

 [Print this article](#)
[Close This Window](#)

UPDATE 3-U.S. Steel qtlly profit up on higher prices

Tue Jul 25, 2006 4:33 PM ET

(Updates with CEO, more analyst comments, stock close)

By Steve James

NEW YORK, July 25 (Reuters) - United States Steel Corp. <X.N> reported a 62-percent leap in second-quarter profit on Tuesday, blowing away Wall Street expectations on higher steel prices and shipments, combined with relatively flat costs.

Another major U.S. steelmaker, AK Steel <AKS.N>, which is operating with replacement workers at its main plant because of a labor dispute, also reaped the benefit of higher prices and posted a sharp rise in profit.

"It was a great performance, it's always nice to see everything running on full engines," said Michelle Applebaum, an independent steel industry analyst in Chicago.

"Results exceeded our expectations due to stronger profitability than we were looking for in its European operations as well as stronger shipments in flat rolled and tubular segments," said Merrill Lynch analyst David Lipschitz.

"U.S. Steel did extremely well, and they're sitting on \$1.5 billion in cash," said Michael Locker, of Locker Associates, a New York business consultancy firm specializing in steel.

"Prices and volumes are good, as are iron ore distribution and labor relations, they seem to be getting the whole system working in sync," he said.

Wall Street liked what it heard and U.S. Steel stock closed up \$2.55, or 4.26 percent, at \$62.41 on the New York Stock Exchange. AK Steel was also up -- 74 cents, or 6.04 percent, at \$13.00.

Pittsburgh-based U.S. Steel said net earnings were \$404 million or \$3.22 per share versus \$249 million or \$1.91 a year earlier. Net sales rose nearly 15 percent to \$4.1 billion from \$3.6 billion.

Analysts on average were expecting \$2.41 per share and revenue of \$3.93 billion, according to Reuters Estimates.

Chairman and chief executive John Surma said the results reflected demand in key end markets, strong shipments and firming steel prices, particularly in spot markets.

"The results were well ahead of analyst expectations and we see the favorable steel environment continuing at least through the end of the year," Surma told analysts via conference call.

"Domestic spot (steel) prices increased in the second quarter and we are already seeing it in the third."

Costs remained in line with first-quarter levels as lower energy and outage costs were offset by higher raw material and profit-based costs, said Surma.

"We expect continued strong operating results for our three reportable segments in the third quarter of 2006," he said. "Healthy steel consumption levels are expected during the quarter along with further increases in flat-rolled prices in the U.S. and in Europe."

For flat-rolled products, U.S. steel expects increased third-quarter average realized prices, partially offset by increased costs for raw materials and outages, and shipments are expected to be comparable to second-quarter levels.

Third-quarter average realized prices are also expected to improve for U.S. Steel Europe, partially offset by higher costs, primarily for raw materials. Shipments are expected to remain at second-quarter levels.

Shipments and average realized prices for the tubular steel segment in the third quarter are expected to be in line with second-quarter levels, and costs are expected to improve due mainly to lower outage costs, Surma said.

Asked on the conference call about auto industry demand, Surma said "things are not as strong as last year," but demand so far was "pretty steady."

On U.S. Steel's plans for reducing the work force at its plant in Serbia, Surma said the company had no estimate for the number of layoffs. "It could be significant, but the economies are very good if we can run it with fewer people."

Pressed, he said that of the 9,000 workers employed in Serbia, "it will not be 30 percent, but some figure below that." The costs of the job cuts should be similar to the \$5 million to \$10 million from last year's work force reduction in Slovakia, he said.

© Reuters 2006. All rights reserved. Republication or redistribution of Reuters content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of Reuters. Reuters and the Reuters sphere logo are registered trademarks and trademarks of the Reuters group of companies around the world.

[Close This Window](#)