ArcelorMittal SA takes steady look at costs and productivity

Operating loss posted in quarter two

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ARCELORMITTAL South Africa, which has been under fire for its environmental footprint, intends to overcome its challenges, including fixing the relationship with the government, cutting costs and finding new markets.

“We have many issues we have to come face to face with. One we hope to change is the relationship between the private sector and the government. There is a lot of distrust, and we hope to turn that around,” Paul O’Flaherty, the new chief executive of the steel producer, said on Friday.

O’Flaherty was previously the chief financial officer at state power utility Eskom.

He was determined Africa’s biggest steel maker would focus on cutting costs, producing to full capacity and improving productivity.

“We can blame the market, strikes or the volatile exchange rate, or we can change by reducing costs and producing to capacity in order to drive profits,” O’Flaherty said during the release of financial results for the six months to June.

The figures reflected the impact of the five-month long strike in the metalworking sector was also a worry for the company, O’Flaherty said.

ArcelorMittal SA’s earnings before interest, tax, depreciation and amortisation (Ebitda) fell 17 percent year on year to R810 million. Ebitda for the second quarter fell to R56m from R754m in the first quarter.

The company made a second-quarter operating loss of R286m, which reduced interim operating profit to R159m from R233m a year earlier. First-half revenue rose 13 percent to R17.9 billion primarily because of an 8 percent rise in prices.

ArcelorMittal SA, which has 15 000 employees, expected to spend R158m on closing its Tshikondeni mine this year.

A net current borrowing position of R594m reflected the cash inflow required for the stocks and capital expenditures of the Newcastle reline project.

The company operates steel-making facilities in Newcastle, Vanderbijlpark, Vereeniging and Saldanha. Liquid steel production for the six months was 2.4 million tons, down 95 000 tons from a year earlier.

This comes after crude steel production at Newcastle was shut down in May for the blast furnace reline. The project, which was planned to take 125 days, had been delayed for a month because of the defective performance of a contractor on the critical path. Full production at Newcastle was now expected from mid-October.

Group results are expected to remain under pressure.

“The reline of the blast furnace in Newcastle, high electricity tariffs during winter months, the weak local economy and the effects of the metal and engineering strike will have short-term negative effects on our cost and on our customers,” O’Flaherty said.

The company planned to fix its empowerment credentials.

“One of the negatives is the broad-based black economic empowerment... We have not got the fundamentals in place.

“We have to get our house in order as management, then we can start talking about deals.”

Plans to improve its environmental record included the R430m Newcastle zero effluent discharge project that should be completed by month end.

The shares slid 5.26 percent to close at R36 on Friday.

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