



天工国际有限公司
Tiangong International Co., Ltd.
2019 Interim Results Presentation
August 21, 2019



Tiangong International Co., Ltd.

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SECTION 1
2019 Interim Highlights



2019 Interim Highlights

Significant revenue and profit growth

The Group & Segments											
Revenue (RMB million)		2,807			(+19.5%)						
Gross profit (RMB million)		356			(+15.1%)						
Net profit attributable to equity shareholders (RMB million)		149			(+77.0%)						
57.8 %		19.8 %			14.8%			7.6%			
Die Steel			High Speed Steel			Cutting Tools			Titanium Alloy		
Revenue (RMB million)	1,100	(+11.3%)	Revenue (RMB million)	376	(+0.3%)	Revenue (RMB million)	282	(+4.3%)	Revenue (RMB million)	145	(+35.5%)
GP Margin	19.0%	(+1.2%)	GP Margin	21.8%	(+1.4%)	GP Margin	15.2%	(+0.1%)	GP Margin	15.0%	(+0.0%)
ASP (RMB/ton)	12,679	(+1.7%)	ASP (RMB/ton)	28,003	(-2.8%)	ASP (RMB/pcs)	2.75	(+28.0%)	ASP (RMB/ton)	71,856	(+10.8%)
Sales Volume (‘000 tons)	86.8	(+9.4%)	Sales Volume (‘000 tons)	13.4	(+3.3%)	Sales Volume (‘000 pcs)	102,699	(-18.6%)	Sales Volume (‘000 tons)	2.0	(+22.4%)

Note: Revenue excluding trading of goods

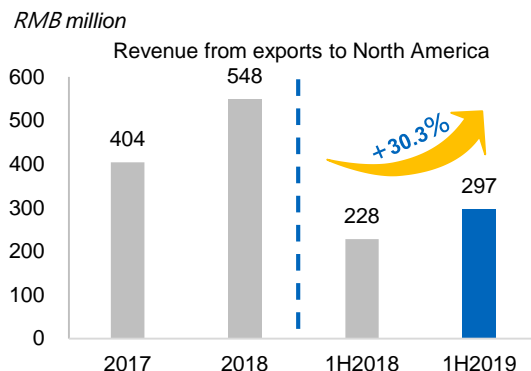


2019 Interim Highlights

Tiangong persevered in the trade war and its exports continued to grow

- **The sales volume to the US has gone up** despite that the China-US trade war has been raging and that some of the Group's products have been listed as dutiable items, **reflecting that the quality of the Group's products is internationally recognized and the Group has gained the support from overseas customers, which do not easily change the supplier**
- In May 2019, Zhu Xiaokun, chairman of Tiangong, was interviewed by CCTV. **After the United States imposed tariffs on Tiangong's products last year, some US customers have taken the initiative to apply for tax exemption for Tiangong from the US government**
- Tiangong has successfully reached a tax-free settlement against Turkish government's anti-safeguard measures, which is applicable to the entire special steel industry in China. Other enterprises in China's special steel industry will also benefit from it without encountering export restrictions. **As a landmark of China's market economy status recognition process, this victory has a model role for domestic special steel enterprises. In addition to the earlier victory in the case against the EU, so far, Tiangong has found its own way to challenge international trade barriers and won three consecutive victories.**

Revenue from exports to North America in 1H2019



Zhu Xiaokun, chairman of Tiangong, was interviewed by CCTV



Representatives from Tiangong attended hearings in Turkey



Product Development Strategy

After the restructuring of the factory area in Danyang, Jiangsu, the Group is committed to developing the powder metallurgy project. Trial run is scheduled to begin in the fourth quarter of 2019. The first phase of powder metallurgy has an annual output of 2,000 tons, and the company has already received orders

- 1 Improve the technical level of the products with the focus on high-end market and avoid vicious price competition in the low-end market. Fill domestic supply gap and develop international market
- 2 The competition in the high-end market is relatively moderate. It is conducive to the increase of customers' reliance and the stability of the Group's sales base. The Group would be able to improve the gross profit margin

Marketing Strategy

Tiangong has strengthened its direct sales channels. The group will continue to increase the proportion of direct sales and reduce dependence on distributors. Also, we have sold our own brands directly through the opening of online sales channels

- 1 Increasing the direct sales channel would help reduce distribution costs and improve the Group's gross profit margin
- 2 The Group could enhance its understanding of customer needs, such as the product specifications and requirements of post-processing. Meanwhile, the financial stability of the direct sales customers and their reliance on suppliers are generally higher than distributors



A close-up photograph of a complex metal mechanical component, likely a part of a machine tool or engine. The component features several sharp edges, holes, and a textured surface. A semi-transparent blue rectangular overlay is positioned in the upper left corner, containing the section title.

SECTION 2

Segment Reporting



Segment Reporting

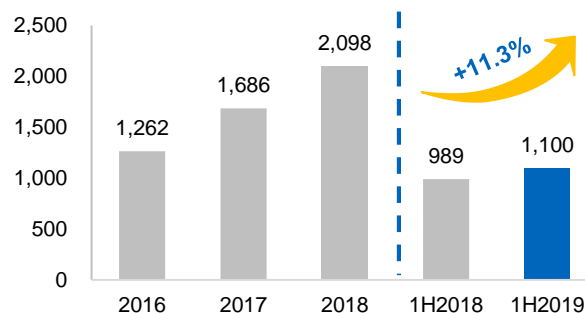
Die Steel

1H2019 vs. 1H2018: Tiangong strived to increase its DS market share and end customer stickiness by strengthening its direct sales effort. **In 1H2019, the sales volume increased by 9.4%. The average selling price increased mildly by 1.7%. Consequently, revenue generated from DS segment increased by 11.3%.** Demand from both domestic and overseas markets stayed strong. **Sales volume from export surged around 13.5%**

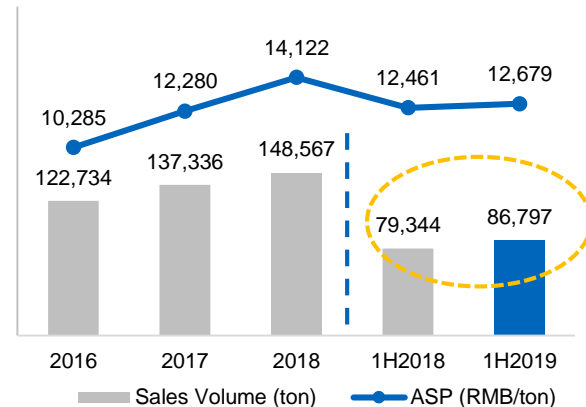
GP Margin: The gross margin increased from 17.8% in 1H2018 to 19.0% in 1H2019. Due to the increase in the proportion of high alloy products and the increase in the proportion of direct selling to end customers, the overall gross profit margin increased from 17.8% to 19.0%

Revenue

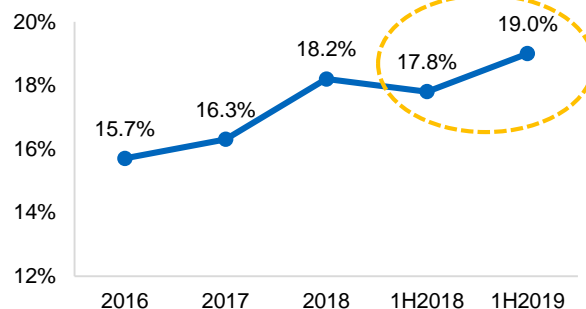
RMB million



Sales Volume and ASP



GP Margin



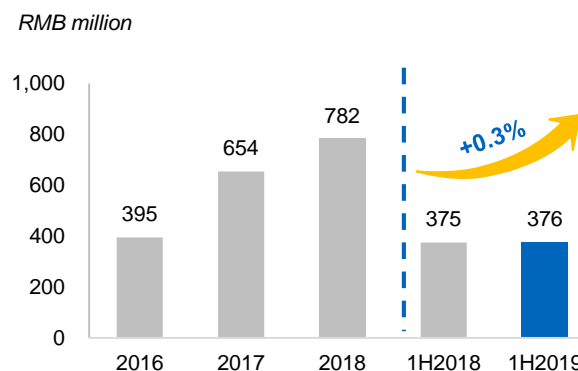
Segment Reporting

High Speed Steel

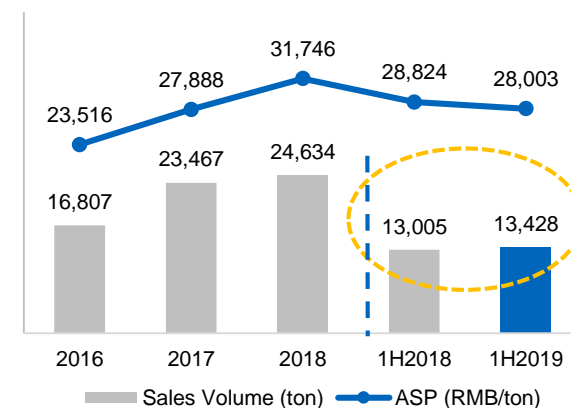
1H2019 vs. 1H2018 : Demand for HSS remained strong in both domestic and overseas markets. The average selling price of HSS decreased as a result of reduced prices of tungsten. **The overall sales volume increased by 3.3%. The sales volume in domestic market increased by 1.7%, while sales volume in overseas markets increased by 9.5%**

GP Margin: **Gross margin of HSS slightly increased from 20.4% in 1H2018 to 21.8% in 1H2019.** The main reason is the upgrading of the product sales mix, which reduces the production and sales of low-alloy products

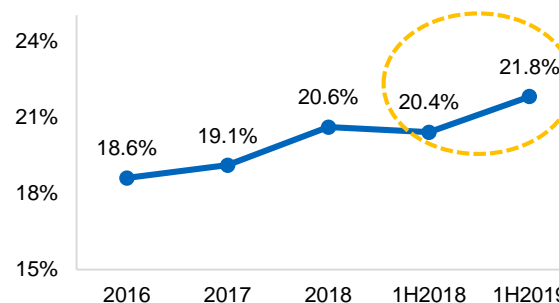
Revenue



Sales Volume and ASP



GP Margin



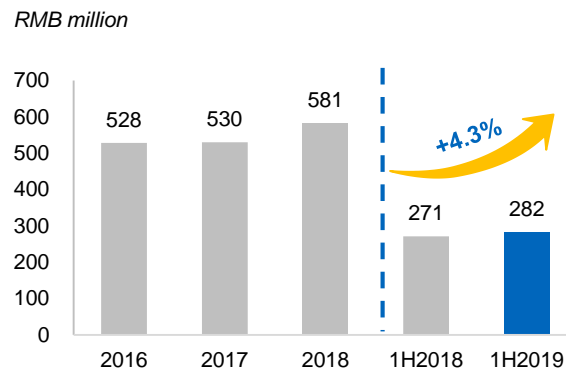
Segment Reporting

Cutting Tools

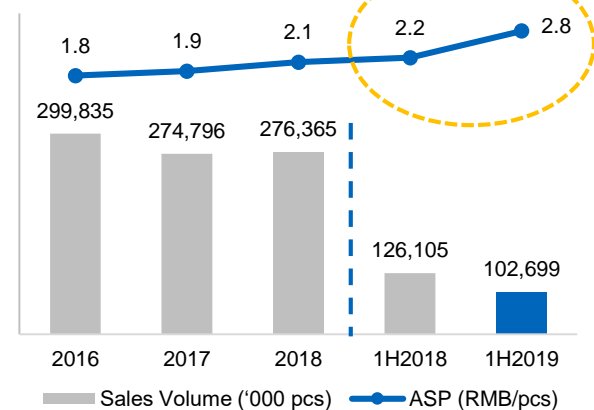
1H2019 vs. 1H2018 : Overall increase of 4.3% was recorded in the segment. Since 2018, Tiangong adopted a policy to avoid unnecessary price war with other small-scale production companies in the domestic lower-end market, focusing more on middle-end product in both domestic and overseas markets. **The overseas markets have shown a strong demand and new customer development achieved significant results; therefore, the revenue increased by 17.3%. Average selling prices rose 28.0% as the product mix shifted to mid-end products**

GP Margin: The market for cutting tools is relatively matured and stable in recent years. Simulated by increased overseas demand, the gross margin of cutting tools achieved a slight improvement to 15.2% in 1H2019

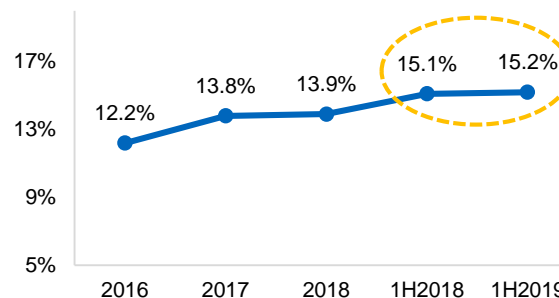
Revenue



Sales Volume and ASP



GP Margin



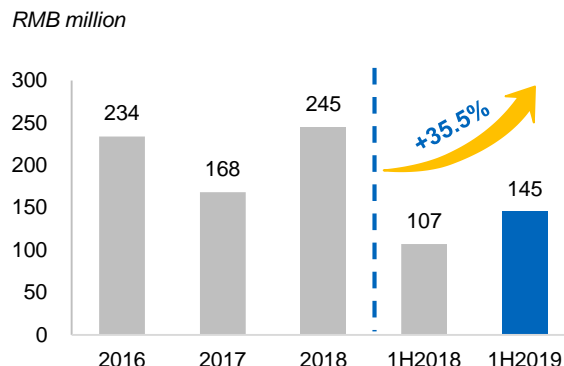
Segment Reporting

Titanium Alloy

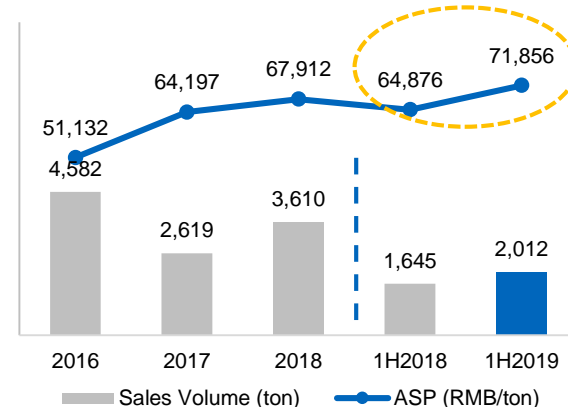
1H2019 vs. 1H2018 : In 1H2019, the overall sales volume of titanium alloy products increased by 22.4%. The demand of titanium products continues to increase due to the strict environmental protection requirements in China. Meanwhile, the price of titanium sponge, the main raw material of titanium alloy, rose all the way in the first half of 2019. The company successfully passed on the increase in raw material prices to its customers; therefore average selling price rose 10.8%. **As a result, there was a significant increase in revenue by 35.5%.** Development progress of overseas markets is making good progress and has recorded an increase of 19.8% on export revenue

GP Margin: Gross margin of titanium alloy remained at 15.0%

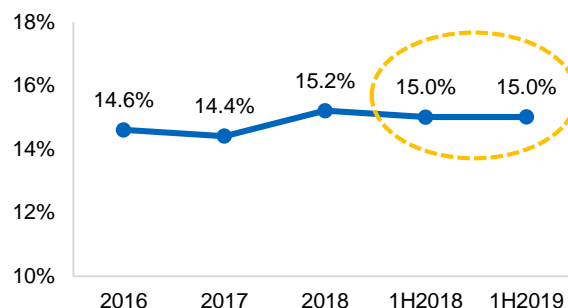
Revenue



Sales Volume and ASP



GP Margin



A detailed black and white photograph of a car engine, showing various components like the alternator, belts, and pulleys. A semi-transparent blue rectangular box is positioned on the left side of the image, containing the section title.

SECTION 3

Financial Overview

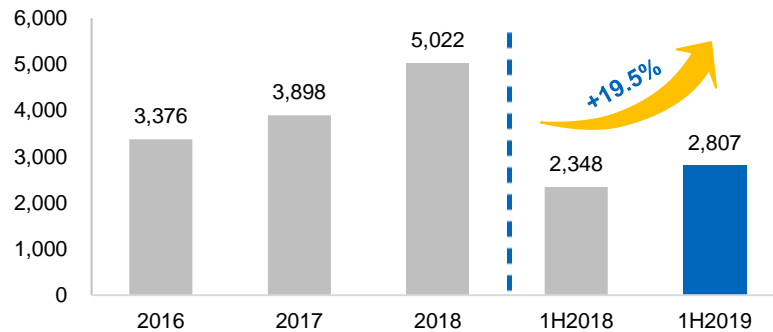


Financial Overview

Financial Snapshot

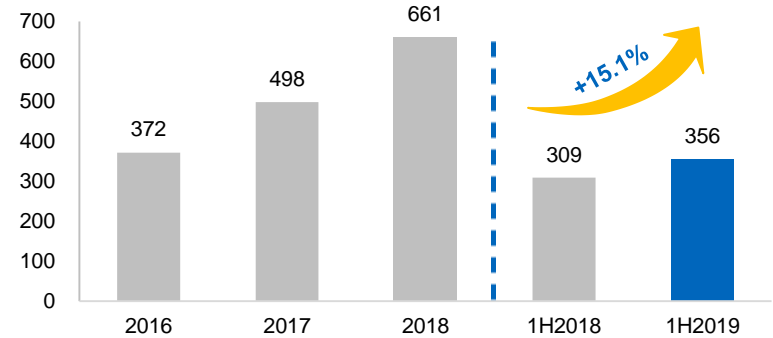
Revenue

RMB million



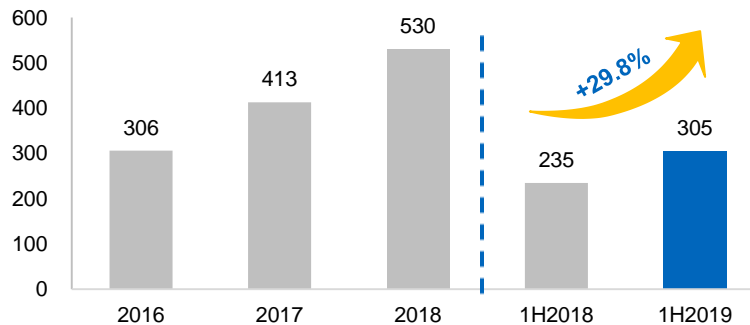
Gross profit

RMB million



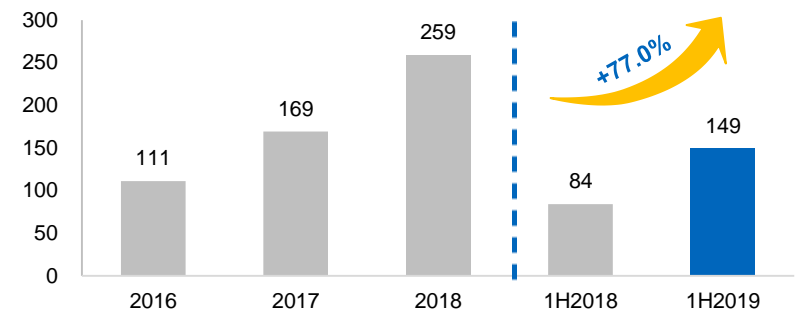
Adjusted EBIT*

RMB million



Net profit

RMB million



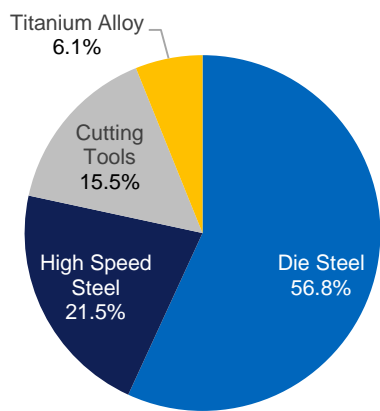
*Note: To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments



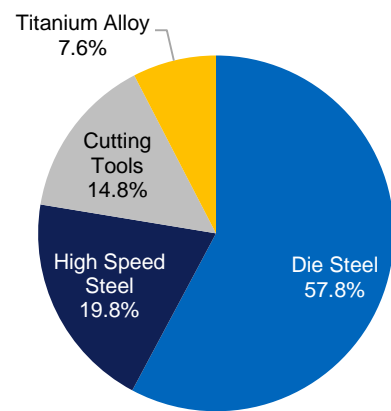
Financial Overview

Revenue Attribution

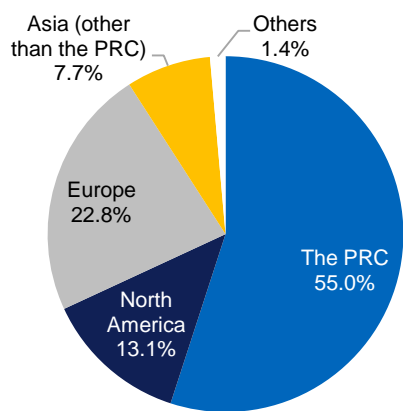
Revenue attribution by segments in 1H2018



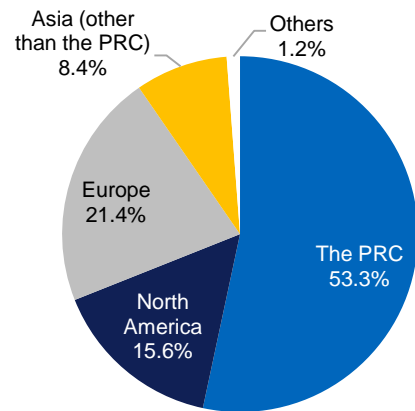
Revenue attribution by segments in 1H2019



Revenue attribution by regions in 1H2018



Revenue attribution by regions in 1H2019

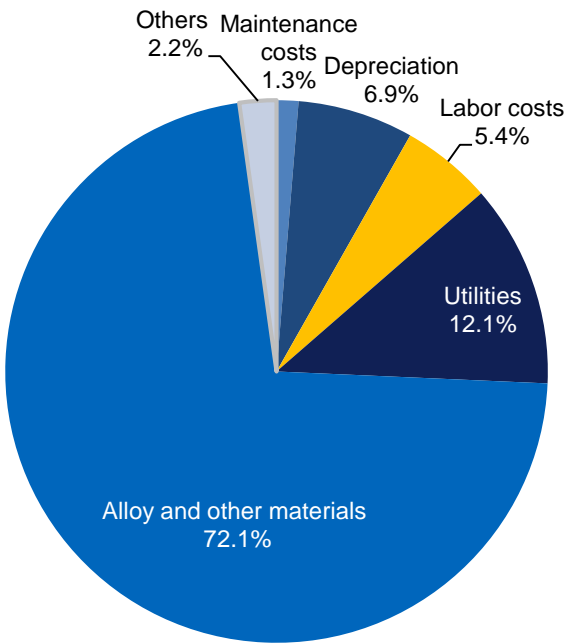


Note: Revenue excluding trading of goods

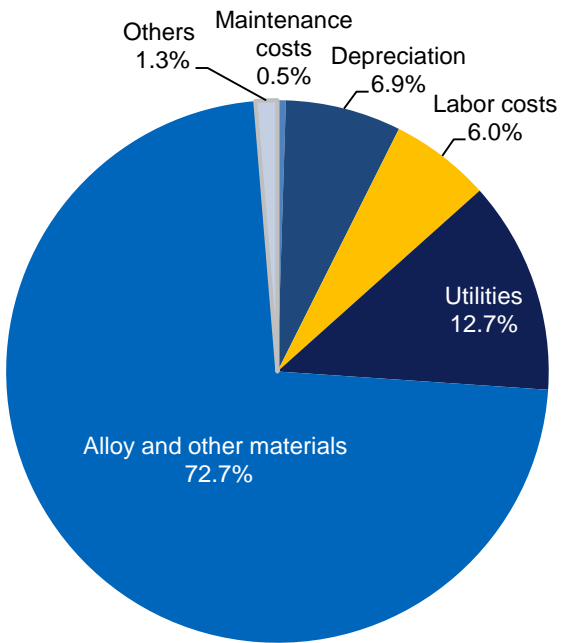
Financial Overview

Cost Structure

Cost structure in 1H2018



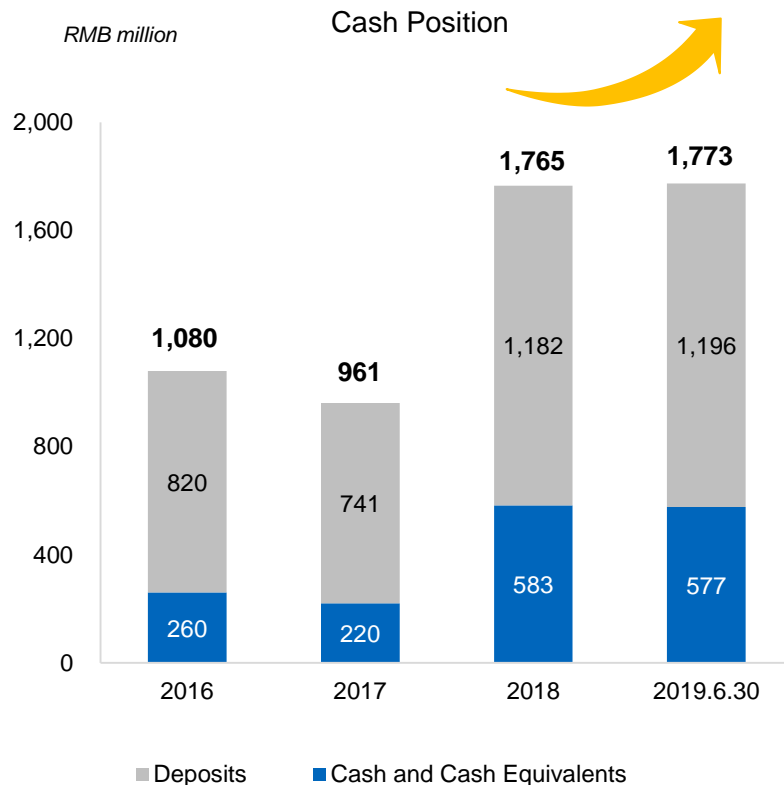
Cost structure in 1H2019



Financial Overview

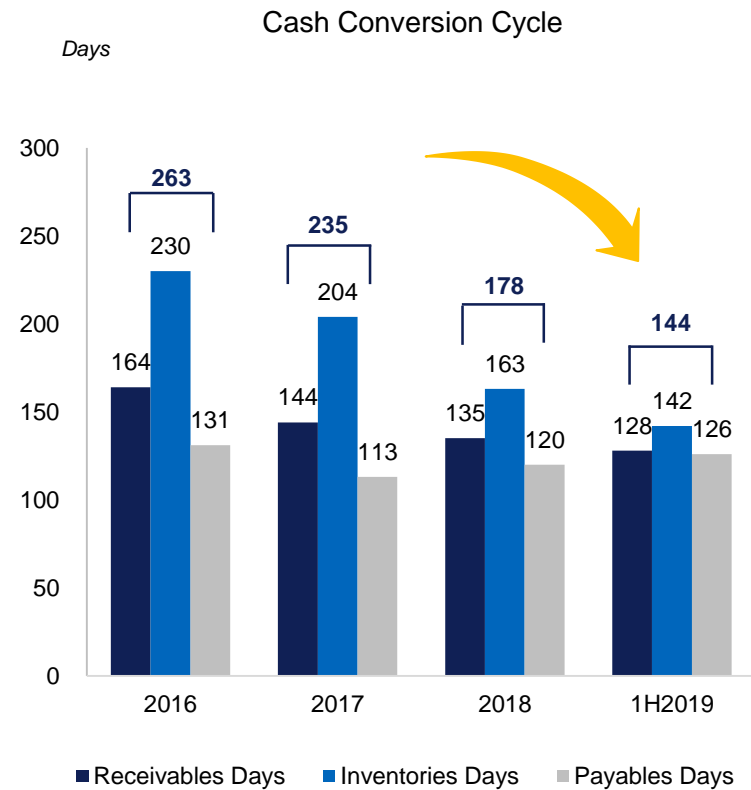
Cash Position and Working Capital Overview

Solid balance sheet & cash position to support existing business and growth opportunities



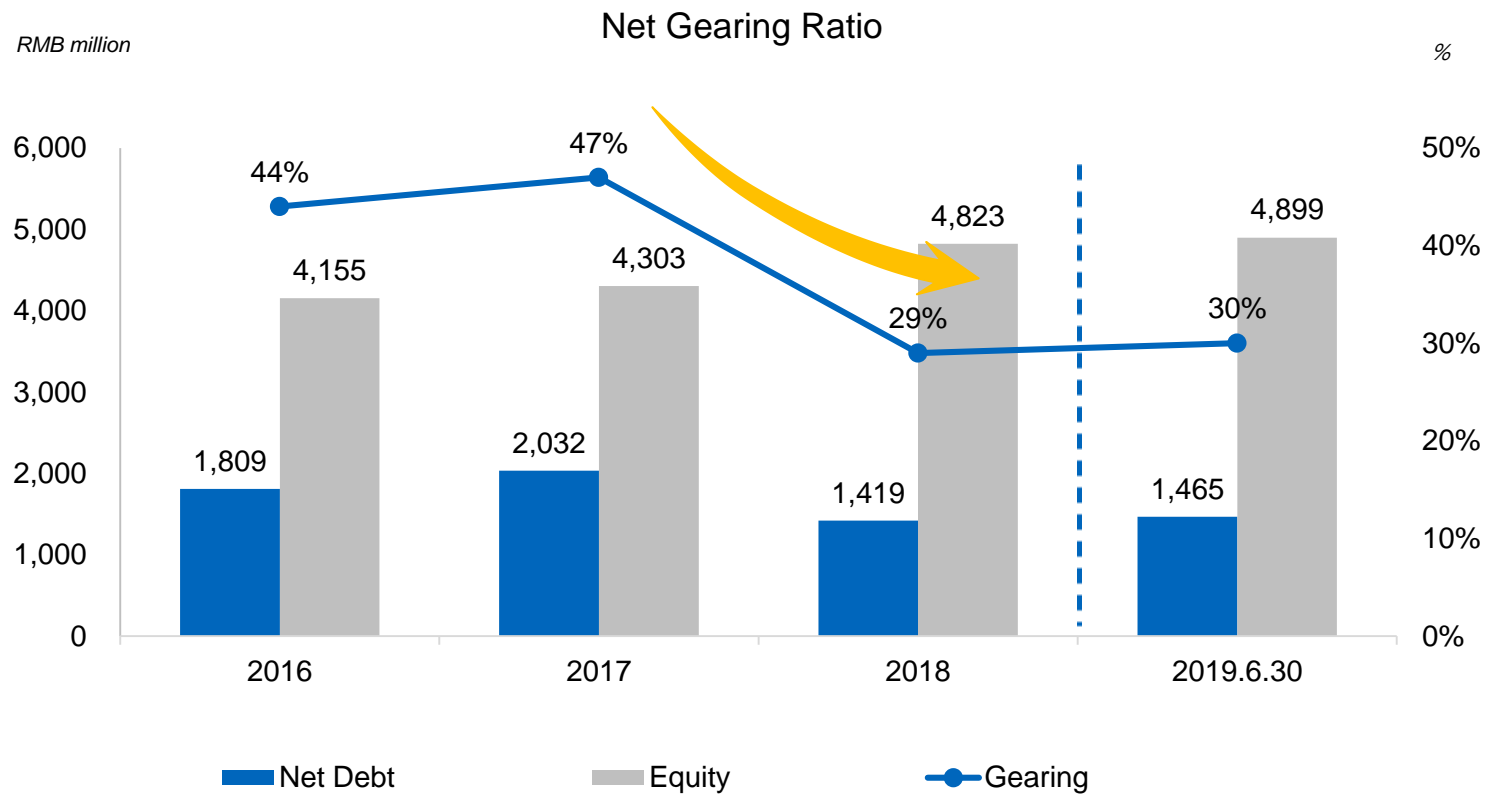
Note: Deposits includes both time and pledged deposits

Cash conversion cycle continued to improve in 2019



Net Gearing Ratio

Net gearing improved significantly



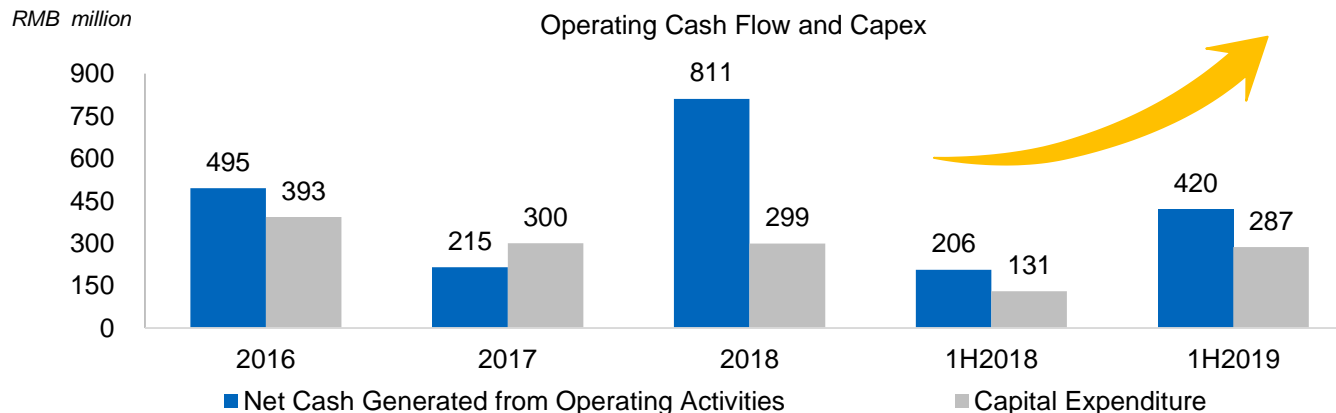
Financial Overview

Capex Trend

Major Capex plan

Project	Status/Milestones	Year	Capex Amount
Acquisition of Land and Buildings	✓ In order to provide more office space and meet the increasing operational needs, the Group acquired a building with an aggregate gross floor area of 22,561 sq.m. and a related land with a gross site area of 55,947 sq.m. for a consideration of RMB100 million	2019	RMB 100m
Intelligent facility for Cutting Tools	✓ The Group plans to start Cutting Tools' Intelligent facility construction in 2019, which will improve Cutting Tools' production efficiency and product precision on a large scale	2019	RMB 40m
Powder metallurgy production line	✓ The Group plans to invest RMB 500 million to start the construction of the first domestic powder metallurgy production line for mold steel. The first phase of the project is expected to be completed and put into production in the fourth quarter of 2019, and the annual output of 2,000 tons of powder metallurgy products will be achieved by then. The company has already received orders	2019-2020	RMB 500m

Cash generated from operating activities increased significantly





SECTION 4 Outlook



Aim to lead the development of the world's new material industry, and contribute to the high-end transformation and upgrading of China's manufacturing industry

Product Development Strategy - The market is expecting potential interest rate cuts by the Federal Reserve and infrastructure investment growth will continue to pick up in the second half of the year. This will have a positive impact on the steel industry. The company's business is expected to sustain its growth momentum

Explore new markets - Continue to explore the high-end new materials market by actively looking for acquisition opportunities of overseas new materials enterprises, **while at the same time developing powder metallurgy products in full swing**

Marketing Strategy - Further strengthen sales channel to reduce the intermediate costs and improve overall gross profit margin. In the meantime, sell Tiangong's own brand products directly through online sales channels

Company Strategy - Tiangong will continue to enhance the company's strength in various aspects, including the R&D and globalization of high-end new products, as well as production bases, etc., to cope with the complex international situation and challenges





SECTION 5
APPENDIX



Tiangong International Corporate Snapshot

Global leadership positions in HSS, HSS Cutting Tools & Die Steel industry
with around 250K tons of annual production capacity

- # 1 globally in HSS market
- # 1 in China's HSS Cutting Tools industry
- # 3 globally in Die Steel sector
- # 3 in China's Titanium Alloy market
- China's top 500 private manufacturing enterprises

Certified by China Special Steel Enterprises Association in 2017
Market share of High Speed Steel products is 15% globally and 35% in China

Operates in more than 10 countries and employs around 3,000 people

Strong product lines selling to major markets around the world, covering the high growth regions

Meet a variety of end-market demands, including automotive, aerospace, medical, military and other fields


















Titanium Alloy and powder metallurgy are listed as key strategic materials and cutting-edge new materials in "Made in China 2025", while High Speed Steel and Die Steel are listed as advanced basic materials

High Speed Steel, Die Steel and Cutting Tools are in line with the high quality special Steel materials in the national 《Strategic Emerging Industries Key Products and Services Guidance Catalogue》, while Titanium Alloy is in line with the high quality special steel materials and high performance non-ferrous metal and alloy materials



End-market Exposures

Leading global new alloy materials & tools provider

Segment	Industry	End Customers
Die Steel	Automobile, Aerospace, Machinery Equipment	 Mercedes-Benz  
High Speed Steel	Automobile, Aerospace	  
Cutting Tools	Automobile, Aerospace, Machinery Equipment, Construction, Consumer Electronics	       
Titanium Alloy	Medical, Aerospace, Military	  



Innovation and breakthrough in new materials

- **Tiangong set up a powder metallurgy production line**, filling the gap of massive production of metal powder products in China
- Tiangong and China Iron & Steel Research Institute Group jointly established **the first Powder Metallurgy Institute in Mainland China**, aiming to develop high-quality metal powder products, stainless steel powder and other powder products comparable to international advanced level
- **Tiangong officially becomes a new material enterprise after** 39 advanced steel materials have been categorized in 《Classification of Strategic Emerging Industries (2018)》 by National Bureau of Statistics

Set up a powder metallurgy production line



Established Powder Metallurgy Institute

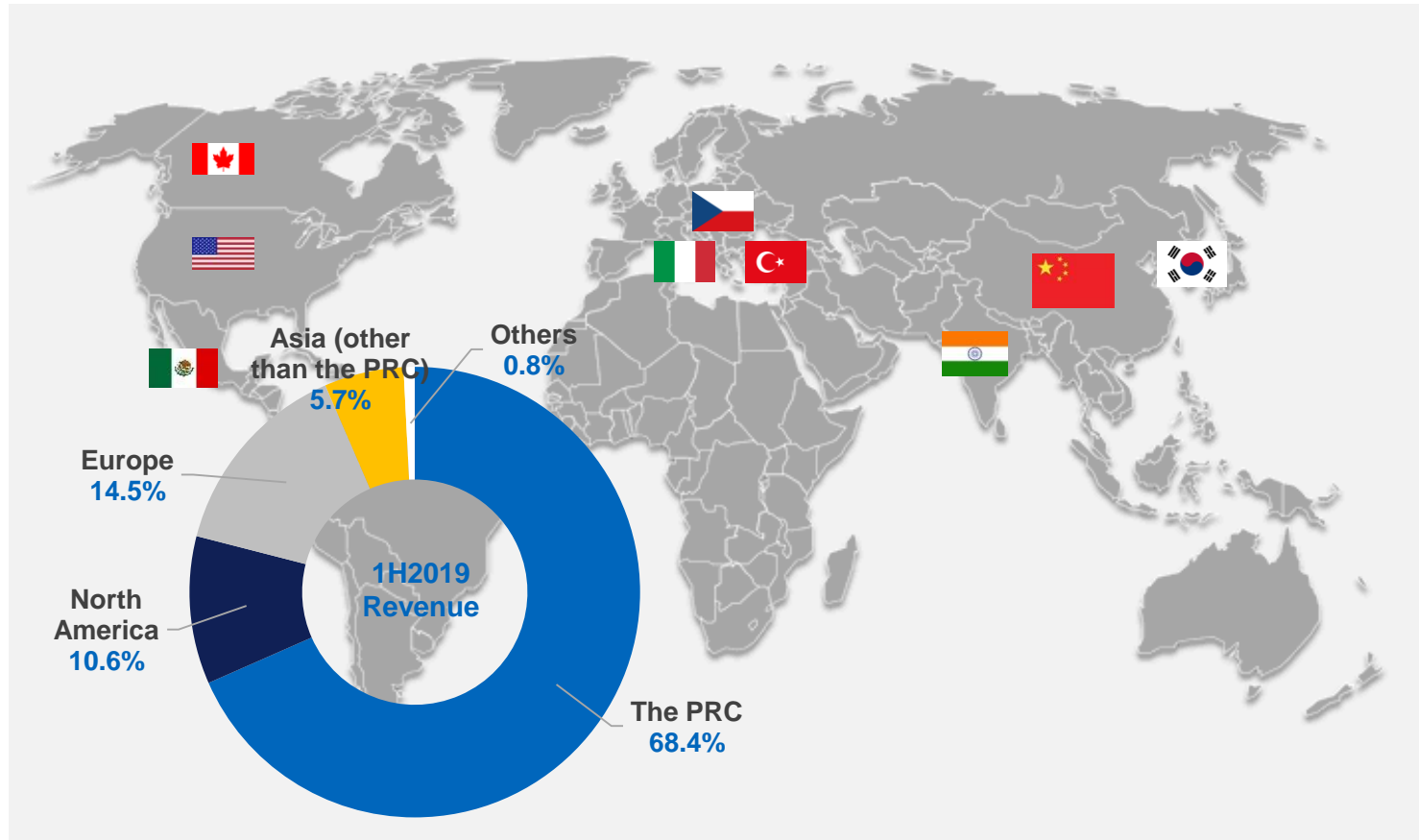


《Classification of Strategic Emerging Industries (2018)》



代码	战略性新兴产业分类名称	国民经济行业代码 (2017)	国民经济行业名称
3.1.1.5	高性能工具模具钢加工	3130*	钢铁压延加工
3.2.3	钛及钛合金制造		

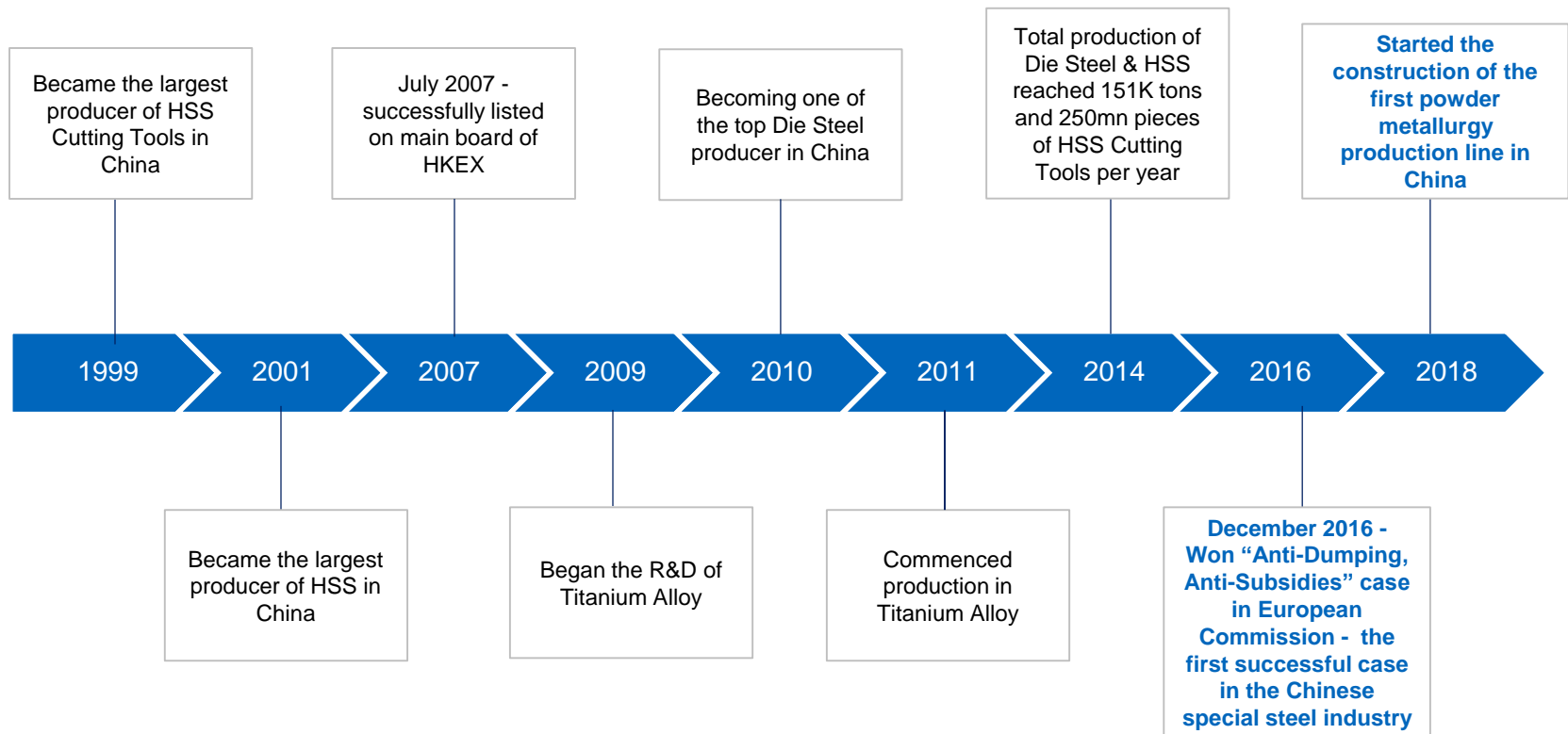
Global sales network strategically located in high growth regions



Note: Revenue including trading of goods



Global leader in the new alloy materials & tools market



Unique Business Model

Uniquely positioned in global HSS, Cutting Tools and Die Steel industry



Efficient Cost Model

Waste material recycling production know-how lead to higher efficiency and low production costs

Recycle Production Know-how

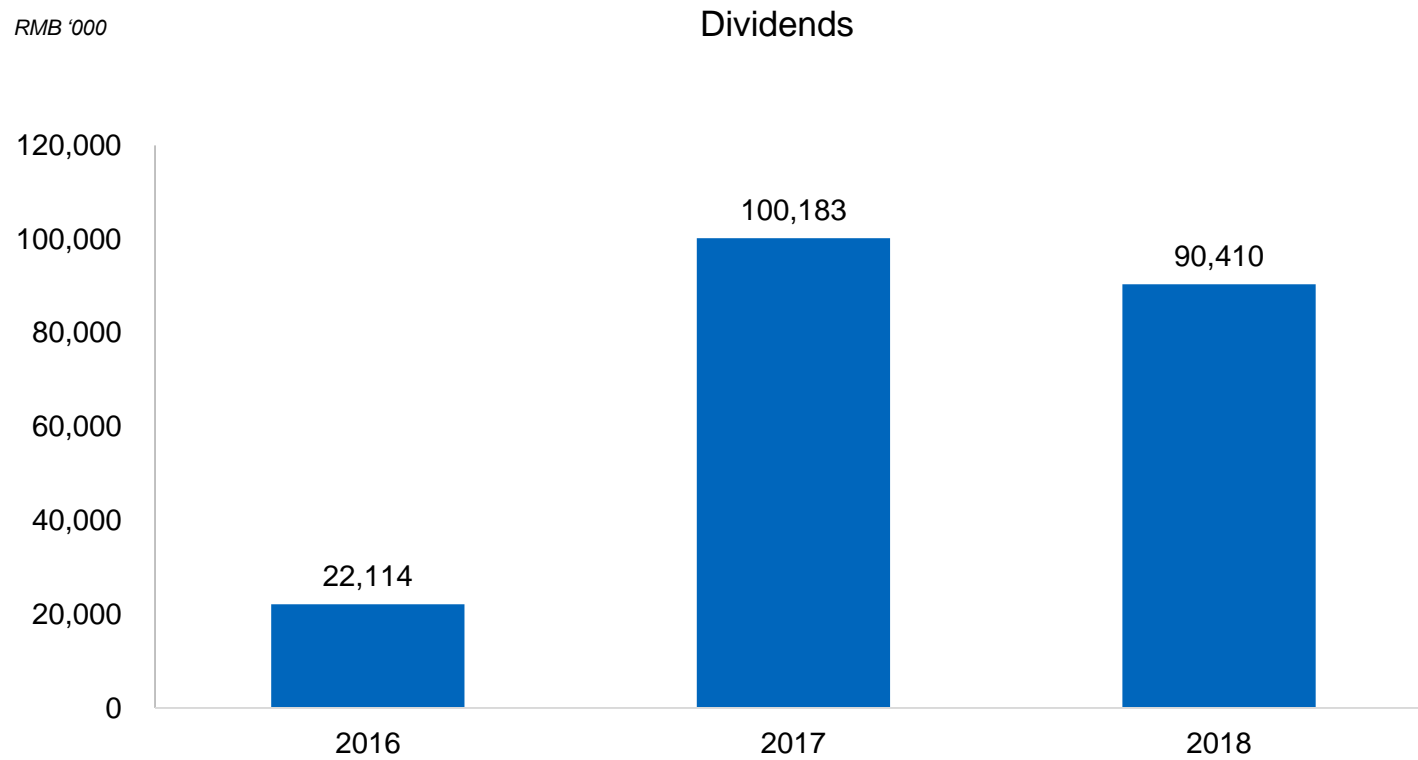
1. Achieves ~5% cost advantage
2. Stable raw material supply
3. Enhance production and operation efficiency



Dividends Trend

Dividends steadily upward

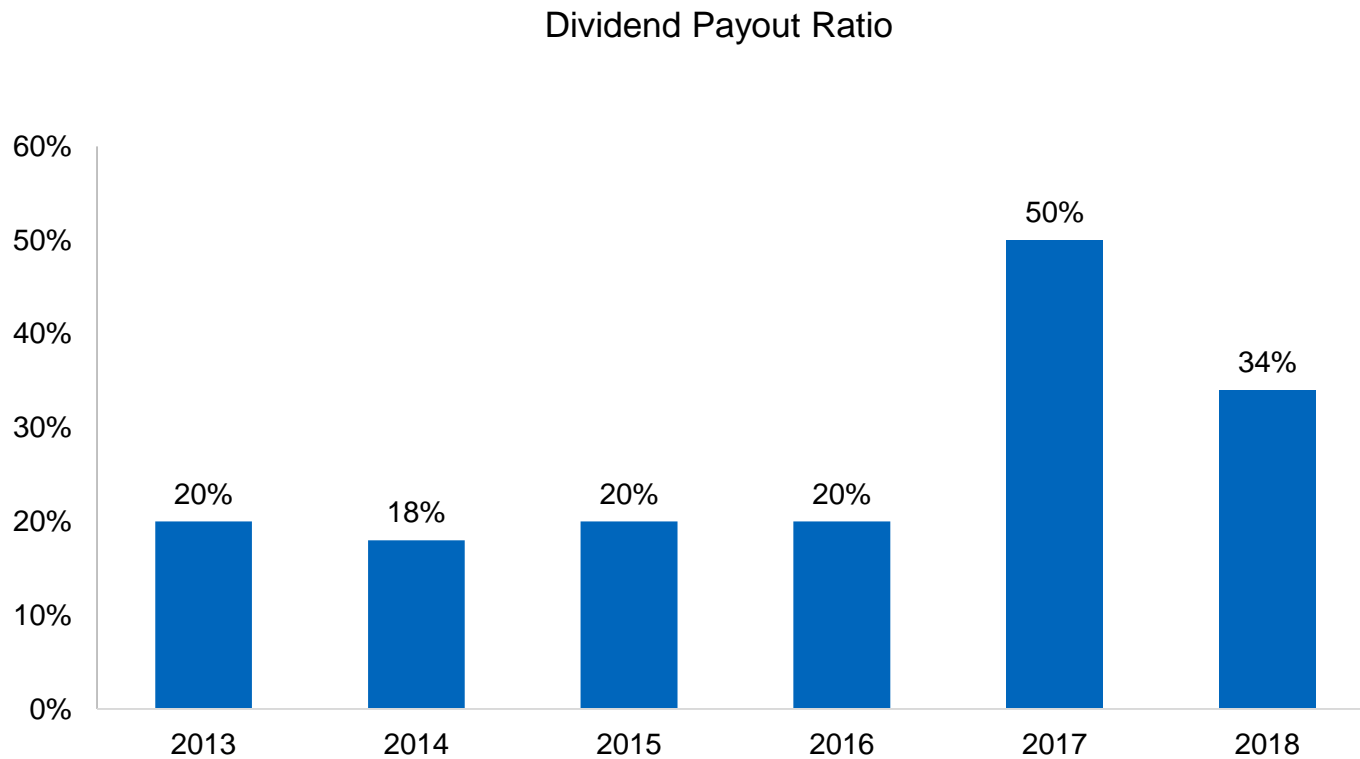
Dividend payout



Dividends Trend

Maintaining a stable dividend payout ratio of 20% for 10 years, the Group is well prepared to bring higher returns to investors

Dividend payout ratio



Income Statement

<i>RMB'000</i>	1H2019	1H2018	% Change
Revenue	2,806,575	2,347,657	+19.5%
Cost of sales	(2,450,451)	(2,038,311)	+20.2%
Gross profit	356,124	309,346	+15.1%
Other income	11,562	16,260	-28.9%
Distribution expenses	(46,232)	(50,901)	-9.2%
Administrative expenses	(63,040)	(72,560)	-13.1%
Other operating expenses	(20,792)	(42,383)	-50.9%
Profit from operations	237,622	159,762	+48.7%
Finance income	9,720	3,647	+166.5%
Finance expenses	(71,248)	(67,178)	+6.1%
Net finance costs	(61,528)	(63,531)	-3.2%
Share of profits of associates	3,302	2,590	+27.5%
Share of profits of joint ventures	(6,279)	8,203	-176.3%
Profit before taxation	173,117	107,024	+61.8%
Income tax	(19,418)	(19,093)	+1.7%
Profit for the year	153,699	87,931	+74.8%
Attributable to:			
Equity shareholders of the Company	149,468	84,441	+77.0%
Non-controlling interests	4,231	3,490	+21.2%
Profit for the period	153,699	87,931	+74.8%
Basic EPS (RMB)	0.059	0.036	+63.9%
Diluted EPS	0.059	0.036	+63.9%



Balance Sheet

<i>RMB'000</i>	30 Jun 2019	31 Dec 2018	% Change
PPE	3,741,837	3,597,069	+4.0%
Non-current assets	4,127,420	3,923,593	+5.2%
Inventories	1,855,466	1,994,287	-7.0%
Trade & other receivables	2,394,332	2,351,841	+1.8%
Pledged deposits	620,500	464,500	+33.6%
Time deposits	575,568	717,414	-19.8%
Cash & cash equivalents	577,371	583,235	-1.0%
Current assets	6,027,376	6,112,759	-1.4%
Interest-bearing borrowings – Current	2,339,238	2,284,602	+2.4%
Trade & other payables	1,879,995	1,911,451	-1.6%
Current liabilities	4,242,188	4,201,449	+1.0%
Interest-bearing borrowings – Non-current	899,545	899,177	+0.0%
Non-current liabilities	1,013,584	1,011,943	+0.2%
Total equity	4,899,024	4,822,960	+1.6%



For more information visit
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