

ArcelorMittal SA achieves better results despite production setback, writes Mark Allix

Fire turns heat on premier steel maker

SA's premier steel maker, ArcelorMittal SA, says it lost an estimated 361,000 tons of liquid steel production because of the fire at its Vanderbijlpark works on February 9.

This means liquid steel production was down 26% in the first quarter.

On Friday, in announcing results for the first quarter ended March, it said revenue dropped 15% compared with the first quarter of last year on the back of a 16% decline in sales.

Domestic steel shipments fell 12% in the period, while exports were down 28%.

The group says insurance payments in this regard are only likely to start being booked in the third or fourth quarters, while the excess to be paid will amount to about R400m. But it does not expect negative free cash flows as a result of this.

CE Nonkululeko Nyembezi-Heita says: "Notwithstanding the two-month stop at Vanderbijlpark due to the fire, we still managed to achieve a better financial result compared to the preceding quarter. Our cash position improved significantly to end the quarter at R1.1bn, reflecting continued management focus on strengthening the balance sheet."

The group says it expects a better trading environment in the second quarter. It has been

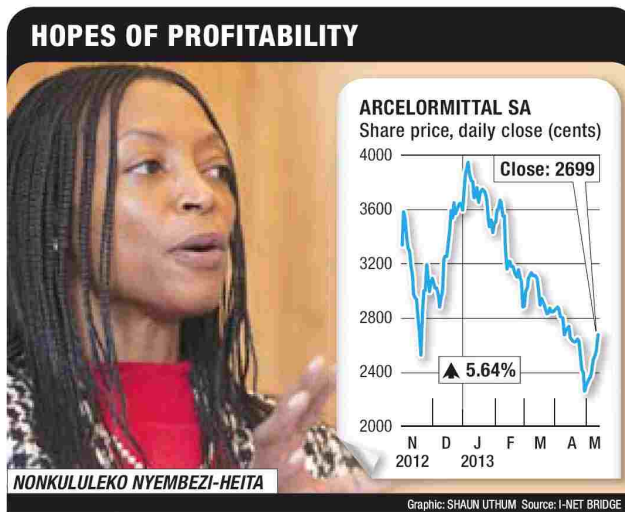
on a prolonged roller-coaster ride on the back of the global recession. This became acute when the health of SA's construction sector rapidly declined after the 2010 Soccer World Cup. Construction accounts for the biggest part of steel consumption in SA.

While ArcelorMittal SA recorded a R270m headline earnings loss in the quarter, with a headline loss of 67c per share, this was substantially better than the R456m headline earnings loss recorded in the preceding quarter. It had seen a headline earnings profit of R283m in the corresponding period last year.

Operations at Vanderbijlpark were restored ahead of schedule in the second week of last month, with force majeure being lifted on Thursday.

Henk Langenhoven, chief economist at the Steel and Engineering Industries Federation of SA, of which ArcelorMittal SA is a member, says the group's effort was commendable. "They did a world-class job to restore the plant in such a short space of time," he says.

Ms Nyembezi-Heita says there appears to be some light at the end of the tunnel for SA's construction sector. "But we couldn't see that in real orders coming through." However, she says SA's nascent renewable energy sector has seen positive



steel consumption. She also says the domestic packaging and automotive industries have been "quite resilient".

But earnings before interest, tax, depreciation and amortisation year on year plunged from R817m to R169m, although the group says this is a positive gain from the previous-quarter loss of R158m, despite operating profit plummeting by R666m to a loss of R208m over the same period last year.

Input costs rose, further affecting the quarterly results. Electricity costs were up 22%, natural gas 12%, with scrap metal rising 8%. "Our coke and chemicals unit continues to

experience poor demand ... due to persistent weakness in the ferrochrome sector," Ms Nyembezi-Heita says.

"This was exacerbated by the extension of Eskom's electricity buyback programme through the first quarter."

Sales volumes from the coke and chemicals unit fell 34% as a result. Revenue of R380m was 36% lower than the previous year, following a 41% drop in commercial coke sales volumes, and a 15% drop in net realised prices. The group says there are a few positive indicators in the first quarter of a recovery in global steel demand, but these are subject to regional trends. In

SA, demand in the quarter was higher compared with the previous quarter, mainly on restocking activities and a modest rise in domestic prices.

"Let's hope it's the start of a recovery, even if long and slow, because the (stock market) price is expecting some," Stephen Meintjes, head of research at broker Imara SP Reid, says.

ArcelorMittal SA says steel-making operations came to a complete halt at Vanderbijlpark after a molten steel spill which caused massive damage to electrical installations. Subsequently, urgent steps were taken to minimise the effect on customers by supplying products from existing stocks, redirecting material from its Saldanha plant to the domestic market, and importing slabs from mills in other countries in the group.

The group says it expects to turn around the first-quarter loss in the second quarter, underpinned by stable market demand, recovery to full production and higher sales.

The company says that quarter on quarter, revenue climbed 13% to R7.8bn after a 10% increase in steel shipments.

Domestic shipments were up 25% while exports were down 27% after the decision to divert Saldanha material to the domestic market after the fire in Vanderbijlpark.

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