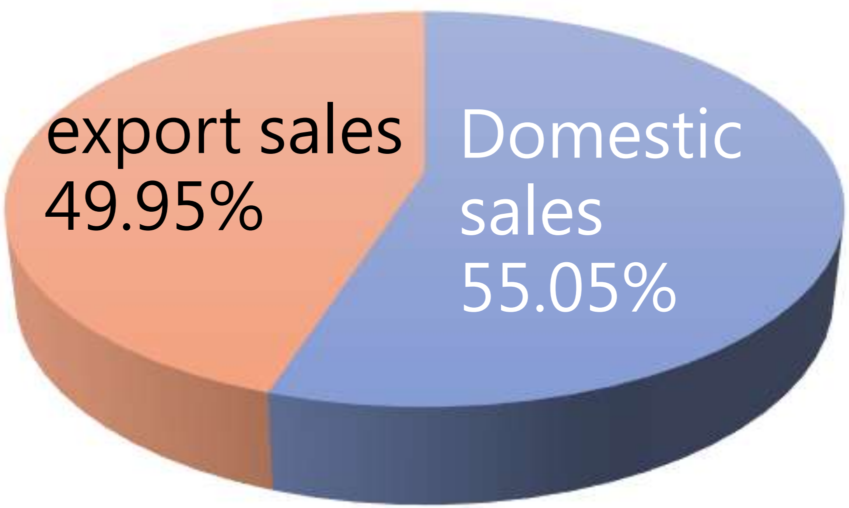
Financial Performance

(In Millions of New Taiwan Dollars)	22'Q2	22'Q1	QoQ
Operating Revenues	16,031	12,410	29.18%
Gross Profit	1,076	625	72.16%
Gross Profit Rate	6.71%	5.04%	
Profit(Loss) From Operations	890	452	96.90%
Profit(Loss) From Operations Rate	5.55%	3.64%	
Profit(Loss) Before Income Tax	947	505	87.52%
Profit(Loss) Before Income Tax Rate	5.91%	4.07%	
Net Profit(Loss) for the Period	680	502	35.46%
EPS(NTD)	0.47	0.35	

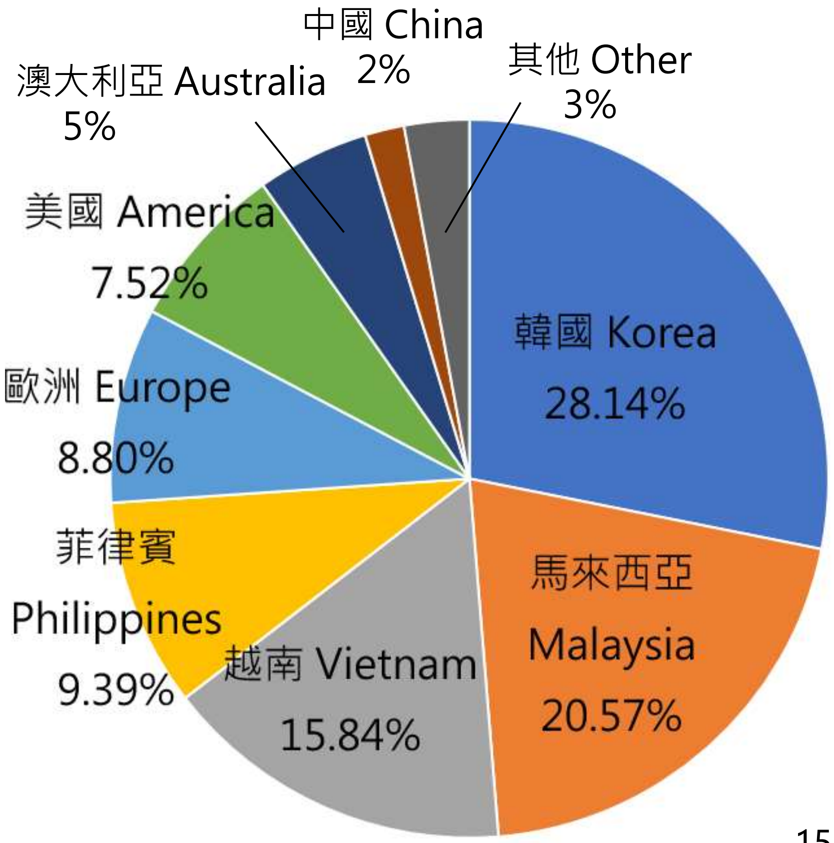
Financial Overview (2/4)



Sales trend in Q1 2022

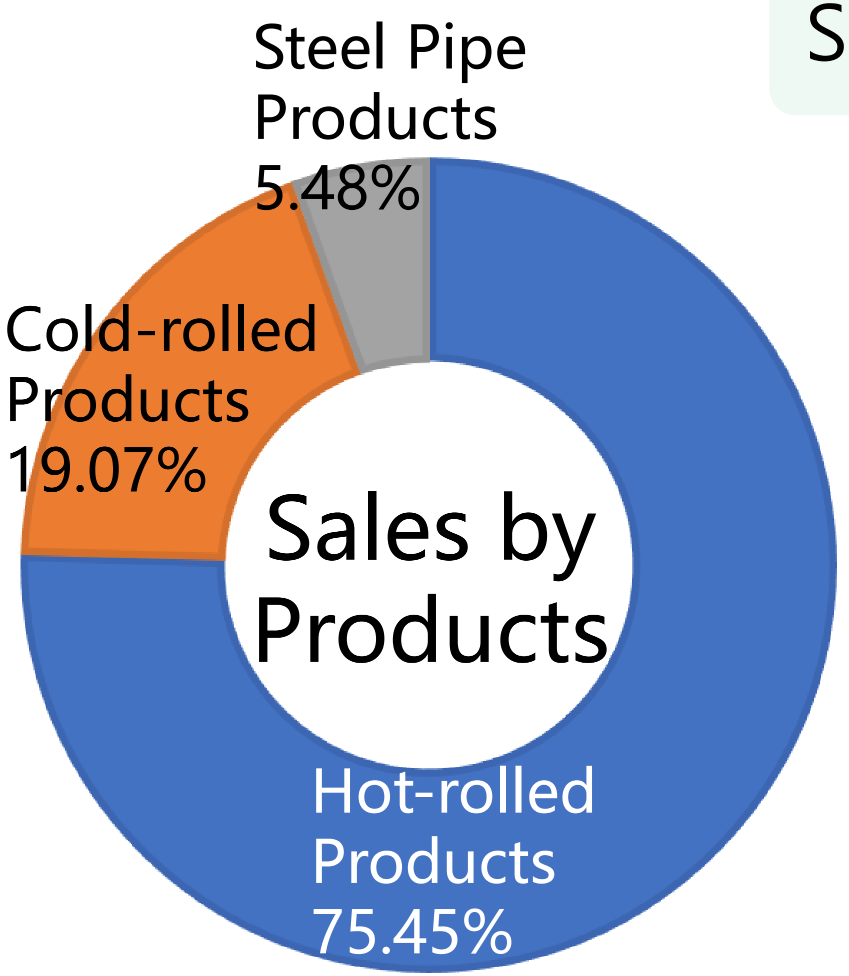


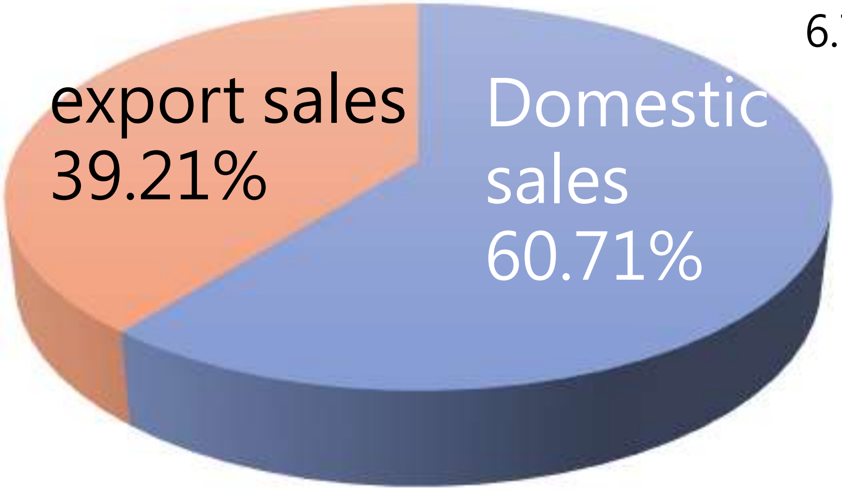
Exporting countries



Financial Overview (3/4)

Sales trend in Q2 2022





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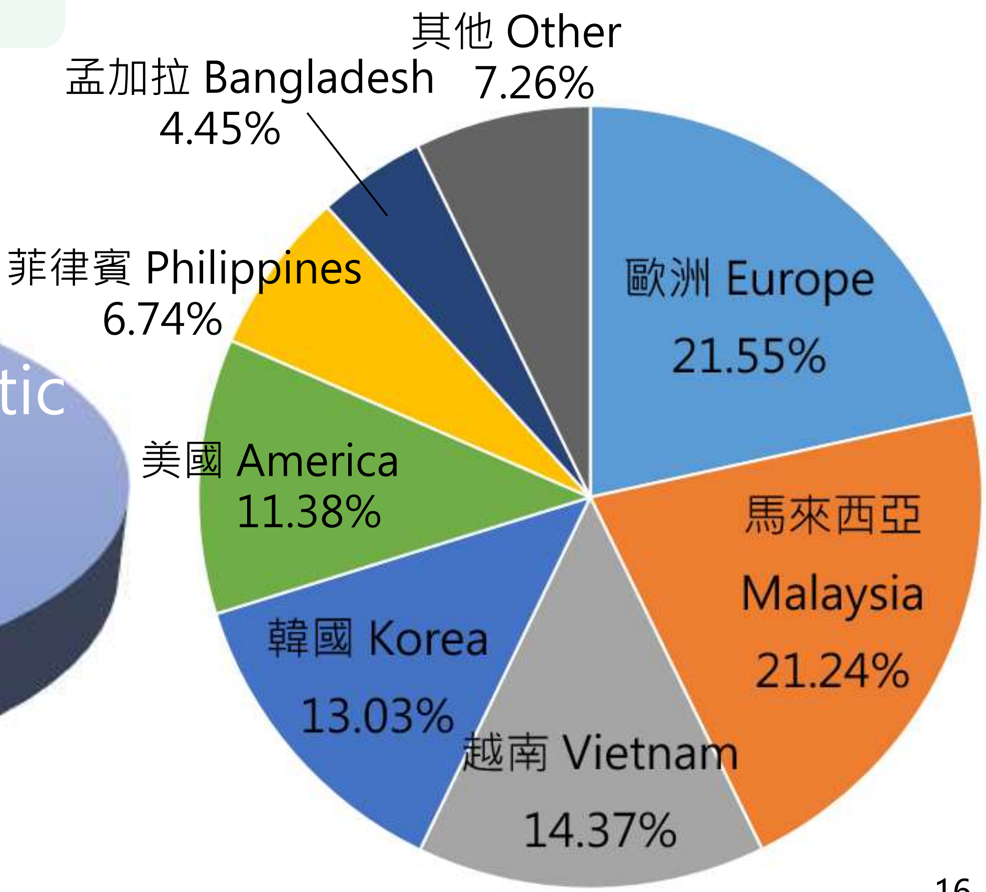
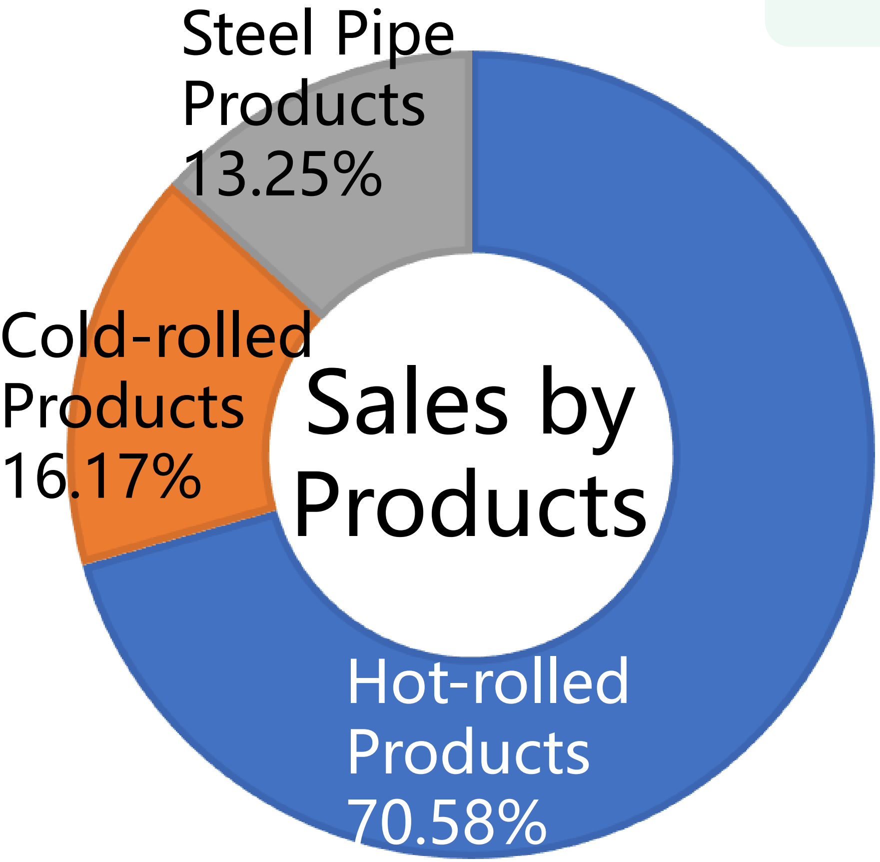
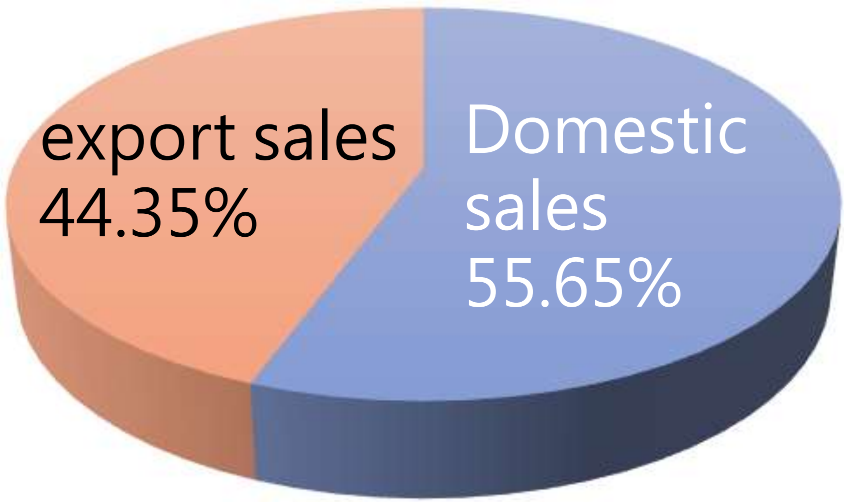


Financial Overview (4/4)

Trend of sale in 2022 07-08





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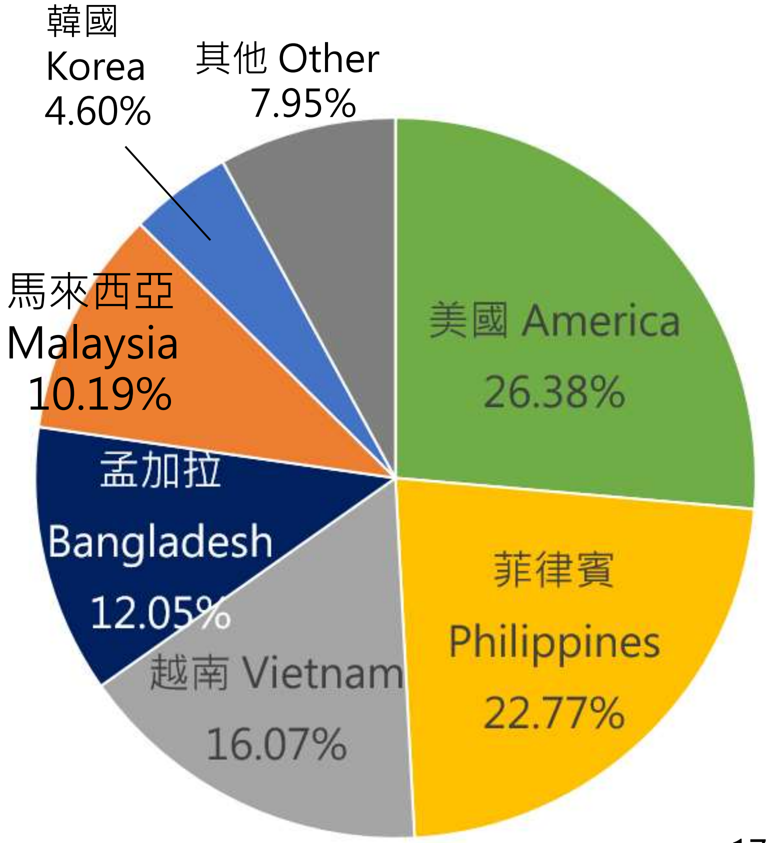
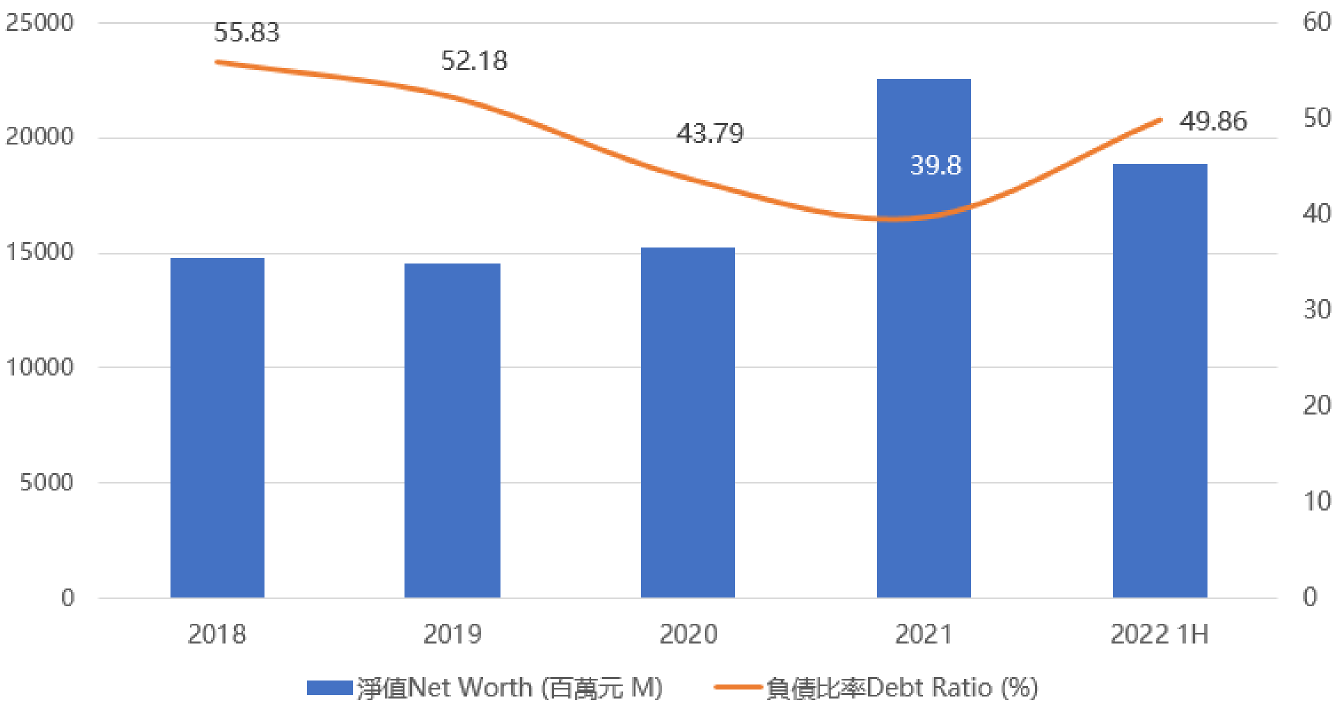
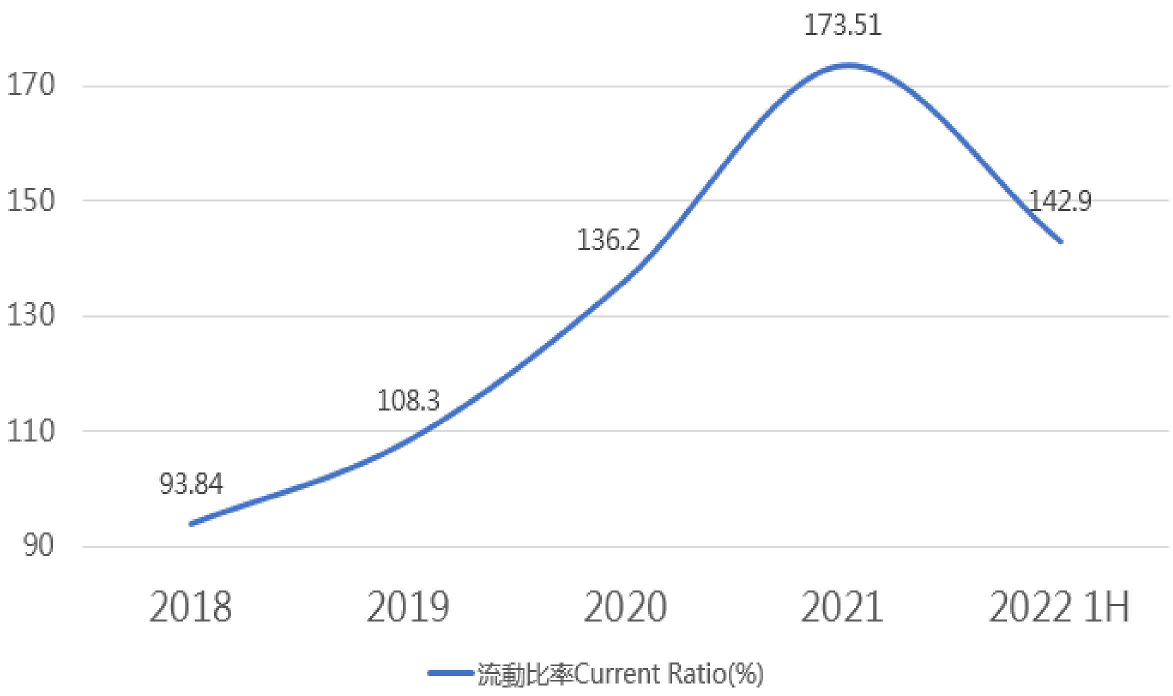


Financial Performance

Debt Ratio & Net Worth



Current Ratio



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ESG Performance

Annual power saving rate >1%
Far beyond the regulatory standard (1%) for 7 consecutive years

Reduction of 48,633 metric tons of CO_2e, or 3% in total greenhouse gas emissions from the base year(2005)

Second scale (6%~20%) of Corporate Governance Evaluation

E

S

G

"Fuel Exchange Project for the Replacement of Heavy Oil with Natural Gas by the Heating Furnace" is expected to result in a cumulative carbon reduction of 364,418 metric tons of CO_2e, equivalent to the absorption of 936 Da an forests.

3 community health promotion campaigns

95 employees participating in volunteering service

Selected as FTSE TWSE Taiwan Mid-Cap 100 Index in Jun. 2021.

Selected as FTSE TWSE Taiwan Dividend+ Index in Dec. 2021.

Selected as TWSE RAFI Taiwan High Compensation 100 index in Jun. 2022.

Credit Rating & Financial Performance

Credit Rating (2022.09)

Rating Agency	Short-term Rating	Long-term Rating	Outlook	ESG credit indicators
Taiwan Ratings	twA	twA-1	Positive	E-2/S-2/G-2

Note : Data of ESG credit indicators are [indicators 1-5(excellent-inferior)]

Corporate Governance Evaluation

	Grade	Ranking of non-financial and non-electronics industry with a market value above NT$10 Billion
8th(2021)	6%~20%	11%~20%
7th(2020)	6%~20%	21%~40%
6th(2019)	6%~20%	21%~40%

Q&A

ESG Report

CHS Financial Report

CHS Annual Report

THANK YOU!