



U.S. Steel Buying Oilfield Equipment Maker Lone Star

By Matt Daily and Steve James

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NEW YORK (Reuters) -- U.S. Steel Corp. (X.N) expanded its reach in the lucrative oilfield sector on Thursday with a \$2.1 billion deal to buy Lone Star Technologies Inc. (LSS.N), which makes products to line oil and gas wells and build pipelines.

"This is a very important strategic transaction," said U.S. Steel Chairman and Chief Executive Officer John Surma. "With high energy price forecasts, tubular product demand should remain robust."

He also told Wall Street analysts on a conference call that the Lone Star deal is expected to boost the steelmaker's earnings this year and result in synergies of more than \$100 million by the end of 2008.

In addition, said Surma, it widens U.S. Steel's geographic spread, since Lone Star has a pending joint venture in China, another in place in Brazil, and "is in discussions with a company in India."

The deal comes just six weeks after Tenaris SA (TS.N) (TENR.MI), the world's leading maker of tubular products for the oil and gas industry, agreed to buy Hydril Co. (HYDL.O) for \$2.16 billion.

That was Tenaris' second U.S. purchase in less than a year, following the acquisition of Maverick Tube Corp. It highlights how oil at over \$60 per barrel and high gas prices are attracting investment in the oilfield sector.

The latest deal calls for Pittsburgh-based U.S. Steel, which last year said it had considered a possible sale of its tubular business, to pay \$67.50 per share of Lone Star -- a 39-percent premium to its Wednesday closing price.

HIGH PRICETAG

Analysts put Lone Star's purchase price at about 8.5 times analysts' expected 2007 earnings before interest, taxes, depreciation and amortization, well above the 6.7 times Maverick sold for last year.

"The price is high," said Michael Locker, of Locker Associates, a business consultancy firm specializing in steel.

"(But) If there are only few assets left, you're going to pay a high price for them," he said, adding that the pipe and tube sector is "a roaring" market.

"The margins are up in the stratosphere compared to where it was 5, 6, 7 years ago," Locker said, in the range of \$200-\$300 from sales prices of about \$1,200 per-ton for steel.

U.S. Steel, which separated from its oil and gas production arm, Marathon Oil (MRO.N), in 2001, has said its own tubular products business contributed about \$631 million, or 30 percent, of its overall 2006 sales.

Lone Star shares rose more than 36 percent to \$66.00 in afternoon trading on the New York Stock Exchange, while shares in U.S. Steel rose 2.6 percent to \$100.15.

The deal, which includes a \$59 million break-up fee, is expected to close in the second or third quarter, said Chief Financial Officer Gretchen Haggerty.

U.S. Steel will pay for the purchase through a combination of cash on hand and financing obtained under its existing receivables purchase program and three new fully committed bank credit facilities provided by JPMorgan (JPM.N), she said.

On the analyst call, Surma was asked if he was concerned about warnings by Nabors Industries Ltd. (NBR.N), the world's biggest land-based driller, and Halliburton Co. (HAL.N) that their quarterly earnings would fall short of Wall Street estimates because of decreased North American drilling rig activity.

"We would like more rigs than fewer, but we see this as a long-term strategic decision," said the U.S. Steel chief. "One particular announcement does not cause us great concern."

Analyst Charles Bradford, of Soleil Securities, said that as a result of the Halliburton and Nabors warnings, the glow might be coming off the oil sector.

"Valuations have been creeping up, not just in pipe in tube," he said, raising the possibility of a counterbid.

"There are other people out there that may be interested in Lone Star. I think it would make a really nice acquisition for Mittal (Steel) (MT.N) (ISPA.AS)."