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Steel giant in the red

ArcelorMittal reports headline loss of R52m due to high input costs

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MARGIN PRESSURE: ArcelorMittal CEO Nonkululeko Nyembezi-Heita.

Picture: GETTY IMAGES

ARCELORMITTAL South Africa, a unit of the world's biggest steel maker, yesterday reported a full-year headline loss of R52m due to significant price escalations of raw material and electricity, which started in 2010 and continued into 2011.

"The operating environment showed a marked deterioration in the second half, negatively affected by European debt-related concerns in the macro environment and continued weakness in the key steel consuming sectors of construction, mining and manufacturing," said the group CEO, Nonkululeko Nyembezi-Heita.

The group reported a headline loss for the year ended December 31, which compares to headline earnings of R1.4bn for the previous year.

Earnings before tax halved from the year before to R1.7bn.

"Operational problems had a big impact, in particular the four-month outage due to the dust catcher collapse in Newcastle (KZN). We had to contend with unrelenting pressure on operating margins as production costs climbed 19%, while steel prices only rose 12% on average," said Nyembezi-Heita.

She said that for the fourth quarter of last year, there was an improved headline loss of R260m when compared with the R460m loss reported in the preceding quarter and the R497m loss for the corresponding quarter of 2010.

The group said its profit from operations dropped 86% due to a major structural failure of the blast furnace dust catcher at Newcastle, which negatively impacted production, while several other stoppages such as the planned repair to the corex tap hole at Saldanha, as well as chilled hearth conditions experienced at Newcastle and Vanderbijlpark, also had an effect.

Commercial coke sales and prices were flat year on year.

While there had been a moderate improvement in global steel demand in 2011, which was estimated at 5.9%, the steel maker said this took place against a backdrop of negative developments such as the European sovereign debt crisis, political unrest in the Middle East/North Africa region and the earthquake in Japan.

Emerging economies also saw a tightening of monetary measures.

"The outlook for sustained recovery in steel prices remained uncertain due to sluggish global economic conditions. Towards the latter part of the year, international steel prices began trending downwards from the higher levels seen earlier in the year," it said.

In terms of domestic market overview, the group said the country's economy was still demonstrating signs of weakness, with GDP growing at an annualised rate of about 2.6% in the third quarter of last year, and an estimate of 2.9% in the fourth quarter.

It said most affected was the main steel consuming sectors of mining, construction and manufacturing.

The group expected earnings for the first quarter to improve significantly due to improved production stability and higher sales volumes, offset to some degree by lower international steel prices.

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