



**BIG PLAYER: Arcelormittal plans to beef up its operational efficiencies**  
Picture: ROBERT TSHABALALA

# Leading steelmaker out to captivate investors

**JANA MARAIS**

THE share price of Arcelormittal South Africa (Amsa), the biggest steelmaker on the continent, has jumped 38% over the past six weeks as institutional investors bought into the stock, signalling that now might be the time for investors to buy the share.

Capital Management made the first significant investment on May 24, bringing its stake in the business to 5.1%.

After an investors' day briefing in Cape Town last Friday, which led Bank of America Merrill Lynch to upgrade its rating on the stock from neutral to buy, Investec Asset Management bought shares in the com-

pany on Monday, which brought its share to 5.4%.

At the briefing, Amsa's senior management, which has been beefed up by expatriates from the holding compa-

**Some analysts have cautioned that Amsa's challenges remain significant**

ny, including Hans-Ludwig Rosenstock who took over as chief operating officer last year, announced plans to cut costs and improve operational efficiencies.

Amsa has faced significant operational challenges in recent years, no-

tably a fire at its biggest plant in Vanderbijlpark earlier this year and a collapsed dust catcher in Newcastle in 2011. In both cases, furnaces were shut for several weeks, forcing the company to stop shipments to customers.

The weaker rand — it has shed nearly 20% of its value against the dollar since January — also benefits Amsa, which calculates domestic prices based on a basket of international prices, while incurring most of its cost in local currency.

As the biggest producer in the market by far, it is also the price-setter in the local market.

While the stock has rebounded significantly since the start of May, its current share price of R31.73 is still

44% below its June 2012 high, and just more than a tenth of its all-time high of R262.43 in 2008.

"We think the share was undervalued, and though we acknowledge the difficulties facing the steel industry in the long term, Amsa's strong market position and the weaker rand, as well as improved operational stabilities, will help the company," said Rynhardt Roodt, portfolio management at Investec Asset Management.

Some analysts have cautioned that Amsa's challenges remain significant.

A weak demand for steel and increased risk from imports continue to threaten its financial performance.

The steel market is closely tied to

economic activity. South Africa's lower-than-expected 0.9% growth in GDP in the first quarter highlights the weak local environment, where Amsa sells about 75% of its steel.

"I don't expect to see any fireworks with regards to steel demand for the rest of the year," said Mohamed Kharva, analyst at Nedgroup Capital.

Although there had been a slight increase in demand from the construction sector, the mining and industrial sectors were under pressure, he said.

"The focus for Amsa over the next two to three years will be market share protection," JP Morgan analysts Alex Comer and Avinash Kalkapersad said in a note to clients.

"The major competition will be from imports."

The percentage of imports in the local market had increased almost five-fold in the past decade and now stood at 15.7%, they said.