

World Steel Dynamics (WSD) is a leading steel information service in Englewood Cliffs, N.J. WSD's steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the "pricing power" of steel companies the world over will be impacted by changes in the steel industry's structure.



**WORLD
STEEL
DYNAMICS**

Q. With newfound turmoil permeating the global financial markets, what has the financial performance been like for the steel sector and related industries?

A. The financial results of the non-Chinese integrated steel industry since 2008 reveal a diminishment of profits in their primary business – i.e., the production and sale of steel products. The summarized income statement for steel mills outside of China indicates: (a) a sharp drop in profits in the traditional steel mill products business, and (b) a sizable rise in the profit contribution from company-owned or partly owned coking coal and, especially, iron ore operations.

In 2011, the non-Chinese steel industry's aggregated earnings before interest, taxes, depreciation and amortization (EBITDA) is estimated at \$121 billion, or \$155/tonne shipped. This composite figure includes:

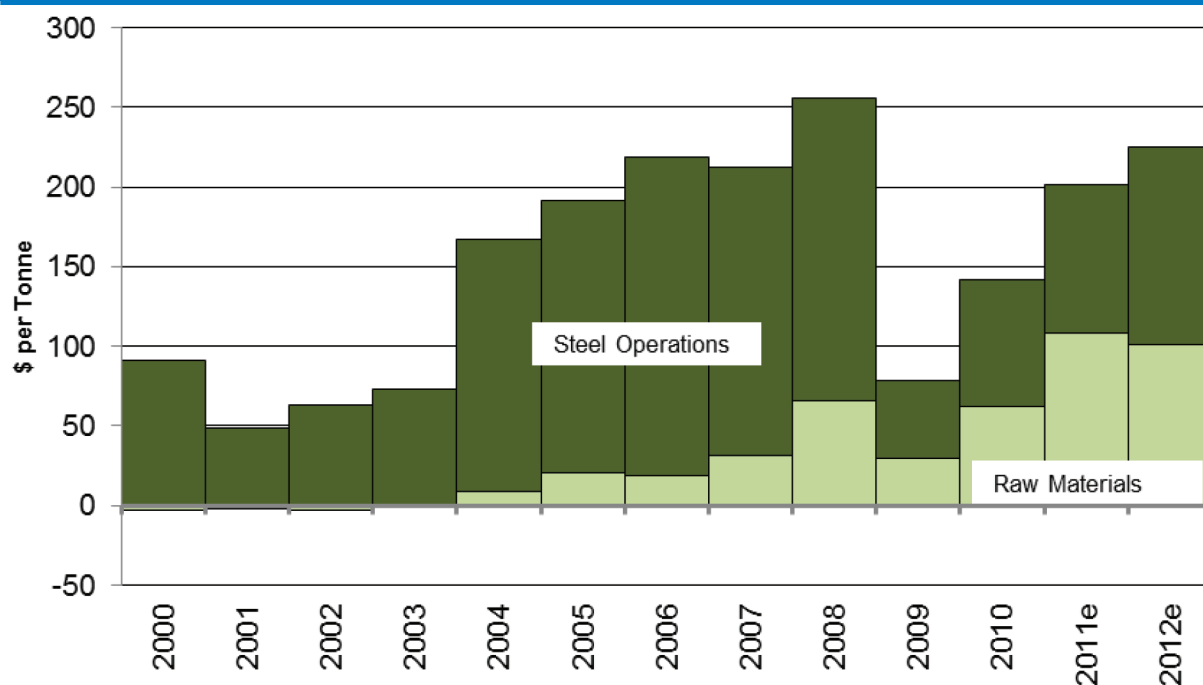
- \$36 billion (\$101/tonne shipped) for EAF-based steelmakers, including those who own DRI-producing units.
- \$85 billion (\$201/tonne shipped) for integrated steelmakers, largely those with blast furnaces and a few with Corex units and DRI-producing plants. Of this amount, WSD estimates that the integrated steelmakers generate EBITDA of \$45 billion from fully or partly owned iron ore and coking coal mines. Integrated steelmakers, as indicated in the accompanying analysis (Figure 1), self-supply an estimated 42% of their iron ore requirement

(largely land-delivered iron ore) and 20% of their coking coal requirement.

The data reveals that the integrated steel mills outside of China are generating far less EBITDA per tonne from their traditional steel mill product business in recent years:

- In 2002 and 2003, they earned \$60 and \$73/tonne, respectively. Of these amounts, the integrated mills' self-sufficiency in raw materials in 2002 had a negative impact of \$3/tonne and in 2003 had a zero impact.
- In 2004, EBITDA rose to \$167/tonne. The integrated mills' self-sufficiency in raw materials contributed \$9/tonne.
- In 2005–2008, EBITDA was in the \$191–256/tonne range. Of this amount, the integrated mills' self-sufficiency in raw materials ranged from \$19 to \$65/tonne.
- In 2009, EBITDA per tonne fell to just \$78/tonne – in part due to a decline in deliveries to 295 million tonnes versus 361 million tonnes in the prior year. The integrated mills' self-sufficiency in raw materials contributed \$30/tonne.
- In 2010, EBITDA per tonne recovered to \$142/tonne. The integrated mills' self-sufficiency in raw materials contributed \$62/tonne.

Figure 1



Ex-China's integrated EBITDA per tonne, from self-supplied raw materials and others. Source: WSD estimates.

- In 2011, EBITDA per tonne is forecast to recover to \$201/tonne. Of this amount, the forecast benefit from their self-sufficiency in raw materials is \$108/tonne.
- For 2012, WSD's EBITDA forecast is \$225/tonne. (Note: This figure compares to an EBITDA for the first nine months of 2008 that probably averaged about \$225/tonne.) The integrated mills' benefit from their partial integration in raw materials declines to \$101/tonne because we are assuming a moderation in iron ore and coking coal prices.

Overall, these results demonstrate that high raw material prices are good for the aggregated profits of ex-China integrated steelmakers. When there's a tight supply of steelmakers' raw materials – including steelmakers' metallics (pig iron, steel scrap and other steelmakers' raw materials) – the mills tend to have more “pricing power” than in other times.

WSD submits that the deterioration in the ex-China integrated steel mills' pricing power has been masked by: (a) three brief shortages since 2008 that occurred when production was quite depressed and steel buyers were deciding to add somewhat to inventories; (b) rising profits from self-supplied iron ore and coking coal; (c) the steep world cost curve to produce hot rolled band, which helps the lower-cost producers; and (d) sizable industry concentration in a number of countries, which provides the mills with above-average profit margins – including the mills that produce hot rolled band in Japan, South Korea, Taiwan, Russia, Brazil and Argentina. ♦

– Peter F. Marcus, managing partner, World Steel Dynamics, pmarcus@worldsteeldynamics.com, +1.201.503.0902

– Becky E. Hites, managing partner, World Steel Dynamics, bhites@worldsteeldynamics.com, +1.201.503.0935

To submit your questions for WSD, email WSD@aist.org.

Please include your full name, company name, mailing address and e-mail in all correspondence.

PRECISION LEVELER BACKUP BEARINGS AND WORK ROLLS



Common Size Backup Bearings

2.50"
3.00"
3.50"
4.25"
5.00"
6.25"
7.00"
8.465"
11.375"

Work Rolls

.75" – 12.00" DIA.

Chrome plating

3:1 performance life improvements in high wear applications

Roll stocking and consignment programs available

LET US HELP YOU REDUCE YOUR SPARE PARTS DOLLAR EXPENDITURES!

ALLOR MANUFACTURING INC.
P.O. Box 1540
Brighton, MI 48116-5340
248.486.4500 • Fax 248.486.4040
www.allor.com

- REBUILD/REGRIND SERVICES AVAILABLE
- FAST DELIVERIES