
Update on US Steel earnings preview

Saturday, 25 Apr, 2009

United States Steel Corporation reports first quarter earnings on April 21st 2009. The following is a summary of key developments and analyst opinion related to the period.

The global economic downturn has dealt the steel industry a devastating blow, nearly wiping out demand from its most important markets, including construction and autos. The sudden decline in late 2008 followed a period of robust growth when steel prices climbed to all-time highs and steel makers reaped handsome profits. Amid tight credit markets and the global downturn, US steel mills have ratcheted down production to less than half their capacity.

US Steel has been forced to lay off thousands of workers and temporarily idle plants since demand began tapering. Hundreds of employees have volunteered to retire early. In January, the company forecast an operating loss in its second quarter. US Steel last posted a quarterly loss in the fourth quarter of 2003.

Analysts said that they expect steel companies like US Steel to post significant losses for the quarter due to low prices and the particularly sluggish demand and operating rates throughout the industry.

Analysts, on average, expect US Steel to report a loss of USD 1.69 per share on revenue of USD 3.14 billion. Those results would reverse a profit of USD 1.98 per share and record revenue of USD 5.2 billion, a year earlier.

In a recent note to investors, JPMorgan analyst Mr Michael Gambardella wrote that his firm expected integrated steel companies, including US Steel, to report losses due to the continued drop in steel demand and prices, extremely low utilization rates, higher levels of fixed costs, and, in some cases, still elevated raw material costs.

While steel companies have been unable to predict an end to the industry's woes, they expect an upturn eventually. Nucor Corporation, which reported its first ever quarterly loss, said that there were few signs of improvement. AK Steel Holding Corporation, having posted its second consecutive quarterly loss, forecast more red ink in the current quarter.

Still, analyst Mr Yu, citing recent manufacturing data, wrote that "We continue to expect a meaningful jump in average mill utilization rates to 71% in the second half of 2009."

(Sourced from Associated Press)

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