

The Reorganization of Baosteel and Wuhan Iron & Steel Co., LTD

Deng yan¹, Zhifeng Jie²

¹ School of Economics and Management, Nanchang Institute of Science & Technology, Nanchang, Jiangxi, China, 330108

² School of Accounting, Nanchang Institute of Science & Technology, Nanchang, Jiangxi, China, 330108

Keywords: reorganizing; management risk; financial risk

Abstract: On September 22, 2016, Baosteel Group Co., LTD. (hereinafter referred to as "Baosteel") and the Wuhan Iron and Steel (Group) Corporation (hereinafter referred to as "Wuhan") jointly formed a "Treasure of China Wu Iron and Steel Group Co., LTD." (Hereinafter referred to as the "Treasure,"), as a state-owned capital investment company pilot enterprises. Baowu group was produced by the reorganization and merger between the central enterprises. This case studies the integration of steel industry and financial risk management from the perspective of material selection and topic design.

China Baowu Iron and Steel Group Co., LTD., which were jointly reorganized by former Baosteel Group Co., ltd. and Wuhan Iron & Steel Group Co., LTD., was officially inaugurated on December 1, 2016. The registered capital of Baowu Group was 527.9 billion yuan with an asset size of 739.5 billion yuan and a total of 228,000 employees. It was a pilot enterprise of state-owned capital investment company. ^[1] In 2016, Baowu Group achieved the best operating performance of China's steel industry, with a revenue of 307.2 billion yuan and a profit of 7.02 billion yuan.

1. Introduction

In 2016, mainly for iron and steel industry merger and reorganization under the state council issued document no. 46 on the iron and steel industry merger and reorganization of the disposal of the zombie companies guidelines "(hereinafter referred to as the" guidelines ")", which was around the steel industry overcapacity, the top-level design of structure optimization and adjustment. The general goal of the guidelines was that by 2025, 60-70% of China's steel industry will be concentrated in about 10 large groups. The concrete implementation process of the reform of the President's body is: the merger and reorganization of the steel industry will take three steps from 2016 to 2025.

The first step is to go to 2018, which will focus on production capacity and should be clear and clear. At the same time, it will demonstrate the next merger and reorganization.

The second step is to improve the policy of merger and reorganization from 2018 to 2020.

The third step is to push forward the merger and reorganization of the steel industry by 2020 and 2025.

2. Case Situation

Baosteel group co., LTD. was an important state-owned enterprise, which was supervised by the state-owned assets supervision and administration commission of the state council. Its headquarters was located in Shanghai. Baoshan iron and steel co., LTD. and a listed company of baosteel group in Shanghai stock exchange.

Baosteel group was mainly composed of baosteel, guangdong shaosteel group, xinjiang eight steel group and other companies. In 2015, baosteel's social responsibility report and annual report showed that the total profit of the steel industry was 8.45 billion yuan, which was a year-on-year loss. Among them, shaosteel group and eight steel group's listed companies *ST sg and *ST 8 steel respectively lost 2.6 billion yuan and 2.51 billion yuan respectively last year.

In recent years, baosteel group's performance has continued to decline. In 2012, the total profit was 10.42 billion yuan, down to 10.1 billion yuan and 9.42 billion yuan in 2013 and 2014, and 1.03 billion yuan in 2015.

Wuhan iron and steel (group) company was founded after the founding of new China the first super large integrated iron and steel enterprise, started construction in 1955, completed and put into operation on September 13, 1958, the central and straight backbone state-owned enterprise of state-owned assets supervision and administration commission of the state council. The factory was located in the east suburb of wuhan city of hubei province and the south bank of the Yangtze river, covering an area of 21.17 square kilometers. Wisco has mine mining, coking, ironmaking, ^[2] steelmaking, steel rolling and logistics, and auxiliary facilities such as a complete set of advanced iron and steel production process equipment, and joint restructuring EGang, liuzhou iron & steel group co. are presented. the, kun steel, as the scale of production of nearly 40 million tons of large enterprise groups, the fourth in the world steel industry.

Wisco from 2004 to 2015, pushing in the southwest, fangchenggang project to promote development of mineral resources, overseas expansion and the steel industry development strategy, such as restructuring EGang steel, liuzhou iron & steel group co. were presented. the, kunming, the rapid expansion of wisco.

According to the annual report of wuhan iron and steel group in 2014-2015, the net profit of wuhan iron and steel company changed from 1.257 billion yuan in 2014 to 7.515 billion yuan in 2015.

On September 22, 2016, baosteel and wuhan iron and steel reorganization and merger plan announced that baosteel shares would be absorbed into the merger of wuhan iron and steel shares, and the proportion of shares traded was 1:0.56. Baosteel intended to issue 5.65 billion shares to its shareholders. After the completion of the merger, the total number of shares listed in the listed company was 221.19 billion shares, and the shareholding ratio of baosteel group was 52.1%, and the shareholding of wuhan iron and steel group was 13.48%. Baoshan iron & steel co., LTD. was the merged party and the surviving party of this merger. ^[3]

The combined company would be the third largest steel producer in the global listed steel industry, third in the global automotive plate market and the first in the global market for silicon steel. The shares of the two companies were suspended.

Baosteel and wuhan steel shared in stock price to the company the share swap absorption merger review items 20 trading days before the announcement of the decision of the board of directors of the average price for the market reference price, stock trading and with less than 90% of the market reference price as a valuation principle, the share price determined as: baosteel 4.60 yuan/shares in wisco, 2.58 yuan/share. The exchange rate of the shares of wusteel and baosteel was determined by the above share price to be 1:0.56, that was, and the shares in each of the shares of the steel company are exchanged for 0.56 shares of baosteel.

This merger, wisco shared all existing assets, liabilities, business, personnel qualification, contract, and all other rights and obligations by wisco limited to undertake and inheritance, since the delivery date of wisco by baoshan iron & steel co., LTD. 100% stake in control.

The merger of baosteel and wuhan iron and steel should optimize the resource allocation of the two steel companies and promote the quality and efficiency of the combined company. ^[4] The two should play a synergistic effect in location, research and development, procurement, production, marketing, product, technological innovation, and corporate culture.

After the merger, treasure, should be fully four steel production base layout plan as a whole, fully integrated domestic coastal strategic location along the river, systematic, integrated steel angles the main geographical advantages, rational division of labor around the market layout, orderly joint Chinese and global customers, radiation maritime silk road economic region in the 21st century. They should be optimized through the layout of the production base, and use intensive deployment in raw materials and finished goods transportation and storage, so as to achieve the cost reduction and efficiency.

For the combined development planning, baosteel, was said to "become the world's most

competitive iron and steel enterprises, became the most investment value of listed company" as the strategic target, built on behalf of the Chinese iron and steel industry the highest technology and strength level, having steel technology independent intellectual property rights,^[5] the international iron and steel industry voice and strong competitiveness of the world first-class iron and steel company. After the merger, the company intended to push forward the integration and integration of major business sectors and regional markets in three years or so. Through integration, we should gradually establish a new management system of unified r&d, unified sales and unified procurement.

Baosteel group and wuhan iron and steel (group) the implementation of the joint reorganization, baosteel group co., LTD. was renamed China bao wu iron and steel group co., LTD., as the parent company after the reorganization, wuhan iron and steel (group) company as a whole as free of charge, as its wholly owned subsidiary. After the reorganization, the property rights and control relationship between the company and the controlling shareholder and the actual controller have not changed.

3. The Resources

This case focused in baosteel and wuhan restructuring management and risk management, combined with the related resources in addition to providing background information in the case of text in front of the outside, which also included information about the enterprise financial general rules regulations and related industries. The data limitations of this case were mainly manifested in the fact that the financial data of original baosteel group co., ltd. and wuhan iron & steel (group) company and financial risk management were not available.

4. Discussion

From the losses of baosteel and wuhan iron and steel to the merger and reorganization, it has brought much enlightenment and thought. The focus of this case is only: combined with baosteel and wuhan iron and steel reorganization and merger,^[6] the following questions are mainly considered:

- 1) How to judge and evaluate the consolidation and consolidation of steel industry in this case?
- 2) How to conduct operation and financial risk management in the case of reorganization and merger in this case?

References

- [1] Zhou Donghua. Analysis on the economic consequences of mergers and acquisitions -- a case study of baosteel's stock exchange merger [J]. Commercial Accounting, 2017, (12): 29-32.
- [2] Li Ling. Industry in the winter of baowu merger [J]. China Policy Review, 2016, (12): 83-85.
- [3] Lu Guixian. The reality of the m&a performance of listed companies in China. Certificate research —— based on EVA model [J]. Audit and economic research. Research, 2012, (02): 104-109.
- [4] Cui Zixing. Mergers and acquisitions of Chinese steel enterprises and their performance analysis [D]. Fudan University, 2013.
- [5] Lu Guixian. Empirical study on m&a performance of listed companies in China -- based on EVA model [J]. Audit and economic research, 2012, (02): 104-109.
- [6] Zhou Shaoni, Wen Haitao. Research on the evaluation system of m&a performance based on industry evolution and acquisition motivation [J]. Accounting research, 2013, (10): 75-82+97.