

India

**Underweight** (no change)

**Highlighted Companies**

**Jindal Steel and Power**

**ADD, TP Rs476, 344.9**

We expect the company to fare well based on its value-added offerings but expect its profitability to fall, leading to 6% EBITDA CAGR over FY21F-23F.

**Tata Steel**

**REDUCE, TP Rs575, 742.9**

The company looks overvalued on all parameters, in our view. Sale of European asset is factored into its price.

**JSW Steel**

**REDUCE, TP Rs330, 421.75**

Coal block allocation is positive for the company, but higher plant load factor (PLF), which is key for its power business, is still elusive.

**Summary Valuation Metrics**

	Mar21-F	Mar22-F	Mar23-F
<b>P/E (x)</b>			
Jindal Steel and Power	26.14	28.36	27.09
Tata Steel	17.28	29.88	36.44
JSW Steel	31.07	26.23	25.63
<b>P/BV (x)</b>			
Jindal Steel and Power	1.92	1.77	1.64
Tata Steel	2.17	2.05	1.96
JSW Steel	2.63	2.45	2.29
<b>Dividend Yield</b>			
Jindal Steel and Power	0.0%	0.0%	0.0%
Tata Steel	1.1%	1.1%	1.1%
JSW Steel	2.5%	2.5%	2.5%

# Commodities - Overall

## Commodities – Are things different now?

- We think Fed’s balance sheet expansion creates a mirage of a structural bull run in commodities. Rising bond yields are the biggest threat to commodities.
- Electric vehicle adoption is a genuine tailwind for copper, but a headwind for steel, in our view. Aluminum adoption in cars is limited to the outer body.
- We remain Underweight on the sector. JSPL is our top Buy.

### Credit raising mirage of structural growth

We believe US\$ weakness, empty supply chains and a new President in the US have rekindled hopes of a commodities bull run. This occurred in 2010, 2016 and now in 2021. Each time it was the result of the US Fed’s balance sheet expansion. Liquidity situations blind us and the awakening is usually harsh. In our view, investors should sell now and buy users of commodities.

### World needs to find new usage for US\$ else rates will rise

We have long discussed the potential fall in the US\$ and how US\$ has no intrinsic value. Though the argument appears logical, we remain unconvinced. It boils down to the demand and supply of the US\$. We believe the US\$ needs a demand source now, which can come from one of two possible sources: 1) a rapid rise in energy prices, which will be inflationary for the US; and 2) a war where the US\$ is used to bear the cost of war and reconstruction as well. If neither happens, then the US\$ must fall or interest rates should rise.

### Warning signs for steel – do not ignore them

Over the last 16 years, we have witnessed some flash crashes in commodities. There has always been a distribution of stocks at the top which can go on for long. Commodity stocks stagnated in a narrow 10-12% range and then crashed. Despite the warning signs that appeared on the horizon, we chose to ignore them. Right now, there are many warning signs: 1) steel valuations are near +2SD of their nine-year mean, with only a 5% chance it could stay at this level or exceed it; 2) the ruble is falling, straining global steel prices; and 3) China’s steel export prices are trending down.

### Underweight on steel sector; JSPL is our only Buy

Tata Steel (Reduce, TP Rs575) and JSW Steel (Reduce, TP Rs330) are trading near their all-time high EV/EBITDA valuations. This becomes even more stark if we account for steel prices likely falling in coming months. We believe the fall in steel prices will be more noticeable in coming months. While 4Q is likely to be good for steel companies, the impact of rising costs (coking coal prices) and falling steel prices will start to show from 1QFY22F. We remain Underweight on the steel sector. JSPL (Buy, TP Rs476) is our top pick.

**Analyst(s)**



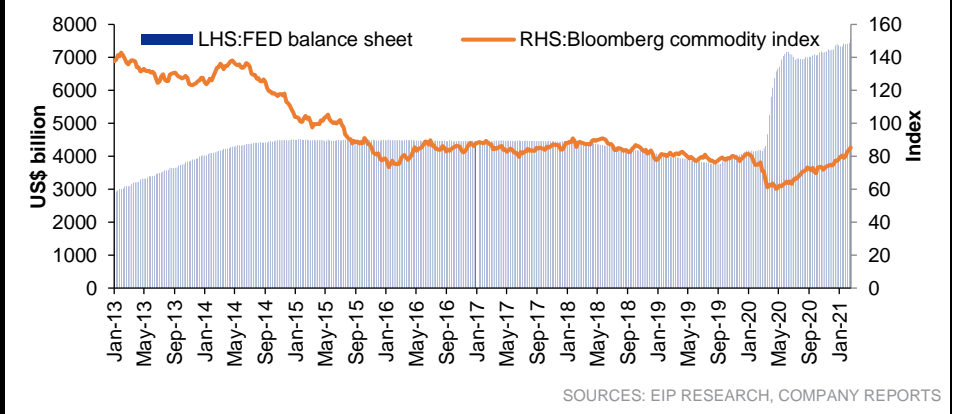
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**Figure 1: Power of cheap money to lift commodities has diminished over the years**



## Commodities – Are things different now?

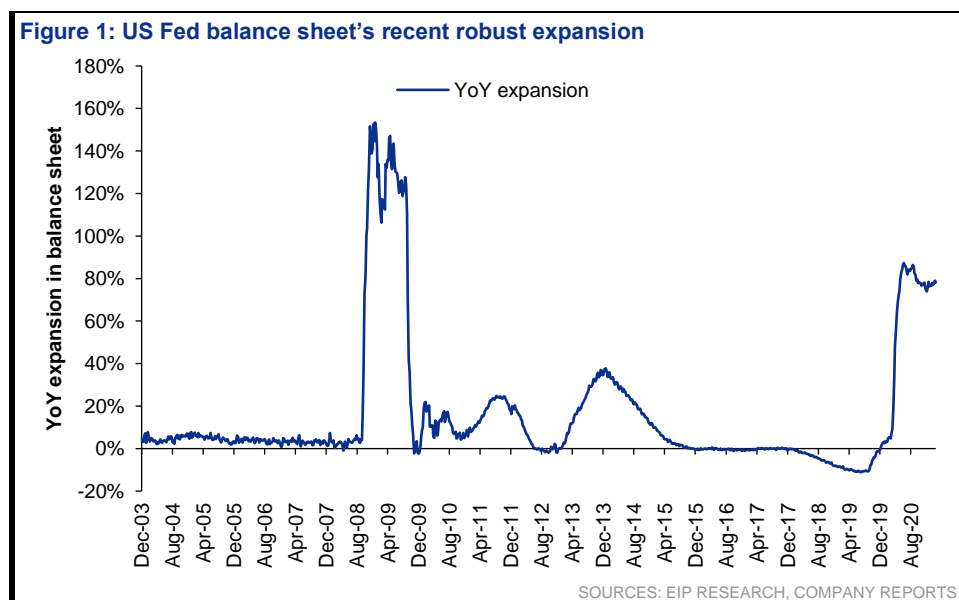
We believe US\$ weakness, empty supply chains and a new President in the US have rekindled hopes of a bull run in commodities. This occurred in 2005, 2007, 2010, 2016 and in 2021. Each time it was a result of the US Federal Reserve's balance sheet expansion. Liquidity situations lull us, but an awakening is usually harsh. In our view, investors should sell now and buy users of commodities.

### US Fed's balance sheet expansion and mirage of sustained commodities bull run

We believe the US Fed's balance sheet expansion has always led to asset price inflation. In our view, cheap credit fuels the hope of growth and low interest rates fuel inflation in commodity prices.

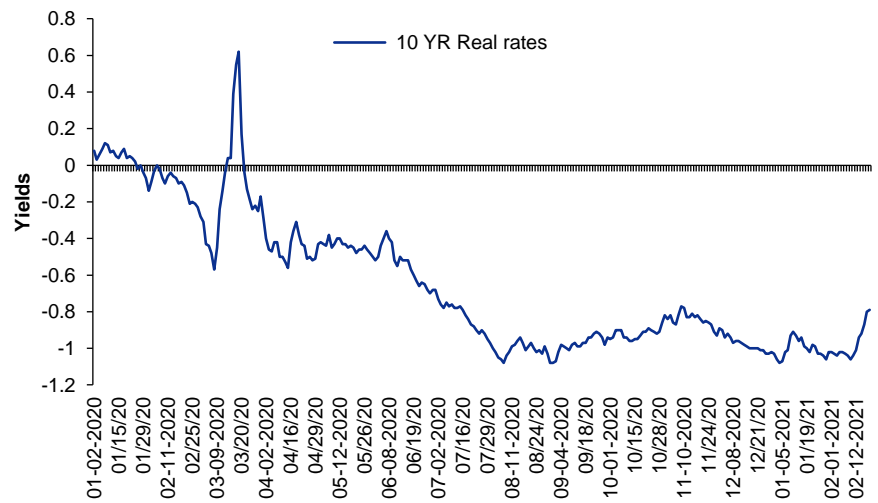
### Considerable Fed balance sheet expansion ►

The US Fed balance sheet's expansion in the recent past has been remarkable, much higher than at any other time in history. The kind of yoy growth witnessed in the recent past has been unprecedented.



**In the tussle between bond yields and US\$ depreciation yields, the former have given way ➤**

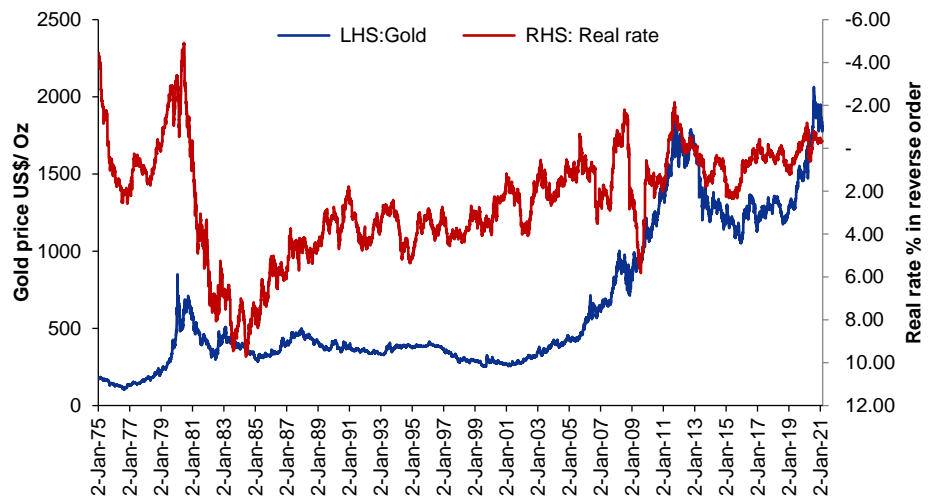
**Figure 2: With unabated balance sheet expansion, either US\$ or US bonds have to give way. While market players felt the US\$ would fall, US bond yields fell instead**



SOURCES: EIP RESEARCH, US FED

**Rising real bond yields are negative for gold ➤**

**Figure 3: Gold has been a play on falling bond yields, with bond yield going into negative territory. A global risk-off could lower US\$ rates again but appears an unlikely scenario now**

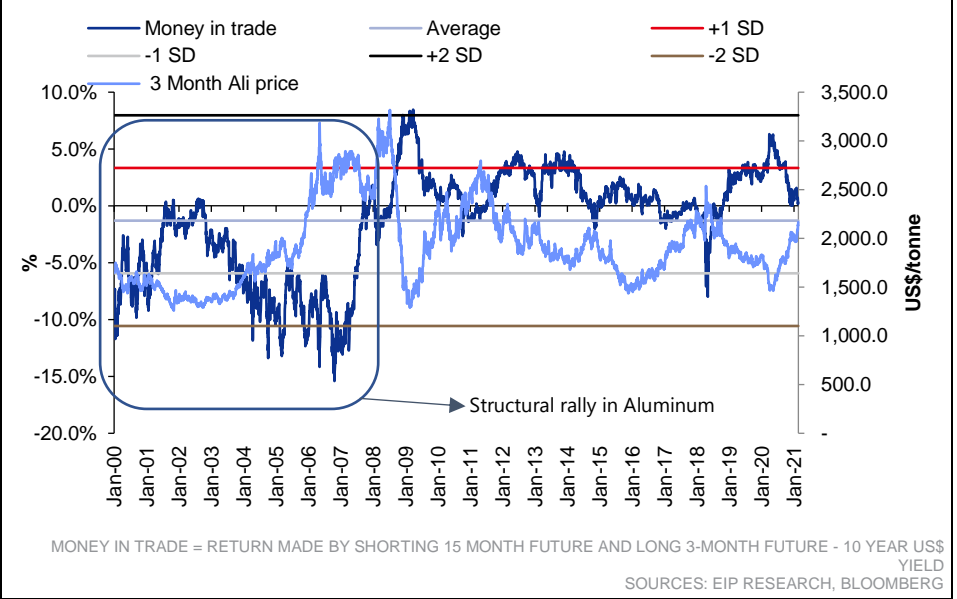


SOURCES: EIP RESEARCH, BLOOMBERG

**An aluminium rally could occur because of low interest rates, but a bust could be hard**

Traders make money in non-ferrous paper trading by locking future prices (by shorting long-dated futures) and long near-term futures. Interest rates enter the picture because one can finance this trade by borrowing money at low rates. That is why when global interest rates fall, prices of commodities like copper, aluminium and zinc rise. With the rise in the US 10-year bond yield, this arbitrage is over. The mean reversion is complete. As usually happens, there is a probability of overshooting the mean. However, seeing the US's fiscal situation, we expect rates to continue to rise.

**Figure 4: With the rise in bond yield the arbitrage made by shorting 15 months future & long 3-month future and financing this trade by borrowing money at 10-year US\$ yield is over**



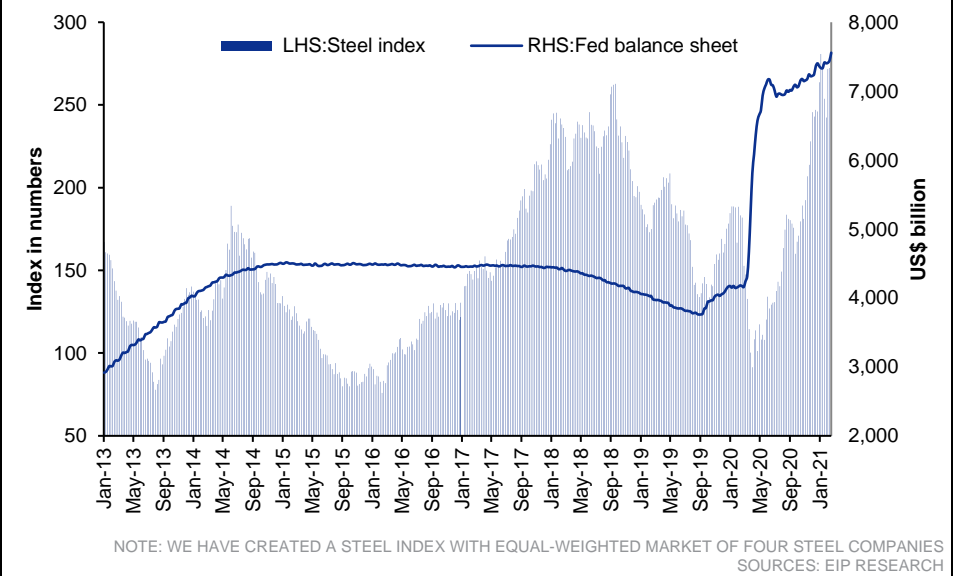
**EV is tailwind for copper but headwind for steel ➤**

In EVs one will replace internal combustion (IC) engines with batteries and motors. Motors need copper windings, but steel consumption in motors is way lower than in IC engines.

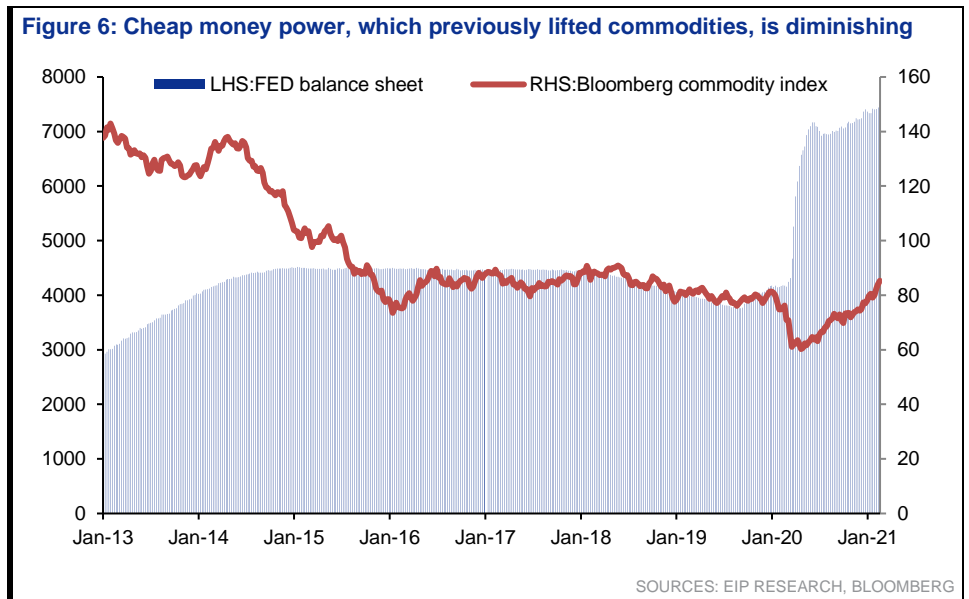
**Fed balance sheet expansion creates structural rally mirage ➤**

The Fed's balance sheet expansion often creates the mirage of a structural run in steel. This has happened now and previously in 2012 and 2016.

**Figure 5: Our steel index has a good correlation with the Fed's balance sheet expansion. If one is long steel, essentially one is hoping for continued expansion. But rising yields can spoil this party**



**Bloomberg Commodity Index's behaviour is no different ➤**



**Rising yields are biggest risks to Fed's unabated money printing ➤**

One of the biggest risks to the US Federal Reserve's constant printing of money are rising US bond yields. As of now, the market is pricing in US President Mr. Joseph Biden's stimulus measures, but the US bond market does not seem to be impressed. Bond yields are spiking. In India, the Reserve Bank of India's past bond auctions have failed as investors want to price in the higher fiscal risk.

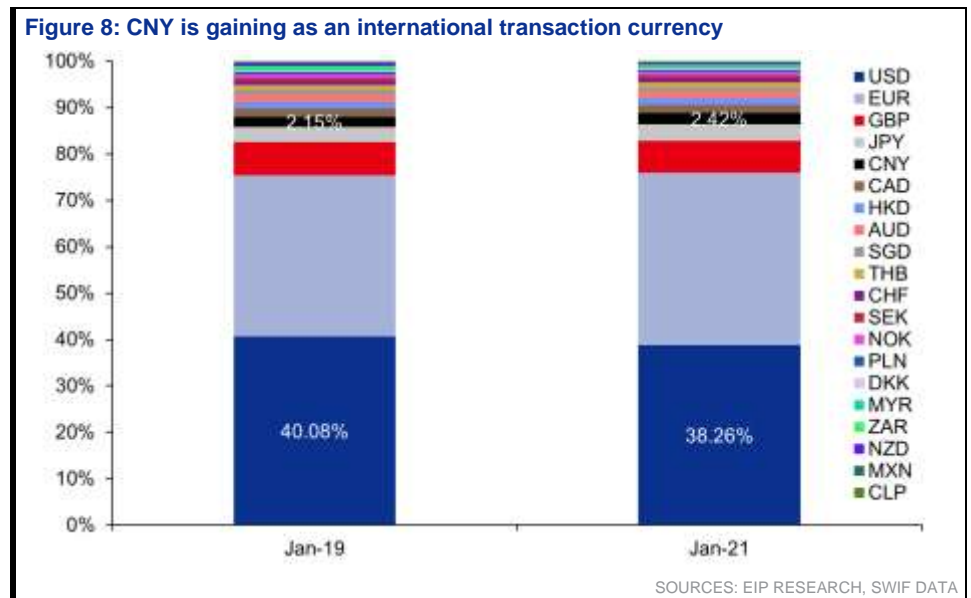
**World needs to find a new use for US\$, which can absorb US\$ even at a very low interest rate ➤**

Globally there are two big usage of US\$: 1) the US\$ used in international crude oil trade, and 2) global reserves.



Almost 62% of the petroleum is traded in US\$. Given the average of prices is still at the 2019 level, a new sink for US\$ has not been created.

**US\$ appears to be lagging in international transactions; surprisingly RMB is gaining ▶**



**How can the US create demand for the dollar ▶**

We have discussed in length the potential fall in the US\$ and how it has no intrinsic value. Though it appears logical, the argument that the US\$ has no intrinsic value has never held up. Ultimately it boils down to demand and supply of the US\$. The US\$ needs a demand source now, which could be one of two possible sources: 1) a rapid rise in energy prices, which will be inflationary for the US as well; or 2) a war where the US\$ is used to bear the cost of war and reconstruction as well. If neither happens then the US\$ must fall or US interest rates need to rise.

**Rates are rising; negative for commodities ▶**

Dollar can fall, but against what? There is still a long way to go before the CNY becomes an alternate currency, in our view. We believe the Eurozone began stagnating a long time ago. We think the market needs to price in the risk in the US\$ so US bond yields must rise, which it is. Rising interest rates affect every trader's dream of leveraging at low cost and making multiple returns on equity.

## Steel: Do not ignore the warning signs

Over the last 16 years, we have witnessed some flash crashes in commodities. There has always been a distribution of stocks at the top which can go on for long. Despite the warning signs that appeared on the horizon, we chose to ignore them. Currently the warning signs are: 1) steel valuations are near +2SD of their nine-year mean, with only a 5% chance it could stay at this level or exceed it; 2) the ruble is falling, straining global steel prices; and 3) China's steel export prices are trending down.

### Stock valuations are costly ➤

We consider P/B the relevant parameter to value commodity stocks. Steel is the prime example of how this valuation metric works.

**Figure 9: Steel index (equal weighted market cap of Tata Steel, JSPL, JSW Steel and SAIL) is nearing +2SD of the last 9-year mean valuation**



SOURCES: EIP RESEARCH, BLOOMBERG

### Steel price is falling ➤

We believe the most important prices to look at in the global steel market are China's steel export prices, which are trending down.

**Figure 10: China steel export prices are trending down**



SOURCES: EIP RESEARCH, COMPANY REPORTS

**Ruble depreciation responsible for bearish outlook despite crude oil strength ➤**

The Commonwealth of Independent States (CIS) steel plants are fully backward integrated, hence a depreciating ruble makes them much more competitive than US\$-denominated steel exports. The current US\$/RUB and steel prices are diverging too much currently, and we expect a convergence in the near term.

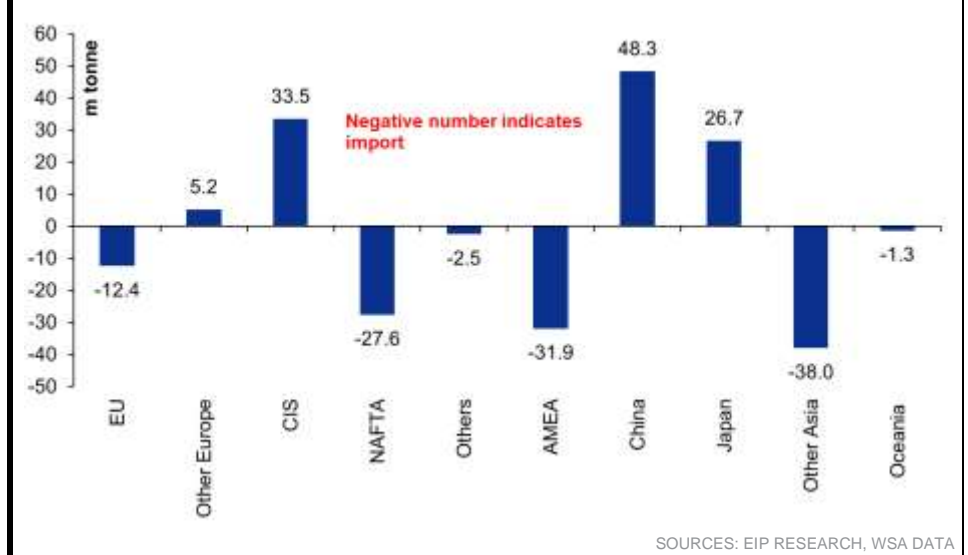
**Figure 11: Despite the surge in crude prices, CIS currencies like ruble are not appreciating, which put Chinese exports / global steel prices at risk**



**CIS is the second biggest exporter of steel after China ➤**

The CIS is the second largest exporter of commodity steel after China and, hence, its competitiveness determines Chinese export prices.

**Figure 12: CIS's steel exports determine Chinese export prices**





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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

### Recommendation Framework

#### Stock Ratings

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.