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HD **China steel trader denies debt crisis**

BY Lisa Murray AFR correspondent

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Shanghai Sinosteel, China's biggest state-owned steel trader, is struggling to pay for its rapid expansion over the past eight years amid a slump in prices and a general credit tightening.

The company has significant interests in Australia and is one of China's biggest importers of iron ore, but was forced to deny a slew of media reports in recent days suggesting it had defaulted on debt payments.

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The state-owned newspaper Economic Information Daily, said the company was struggling to repay loans worth more than 78 billion yuan ($14 billion), citing an unnamed "insider". Steel market analysts say the figure is closer to 10 billion yuan.

Sinosteel has admitted it faces financial difficulties, but denied reports of an imminent debt crisis. The Industrial and Commercial Bank of China, one of Sinosteel's biggest lenders, also said on Tuesday the company had not defaulted on its loans.

Still, Sinosteel's troubles reflect the challenges facing China's steel industry.

Prices tumbled almost 30 per cent so far in 2014 and are hovering near eight-year lows as demand for the metal declines in line with China's pace of economic growth.

The drop in steel demand has also pushed iron ore prices down to five-year lows.Sector faces several issues

The steel sector has been hit by overcapacity problems and a crackdown on non-bank financing deals,making it harder for traders to access credit and stay afloat.

China's steel sector is heavily subsidised. In the first half of this year, subsidies accounted for 80 per cent of listed steel mills' total profits, said Reuters. That was up from 22 per cent in the first half of 2013. Meanwhile, the sector's profit margin halved to just 0.3 per cent.

Sinosteel, a former Fortune 500 company, went on a buying spree in the last eight years, which included the $1.4 billion, 2008 acquisition of Australian iron ore companyMidwest Corp.

Qiu Yuecheng, an analyst at steel products trading platform XiBen New Line says Sinosteel would not collapse.

"It won't close down because it's a big state-owned enterprise. There is no precedent for that.

"Sinosteel had a rapid expansion and now the steel market is sluggish so it's hard for them to improve their debt situation" he said.Slowing economy

China's economy has slowed in recent months as a pick-up in exports failed to offset a drop in activity for the property and heavy industry sectors.

The government is trying to rein in **China**'s fast-growing and poorly regulated shadow banking sector and has eased credit with only targeted measures.

Media reports this week said **China**'s big banks had been directed to relax loan restrictions for some clients, including first-time home buyers in the hope it will help the property market.

But **China**'s steel output growth rates are slowing significantly, a **Chinese** industry official told a **mining** conference in Melbourne this week.

Deputy secretary general of the **China Iron** and Steel Association, Li Xinchuang said steel production was close to its peak and would not make it to a **billion** tonnes as predicted by Australia's big **iron ore** producers Rio Tinto and BHP Billiton.

A spokeswoman for Sinosteel's Australian subsidiary would not comment on **Chinese** media reports about debt problems. She also refused to say if they would affect the Midwest project.

Sinosteel hoped to produce magnetite from Midwest's Koolanooka deposit but progress has been slow.

With Lucy Gao

Key points Sinosteel reported to be struggling to meet its debts commitments, including defaulting on payments. Crisis denied by **company** and its biggest bank lender, but analysts say it reflects the challenges facing the steel industry in **China**.

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