

# MONTGOMERY STREET RESEARCH, LLC

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## General Steel Holdings, Inc. (GSHO)

*Initiating Coverage With a BUY Rating*

**BUY**

Price Target: \$15

July 2, 2007

GENERAL STEEL  
as of 29-Jun-2007



Price:	\$3.80
52 Week Low-High	\$0.90 - \$5.80
Shares Out (mil)	32.4
Float (mil)	5.8
Market Cap (\$mil)	\$123.1
Fiscal Year	December

### Financial Projections

December Year End as of 6/29/2007

Rev.	2006	2007			2008		
1Q	20.6 A	37.6 A	82.2%		504.8 E	1242.2%	
2Q	29.4 A	40.4 E	37.4%		633.3 E	1468.0%	
3Q	47.0 A	341.1 E	626.4%		760.0 E	122.8%	
4Q	42.5 A	287.4 E	576.3%		635.2 E	121.0%	
FY	139.5 A	706.5 E	406.5%		2,533.3 E	258.6%	
Growth y/y		406%			259%		
EPS	2006	2007			2008		
1Q	\$0.01 A	\$0.02 A	178.7%		\$0.31 E	1269.4%	
2Q	\$0.00 A	\$0.05 E	1242.8%		\$0.41 E	666.8%	
3Q	\$0.01 A	\$0.17 E	1599.8%		\$0.52 E	203.4%	
4Q	\$0.01 A	\$0.13 E	1500.8%		\$0.41 E	223.6%	
FY	\$0.03 A	\$0.35 E	1273.6%		\$1.65 E	372.9%	
Growth y/y		1274%			373%		
P/E		10.8 X			2.3 X		

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Montgomery Street Research utilizes three ratings for companies under coverage: BUY, HOLD, and SELL.

We are initiating coverage of General Steel Holdings, Inc. (GSHO) with a **BUY** rating and a 12-month price target of \$15 (+295%).

General Steel's current business is the production of sheet and rolled steel products for China's domestic agricultural vehicles market. Its ongoing acquisition strategy is aimed at transforming the company into a large scale, fully integrated steel producer. The future GSHO will provide, in addition to rolled plate steel, value-added steel products for use in building construction, transportation and other infrastructure projects.

### INVESTMENT THESIS

- **China central government is forcing consolidation within the steel industry.** With a goal to consolidate up to 50% of total domestic steel production in the hands of the top ten players by 2010, the central government in China is forcing smaller and inefficient mills to close or merge into larger companies, which is expected to result in a 10% decline in capacity over the next several years.
- **We believe GSHO will be one of the key players of this consolidation wave.** This consolidation trend aligns well with GSHO's acquisition strategy, with a goal to become the largest non-government owned steel producer in China. In addition to forming a JV with Baotou Iron and Steel, GSHO plans to acquire three other steel companies at very attractive multiples of 2-5x earnings. While the perception of GSHO as a domestic entity allows for majority ownership of these acquisitions, its public/foreign status provides access to the U.S. capital markets.
- **We expect earnings to accelerate.** We project GSHO's steel production will grow from 400,000 tons in 2006 to 16 million tons in 2010, with revenue increasing from \$140 million to \$8 billion, respectively. We expect earnings will grow at an even faster rate as GSHO acquires higher margin businesses and upgrades production facilities. We project a 4-year (2006-10) CAGR of 173% for revenue and 215% for EPS, and anticipate the large upswing in earnings to start as early as Q3:07.
- **Valuation does not reflect the immense growth potential of the company.** GSHO trades at a P/E of only 2x our FY2008 EPS estimate of \$1.65, a significant discount to its peers and its growth rate. Our 12-month price target of \$15 (+295%) assumes a conservative P/E multiple of 9x FY2008 EPS, in line with the average P/E of other Asian steel companies, but still at a significant discount to its growth.

### INVESTMENT RISKS

- Political, economic and social uncertainties in China
- Company's ability to complete the acquisitions on schedule as guided
- Company's dependence on both central and provincial government approvals for acquisitions and continued business growth
- Company ability to raise the required capital to fund expansion plans
- Liquidity may be an issue for investors with a float of only 6 million shares out of 32 million shares outstanding

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**General Steel Holdings, Inc.**  
**(GSHO)**

**BUY**

	<p><b>Corporate Headquarters</b> Kuntai International Mansion Bldg – Suite 2315 Yi No. 12 Chaoyangmenwai Avenue Chaoyang District, Beijing 100-020 Phone: +86 (10) 5879-7346 Web Site: <a href="http://www.gshi-steel.com">www.gshi-steel.com</a></p>	<p><b>Senior Management</b> Henry Yu            Founder &amp; Chairman John Chen            Director &amp; CFO Guodong Wang        Director &amp; CTO Ross Warner        Director &amp; Head of IR</p>
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**Company Profile:**

General Steel Holdings, Inc. (GSHO) was formed on March 7, 2005 (following its reverse merger into American Construction Company in 2004 and subsequent name change) with a 70% stake in Daqiu Zhuang Metal (DQZ). DQZ commenced operations in 1989 as the first non-government steel producing entity in China originally founded by farmers who left their fields to promote industrialization. As industrial pioneers, these founders are now well known in China and have significant political contacts throughout all levels of Chinese government.

The company is located in the Hebei Province, Jinghai County, which is 20 miles southwest of the city of Tianjin. Its main products are hot-rolled steel sheets for the domestic agricultural vehicle market. Its products are thinner, lighter and more durable than those of its competitors. Today, the company estimates that it controls approximately 50% of the market share for these products in the agricultural vehicle market in China. General Steel has recently taken steps to further its dominance by:

- Training and adding 39% more employees (to 1,250)
- Increasing production by 60% (to 400,000 tons capacity)
- Enhancing its distribution base by 84% (to 35 distributors)
- Offering financial incentives (such as promotional pricing and credit lines to main customers)

In 2005, the company formed a joint venture with Baotou Iron and Steel to manufacture high-end seamed and seamless pipes for use in the energy sector. In April 2006, the JV agreement was amended to give GSHO 80% ownership of the deal which will add 600,000 tons of capacity over 3 stages.

- In 2007: Stage 1 adds 100,000 tons of capacity and \$45 million in revenue (\$18 million pro forma for 2007)
- In 2008: Stage 2 adds 300,000 tons of capacity and \$180 million in revenue
- In 2009: Stage 3 adds 200,000 tons of capacity and \$90 million in revenue

In May 2007, GSHO agreed to purchase the remaining 30% minority interest in DQZ from Henry Yu (President, Chief Executive Officer and Chairman) for \$6.2 million. The purchase price was based on the book value of his stake instead of an appraised value of \$9.3 million. In exchange for the stake, the company issued 3,092,899 shares of Series A preferred stock at a price of \$2.00 per share, which controls 30% of the combined voting power of GSHO's common and preferred stock for the entire life of the company. These preferred shares do not pay dividends nor are they included in the share count.

While the current DQZ business is healthy and profitable, it is the acquisition strategy that management has formulated that makes GSHO attractive as a growth story. The Baotou JV is the first of four stages that are designed to transform the company from a smaller player with \$140 million revenue and 400K tons production capacity into a large scale, fully integrated steel producer with annual revenue of \$8 billion and production capacity of 16 million tons by the year 2010.

**Industry:**

The global steel industry is undergoing a paradigm shift. Historically, the sector has experienced cyclical swings that are driven by economic cycles. These swings are further exacerbated during boom periods, as new steel producers take advantage of the low barriers to entry for this industry. This has resulted in extreme industry fragmentation with the top 10 producers controlling less than one-third of global production.

However, consolidation between steel companies worldwide has occurred in recent years, with the pace progressing much faster outside of Asia (excluding Japan)—from the global roll-up by Mittal Steel, ISG (itself a roll-up) and Arcelor, to the fight for Corus by both Tata Steel and CSN (Brazil) where Tata eventually won control, to the combination of Anshan Steel with its provincial rival Bexi Steel to form AnBen Iron and Steel. Continued consolidation could benefit the industry significantly due to the:

- Creation of a more stable pricing environment, resulting from fewer opportunities for unproductive price competition between larger manufacturers or the flooding of the market with low end products from the less efficient and non-environmentally friendly “mom & pop” producers.
- Increase in bargaining power of steel producers versus their customers (automotive, construction) and versus their suppliers in the mining industry (iron, coal) both whose industries are significantly more concentrated than the steel manufacturing industry.

China whose steel producers, had capitalized on said low barriers to entry, has grown rapidly from being a net importer of steel to a net exporter while also becoming the industry’s largest producer and consumer. Hitherto, there were as many as 800 to 1,000 steel mills and as many as 100,000 distributors. The two largest steel producers by volume (AnBen and BaoSteel) control a mere 10% of the total output and the top ten largest producers account for only 35% of the market in 2006.

Steel producers in China can be categorized by ownership structure (SOEs, private companies or public companies) and size.

- Large: There are 15 companies with production capacities of over five million tons. They are adopters of modern technology but when compared with their western counterparts can be viewed as inefficient producers. These entities are typically state owned enterprises.
- Medium: This category features producers with production capacities of one to five million tons. These entities are either privately owned or owned by local governments.
- Small: The majority of the steel companies in this category have less than one million tons of production capacity. They will often use older, less efficient technologies. These entities are typically privately owned or owned by local governments and focus on the low end of the market.

We also note that there are approximately 100 steel companies in China that are fully integrated which means that they commence with the processing of the iron ore and end with the finished value added steel product. There are also 200 companies that are partially integrated and produce pig iron and crude steel.

The Chinese central government has started to encourage industry consolidation. Smaller and inefficient mills are being forced to shut down or merge with others. The central government hopes to reduce tonnage by about 50 million (about 10% of the total production) and to eventually consolidate up to 50% of total production in the hands of the top ten players by 2010, and 70% by 2020. However, this action is often met with severe resistance from the provincial and local governments as these steel mills are often the main employer in these towns and also the main provider of tax revenue. Hence, most of the consolidation to date has simply been the combination of smaller inefficient mills into slightly larger ones, without closing any mills or cutting any jobs, such as the acquisition of 70% of Bayi Steel by BaoSteel.

The central government has also attempted to use environmental concerns as a tactic to shut down some of these mills. In addition, the central government Finance Ministry recently announced that it will impose duties of 5%-10% on exports of 80 types of Chinese-made steel products from June, 2007, hoping that the repatriation effects will result in the shut down of smaller and inefficient mills.

This was done after the ministry had reduced the VAT rebate subsidies in December last year, which it further decreased again in April 2007, where only 76 types of stainless steel products, specialty steel and cold rolled steel remain subsidized at lower levels and 83 types of steel products receive no subsidy. Despite these actions, China net steel exports have continued to rise throughout the year, hitting an all time high of 6.38 million tons in April 2007.

In our opinion, it is unlikely that the above measures will drive the level of consolidation within the Chinese steel industry that is expected by the central government. What is needed is a wave of mergers driven by sheer market forces and economics instead of political considerations and patronage.

**We Believe GSHO Will be One of the Key Players in this Consolidation Wave and Will Emerge as One of the Leaders in the Chinese Steel Industry Following its Acquisitions**

In addition to expanding its own production line and forming a JV with Baotou Iron and Steel, GSHO has laid out a very aggressive roadmap to consolidate three other steel companies and increase total production from 1 million to 16 million tons. The company has longstanding relationships with each of its intended targets and has initiated preliminary merger discussions directed towards gaining majority stakes in each target. These targets are market leaders in their specific niches and regions, with capacities of over 1 million tons and will be acquired at very attractive valuations due to the unique situations each is in. GSHO could potentially add:

- In 2007: A Central China Steel Company with 3 million tons of capacity and \$1 billion in revenue
- In 2008: A Coastal Steel Company with 2 million tons of capacity and about \$1 billion in revenue
- In 2009: A leading State Owned Enterprise with 8.5 million tons of capacity and \$4 billion in revenue

2006	2007	2008	2009	2010
GSHO (400,000)	BT JV I (100,000) Central Steel (3,000,000)	BT JV II (300,000)  Coastal Steel (2,000,000)	BT JV III (200,000)   Large SOE (8,500,000)	
<b>Production Capacity</b>				
400,000	3,500,000	5,800,000	14,500,000	16,000,000
Hot-rolled Steel Sheet	+ Seam & Seamless Pipes; Steel Bar, Strip Steel, Rebars, + Pig Iron and Coke	+ Rebars & Wire Steel	+ Fully Integrated Steel Plant	
<b>Revenue and EPS</b>				
\$140m \$0.03	\$707m (+406%) \$0.35 (+948%)	\$2,533m (+259%) \$1.65 (+375%)	\$6,668m (163%) \$2.27 (+38%)	\$7,800m (+17%) 3.27(+44%)
<b>Revenue CAGR = 173%</b> <b>EPS CAGR = 215%</b>				

**Four-Year CAGR of 173% for Revenue and 215% for EPS.** Upon completion of its entire roll-up plan, GSHO will transform itself into a top Chinese steel producer. The new company will have an operational footprint from northeast China down to central China and also western China where the central government is pushing infrastructure development. In China's latest 5-Year Economic Development Plan for 2006-2010, the targeted expenditure for infrastructure construction of highways, railroads and pipelines and such is expected to be as much as \$65 billion (RMB 500 billion). We estimate GSHO's steel production will grow from 400,000 tons in 2006 to 16 million tons in 2010, with revenue increasing from \$140 million to \$8 billion, respectively. We expect earnings will grow at an even faster rate as the company acquires higher margin businesses and upgrades the production facilities (see margin section below). We project an impressive four-year (1996-2010) CAGR of 173% for revenue and 215% for EPS, and anticipate the large upswing in earnings to start as early as Q3:07. Our annual EPS estimates are \$0.35 for 2007 (vs. management's guidance of \$0.36) and \$1.65 in 2008.

**Unique Position Within the Industry Enables GSHO to Circumnavigate the Pitfalls that Plague Other Chinese Steel Companies in their Consolidation Activities**

The government-owned steel companies or State Owned Enterprises (SOE) generally commenced operations as mills serving their villages or towns, and then expanded into bigger entities over time as their community grew. Basically, these SOEs are anchored in societies and when forced into a merge with one another mill in a different town, one of these communities faces economic losses. The potential financial threats will typically compel local governments to reject any merger deals for fear of jobs and tax revenue losses, but more importantly for the fear of losing "face".

**GSHO is not viewed as a threat.** The company's management has developed relationships with managers of its targets and is able to clearly communicate their inclusion in post-merger operations. The intrinsic trust in relationships that have been established over many years and assurances of minimal disruption to the local communities is paving the way for local government to approve deals with GSHO expeditiously.

**Similarly, GSHO is viewed favorably by management as a partner.** Management of a "losing" company might not endorse a proposed deal in an attempt to preserve their jobs as well as the status they enjoy within the community. Sensitive to their concerns, GSHO offers incentives and rewards for cooperation, such as continued employment, extended retirement age, and pensions. In the case of one of the targets, the CEO of the SOE is reaching the mandatory retirement age soon, and the roll-up into GSHO will enable him to bypass this government mandated requirement and allow him to remain in his position for an extended period of time.

**GSHO is perceived as a foreign and domestic company.** GSHO is often perceived as an outside player which makes it even more appealing to provincial government authorities as it demonstrates local government abilities to attract foreign direct investments into the region. However, the perception as a domestic company allows for controlling interest opportunities.

**Ability to tap into foreign capital markets for financing.** Currently, few Chinese steel companies have the ability to access foreign capital markets and consummate mergers in China. Domestic private companies must rely on their own operating capital while SOEs must rely on equipment contribution and policy loans. Because GSHO is able to access foreign capital markets and arrange the financing needed to acquire substantially larger targets, management has the ability to potentially elevate itself into the upper echelons of steel producers in China.

**These unique characteristics of GSHO lead us to believe that acquisitions at extremely attractive valuations are possible.** While we do recognize that the purported transaction multiple of 2-5x earnings is extremely attractive and might not make economic sense to the seller, the current dynamics of China economics, politics and bureaucratic policies are rendering these multiples possible. With the central government cracking down on the rampant proliferations of steel mills and forcing production to consolidate among a few major players, the provincial governments of the various targets are looking favorably towards GSHO as an option.

### **Accretive Acquisitions Should Lead to Margin Expansion**

In addition to the growth story, GSHO's acquisition plan provides opportunity to expand its margins due to:

**The addition of companies with higher margin.** All three potential acquisition targets generate higher operating margins, and in particular, the last two acquisition targets generate operating margins close to 10%.

**Better management practices and production techniques.** GSHO plans to introduce western management practices and efficient production techniques. Having been run as a private company, GSHO has consistently focused on the bottom line; whereas, the community based SOEs are generally more focused on providing employment to the local economy. Over the years, production techniques at these mills have likely slipped and obsolesced. The involvement of GSHO management can result in substantial improvements in performance through the installation of experienced teams which will work with the SOEs in an effort to bring about production improvement and cost containment.

**Opportunity to lower costs.** Both the JV and Central China Steel acquisition include assets of raw materials in the form of rare minerals mines (for alloyed steel) and an iron ore mine with reserves of over 300 million tons. Furthermore, the proximity of these mines and the existence of a transportation network between the mines and the production plants should reduce transportation costs.

### **Balance Sheet and Cash Flow**

General Steel had cash (restricted and unrestricted) of approximately \$9 million in the last quarter (Q1:07) and debt of \$40 million. The company's debt would have been lower, but beginning in Q2:06 the company implemented a credit sales program for existing and new customers. Consequently, accounts receivable has risen and is now \$11 million at Q1:07. We also note that all of the debt is short-term and is typically renewed with the banks upon maturity with little or no arrangement fees. We note that the interest coverage ratio is over 4x. Looking forward, we anticipate the company's major cash commitments will be the 1 million redeemable shares held by Matlin Patterson Global Opportunities Partners that is expected to be redeemed by Q3:07 and future acquisitions. External financing will be required for the company to complete its acquisition strategy.

### **Management**

General Steel has a very strong management team. Its top Chinese steel executives are highly respected by both competitors and the government, while the CFO was trained in the U.S. and understands U.S. accounting and the capital markets. The officers, directors and affiliates are significant shareholders, owning approximately 82% of the company's common stock.

**Henry Yu, Zuo Sheng, President, Chief Executive Officer and Chairman,** joined GSHO in August 2000 and became a Director in August 2000. From April 1986 to February 1992, he was President of Daqiu Zhuang Metal Sheet Factory, Tianjin, China. From February 1992 to December 1999, he was General Manager of Sheng Da Industrial Company, Tianjin, China. From November 1999 to March 2001, he was President and Chairman of the Board of Directors of Sheng Da Machinery Manufactory, Tianjin, China. Since February 2001, he is President and Chairman of Board of Directors of Beijing Wendlar Investment Management Group, Beijing, China. Since March 2001, he has been President and Chairman of Board of Directors of Baotou Sheng Da Steel Pipe Limited, Inner Mongolia, China and Chairman of Board of Directors of Sheng Da Steel and Iron Mill, Hebei province, China. Since April 2001, he has been President and Chairman of Sheng Da Industrial Park Real Estate Development Limited.

Mr. Yu graduated in 1985 from the Sciences and Engineering Institute, Tianjin, China. In July 1994, he received a Bachelor degree from the Institute of Business Management for Officers. Mr. Yu received the title of "Senior Economist" from the Committee of Science and Technology of Tianjin City in 1994. In July 1997, he received an MBA degree from the Graduate School of Tianjin Party University. In April 2003, Mr. Yu, Zuo Sheng held a position as a member of China's APEC (Asia Pacific Economic Co-operation) Development Council. Mr. Yu currently owns 74% of the outstanding shares of the company.

**John Chen, Director and Chief Finance Officer**, joined GSHO in May 2004. He is the Chief Financial Officer and a Director. From August 1997 to July 2003, he was senior accountant at Moore Stephens Wurth Frazer and Torbet, LLP, Los Angeles, California, USA. He graduated from Norman Bethune University of Medical Science, Changchun city, Jilin province, China in September 1992. He received his B.S. degree in accounting from California State Polytechnic University, Pomona, California, USA in July 1997. He received his California certified public accountant license in August 2002.

**Wang, Guo Dong, Director and Chief Technology Officer**, joined GSHO in May 2003. From January 1982 to May 2003, he was a professor at Northeast University, Shenyang city, Liaoning province, China. From October 1968 to October 1978, he was an engineer at Anshan Iron and Steel Company, in Anshan city, Liaoning province, China. He received a Master's Degree in Engineering from Beijing Iron and Steel Research Institute, Beijing, China, in September 1982. He also received a Bachelor's Degree in Engineering from Northeast University, Shenyang city, Liaoning province, China in September 1966.

**Ross Warner, Director**, was elected as the independent director in August 2005 and became a director in 2006. From July 2003 to 2006, he was the Chief of Operations at OCDF. From July 2002 to June 2003, he was the country manager for English First in charge of China and Vietnam. From April 2001 to July 2002, he was the non-technical training manager at TTI-China. From July 1998 to December 2000, he worked as a consultant at Info Technology Group, Inc.-Beijing Office. Mr. Ross Warner obtained a masters degree from Thunderbird graduate school.

#### **Risks:**

**General Steel's business is in China with political, economic and social uncertainties.** Companies in China are subject to political, economic and social uncertainties. All of General Steel's business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources. The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although the Chinese Government has implemented measures recently emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese Government. In addition, the Chinese Government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In addition, the Chinese government may significantly alter policies, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting China's political, economic and social life. Therefore, the Chinese Government's involvement may affect the company's business operations, results of operations and financial condition

**The Chinese legal and judicial system may negatively impact foreign investors.** In 1982, the National People's Congress amended the Constitution of China to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in China. However, China's system of laws is not yet comprehensive. The legal and judicial systems in China are still rudimentary, and enforcement of existing laws is inconsistent. Many judges in China lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the Chinese judiciary is relatively inexperienced in enforcing the laws that do exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. China's legal system is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes. The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors.

**Shares are traded in the over-the-counter market.** General Steel's shares are currently listed on the over-the-counter Bulletin Board. Further, General Steel's securities are subject to the "penny stock rules" adopted pursuant to the Securities Exchange Act of 1934. The market liquidity of General Steel's common stock could be limited by these regulatory requirements.

**Commodity price risk.** General Steel does not use derivative commodity instruments to manage the price risk of steel products, and fluctuations will have an effect on operating results. Based upon an assumed annual production capacity of 400,000 tons, a \$1 change in the annual average price would change annual pre-tax profits by approximately \$400,000.

**Dependence on acquisitions for growth.** While GSHO with its DQZ business is an attractive cash flow positive business standalone, our investment thesis and price target is based entirely on the successful completion of its roll-up strategy.

**Approval from both central and provincial government.** It is important to note that the final approval of any deals in China comes from the government, with both levels of governmental approval required for an acquisition to go ahead, regardless of what the final shareholder vote might be.

**Raising the required capital.** In order to make acquisitions and grow the company further, additional financing will likely be required. The company might be unable to obtain the necessary financing on a timely basis and on favorable terms, and a failure to do so may weaken the company's financial position, reduce its competitiveness, limit its growth and reduce its profitability.

**Competition.** General Steel competes with both SOEs and privately owned steel manufacturers, with some that are better capitalized, more experienced and have deeper ties in the Chinese marketplace. Furthermore, with China's entry into the World Trade Organization and China's agreements to lift many of the barriers to foreign competition, competition will likely increase in the agricultural equipment market in China as a whole with the entry of foreign companies into this market. This may limit GSHO's opportunities for growth, lead to price pressure and hurt profitability. The company may not be able to compete favorably and this increased competition may harm its business prospects and results of operations.

**Key personnel.** The loss of Yu, Zuo Sheng as President, CEO & Chairman could negatively impact General Steel's business and the stock.

**Liquidity.** Liquidity may be an issue for investors as there is a float of only 6 million shares out of 32 million shares outstanding.

### **Valuation: Trading at a Discount to its Peers and its Own Growth Rate**

As shown in the table below, the steel companies in Asia (Japan and the rest of Asia) trade at 12x 2008 earnings, while General Steel trades at only 2x our 2008 EPS estimate of \$1.65, a significant discount to its peers as well as its 200%+ four-year earnings growth rate. We believe that valuation gap is not warranted especially considering the larger growth potential in China and GSHO's aggressive growth strategy. While we believe GSHO could trade at a P/E of 12x 2008 earnings, our 12-month price target of \$15 (+295%) assumes a more conservative multiple of 9x FY2008 EPS.

**General Steel Holdings, Inc.**  
**(GSHO)**

**BUY**

**GSHO STEEL COMPARABLE COMPANIES**

*(USD in millions, other than per share data)*

Company Name	FX	Share Price @ 6/28/07	USD in millions		EV/EBITDA			P/E		
			Mkt Cap	Ent. Value	2006	2007E	2008E	2006	2007E	2008E
<b>Asia (Excluding Japan) Steel Companies</b>										
Baoshan Iron & Steel Co. Ltd.	CNY	11.02	27,307	30,259	5.3x	6.6x	6.5x	11.7x	14.0x	13.5x
China Steel Corp.	TWD	40.00	12,933	12,942	6.7x	5.9x	6.2x	9.7x	8.8x	9.4x
Hyundai Steel Co.	KRW	56,400.00	4,741	4,910	4.6x	6.3x	6.4x	6.1x	8.2x	7.7x
Jindal Steel & Power Ltd.	INR	3,365.85	2,496	3,058	8.1x	5.4x	3.6x	13.8x	10.0x	7.2x
Maanshan Iron & Steel Co. Ltd.	CNY	6.05	6,293	5,857	4.7x	7.4x	6.1x	11.6x	14.5x	11.1x
POSCO	KRW	465,500.00	38,455	35,995	3.7x	4.5x	3.8x	7.3x	8.5x	7.2x
Tata Steel Ltd.	INR	593.05	8,111	7,999	4.4x	4.5x	4.2x	8.2x	5.6x	5.2x
<b>Average</b>								<b>9.8x</b>	<b>10.0x</b>	<b>8.8x</b>
<b>Japanese Steel Companies</b>										
Godo Steel Ltd.	JPY	577.00	699	796	6.9x	6.6x	5.6x	9.8x	12.8x	10.7x
Hitachi Metals Ltd.	JPY	1,344.00	3,981	5,505	8.4x	7.8x	7.5x	20.7x	16.6x	14.2x
JFE Holdings Inc.	JPY	7,440.00	36,842	44,076	7.3x	6.1x	5.7x	13.4x	11.8x	11.7x
Kobe Steel Ltd.	JPY	462.00	10,957	14,256	6.0x	5.5x	4.9x	13.1x	12.3x	11.4x
Nippon Steel Corp.	JPY	855.00	47,402	45,989	7.3x	6.5x	6.1x	16.5x	15.5x	15.2x
Nisshin Steel Co. Ltd.	JPY	537.00	3,925	4,112	5.8x	6.5x	6.2x	15.0x	19.7x	18.9x
Sumitomo Metal Industries Ltd.	JPY	715.00	27,644	30,211	9.0x	8.2x	8.1x	17.0x	16.7x	16.4x
Sumitomo Metal Mining Co. Ltd.	JPY	2,620.00	12,202	11,677	7.6x	7.6x	7.8x	12.6x	13.0x	14.3x
Tokyo Steel Manufacturing Co. Ltd.	JPY	1,916.00	2,414	1,215	3.0x	3.8x	4.4x	12.5x	16.5x	14.8x
<b>Average</b>								<b>14.5x</b>	<b>15.0x</b>	<b>14.2x</b>
GSHO	USD	3.75	122	153	4.0x	3.0x	0.0x	113.4x	10.8x	2.3x
<b>ASIAN STEEL AVERAGE</b>								<b>12.4x</b>	<b>12.8x</b>	<b>11.8x</b>

*Source: Factset dated 6/28/07 and IBES consensus*

**General Steel Holdings, Inc.**  
**(GSHO)**

**BUY**

**GSHO CONSOLIDATED FINANCIAL STATEMENTS**

*(USD in millions, unless otherwise stated and FYE 12/31)*

	2006	Q1A	Q2E	Q3E	Q4E	2007E	Q1E	Q2E	Q3E	Q4E	2008E
<b>Revenues</b>	<b>\$139.5</b>	\$37.6	\$40.4	\$341.1	\$287.4	<b>\$706.5</b>	\$504.8	\$633.3	\$760.0	\$635.2	<b>\$2,533.3</b>
% Growth	55.4%					406.5%	1242.2%	1468.0%	122.8%	121.0%	258.6%
<b>COGS</b>	<b>135.32</b>	35.87	37.81	313.04	263.79	<b>650.52</b>	459.81	576.93	692.31	578.66	<b>2,307.71</b>
Gross Profit	4.17	1.73	2.58	28.05	23.62	55.98	44.97	56.40	67.68	56.55	225.59
<b>SG&amp;A</b>	<b>2.42</b>	0.63	0.73	10.18	8.57	<b>20.10</b>	12.41	15.51	18.61	15.51	<b>62.03</b>
EBIT	1.75	1.10	1.85	17.87	15.06	35.88	32.56	40.89	49.07	41.04	163.56
Other Income	2.43	0.42	0.40	0.41	0.42	1.65	0.26	0.32	0.39	0.32	1.29
Other Expense	0.00	0.00	0.00	0.50	0.50	1.00	1.20	1.20	1.20	1.20	4.80
Interest Expense	2.35	0.64	0.64	4.73	4.73	10.73	4.98	4.98	4.98	4.98	19.92
EBT & Minority Interest	1.83	0.88	1.61	13.05	10.25	25.80	26.64	35.03	43.27	35.18	140.13
Taxes	0.00	0.13	0.20	1.19	1.01	2.53	2.17	2.71	3.25	2.71	10.84
Profit before Minority Interest	1.83	0.75	1.41	11.86	9.24	23.27	24.47	32.32	40.02	32.47	129.29
Minority Interest	0.80	0.28	(0.28)	3.80	3.17	6.96	6.93	8.66	10.39	8.66	34.65
Net Profit	1.03	0.47	1.69	8.06	6.08	16.30	17.54	23.66	29.63	23.81	94.64
FX Gain / (Loss)	0.00	0.22	0.00	0.00	0.00	0.22	0.00	0.00	0.00	0.00	0.00
Net Income	1.03	0.70	1.69	8.06	6.08	16.53	17.54	23.66	29.63	23.81	94.64
No. of Shares O/S	31.25	31.32	31.44	47.44	47.44	47.44	57.44	57.44	57.44	57.44	57.44
<b>EPS</b>	<b>0.03</b>	0.02	0.05	0.17	0.13	<b>0.35</b>	0.31	0.41	0.52	0.41	<b>1.65</b>
% Growth						953.0%	1269.4%	666.8%	203.4%	223.6%	372.9%
<b>Margins</b>											
Gross Profit	3.0%	4.6%	6.4%	8.2%	8.2%	7.9%	8.9%	8.9%	8.9%	8.9%	8.9%
SG&A	1.7%	1.7%	1.8%	3.0%	3.0%	2.8%	2.5%	2.4%	2.4%	2.4%	2.4%
EBIT	1.3%	2.9%	4.6%	5.2%	5.2%	5.1%	6.5%	6.5%	6.5%	6.5%	6.5%
Profit before MI	1.3%	2.0%	3.5%	3.5%	3.2%	3.3%	4.8%	5.1%	5.3%	5.1%	5.1%
Net Income	0.7%	1.9%	4.2%	2.4%	2.1%	2.3%	3.5%	3.7%	3.9%	3.7%	3.7%
<b>Growth Rates</b>											
Revenues						406.5%	1,242.2%	1,468.0%	122.8%	121.0%	258.6%
EBIT						1,950.4%	2,852.6%	2,110.3%	174.6%	172.6%	355.9%
EBT before MI						1,307.5%	2,919.9%	2,075.9%	231.5%	243.2%	443.2%
Net Income						1,498.7%	2,411.6%	1,301.0%	267.4%	291.9%	472.6%
EPS						953.0%	1,269.4%	666.8%	203.4%	223.6%	372.9%

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