

EVRAZ HIGHVELD STEEL

Disinvestment or not?



ArcelorMittal SA Foreign majority shareholder says it has no plans to sell its stake

Robbie Tshabalala

Inquiries to Evraz Highveld Steel

about the members of the mysterious consortium called Nemascor that has offered to buy Russian steelmaker Evraz's 85% stake in Highveld Steel were referred to Michael Hulley last week.

Hulley, who is President Jacob Zuma's lawyer and special adviser, did not take calls or respond to e-mailed questions, but his involvement may suggest the consortium has strong political connections.

Hulley, Zuma's nephew, Khulubuse Zuma, and Nelson Mandela's grandson, Zondwa Mandela, were directors of the failed Aurora Empowerment Systems, which stripped the Grootvlei and Orkney gold mines of their assets and left workers unpaid.

Evraz's sale looks very much like a disinvestment by a foreign shareholder, prompted by SA's poor industrial relations environment and a weakening rand. The only reason given by Evraz CE Alexander Frolov in a statement was that the sale would enable Evraz to focus on its key steel markets in Russia and North America.

It revives the long-running question of whether ArcelorMittal Group will consider a similar sale of its stake in ArcelorMittal SA (Amsa), SA's biggest steelmaker.

One of Amsa's special attractions when ArcelorMittal bought it was its contractual right to purchase high-quality iron ore from Kumba Iron Ore's operations in the Northern Cape on a "cost plus 3%" basis. That contract is now the subject of arbitration. If arbitration rules against Amsa, the group becomes a far less attractive investment, given the other issues it faces, from ageing plants to labour unrest and a weakening rand.

A weaker rand, though making Amsa's steel products more competitive, reduces the returns received by its foreign majority shareholder.

"ArcelorMittal has no plans to sell its stake in its SA operations and we are committed to continuing to produce steel

in SA," ArcelorMittal media relations manager Tobin Postma says.

Though steelmakers around the world have been under pressure from several years of weak economic growth, the firmer US and Chinese economies hold out some hope for an improvement. And local demand for steel will increase when government eventually starts its infrastructure programme.

Last month Evraz Highveld Steel said global steel demand could rise by 2%-5% this year and vanadium prices would also rise, though not to the levels of pre-2008.

Even if market conditions improve, local steelmakers have faced serious operational issues. In the year to December Evraz Highveld made an operating loss of R854m compared with a R49m loss in 2011, largely because of a strike.

One of the major attractions of Highveld Steel for Evraz, which beat several interested bidders when Anglo American put up its 79% stake for sale in 2006, was its position as one of the world's biggest producers of vanadium. Ferrovanadium's main use is to harden steel and demand is expected to be underpinned by building regulations passed in China in 2011 requiring a higher-strength reinforcing bar.

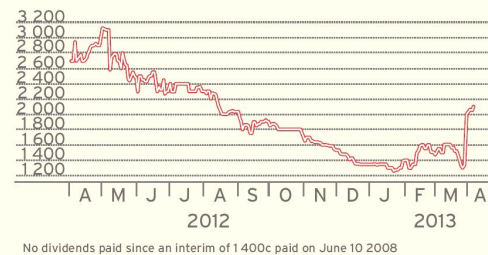
Vanadium slag is sent to the 50:50 Evraz Highveld/Treibacher AG joint venture, Hochvanadium, to be processed into ferrovanadium. Evraz did not say whether it intended to retain its stake in Hochvanadium, but Frolov said the Nemascor deal would not affect Evraz's leading position in global vanadium.

"Our future growth in vanadium is based on an integrated business model that involves our assets in Russia, the US, Europe and our remaining operations in SA. We plan to continue close collaboration with the future owners of the mill with respect to the vanadium business in SA."

Evraz Highveld shares surged from R13 to over R20 after it said Nemascor was prepared to offer US\$320m for 85% of the company, valuing the whole at \$377m. That suggests an offer to minorities at around R38/share. But even that would be well below 2008's peak of R190 and the 2009-2010 trading range of R50-R100. Evraz bought Anglo's stake for R62,36/share seven years ago. **Charlotte Mathews**

SHORT-TERM HIGH

Evraz Highveld share price (c) – daily



No dividends paid since an interim of 1 400c paid on June 10 2008

SOURCE: I-NET BRIDGE