Weak rand and cheaper ore lift ArcelorMittal SA

Steel maker returns to first-quarter profit

Dineo Faku

ARCELMITTAL South Africa reported higher earnings in the three months to March as it was helped by the weakening of the rand and improved competitiveness of iron ore supply, the steel maker said on Friday.

This comes as the Competition Commission is investigating the company for excessive pricing of tinplate and flat steel in general.

"Joined to this investigation is an investigation into alleged excessive pricing arising from the iron ore surcharge introduced by ArcelorMittal SA for the period May 2010 to July 2010," Hans Ludwig Rosenstock, the acting chief executive, said.

He said the company was cooperating with the commission in the investigations.

Africa's biggest steel maker recorded headline earnings of R323 million for the quarter to March, compared with a headline loss of R270 million in the corresponding period last year.

Headline earnings a share came in at 81c in the quarter compared with a headline loss a share of 67c a year earlier.

Earnings before interest, tax, depreciation and amortisation improved by 346 percent year on year to R754m. This improvement was supported by the weakening of the rand and improved competitiveness of iron ore supply, the steel maker said.

Revenue increased by 18 percent year on year to R9.2 billion following an 11 percent increase in average net realised prices.

Operating profit of R385m compared with an operating loss of R206m a year earlier.

However, the net cash position deteriorated from R1.1bn to R1.8bn, following the build-up of metal stocks in preparation for the relining of the blast furnace in Newcastle.

"Stocks have been put in place to assure that the domestic demand can be supplied during the project duration of approximately four months," Rosenstock said.

The 125-day relining was expected to cost R170m (R1.77bn).

Speaking during a teleconference on Friday, Rosenstock said the company was still searching for a new chief executive after Nonkululeko Nyembezi-Heita stepped down with effect from February 18. Rosenstock was appointed as acting chief executive at the same time.

He said three top candidates were going through a board selection process.

The company expected its Newcastle zero effluent discharge project to be completed by the end of July. The R630m upgrade aims to improve the treatment of effluent at its Newcastle steel mill.

A Johannesburg court ordered the company to hand over documents about the environmental impact of two facilities to environmental groups.

ArcelorMittal SA said the first-quarter results came against the backdrop of a decline in international iron ore prices while steel prices increased modestly. At the same time, growth in steel demand driven by infrastructure projects in sub-Saharan Africa was overshadowed by subdued sentiment in South Africa.

The firm's home country continued to experience low activity in the manufacturing, construction and mining sectors, and competition from imports remained high.

Compared with a year earlier, domestic steel prices were up 14 percent on average, while export prices rose 9 percent.

Steel shipments were up 5 percent overall, as export shipments increased 70 percent but local shipments fell 11 percent.

The shares slid 5.75 percent to close at R37.70 on Friday.