# Paulson unlikely to win battle with Algoma: DBRS

*Wednesday, 07 Dec, 2005*

New York based hedge fund Paulson will probably lose its battle to force Algoma Steel Inc. to make a $420-million cash payment to shareholders, Dominion Bond Rating Service said Tuesday. "DBRS does not expect the cash distribution as proposed by Paulson & Co. to occur as Algoma's financial structure would significantly weaken," analyst Mr Jarrett Bilous wrote in a research note. He said Algoma's cash horde helps protect the Sault Ste. Marie-based steelmaker from a sustained downturn in the market, which is "a distinct possibility."

In any case, Algoma's earnings are expected to "sharply decline" from their "near-peak" levels in the next little while, he said. "Lower average steel prices in 2006 are expected to be driven by softened demand, particularly in the automotive industry Algoma's primary customer segment and the expectation for rising imports from strong Chinese production."

Algoma sells half of its steel at spot market prices, locking in price contracts for the remaining 40%. Also next year, high raw material and energy costs will continue squeezing steelmakers, including Algoma, Mr Bilous said. "Algoma's earnings are most sensitive to changes in iron ore, natural gas, coal and electricity prices, which have sharply increased over the past year and are not expected to ease."

Canada's third-largest steelmaker soared on the wave of high steel prices, managing to pay $238 million in special dividends during the third quarter and still keeping a sizeable amount of cash on hand. The company has locked horns with its largest shareholder, New York-based Paulson & Co., which owns a 19 per cent stake and is trying to force Algoma to cough up hundreds of millions to all of its shareholders.