

China CFO Insights

Baosteel Resources CFO Yiming Wu on Mining, M&A and Managing Risk

As one of China's largest steelmakers and one of the largest steel producers in the world, Baosteel Group Corp. is a bellwether for heavy industry. Yiming Wu, CFO of Baosteel Resources International, the company's commodities mining and trading subsidiary, discusses how she is helping Baosteel adjust to China's new economic normal with Kurt Tan, managing partner of the China steel sector at Deloitte China. Ms. Wu also provides insights on doing business in China, and talks about the evolving role of the CFO in her homeland and what it takes for women to be successful leaders.

Kurt Tan: What changes are you seeing in the CFO's role in China?

Yiming Wu: Previously, CFOs were more like an accountant or bookkeeper. But now they're involved in more activities of the business, starting with building a business model and then focusing on the balance sheet to help make assets more efficient.

The CFO's job today is to not only give support to the business segments, but to create value for the business. To fulfill that role, it's important that CFOs look after all the processes, all the units of the company, to have a clear picture of the company's entire business.

Kurt Tan: Where have you been focusing your efforts to help create that value?

Yiming Wu: One of my most important priorities is to expand the company's funding channels to enable us to make strategic acquisitions overseas. Because almost 100% of Baosteel's raw materials come from overseas, one of our goals has been to buy mines overseas to help supply raw materials to Baosteel's mills in China. In order to fulfill that goal, I took several measures to ensure we had the funding in place. First, it was very important to build a funding platform outside of China, so I set up a cash pool of Baosteel Group's overseas subsidiaries.



Yiming Wu

Also, we set up a cross-border, U.S. dollar cash pool between China and Hong Kong, which enables us to bilaterally lend money from Hong Kong to Shanghai or from Shanghai to Hong Kong.

Additionally, I worked to get a credit rating for Baosteel Resources, which we received in January 2015. Having the credit rating gave us the ability to get long-term or medium-term funding at lower cost to help finance our mining projects in Australia from our takeover of Aquila Resources, an Australian-based mining company, in 2014. We obtained more than \$5 billion in credit facilities from about 25 mainstream banks around the world to support our Australia projects.

Risk management is another area of focus for finance. For example, it's important to check and evaluate customers' and clients' credit when deciding whether to give them financial support. We also try to minimize market risk. Our main raw materials are iron ore, coking coal and their price is very volatile. To control inventory risk, we set a maximum limit for every business sector for iron ore parts. If the inventory or working capital has exceeded the risk threshold, the ERP system will auto-hold the transaction.

Kurt Tan: What was your role in the Aquila acquisition and what were the challenges in completing the deal?

Yiming Wu: I led the M&A process in the takeover. We started with a 15% interest in Aquila. In 2014, Aquila's share price fell significantly, and we launched a hostile takeover jointly with an Australian railway freight company, Aurizon, which we won. The deal was the first successful joint venture hostile takeover of an Australian company by a Chinese company.

Kurt Tan: What factors do you look at when assessing a possible acquisition?

Yiming Wu: The most difficult thing is to predict the future market price. When we analyze an investment in a mine, we focus on the cost competitiveness and the partners. We also have a very strong team of mine geologists and developers. Our team is familiar with the cost curves of almost all the projects around the world—we know their cost, we know how much capex they are going to need to develop. That's the most-important thing.

Kurt Tan: Given the recent uncertainty in the value of the renminbi, how do you manage currency volatility?

Yiming Wu: Every year, we suggest a foreign exchange (FX) exposure strategy that goes to the board. The board then decides on what the maximum exposure should be. We follow that guideline and evaluate quarterly. But the People's Bank of China (PBOC) operates a little differently than the central banks in other countries, so it is not easy to forecast any exchange rate adjustment, especially the renminbi.

The lesson I have learned from the recent volatility is, don't do too much speculation in the FX markets. We need to be more conservative because the potential of black swan events makes speculation in FX markets very risky.

Kurt Tan: What skill set or experience gaps did you need to fill when you took this CFO role?

Yiming Wu: Baosteel Resources focuses its investments on mines. Before I took the position as CFO, I had little knowledge about the mining industry, and I needed to learn and understand the business so I could communicate with the trading people and technical people. You can't just talk to them in a finance way — you need to connect the financial aspects to the business aspects, so it's really important to gain that deep industry knowledge and to keep studying.

Kurt Tan: Speaking of studying, what lessons learned can you share on what it takes for a woman to become a CFO in a male-dominated industry?

Yiming Wu: In China, it's actually common for women to hold senior positions, perhaps because more women work in China. I think it's important for women aspiring to CFO or other leadership positions to have both strategic thinking and passion for their career. It's not enough to be only hard-working, given the challenges of balancing work and family life. You must have the passion for the job or you cannot be a good mother, a good wife and a good CFO all at the same time.

Kurt Tan: Many companies in North America are interested in China or have operations there. What are some important considerations for CFOs looking to do business in China?

Yiming Wu: It's vital to understand the "new normal" in China. While the economy may not develop as fast as before, we still expect it to grow at a relatively high speed compared to other parts of the world. For example, in the U.S. 3% might be fast enough, but if China can keep 5% to 7% growth, it's still impressive. It's also important to understand the Chinese employees. That means you need more local talent in senior positions. I have a lot of discussions with foreign banks that operate in China. I've found that those that use more local talent can expand faster than those that don't.



Kurt Tan: How will Baosteel cope with the slump in steel prices and demand?

Yiming Wu: We now say that the steel industry has stepped into winter and our chairman, Dai Zhihao, says that the winter will be very long and really cold. For Baosteel, the most important thing is to maintain our leadership position and to survive from the winter. Our strategy to accomplish those goals is to be more innovative. We want to have better technology and products with high-value. We have set up just-in-time distribution centers which are close to our customers in China. We sell not only our products, but also other services to the customers.

We also need to be more efficient. We need to look at the balance sheet of our portfolio, to cut some of the inefficient assets and become more financially flexible. That means keeping more cash, maintaining lower gearing and preparing for the spring.

Editor's note: This article is part of an ongoing series of interviews with CEOs, CFOs and other executives. Ms. Wu's participation in this article is solely for educational purposes based on her knowledge of the subject, and the views expressed by her are solely her own. This article should not be deemed or construed to be for the purpose of soliciting business for Baosteel Group Corp. and Baosteel Resources International, nor does Deloitte advocate or endorse the services or products provided by Baosteel.

Originally published on March 28, 2016, 12:01am ET on Wall Street Journal

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