

STEEL PRODUCERS

# Tempered by tough times

**Steel companies usually track** growth in gross domestic product, yet that hasn't been the case in SA.

In the past year, volume growth at SA's two biggest steel producers, ArcelorMittal SA (Amsa) and Evraz Highveld Steel, failed to keep pace with even the weak economy. They were battered by a range of issues: operational, environmental and labour.

The SA economy grew by 2,6% last year, while Amsa's domestic steel sales dropped 5% and it made a headline loss of R508m in the financial year to December against an R8m headline profit in 2011. Highveld reported domestic sales dropped 24,2% and it made a loss of R943m during the same period against a R45m profit in the year before.

Nedbank Capital analyst Mohamed Kharva says steelmakers' domestic sales volumes would be expected to grow in a range close to GDP growth, which is currently below 4%. Above 4%, domestic sales volumes should grow at a higher rate, according to work done by Amsa. If GDP grows at less than 2,5%, then the rate of demand falls faster.

Kharva says this assumes that steel mills run normally, but that has not been the case in the past few years for various reasons, and there are a lot of other dynamics at play.

It also does not mean that the steel producers will experience a spurt of growth once operational problems are resolved, because much depends on government's infrastructural spending programme and the recovery in the local economy. Delays in government's capital spending stem from its inability to deliver projects as planned, and Kharva doubts if this can be resolved quickly.

After 2011's dust catcher failure at Newcastle, Amsa largely avoided operational disruptions last year, though early this year it had a damaging fire at its



**Michael Garcia**  
Operations are almost fully restored

Russell Roberts

now almost fully restored and labour relations are back to normal.

Highveld has experienced disruptions every year for the past three years: in 2010 the oxygen plant had to be shut down; in 2011 the company was affected by the Numsa/Seifsa strike; and last year it faced its own labour issues as well as disruptions to shipments from the transport strike in the fourth quarter.

Both Amsa and Highveld have some old plants and are under pressure from the environmental authorities to improve their compliance with legislation, especially on air quality. Rising electricity costs have also put steel companies under pressure.

Amsa invested R128m last year on environmental measures and is budgeting R430m this year. Highveld spent R10m on environmental investment and maintenance and has a number of projects under way which, in total, will reduce its electricity usage by about 25%-30%. It is looking at a co-generation project which could supply 25%-30% of its energy needs.

Garcia says though Eskom was allowed only an 8% average tariff increase this year, the larger industrial customers are likely to pay more. But by last week they had still not heard what they would pay from April 1.

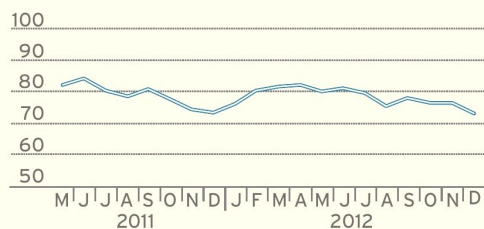
Garcia says Highveld's order book is full. Demand for structural and flat products has risen as the rand has depreciated and made imports more expensive and because of Amsa's operational issues. Prices for vanadium slag have also improved from last year's lows.

"I cannot predict steel demand in the second half of this year, or even for May and June, but it is very robust now," he says. "Our customers report Transnet is buying a lot of steel products but we see no sign of government's other 17 projects coming on board quickly."

It's hard to see how Amsa and Highveld shares — currently a fraction of their 2008 peaks — can go much lower but there's little certainty on the timing of a recovery in the sector. **Charlotte Mathews**

## GLOBAL STEEL MARKETS

Steel capacity utilisation ratio (%)



SOURCE: WORLD STEEL ASSOCIATION

Vanderbijlpark plant. Highveld's production was hit in July by a one-month strike after it changed from a three-shift system to a four-shift system to eliminate the substantial amounts of overtime required from employees under the three-shift system.

Employees, angry about the loss of overtime pay, walked off the plant, leaving the furnaces full of melted steel, which in technical terms "froze", or set, as the mixture cooled. CE Michael Garcia says this made the resumption of operations slow and difficult but these are