



NEWS

CANADA

WORLD

BUSINESS

SPORTS

ARTS & ENTERTAINMENT

WEATHER

HEALTH & SCIENCE

CBC ARCHIVES

KIDS

PROGRAM GUIDE

SERVICES

CONTACT US

ABOUT CBC

RADIO-CANADA

shop

NOTICE

CBC is currently experiencing a labour disruption.

- [Go to the official CBC negotiations site.](#)
- [View CBC's updated programming schedules.](#)

Steelmaker Dofasco warns Q3 earnings will miss analyst forecasts

09:17 AM EDT Sep 15

TARA PERKINS

TORONTO (CP) - Dofasco Inc. is warning that third-quarter earnings will be "significantly lower" than analysts' current estimates, as rising costs and lower steel prices push the company's Hamilton operations to a small loss.

The Hamilton-based steelmaker had already cautioned last month that its earnings would be low, when it widely missed estimates for the second quarter, posting a profit of \$59.2 million, or 77 cents per share, down from \$110.5 million or \$1.44 per share a year earlier. This week, analyst forecasts for the third quarter ranged from 54 cents to \$1.21 per share.

But lower steel prices and a high Canadian dollar during July and August have squeezed revenue at Dofasco's core Hamilton facility, the company said Wednesday.

Last month, chief executive Don Pether said steel prices had fallen to about \$425 US per tonne, well below the record prices of nearly \$800 steelmakers garnered last fall. As prices soared to unprecedented levels last year, customers stocked up on steel fearing further price increases.

On Wednesday, Dofasco said its customers are continuing to use steel they already have in inventory rather than placing new orders. In addition, the company suffered from production disruptions which it says have now been fixed.

Meanwhile, the steelmaker's cost per tonne produced rose during the quarter, because of lower production levels and because it is using steel slabs that it bought when prices were at their peak.

"The current expectation is that Hamilton (operations) will post a small loss for the quarter," said the firm, which has about 7,400 employees. "At Gallatin, our previous guidance for a lower third quarter remains the same."

"I think the third quarter is going to be ugly," steel analyst Charles Bradford, president of Bradford Research Inc., said from Barcelona.

"Frankly, I did not expect Dofasco to lose money. They're one of the class acts in the business, so if they're having that kind of a problem, there will be a lot of blood elsewhere too."

Bradford cited numerous conditions plaguing steelmakers during the third quarter. Natural gas prices have soared, hurricane Katrina disrupted the supply of hydrogen, and scrap prices climbed significantly.

Michael Locker, president of New York-based Locker Associates Inc., said Dofasco's electric furnace operation has probably been hit hard by the price of scrap, which rose \$97 US in August.

He said steel prices have risen somewhat in the last month, and now sit at about \$470 US per tonne.

"I think things are going to settle out in Q4," he said. "The inventory adjustment is going to be washed through. Prices on products are going to go up again, not dramatically, but maybe \$500 for hot rolled. Your hydrogen shortage should be over, and your natural gas prices should come down some."

In Wednesday's release, Pether said "We are seeing positive indications looking forward on market pricing and have been making a concerted effort to mitigate pressures on the cost side. Under these conditions, we expect improvement in the fourth quarter."

Dofasco's third-quarter results are to be released Monday, Oct. 31.

On the Toronto Stock Exchange Wednesday, its shares (TSX:DFS) lost 25 cents to close at \$46.80.

© The Canadian Press, 2005

