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Whitepaper: Steel

Investors still wary of European steelmakers

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ANALYSIS

Investors still wary of European steelmakers

11 February 2015 - Denny Sabah, Steel Analyst, Metal Bulletin Research

Metal Bulletin Research (MBR) examines the share price performance of European steelmakers and what this says about investor confidence in the sector..

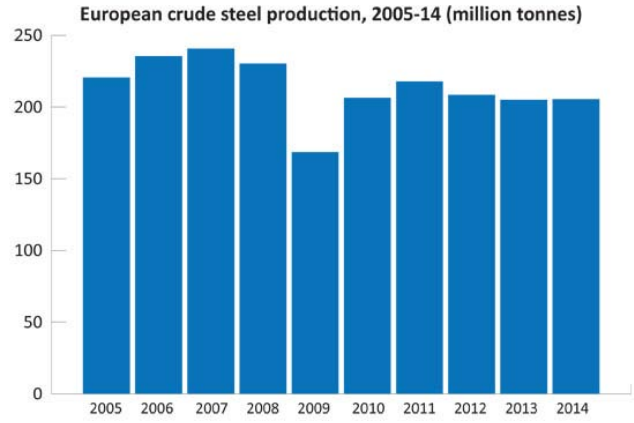
The dire situation in which the European steel industry finds itself today has been well documented. Steel consumption and steel production are far below the pre-crash highs seen before 2008 and, every time they seem likely to revive, it is external suppliers that stand to benefit most.

MBR estimates that import penetration – the share of demand supplied by imports – rose to 14% in the EU last year, from a low of 10% in 2009.

At its peak in 2007, the steel industry across the continent, including Turkey, produced 240 million tonnes of steel; in 2014, it produced 205 million tonnes.

There would have to be 17% growth in steel production to return to the levels seen in 2007. Even to reach the average for 2002-06, there would have to be 9% growth.

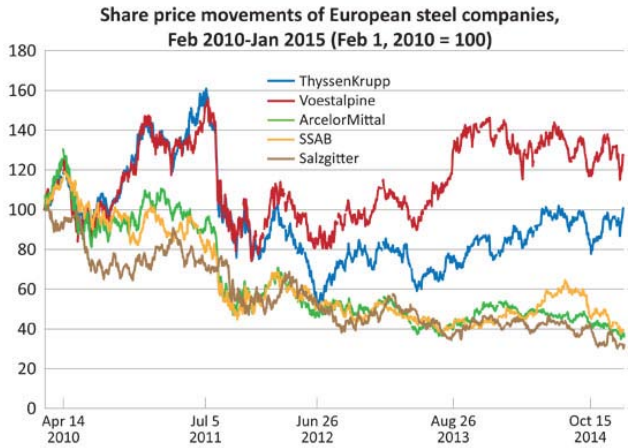
Given that growth levels in the past two years have been -2% and 0% respectively, this looks unlikely to happen any time soon.



What effect is this bearishness having on the steel companies?

Surprisingly few steelmakers across the continent have their share prices publicly listed, but MBR has looked at how these listed producers have been viewed by investors over the past five years.

The chart below shows the share price movements of five of the major listed steel companies in Europe over the past five years.



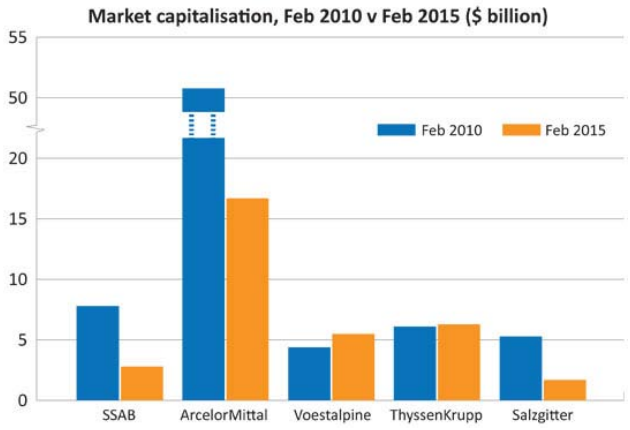
There are two that clearly do not follow the general trend: Voestalpine, which is currently worth about 25% more than it was five years ago, and ThyssenKrupp, which is worth the same as it was back then.

The three other major companies have lost between 35% and 65% of their values since early 2010.

The share prices of these three – ArcelorMittal, SSAB and Salzgitter – have followed almost identical paths over that period.

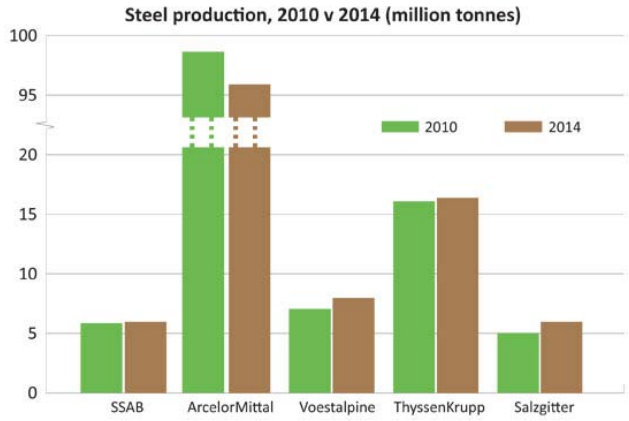
When viewed over the long term, these three have held their values relatively steady for the past two years, at about 40% of their value of five years ago. (This excludes their drop in value since 2008.)

The chart below compares the market capitalisations of these companies five years ago versus today.



Between them, they have lost $42bn of value – with $34bn of this being attributable to ArcelorMittal alone.

However, their combined total steel production has not changed much over the same period, going up slightly in most cases, in line with regional trends.



(It is worth noting that while ThyssenKrupp produces twice as much steel as Voestalpine, its market capitalisation is only 15% greater.)

Lower steel prices have, of course, played a major role in this development; steel companies today earn less for selling the same amount of material.

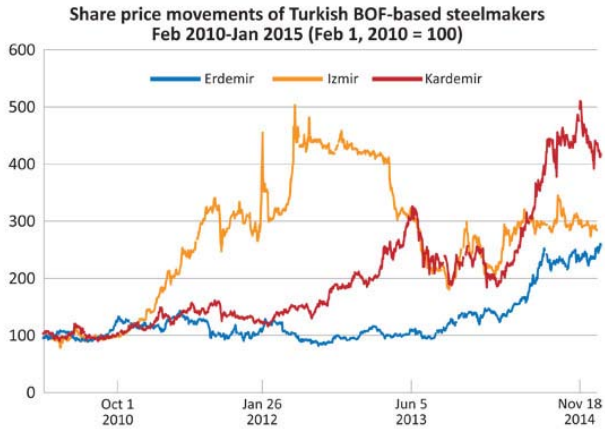
However, this also indicates that investors now have much less faith in steel companies' ability to create wealth for their shareholders, and that they attach much less value to, and have less confidence in, the steel sector than they did in earlier days.

Producers cannot depend on a surge in sales to improve their financial health, and therefore must create far greater efficiencies in how they operate if they are to cut costs.

Alternatively – or rather, concurrently – they also must focus on how they can differentiate themselves from their rivals so as to attract customers, either by altering their product offerings, producing higher quality material, or offering a better quality of service.

Compared with those in Europe, the experiences of Turkish steelmakers could not be more different; the share prices of the country's three major integrated producers have soared in recent years.

Turkey, of course, contrasts greatly with the rest of Europe in that its economy experienced significant levels of growth, particularly at the beginning of this decade, and its steel production has grown accordingly.



The largest steelmaker in the country, Erdemir, has had its market capitalisation expand from $2.5 billion to more than $6 billion in our time frame, while the much smaller Izmir and Kardemir have quadrupled and quintupled in value – to $400 million and $1 billion in 2015, respectively.

The Turkish steel industry has slowed down recently, however, in terms of both tonnage produced and export sales, certainly in long products if not the flat steel associated with the three integrated producers.

The growing number of steel mills in the Middle East – Turkey's main export market – is damaging Turkey's sales levels, as is the continuing conflict with the terrorist group that calls itself Islamic State, which is inhibiting the flow of Turkish steel into Iraq.

The effect of the changes can be seen in a lack of growth in the share prices of Turkish steelmakers over the past six months. Growth prospects for Turkey, however, still remain much stronger than they are for Europe.

While the steel market environment clearly has a significant bearing on investors' sentiment, MBR expects that, as underlying demand conditions improve worldwide over the medium to long term, so too will the value of steel companies.

Meet the Editor

Denny Sabah has been an analyst for the steel and steelmaking raw materials sector for almost a decade.

He started his career at Metal Bulletin Research where he researched the steel markets, with a specific focus on ferro-alloys. He then spent a number of years at a physical metal trading company as a strategist and in-house analyst, where he designed new research-based sales strategies for the trading teams. Following this, he headed up the London office of international mining research house, AME Group, spearheading their sales in Europe and managing the regional team of business development managers and analysts.

Denny has held seats on the Statistics Committees of both the International Manganese Institute and the International Chromium Development Association. He is a regular contributor to Metal Bulletin Research reports.

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