
Synalloy Corporation announces Q1 financial results

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Synalloy Corporation, a producer of specialty chemicals, stainless steel pipe, vessels and process equipment, announces that the first quarter of 2009 produced net earnings of USD 194,000 on a 30% YoY sales decrease to USD 35,522,000. This compares to net earnings of USD 1,862,000 on sales of USD 50,974,000 in 2008's first quarter.

Although management is disappointed with the modest level of profitability, we are pleased that the Company has remained profitable and produced good cash flow during the worst economic turmoil we have ever experienced.

Due to the nature of this business, which is highly dependent on capital expenditures, the effect from the economic turmoil has been significant. Sales decreased 39% in the first quarter of 2009 from the same quarter a year earlier and operating income declined 78%. The sales decline resulted from a 34% decrease in average selling prices partially offset by 18% higher unit volumes. The significant decrease in first quarter selling prices, when compared to 2008's first quarter, reflects much lower stainless steel prices together with a change in product mix to a higher percent of lower-priced commodity pipe from higher priced non commodity pipe and piping systems.

Stainless steel surcharges, resulting primarily from the changes in nickel prices, continued to fall precipitously during the first quarter to levels about equal to one third of 2008's first quarter averages. We cannot precisely calculate the effect of the price declines on profitability, but our estimate is that profits were reduced by about USD 3,000,000 in the first quarter of 2009 as the result of matching high historical inventory costs against much lower selling prices under our FIFO inventory method. As a result, commodity pipe had a negative gross margin in the first quarter of 2009.

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