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Dofasco stock rises on plan to spin off Quebec unit into income fund

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TARA PERKINS

TORONTO (CP) - Investors cheered Dofasco's plan to spin off its newly-acquired iron ore business Friday, sending the steelmaker's stock up more than 10 per cent.

The Hamilton-based company announced late Thursday that it is forging ahead with an initial public offering of QCM Income Fund. The fund will own most of Quebec Cartier Mining, which operates an open-pit mine on Quebec's North Shore Region.

QCM has about 1,700 employees working to churn out iron ore, a critical ingredient in steelmaking. Iron ore prices, like steel prices, were driven up last year as demand from China soared.

QCM earned \$80.9 million last year as iron ore prices rose about 20 per cent. Within the first half of this year it had already exceeded that profit.

Dofasco intends to retain enough of a stake in QCM to hedge its own iron ore purchases, spokesman Gord Forstner said Friday. Dofasco buys about 60 per cent of its iron ore from Quebec Cartier.

This summer, the steelmaker paid about \$306 million for the two-thirds of QCM it didn't already own and said it was considering taking it public.

That deal, with partners CAEMI of Brazil and Investissement Quebec, sent the steelmaker's stock up more than 10 per cent in June, with analysts expressing surprise at the "cheap" price Dofasco paid.

On Friday, shares in Dofasco (TSX:DFS), Canada's biggest steelmaker by revenue, gained 10.77 per cent, or \$4.12, to trade at \$42.37 on the Toronto Stock Exchange.

Dofasco has previously said it only wants to own about one quarter of QCM, said BMO Nesbitt Burns analyst Randy Cousins.

"From the perspective of a Dofasco shareholder, the faster they get the cash back in Dofasco the better," Cousins said. The fact that Dofasco's management and advisors believe the market is receptive to an initial public offering is "great news" for shareholders, he said.

Dofasco disappointed analysts last month with a third-quarter profit of \$5.2 million, down from \$115 million a year earlier.

Steel prices peaked at about \$740 US per ton in September 2004, but were about \$510 US this September.

Dofasco, which employs 7,400 people, was also hurt by a stronger Canadian dollar, soaring electricity costs in Ontario and higher prices for raw materials, including iron ore.

But the company's mining operations produced pre-tax profits of \$39.8 million, reflecting "excellent market conditions" for iron ore. And Dofasco said it was optimistic its fourth-quarter results would show significant improvements, driven by the mining segment, which includes QCM and the steelmaker's interest in Labrador's Wabush Mines.

Consolidation in the iron ore industry has left three companies controlling 36 per cent of global production. Those giants, including Brazil's Rio Tinto, have recently announced plans to expand capacity.

In a note to clients Friday, **New York-based steel analyst and consultant Michael Locker** said AK Steel, a major US steel mill, has signed a 10-year iron ore contract with QCM, looking to ensure long-term supply.

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