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## High cost inventory hurts Nucor - Report

Thursday, 15 Oct, 2009

US's largest recycler of steel scrap Nucor Corporation has announced its guidance for its third quarter ending October 3rd 2009. Nucor expects losses of 15 cents to 20 cents per share in the quarter. The Zacks Consensus Estimate expects a loss of 15 cents.

Helped by increased sales volumes, Nucor posted a second quarter loss narrower than the Zacks Consensus Estimate. Net loss in the quarter was USD 133.3 million or 43 cents per diluted share. This was against a net loss of USD 189.6 million or 60 cents per diluted share in the prior quarter of 2009, an improvement of 30%.

However, the results are dismal compared to net income of USD 580.8 million or USD 1.94 per diluted share in the second quarter of 2008. This was attributed to a fall in both pricing and sales volume. The company suffers from continued low operating rates and the consumption of high cost pig iron inventories. Moreover, a slowdown in demand from the automobile sector and increased production in China are matters of concern. Nucor expects high cost pig iron inventory to continue to weigh on earnings. For the third quarter, the company expects this negative impact to be about USD 180 million or about 37 cents per share.

Through the first 9 months of 2009, the impact has been about USD 420 million or more than 85 cents per share. However, Nucor claims to consume all of the high cost pig iron inventories by the close of the quarter.

While order entry and operating rates at most of Nucor's steel mills have improved in the third quarter to rates of about 70% on average, the increases were mostly due to the end of customer destocking. Our view remains that there has been little improvement in real demand and the uncertainty in the economy is still very high. However, Nucor expects fourth quarter results to benefit from significant improvement in raw material costs.

Nucor is scheduled to report third quarter results on October 22nd 2009.

(Sourced from Zacks Investment Research)

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