Stelco's restructuring plan could leave it in precarious position: analyst

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TORONTO (CP) - Stelco Inc.'s new restructuring plan, which was mailed to creditors Friday, leaves the company and its workers in a precarious position, an analyst said in a report Monday.

The report comes from Michael Locker, president of New York-based Locker Associates Inc., which has done advisory work for the United Steelworkers during Stelco's restructuring.

Stelco Inc., which has struggled for 20 months under court-supervised bankruptcy protection to find a means of refinancing itself, says its plan is the company's best hope of providing a secure future to the major steelmaker and its more than 7,000 employees.

The plan has the support of the Ontario government, the Pittsburgh-based head office of the United Steelworkers, and Steelworker locals at Stelco's subsidiaries and its Nanticoke, Ont., plant.

It is opposed by bondholders, shareholders, and the Steelworkers local that represents Stelco's Hamilton workforce.

In his report, Locker says, "In our opinion, the company's projected cost and capital structure leave (it), and therefore its workers and retirees, in a precarious position."

By achieving a deal that does not require any wage or benefit concessions, Locker said the Steelworkers union "has clearly achieved a solid victory."

However, he said Stelco will now retain its $40-to$50 US per ton cost disadvantage in comparison to other restructured North American steel producers. That disadvantage comes from "legacy costs, work rules, job classes, as well as bloated contracting out and maintenance programs," Locker said.

In addition, he said the nearly $1.2 billion Cdn in debt Stelco will emerge from bankruptcy protection with will burden it.

"Given Stelco's continued cost disadvantage and the substantial debt load, it is unlikely that the mill will be able to survive the next downturn without another visit to (bankruptcy protection)," he said.

Stelco has scheduled a creditor vote on its plan for Nov. 15. It requires approval from creditors holding two-thirds of the dollar value of affected claims.

The creditors, who hold enough to sway the vote, have said recently they will "vote it down" unless Stelco makes substantial changes first. Executives of the Hamilton-based company say they're willing to negotiate and amend the agreement.

Stelco's plan is centred around a $100-million loan from the province of Ontario and a $450-million financing deal with Tricap Management Ltd.

As required by the province, the deal will see Stelco make an initial downpayment of $400 million into its $1.3 billion pension solvency deficit, paying off the remainder over the following decade.

Locker said, "it is unclear whether the restructured Stelco will generate sufficient cash flow to meet these obligations."

The plan pays unsecured creditors with notes and shares in the new Stelco - rather than cash - and essentially wipes out current stockholders.

In a circular mailed to creditors Friday, the company said its plan could see creditors recover about 66 per cent of their money - based on estimated total claims plus interest of $640 million.

Alex Morrison of Ernst & Young, the court-appointed monitor overseeing the proceedings, said if the plan doesn't go through, the most likely alternative is a liquidation sale of Stelco's assets.

In that case, he estimates creditor would recover between 17 per cent and 33 per cent of their claims and interest.

Locker noted that, in the event of a sale, Stelco's Hamilton plant - which employs the largest portion of its workforce - would be "a less desirable target for a new buyer" than the more modern Lake Erie plant in Nanticoke.

On Monday, shares in Stelco (TSX:STE.A) lost three cents, or 13.33 per cent, to close at 19.5 cents on the Toronto Stock Exchange.

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