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Mittal's Arcelor bid fuels U.S. consolidation talk

Wed Feb 15, 2006 3:54 AM ET

By Steve James

NEW YORK, Feb 15 (Reuters) - If Mittal Steel <MT.N> <ISPA.AS> is successful in a bid for European rival Arcelor <CELR.PA>, it will set off a steel industry free-for-all with several U.S. manufacturers among potential takeover targets, analysts said on Wednesday.

"I came up with a list of 20 North American companies that could be had," said analyst Charles Bradford of Bradford Research/Soleil. "They are not necessarily for sale, but a lot will sell if the price goes up. A lot have warts, but there are some good ones, too."

The atmosphere is rife with rumours of consolidation.

A week ago, stock in U.S. Steel Corp. <X.N> rose more than 7 percent after a German newspaper said Arcelor was considering a cash offer for the Pittsburgh-based U.S. Number 1.

And AK Steel <AKS.N> saw its stock surge last month on speculation it was in the cross-hairs of German giant ThyssenKrupp <TKAG.F>.

Arcelor, meanwhile, is resisting Mittal and pursuing Canada's Dofasco <DFS.TO> to gain a North American foothold.

Michelle Applebaum, of Applebaum Research in Chicago, said that while U.S. Steel might be a target, Mittal would have to divest most of its U.S. flat-rolled capacity to resolve anti-trust issues from its acquisition last year of International Steel Group (ISG).

AK Steel's attractiveness is weighed by a lingering legacy liabilities, such as pensions and guaranteed health-care -- something U.S. Steel has already dealt with, said Applebaum.

The other big U.S. steelmaker, Nucor <NUE.N>, which operates with a non-union labour force, was more likely to be an acquirer, she said.

"Its plants make a lot of money. It is very people-intensive."

Michael Locker, of Locker Associates, a New York business consulting firm specializing in steel, said the \$22.5 billion Mittal bid for Arcelor had moved global steel consolidation into high gear, with major players aiming for 75 to 100 million tonnes of capacity instead of 50 million.

MONKEY WRENCH

"Only a merger with U.S. Steel might throw a monkey wrench into the deal by raising major anti-trust issues," **said Locker, who publishes the newsletter Steel Industry Update.**

He said a combined Mittal-Arcelor would have annual steelmaking capacity of 122 million tonnes, nearly three

times that of its closest competitor. It would control 11 percent of world capacity, be self-sufficient in coke and supply 44 percent of its own iron ore needs.

Locker noted Mittal bought ISG last year for \$4.5 billion, or approximately \$225 per tonne of capacity, while the proposed Arcelor deal works out at \$517 per tonne. In contrast, Arcelor is offering to pay \$892 per tonne for Dofasco.

Merrill Lynch analyst Daniel Roling said global steel stocks have risen about 30 percent since the start of 2006, boosted by renewed interest in industry consolidation.

"We continue to believe that consolidation is much needed for this industry," he said in a research note.

Driven mostly by industrial growth in China, U.S. steelmakers are enjoying high times unseen in decades. But just as they swim against the tidal wave of red ink and bankruptcies that threatened them in the 1980's and 90's, they are looking over their shoulders at checkbook-waving rivals intent on consolidating the global landscape.

Analyst Bradford said his list of acquisition targets includes Canada's Stelco <STEA.TO>, which has spent two years in bankruptcy protection, and Algoma Steel <AGA.TO>.

Also, privately-held Sheffield Steel, of Sand Springs, Oklahoma, which is pursuing strategic alternatives.

And he said although Schnitzer Steel <SCHN.O> of Portland, Oregon, had withdrawn its Cascade Steel Rolling Mill from the market, "for the right price, who knows?"

Bradford said he saw Steel Dynamics <STLD.O> and Gerdau Ameristeel <GNA.N> as buyers. "They tend to make acquisitions, but don't want to overpay."

Applebaum also mentioned Steel Dynamics, as well as AK Steel and Canada's Ipsco <IPS.TO> as potential targets. She noted there had been little talk of Tampa, Florida-based Gerdau Ameristeel, which she said was the fourth-largest U.S. steelmaker. It was a maker of long products but might be interested in expanding into flat-rolled products.

And a Mittal move for Cleveland-Cliffs <CLF.N>, the No. 1 North American supplier of iron ore pellets, which already supplies Mittal, might not be out of the question, she said.

For story on Mittal's Q4 results please double click on [ID:nL15163369]

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