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INDUSTRIAL GAS

Back to Basics

Afrox to focus on customer-service improvements as rivalry rises

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Gas provider Afrox would enter into an arbitration process with steel producer ArcelorMittal South Africa over nonpayment of take-or-pay agreements for the supply of oxygen, nitrogen and argon by Afrox to the steel manufacturer.

The two companies entered into a stainless steel supply agreement in 1996 that would see the gas supplier providing oxygen and nitrogen until December 31, 2012, and argon until December 31, 2019.

While the oxygen and nitrogen agreement expired at the end of last year, the argon provision agreement alone was worth some R50-million a year before tax until its maturation in 2019.

Afrox FD **Nick Thompson** said at the company's recent financial results that, since March, Mittal had only partially settled amounts owing in respect of the take-or-pay agreements and had only paid for the volumes that it had consumed and not those contractually outlined.

He further asserted that no further settlement had been received since July.

"We have been advised by our legal counsel that we have a watertight case and see no reason why the contract shouldn't be honoured," he said, adding that some nine months' revenue remained outstand-ing for the contracts that came to an end last year.

The companies had engaged over payment, but could not reach a resolution.

Afrox CEO **Brett Kimber** added that, as the company's Highveld plant had been expanded to enable it to honour the procured Mittal argon contract in 1996, the contract was linked to a separate investment, which would strengthen Afrox's position during arbitration.

"The purchasing contract is pretty watertight because it is linked to this separate investment," he said.

The company reported that it had further decided to limit the recognition of revenue for these contracts from the second half of last year, following confirmation of arbitration.

STORY HIGHLIGHTS

>> Mittal has only partially settled amounts owing in respect of the take-or-pay agreements and has only paid for the volumes that it has consumed and not those contractually outlined.

>> Afrox will focus on improving its 'historically poor' performance and customer service of the last few years.

The company was realising lost revenue of some R6-million a month as a result.

The arbitration process was expected to start in the fourth quarter of this year or the first quarter of 2014.

Mittal could not be reached for comment.

Meanwhile, Afrox said it would focus on improving its "historically poor" performance and customer service of the last few years, with emphasis on increased imports, greater internal discipline and improved African consolidation.

Increasing competition entering the market in recent years had contracted the company's market share to some 40% and had, in combination with a strained economic environment, resulted in steady sales volume erosion.

"As a result, we are pursuing a focused strategy to improve our competitiveness and redress the company's lost strategic focus, with a view to penetrating the continent," said Kimber, adding that, while 2012 was a year of "getting back to basics", 2013 would see renewed focus on productivity and efficiencies.

Afrox reported that headline earnings per share for the year ended December 31, 2012, remained flat at 91c.

Full-year revenue increased by 6% to R5.6-billion, while earnings before interest, taxes, depreciation and amortisation increased by 3% to R798-million.

The board declared a final cash dividend of 18c a share which, together with an interim cash dividend of 27c a share, totalled 45c a share declared out of the after-tax profits for the year.

Impairments totalling R16-million were made during the year as a consequence of sub-economic performance.

"During the year, market activity remained depressed and cost pressures continued, as rising fuel and electricity prices had an effect on margins and production.

"An unsettled labour environment saw production in key industries, such as mining and manufacturing, negatively impacted," the company said.

The consequential drop in demand for gases and hard goods had a negative impact on Afrox's volumes sold in the second half of the year.

Meanwhile, the group continued its programme of investing in plant modernisation, additional capacity and efficiency enhancements and, for the year under review, invested R546-million.

The group ended the year with net borrowings of R615-million and a gearing of 15.5%.

Picture by Chief Photographer Duane Daws

BRETT KIMBER
Pursuing a focused strategy to improve competitiveness

To watch a video in which Afrox CEO Brett Kimber and Afrox FD Nick Thompson discuss the arbitration and the company's strategy for 2013, scan the barcode with TagReader (at www.gettag.mobi) on your cellphone, or go to 'Video Clips' on www.engineeringnews.co.za.