Tender thoughts

Mittal Steel's Lakshmi Mittal sees many different opportunities for growth, he tells Bob Jones

Mittal: 'looking at ways to expand the global presence of the company'

Lakshmi Mittal has a simple solution for the new Ukrainian government in its deliberations on whether and how to reverse the June 2004 privatisation of Krivorozhstal last year: declare Mittal Steel the winner.

The chairman and founder of Mittal Steel made the comment in a recent interview with MB as a jocular aside, but it was the logical extension of his comments on the privatisation process that the Mittal family has always thought was unfair.

"We've read the views of the new Ukrainian president and prime minister about Krivoy Rog," Mittal says. "It's very clear this administration would like to find ways and means to annul this privatisation. If they do annul it and ask for bids again, we'd definitely be very, very interested in participating. We believe we were the winner last time. In fact, instead of going through a new process, this government should declare us the winner!"

But if there is another tender, it seems that the unlikely consortium with US Steel, which was the Mittals' vehicle for the first bid, will probably not be resurrected.

Aditya Mittal, son and cfo, told analysts in a recent investors' briefing that he would like to see the conditions of the new tender first before making any decisions. But Mittal Steel is a changed entity now, being a public company, he added. Besides, the acquisition of the USA's International Steel Group makes it an even greater rival of US Steel than it was before.

Expressing an interest

The Mittals remain hugely interested in acquisitions. They have not only cash at their disposal, but equity as currencies to raise funds, although there are no specific plans for the moment to issue paper.

"We've publicly stated that we're interested in [Turkey's] Erdemir," Mittal Sr says. "Tender guidelines are due out in March and that's when we'll evaluate our position. We're very keen to participate." It is believed the Mittals have been building up a stake in Erdemir for several years, keeping it below the 10 percent ceiling above which an investor has to declare his shareholding. The government is selling the 46 percent of Erdemir not already in free float.

Opportunities for acquisitions in the global steel industry are arguably becoming more limited, so Mittal says there are now three routes for growth for the group. Organic growth — with which Mittal is not generally associated — is one. Privatisations tend to bring with them investment commitments and the Mittals have promised to spend big money in Poland, among other places. The capital expenditure outlay over the next five years will be of the order of $5 billion.

Mittal also expects his new North American business to grow. A company probably to be called Mittal-ISG Steel USA will become parent to both ISG and Mittal's existing US subsidiary, Ispat Inland. ISG ceo Rodney Mott will become ceo of the new parent, while Inland ceo Lou Schorsch takes charge of strategy, particularly of the task of integrating the two companies. Completion of the deal is expected before the end of the first quarter, before which the Mittals say there will be little comment on how the integration will take place.

Aditya Mittal told investors he is not expecting any significant restructuring costs to be incurred in the process, "because we regard these two companies as complementary".

The outstanding steps are in compliance with the SEC — Mittal Steel's latest amended filing is under review. When that has been approved the offer will be sent out to shareholders, who will have 30 days to accept. After that closure should be within days.

The third route to growth is the traditional Mittal one of acquisitions. Besides Erdemir and Krivorozhstal, Mittal Steel is a bidder for Vítkovice in the Czech Republic and Czestochowa in Poland. The group could also raise its stake in South Africa's Iscor beyond 51 percent, but says it has no plans to do so.

Of all Mittal's acquisitions over the past few years, the equity participation deal with Hunan Valin Tube & Wire in China could in the long run prove the most significant.

With 37.17 percent, Mittal Steel has become an equal partner with the Hunan province government, which owned 74.3 percent (the rest is on the local stock exchange). Mittal says the mill is the eighth-largest in China, with capacity of 8.5 million tpy.

"For us it's a chance to participate in the consolidation in China," says Mittal. "We've had a presence in China for about ten years and we knew most of the steel companies. We've been evaluating them and assessing which would be our most appropriate equity partner.

The deal gives them access to the international market, to the latest management techniques, to product development and to new technology and they can start benchmarking themselves."

The mining companies say the increases in dollar terms they are asking for are a fraction of the increases steel producers enjoyed last year in finished products. And Mittal accepts that his average steel selling price rose 54 percent in 2004. But he responds to this argument with a question: "Did iron ore miners reduce their prices just a couple of years ago when hot rolled coil prices were down to $190 a tonne? Iron ore mining companies are already making 50 percent returns!"

New era

Mittal is convinced the steel industry as a whole, not just his own group, has embarked on a new, more profitable era. "You can't take away the cyclicality of the steel business," Mittal concedes. "But there's a new set of managers in steel looking for sustainability and value creation. We're no longer production-centred, we're profit-centred. Because of this and consolidation we have a new environment in the steel industry." Aditya Mittal says there is surplus capacity in Mittal Steel that is unused and estimates global capacity to be probably about 1.2 billion tonnes, leaving about 100-150 million tonnes of excess capacity unutilised in the world steel industry.

"Costs are going up, which means steel prices are at a reasonable level," says Mittal. "Unless we become production-centred again, this is a more sustainable situation for steel."

Mittal Steel: shipments and income

Americas	Q1-Q4 2004	Q4 2003
Shipments (tons)	12.1 million	2.8 million
Revenues	$6.6 billion	$1.8 billion
Operating income	$1.6 billion	$483 million
Europe		
Shipments (tons)	18 million	4.5 million
Revenues	$9.9 billion	$2.8 billion
Operating income	$2 billion	$480 million
Rest of the world		
Shipments (tons)	11.9 million	2.8 million
Revenues	$7.6 billion	$2.2 billion
Operating income	$2.4 billion	$688 million