POSCO Sinks Low and Exits Unprofitable Businesses

A turnaround plan from Posco failed to earn early approval from investors as shares in South Korea's biggest steelmaker sank to a nine-year low after the company reported a slump in profit and vowed to focus anew on its main business.

The stock declined as much as 3.8 percent to 201,000 won the lowest intraday level since January 2006, and ended at 203,500 won in Seoul as the benchmark Kospi index settled 0.7 percent higher. The shares have dropped for the past five years and retreated a further 26 percent in 2015.

A flood of cheap exports from China, where steel demand is faltering after decades of growth, pushed prices to the lowest level in more than a decade, eroding profits at mills across Asia. Chief Executive Officer Kwon Oh Joon, who steered the company since March 2014, said he would quit non-core operations to focus on Posco's mainstay steel. Second-quarter profit sank 61 percent, worse than analysts expected.

"I don't expect much from Posco's plan to restructure," Kang Tae Hyun, an analyst at KTB Investment & Securities Co. in Seoul, said. "It was just a reiteration of what it has always been saying as it lacked details about how it's going to do it."

Under Kwon, Pohang based Posco plans to reduce the number of local units to 22 by 2017 from 42, while cutting overseas businesses to 117 from 167. He didn't say how many staff would lose their jobs. The company, which has operations from Argentina to Mongolia, earned almost half its revenue from steel in 2014, with 33 percent from trading and 12 percent from construction, according to its stock-exchange filing.

Whereas, South Korea's POSCO said it would shut down unprofitable local and overseas businesses as part of a restructuring plan aimed at boosting profit growth in the world's sixth-largest steelmaker as global demand for steel remains weak.

POSCO plans to reduce by about a third its overseas businesses while the number of local units would be cut by half with the aim of lifting EBITDA on a parent only basis to 5 trillion won by 2017, from 4.5 trillion won in 2014, the steelmaker said in a statement. The company had earlier reported a 7.5 percent gain in second quarter operating profit, mostly in line with estimates, as weak steel demand continued to pressure margins. "Steel prices, along with global demand, has fallen drastically and are having a grave effect on profits," CEO Kwon Oh-joon told an earnings briefing.

POSCO's operating profit in the April to June quarter was 607 billion won ($531.4 million) on a parent only basis, in line with a consensus forecast of 597 billion won compiled by Thomson Reuters I/B/E/S. The parent only measure refers to earnings from POSCO's steel business, and excludes profit from affiliates. It also set a steel production target of 37.8 million tons this year, largely unchanged from 2014, and lifted its sales target for auto steel plates to 9.5 million tonnes as of 2017, up from about 8.3 million tons in 2014.The stock closed 3.9 percent lower, before the restructuring plan and earnings were disclosed, versus a 0.7 percent increase in the broader market.

US Ferrous Scrap Export Prices Down Sharply

A flurry of bulk ferrous scrap sales off the East Coast of the USA has sent export prices plummeting. Five reported sales out of the USA and two from Montreal, Canada, were down more than $25 per tonne from lone sale. Turkish mills paid US suppliers between $225 and $227.50 per tonne cfr for HMS 1&2 (80:20) and $230-232.50 per tonne for shredded scrap. One cargo included 15,000 tonnes of bonus grade, which sold for $237.50 per tonne.

The deals were in stark contrast to last sales, when a Turkish mill paid $252 per tonne cfr for 25,000 tonnes of HMS 1&2 (80:20) and $257 per tonne for 15,000 tonnes of shredded scrap. A pair of identical sales from Montreal to different producers for 20,000 tonnes of HMS 1&2 (90:10) and 30,000 tonnes of shredded scrap averaged $225 per tonne cfr.

"Some of these [US-based] sales are due

to the end of the fiscal year," said an exporter source, who added that publicly traded companies are motivated to sell off inventory to improve their bottom line for the year. The US-origin sales did manage to take 100,000 tonnes of heavy melting scrap and 85,000 tonnes of shredded out of the domestic market, but there is still ample supply on the East Coast. "You should see the piles at my competitors' yards. They are sitting on a lot of scrap," the exporter source said.

The latest sales lowered AMM's weekly East Coast ferrous scrap export indexes fob New York to $209.53 per tonne for heavy melt, down 10.8% from $235 a week earlier to the lowest level since AMM launched the indices in May 2012, and $214.56 per tonne for shredded, down 10.6% from $240 in the same comparison. With no confirmed sales out of California, AMM's weekly West Coast ferrous scrap export index for HMS 1&2 (80:20) remained unchanged at $228 per tonne fob Los Angeles.

"China is killing the steel and scrap industry," said a West Coast exporter who believes demand could get worse and iron ore could retreat to $45 per tonne. Taiwan is now paying $180 per tonne for containers of ferrous scrap, and only one South Korean producer has been buying scrap off the West Coast, the broker said.