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## Small steel companies' stocks sizzle

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By KATHERINE YUNG / The Dallas Morning News

Shares in small steel companies are hotter than their furnaces, and two local firms are benefiting from the recent run-up in stock prices.

So far this year, Chaparral Steel Co.'s stock price has surged 44 percent. And Commercial Metals Co.'s shares are up 25 percent in the same period.

Overall, the Standard and Poor's SmallCap steel index has jumped 26 percent year to date, hovering near its 52-week high.

Wall Street's love affair with steel stocks comes from its recognition that the once-battered industry has made significant strides in improving its profitability.

At the same time, the current merger frenzy among large producers has fueled speculation that smaller firms could be up for grabs.

"We have a ways to go in the U.S.," when it comes to further consolidation, said Michael Locker, an industry consultant and publisher of the *Steel Industry Update*, a monthly newsletter.

This year, the world's two largest steelmakers could combine their forces if Mittal Steel N.V., the world's biggest steel producer, succeeds in its hostile takeover of Luxembourg-based Arcelor SA. The battle began just three days after Arcelor won a bidding war for Canadian steel giant Dofasco Inc.

The trend toward fewer, bigger players means steelmakers can charge more for their products. Meanwhile, the boom in construction of strip shopping malls and other commercial buildings has been driving up steel demand. The rebuilding of New Orleans is also expected to provide a boost.

"Suppliers of steel products are regaining some leverage in terms of pricing," Mr. Locker said. In addition, the weak U.S. dollar, high shipping costs and China's appetite for steel are keeping U.S. imports of the commodity from becoming a threat to domestic producers.

"People are finally accepting that it's not business as usual," said Bill Larson, vice president and chief financial officer at Irving-based Commercial Metals.

The company, which makes reinforcing and merchant steel bars used in construction, saw its stock price soar almost 53 percent last year. In April, shareholders will get a 66 percent increase in their quarterly dividend. The dividend hike reflects record net earnings during Commercial Metals' 2005 fiscal year, which ended Aug. 31. At Chaparral, which was spun off from former parent Texas Industries Inc. last July, demand is so strong that a planned shutdown of its Midlothian mill to improve efficiency and capacity has been repeatedly delayed. Even a long-underutilized steel mill in Petersburg, Va., has been running at capacity, said Cary Baetz, the company's vice president and treasurer.

The stock price gains in recent weeks come on top of already hefty increases in 2005. Shares of Chaparral, the

second-largest supplier of structural steel beams in North America, rose 48 percent last year. The company earned its highest-quarterly operating profit in its 31-year history for the three-month period ended Nov. 30. "The industry as a whole seems more rational," Mr. Baetz said, noting that steel producers are focused on maximizing profitability rather than grabbing market share.

That kind of discipline comes as the industry continues to undergo a massive global consolidation. China's role as the world's largest producer and consumer of the commodity has left steel companies everywhere facing new uncertainties, putting pressure on firms to reduce costs and expand their capabilities by growing bigger. Steel is catching up to other industries, like the cement business, which underwent a worldwide consolidation 20 years ago, Mr. Baetz said.

That could be a plus for American companies. If more U.S. steel companies wind up in the hands of foreign producers, that could reduce the amount of imports coming into the domestic market, Mr. Locker said. "Consolidation is beneficial on a world scale to the U.S.," he said.

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