ArcelorMittal SA remains on the ropes

By Giulietta Talevi

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The South African government's long delayed decision to impose higher tariffs on certain steel imports - effective from 1 July - has come too late to staunch the bleeding at SA's largest remaining listed steel company, ArcelorMittal SA.

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The company warned shareholders on Thursday, 20 July, that its headline losses for the six months to the end of June would be more than three times higher, at between 143c and 152c a share, than 2016's headline loss of 44c a share.

That puts ArcelorMittal SA on track for its sixth successive year of losses. The last time the company made a full-year net profit was in 2011 (R8m).

In the intervening years, net losses have accumulated to a staggering R16.14bn.

This time round, ArcelorMittal SA blames lower margins and says that higher iron-ore and coal prices - its two main costs - have not been fully compensated for by higher steel prices. But the company has also cited unspecified "operational incidents", unspecified impairments and the strengthening of the rand against the dollar.

ArcelorMittal SA said on Thursday that it would not comment on the trading update ahead of its results, which will be released on 27 July.

The steel maker is again "exploring" more cost cuts. It says it is "assessing the profitability of various product lines and the implementation of structural changes over the next six months".

Despite its dire performance, the four analysts who officially cover the company all have "hold" calls on the stock - with SBG Securities having upgraded its view from a "sell" as recently as 10 July.

Avior, for example, has a 12-month share price target of R9.66, almost double where the stock is trading now.

However, analysts will be keen to see how healthy the company's cash position is, given its widening losses.

The company managed to raise R4.5bn in January 2016 from a deeply discounted rights offer that was nevertheless poorly supported, with only 68% of shareholders backing the cash call.

ArcelorMittal SA and its subsidiary, Saldanha Steel, are also in hock to Deutsche Bank, Absa and other lenders after it concluded a R4.5bn "borrowing base" to finance working capital in May.

ArcelorMittal's losing streak comes despite the collapse of Evraz Highveld Steel and has clearly been instructive for the government, which quietly dropped its plans to finance a $5bn steel plant with Chinese group Hebei in 2016.

Recently, Trade and Industry Minister Rob Davies said: "We have to ensure that we maintain the primary steel manufacturing in SA.

"We have no choice actually, [if] we let it go then there will be a huge knock-on effect for the industry as a whole because we don't have the capacity to import anyway."

Source: Business Day