BUSINESS DAY INVESTORS MONTHLY
29 Feb 2012, p.39

ARCELORMITTAL

Muted growth and clouds on horizon

FOR ARCELORMITTAL SA (Amsa), 2011 proved to be a difficult year characterised by higher input costs, weaker demand and operational problems, all of which reversed profit growth. And a number of factors still cloud the company's long-term prospects: the supply agreement with Kumba Iron Ore is still not concluded, energy costs are rising and global economic prospects are gloomy, given the eurozone debt crisis. In addition, the group faces a legal overhang from the Competition Commission's investigations into anti-competitive behaviour and price fixing.

Despite a 12% increase in the average selling price, full-year revenues improved only 4% to R31,5bn and total sales volumes fell 7% as a result of production

BUSINESS DAY: INVESTORS MONTHLY
29 Feb 2012, p.40

ARCELORMITTAL SA LIMITED

Largest steel producer in Africa producing at least 5,8Mt of liquid steel annually, with operations based in SA.

Financial year-end: 31 December
Final results: 7 February

RECOMMENDATION

Sell **Hold** **Buy**

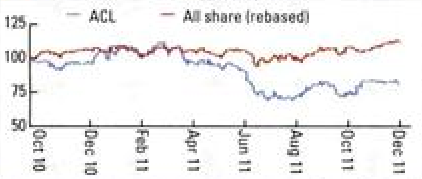
Target price: R74,26 Upside: 10,8%

I-Net Bridge analysts' consensus: Hold

RISK

Low **High**

PERFORMANCE



Source: Perosys

Market cap:	R29 874m	
Forward PE (FY12):	15,7	
Current price:	R67,02	
1-year high:	R93,60	low: R55,00
Key indicators (FY11)		
Heps:	-13,0c	
Div/share:	55,0c	
PE ratio:	-517,1	
Total revenue:	R31 453m	
Attributable revenue:	R8m	
Total assets:	R32 422m	
Equity:	R22 669m	

interruptions. Production suffered four major interruptions during the year due to failures and stoppages for repairs.

Aggravating the effects of muted revenue growth were double-digit increases in input costs – raw material costs were up 16,8% and energy costs rose 31,2%. The increase in raw material costs is attributable to the lapsing of the cost-plus-3% supply agreement with Kumba, which is still under dispute. The annual increase in electricity tariffs is to blame for the 31% hike in energy costs.

The upshot is that operating profits fell 86% to R297m and the operating profit margin shrank to 0,9% from 7,0% in FY10, resulting in a headline loss of R52m from a profit of R1,4bn in the previous year.

An interim insurance settlement of R489m relating to an industrial accident at the Newcastle Works failed to make up for the loss of income. Amsa had, however, claimed about R1bn.

While the company expects 2012 first-quarter earnings to improve significantly (off a low base) as production stabilises, the market wants more clarity from the supply agreement with Kumba as well as the conclusion of the legal disputes.

The huge opening cash balance (R3,5bn) has helped cushion the group during the year as its operations lost money.

Despite a decrease in the cash balance to R439m, Arcelor has net nil gearing, representing a strong balance sheet. Still, this company carries high operational risk given volatile earnings, supply issues and pricing concerns.

Production should stabilise in FY12, which should support growth in sales volumes. Volume growth will, however, be partially offset by lower international steel prices.

First-quarter earnings are expected to be significantly higher than 4Q11 earnings on higher production and off a lower base, but prospects for the rest of the year depend on the recovery of the construction and manufacturing sectors and better global economic prospects.

The longer the pricing dispute with Kumba remains unresolved, the more pressure Amsa will come under as its raw material costs remain higher than those obtainable at the cost-plus-3% pricing arrangement.

The company is awaiting approval from the mineral resources department in respect of its acquisition of a Northern Cape iron ore mining project. This is one in many steps that Amsa is taking to manage its iron ore supplies. Amsa states that based on its initial conservative estimates, this mine is expected to supply the group with two to three million tonnes within the next three years. The Sishen mine supplies it with 6-million tonnes per annum. Intellidex's discounted cash-flow model values Amsa at R74,26/share with a forward PE of 15,7. IM

ARB HOLDINGS LIMITED

Electrical wholesaler offering locally manufactured and imported products with customers throughout sub-Saharan Africa.

Financial year-end: 30 June
Interim results: 9 February

RECOMMENDATION

Sell **Hold** **Buy**

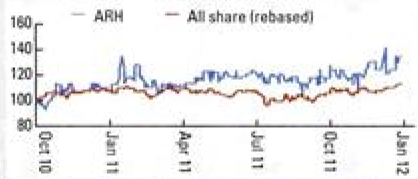
Target price: 412c Upside: 11,3%

I-Net Bridge analysts' consensus: N/A

RISK

Low **High**

PERFORMANCE



Source: Perosys

Market cap:	R870m	
Forward PE (FY12):	10,6	
Current price:	370c	
1-year high:	410c	low: 300c
Key indicators (12 months)		
Heps:	31,26c	
Div/share:	12,25c	
PE ratio:	11,8	
Total revenue:	R1 335m	
Attributable revenue:	R73m	
Total assets (1H12):	R759m	
Equity (1H12):	R635m	