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STEEL PRODUCERS

The wheel turns

The prolonged downturn for steelmakers has taken a greater toll on Evraz Highveld Steel's share price than ArcelorMittal SA's (Amsa).

Amsa's shares were trading at R33 last week from a peak of R260 four years ago, an 87% drop. But Evraz Highveld's have shed 90%, to R17. Amsa's parent's share price, the global ArcelorMittal group (listed on NYSE Euronext), has dropped 80% from its peak.

Last week Amsa warned it would make a larger loss in the December quarter than September's R168m headline loss because of the end-of-year slowdown in domestic demand and production losses at the Newcastle plant.

RECORD HIGH

Global crude steel production (Mt)

Region	2011	2012 (forecast)
EU-27	178,0	170,0
Other Europe	151,6	153,7
North America	118,9	121,8
South America	48,4	47,2
Africa/Middle East	38,7	40,2
China	684,6	715,0
Other Asia/Oceania	301,4	302,3
World total	**1 521,5**	**1 550,0**

SOURCE: MEPS WORLD STEEL OUTLOOK

"We are in the midst of exceptionally difficult markets for steel producers," Amsa CEO Nonkululeko Nyembezi-Heita said in a conference call. This year has proven more difficult than Amsa expected, with steel demand set to contract by 6,5%-8%, she added.

Global steel analyst MEPS says despite the slowdown, global crude steel production is expected to increase 1,9% this year compared with last year, to a record 1,55 Mt. But there are regional differences: steel output will decline in the EU, South America and Africa but rise in the Middle East, Turkey, Russia and South Korea.

Coronation Fund Managers analyst Duane Cable says demand for steel is weak globally and pricing is under pressure. Locally, there is no sign of renewed activity in the construction sector. Amsa's management warns recovery for the SA economy as a whole is expected only in the second half of next year.

Cable says with Amsa's shares trading at about 60% of book value, a lot of bad news has been priced in. But they are weighed down by the short-term outlook as well as longer-term structural challenges facing the business.

Though the investment case holds some risk, he believes the share is attractively priced based on his assessment of normalised earnings.

There's still hope for local steelmakers in the medium to longer term in two major infrastructure projects which are taking shape finally, after the immense frustration with government's inability to start its huge infrastructure investment programme over the past four years.

The first programme on the launch pad is Eskom's call for renewable energy products, which would require steel in wind turbines and other equipment.

The second is the Passenger Rail Agency of SA's (Prasa) R123bn spending over 20 years, with 65% local content, in replacing its rolling stock (see cover story).

Nyembezi-Heita says the Prasa tender is likely to be awarded shortly, with delivery in 2015. Amsa could supply 90% of the carbon steel required for the coaches — an estimated 4 000 t/year — without having to make additional investments.

To supply manufacturers of renewables, Amsa would need to invest in specialised equipment, and is weighing whether this would be justified for a short-term demand period.

But since demand for steel is likely to remain weak in the next few months, both Amsa and its parent are looking at capacity cutbacks and will make further announcements shortly. Amsa has already shut its electric arc furnaces at Vanderbijlpark, which takes an effective 500 000 t of capacity off line.

In the September quarter Amsa's total steel shipments dropped 12% compared with the June quarter, while average prices were flat.

Evraz Highveld also reported a sharp drop in production in the September quarter, in some lines to as much as half its output in the June quarter. This was largely the result of a four-week strike and subsequent ramp up.

Amsa will spend only R800m on capital projects this year instead of the budgeted R1bn. During the upcycle, it was spending about R1,5bn/year, Nyembezi-Heita says.

Though Amsa says the medium-term outlook for SA and sub-Saharan Africa remains positive, potential share investors should be cautious until there are more positive signals. **Charlotte Mathews**

Nonkululeko Nyembezi-Heita
Exceptionally difficult market for steel producers

Robbie Tshabalala