BUSINESS DAY
10 May 2012, p.12

COMPANY COMMENT

Good and bad views on top steel maker

ARCELORMITTAL SA puts out its first-quarter results today, and is expecting a better three months. Management believes earnings for the period have improved significantly on production stability and higher sales volumes, but will be partially offset by lower international steel prices.

Macquarie First South Securities expects SA's premier steel maker to return to profit, from a loss of R260m in the fourth quarter last year. But it maintains that the outlook for the steel industry "remains weak", so has a neutral recommendation on the stock with a target price of R60 a share.

Investec sees a "notable sequential improvement in sales volumes and — to a lesser degree — average selling prices", with the steel group displaying a "reasonably" stable cost profile from the final quarter last year. It rates the share a buy with a R68 target price. But it reckons ArcelorMittal will see poor results from its otherwise stable coke and chemicals division, due to energy outages in the ferrochrome sector.

UBS Investment Bank expects the steel maker to return to "modest profits" in the quarter. But it cut its price target to R62,50 a share and retains its neutral rating. Macquarie adds ArcelorMittal will still be plagued by negative news this year, including exclusion from the government's preferential procurement list, a new referral to the Competition Tribunal, and renegotiation of the interim pricing arrangement for Sishen iron ore, expiring in July.

❑❑❑

SPAR's announcement that it is looking into forecourt stores is no surprise; if anything, what is somewhat surprising is that after more than 10 years of turning down the option it would be keen now.

Could Pick n Pay's entry into the market have forced its hand? Commentators believe it likely that Spar would be talking to, or may already be finalising a deal with, one of the big fuel companies. In fact, the group is probably in a far better position than any rival for such a move.

Spar already has a distribution model that is optimised to deliver frequently to smaller stores, and it does not charge franchise fees from operators. The big grocers obviously see forecourt stores as their way to get a toehold in the convenience market. But the challenges remain the same for all — how do you turn a small store (averaging only 100m²) into a grocery store?

Another challenge is to make it feel like a convenience store and not a mishmash of products that may not turn over and add to wastage costs. Most believe the concept of retail chains running convenience could work, but only if the sites and products are chosen very carefully.

In the long run, forecourt retailing could cost the big groups dearly if they don't get it right. Spar has definitely felt the pinch of rising costs in the prior financial period, with fuel costs alone up 38%. Operating costs can take the shine off even the most outstanding trading performance.

■ *Dave Marrs edits Company Comment (marrsd@bdfm.co.za)*