

Algoma a takeover target?

ANDREW WILLIS AND GREG KEENAN

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February 12, 2007 -- Shares of Algoma Steel Inc. surged higher amid growing rumours that a cash-flush steel maker from Brazil, India or Pittsburgh is about to make a takeover bid.

The hot rumour that whipped Algoma's shares up to a high of \$40.75 had Pittsburgh-based United States Steel Corp. taking Algoma out in the latest chapter in a global consolidation that has swept the industry.

Algoma is debt-free and has cash and short-term investments of \$175.1-million after posting profit of \$221.8-million, or \$6.10 a share in 2006, compared with \$239.6-million, or \$6.04, a year earlier.

The steel maker put itself up for sale in 2005 but later pulled itself off the market. And it kicked the tires at Stelco Inc. while it was operating under creditor protection, but backed away, as did U.S. Steel and Russian steel maker OAO Severstal.

"It has better traction than it did a year ago given its performance and its cash," said industry consultant **Michael Locker, who heads Locker Associates Inc. in New York.**

Algoma has been the perennial sick man of the Canadian steel industry — making two trips through court-protected restructuring under the Companies' Creditors Arrangement Act.

But since the early part of this decade, it has been a star performer in the steel sector after shedding pension liabilities, cutting the size of its work force and riding the surge in the price of steel on spot markets in North America. "The quality of Algoma's assets, combined with the relatively discounted valuation, suggests that at some point either Algoma's share price will go higher or the company will be acquired," said CIBC World Markets Inc. analyst Michael Willemse in a report last week.

Algoma shares closed at \$40 Monday on the Toronto Stock Exchange. Although a drop from the intraday high of \$40.75, it was up \$3.25 in trading from Friday's close.

Algoma shares were languishing below \$35 near the end of January until the final bidding battle for British steel maker Corus Group PLC, in which Tata Steel Ltd. of India defeated Companhia Siderurgica Nacional SA of Brazil.

That loss by cash-rich CSN sparked industry speculation that the Brazilians were going to look elsewhere for quality steel assets, with Algoma a logical target.

Denis Turcotte, Algoma's chief executive officer, has spoken in recent months about expanding or moving into new product areas, amid what he considers a long-term bullish outlook for steel prices.

"We are not actively out there trying to sell this business," Mr. Turcotte told investors and analysts on a conference call last week. "We're focused on reinvesting in it and the rest will take care of itself."