

Takeover Talk Sends Algoma Gyrating

Shares jump up and down as steel maker confirms it is talking to a German suitor

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Feb 16, 2007 -- Shares of Algoma Steel Inc. took a roller coaster ride yesterday, reaching dizzying heights amidst speculation it was the target of a bidding war before the company tapped the brakes.

Shares ended the day on the Toronto Stock Exchange at \$50.44, up \$5.76, following confirmation from Canada's third-largest steel maker that it is in talks to be acquired by Salzgitter AG.

Those talks "are at a very preliminary stage," the company said.

Frantic investors had traded shares as high as \$57.99 yesterday before the TSX halted trading midday.

Then Algoma cautioned in a statement that if a deal were reached with the German-based steel maker, "the price for the shares is likely to be below the level of the current trading price." When the dust settled, 5.3 million shares traded hands on the day, dramatically higher than an average trading day, and many industry analysts maintained expectations that more bidders will emerge.

"It certainly could be a reasonable assumption that somebody else might make another bid," said New York-based steel industry analyst Michael Locker of Locker Associates, *publisher of the Steel Industry Update*, "given what's happened recently in the market, even at very high price levels."

"We believe there is some potential for competing bidders to emerge as Algoma's assets are attractive and many entities have the financial capacity to acquire the company," Michael Willemse, an analyst with CIBC World Markets said in a report.

In addition to Salzgitter, steel-producer Evraz Group is a likely bidder, Willemse said. Evraz, with operations mainly in Russia, is looking to expand in Europe and North America.

Other companies analysts believe could make a bid include United States Steel Corp., Russian-based Severstal and Brazilian steel producer CSN.

"We believe this visit to the altar is likely to prove successful," Paul D'Amico, CFA for Toronto Dominion Securities, said in a report. He noted the steel sector has had a strong consolidation theme that's only increased since 2005, when Algoma put itself up for sale but talks failed.

Despite some rough years, Algoma has recently been a strong performer. It posted a profit of \$221.1 million, or \$6.10 a share in 2006, compared with \$239.6 million or \$6.04 in 2005.