

ArcelorMittal SA hits annual loss

Reuters

ARCELORMITTAL South Africa made a full-year headline loss, hit by higher raw material costs and weaker sales, the unit of the top steel maker reported yesterday, but said it expected a better first quarter.

ArcelorMittal SA's production last year was hit by structural problems, including a furnace failure at its Newcastle plant, a strike in the steel sector and a shutdown at its Saldanha Works operation. The Newcastle plant has since resumed full output.

"We had to contend with unrelenting pressure on operating margins as production costs climbed 19 percent, while steel prices only rose 12 percent on average," chief executive Nonkululeko Nyembezi-Heita said yesterday.

Globally, steel producers are expected to report a weak fourth quarter on destocking and squeezed margins, underlining the need for consolidation of the industry.

ArcelorMittal SA reported a diluted full-year headline loss a share of 13c, compared with diluted headline earnings a share of R3.43 the previous year.

The company, which sells 90 percent of its steel in Africa, said sales fell 7 percent to 4.7 million tons during the year, while revenue was up 4 percent to R31.5 billion.

"Earnings for the first quarter are expected to improve significantly due to production stability and higher sales volumes, partially offset by lower international steel prices," the company, which declared no dividend, said.

Analysts say the main issue facing the steel maker is the outcome of an ongoing dispute over iron ore prices with Kumba Iron Ore, a unit of Anglo American.

The two companies have been at loggerheads over prices for the steel-making ingredient since early 2010. The case will go to an arbitration hearing, that will decide if the producer can keep sourcing iron ore from Kumba at a discount.

ArcelorMittal SA said it was



Nonkululeko Nyembezi-Heita, chief executive of ArcelorMittal South Africa, presents the company's annual results in Sandton, Johannesburg yesterday.

PHOTO: LEON NICHOLAS

confident the arbitration hearing would rule in its favour.

To mitigate the impact from further cost hikes, it plans to invest in an iron ore source in the Northern Cape.

The unit is also investing heavily in electricity projects, hoping to reduce its reliance on power utility Eskom and steep increases in power tariffs expected for the next few years.

ArcelorMittal SA's shares

19%
The increase in Amsa's steel production costs

closed 1.9 percent lower at R66.30 yesterday, erasing this year's gains.



Top steel maker's books poor fourth quarter

ARCELORMITTAL, the world's biggest steel maker, posted fourth-quarter profit that was in line with analyst estimates and forecast a modest improvement in the first half of the current year.

Earnings before interest, tax, depreciation and amortisation (Ebitda) fell to \$1.71 billion (R12.94bn) from \$1.85bn a year earlier, compared with the \$1.68bn median estimate of 16 analysts surveyed. It posted a full-year net profit of \$2.26bn, down from \$2.92bn.

First-half Ebitda was likely to exceed results in the prior six months, while still being lower than a year earlier, the company said.

"Looking to 2012, the situation in Europe remains a live concern," chief executive Lakshmi Mittal said. "Despite the continued uncertainty in this market, however, we are seeing an improvement in sentiment compared with the fourth quarter."

ArcelorMittal's guidance implies first-half Ebitda of \$4.1bn to \$6bn. The share price rose as much as 2.5 percent to €16.56 (R164.16) in Amsterdam, and was at €16.45 as of 9.18am, extending its gain this year to 16 percent.

The company posted its lowest quarterly profit in two years as cooling economies in China and Europe sapped

demand for steel, sending prices lower. Nippon Steel, Japan's largest producer, reported its first loss in three quarters last month and forecast declining use of the alloy.

Prices for hot-rolled steel coil fell for three consecutive quarters and hit the lowest in 13 months in December, according to Steel Business Briefing's global price index.

ArcelorMittal has "temporarily suspended" an increase in steel capital spending to focus its projected \$4bn to \$4.5bn of investment in mining growth. The company has put two steel-plant expansions in Brazil on hold because of a "strong" Brazilian cur-

rency and weaker growth than forecast, chief financial officer Aditya Mittal said. It also delayed expansion in Canada.

Global steel consumption will rise 4.5 percent this year, less than the 5.4 percent forecast in October by the World Steel Association, according to analysts. Growth may be as low as 1.2 percent, Bloomberg Industries analysis shows.

ArcelorMittal said steel demand growth might slow to as little as 4.5 percent in 2012 from 6.3 percent in 2011. Chinese consumption was likely to rise 5.2 percent, while European demand was forecast to decline by 1.3 percent this year. - Bloomberg