

STEEL

Building a Buffer

Supply assurances ahead of four-month Newcastle steel mill reline

TERENCE CREAMER | EDITOR

Steel producer ArcelorMittal South Africa (AMSA) says it is building substantial metal stocks ahead of the planned four-month shutdown of its Newcastle mill, in KwaZulu-Natal, which is being prepared for a R1.6-billion blast-furnace reline – the JSE-listed group's single largest capital project in six years.

The buffer is expected to peak at 507 000 t ahead of the shutdown, which is scheduled to begin on May 5.

Dr **Hans Ludwig Rosenstock**, who will take up the position of acting CEO on February 19 from outgoing CEO **Nonkululeko Nyembezi-Heita**, says the metal stockpile is being assembled in an effort to ensure that domestic customers do not experience shortages. But other mitigation measures are also being considered should demand be stronger than currently anticipated.

Historically, domestic dispatches from Newcastle stand at around 100 000 t/m, Rosenstock says. "So we believe what we are putting on the ground is sufficient."

Fire-related disruptions in early 2013 resulted in short-term supply disruptions and also precipitated a surge in imports, which rose to a

record 20% of domestic consumption last year, or around a million tons.

The Vanderbijlpark operation, in Gauteng, shed 361 000 t of output as a result of the eight-week unplanned stoppage and AMSA's overall shipments fell 8%. Total steel sales for the year were 9%, or 392 000 t lower, at 4.2-million tons.

Increased operational stability, together with the recent weakening of the rand, should result in a normalisation of imports during 2014. In addition, rand weakness is expected to be supportive of a recovery in exports, which fell 14% in 2014 as Saldanha Steel production was diverted into the domestic market to shore up supplies after the Vanderbijlpark fire.

However, Nyembezi-Heita says exports from the group's inland mills will remain constrained, owing to high overland freight-logistics costs, which make it difficult to compete with Asian steel suppliers, even in Africa. It costs AMSA more to transport its steel from Gauteng to Durban than it costs Chinese producers to land steel in East Africa.

In addition, Newcastle will be export-constrained while it builds domestics stocks ahead of the reline. However, the reline, once completed, is also expected to improve



HANS LUDWIG ROSENSTOCK

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mill efficiencies and add modestly to future production. Savings of between \$12/t and \$15/t are being modelled, owing to lower fuel consumption post the reline, while the capacity of the furnace is expected to rise to 1.9-million tons a year from 1.7-million currently.

The project will also initially weigh on the group's aspiration to realise earnings before interest, taxes, depreciation and amortisation (Ebitda) of \$100/t, but CFO **Matthias Wellhausen** expects the benefits to flow from early 2015.

In 2013, AMSA was well below target at \$43/t Ebitda, but Wellhausen insists that a number of factors will be supportive of meeting the goal in future, including the recent iron-ore supply settlement with Kumba Iron Ore – the arrangement is expected to add between \$10/t and \$13/t.

AMSA, which reported an 80% increase in capital expenditure (capex) for 2013 to R1.57-billion, expects capex to rise by a further 48% in 2014, driven primarily by the reline, as well as other maintenance projects that will be undertaken during the Newcastle shutdown.

In addition, a number of other projects are being planned, primarily to improve the group's compliance with environmental legislation and regulation. In 2013, environmental capex rose to R350-million.

To watch a video in which outgoing AMSA CEO Nonkululeko Nyembezi-Heita and incoming acting CEO Dr Hans Ludwig Rosenstock discuss the upcoming Newcastle reline project, scan the barcode with TagReader (at www.gettag.mob) on your cellphone, or go to 'Video Clips' on www.engineeringnews.co.za.

