Sector Snap: Steel Shares Slide

The Associated Press

NEW YORK (AP) — Shares of steel companies fell Monday on investor concerns that industry conditions will worsen as steel prices fall and demand for the metal slows in a weakening economy.

Demand for steel, a building block of industries from construction and manufacturing to energy, tracks conditions in the broader economy. With many countries in Europe in recession due to the government debt crisis and growth in China slowing, investors have grown increasingly worried about the health of the global economy.

This year is looking tough for steelmakers and it could get worse in the second half of the year, said Goldman Sachs analyst Sal Tharani in a Sunday note to clients.

Tharani noted that scrap prices tumbled this month, pointing to upcoming additional price drops. At the same time, overall steel supplies are high, both from U.S. mills and of imported steel.

The analyst said that while demand for steel has been stable, thanks to an uptick in automotive production and general manufacturing, economic data has softened recently. That's a bad sign for steel, used in manufacturing and construction. Tharani predicted that demand for steel will probably drop off in the summer, in part because that's a historically slower season.

Tharani cut Goldman's rating for AK Steel Holding Corp. to "Sell" from "Neutral" and reduced the price target for the company by $1 to $5, saying that hefty pension plan contribution requirements will result in negative cash flow at the company through 2014. In addition, the company has a large capital spending program, which also will pressure its balance sheet, he said.

In afternoon trading, AK Steel shares tumbled 76 cents, or 13 percent, to $5.04, after falling to an 8-year low of $5.02 earlier in the day. Shares have lost two-thirds of their value over the past 12 months.

Tharani also backed a "Sell" rating for U.S. Steel Corp., saying that its fortunes are the most closely tied to fluctuations in steel prices. U.S. Steel shares tumbled $1.09, or 5.7 percent, to $18.04.

But Tharani raised his rating for Commercial Metals Co. to "Neutral" from "Sell" and increased his price target for the company by $1.50 to $14, saying that its shares reflect the company's risks after dropping 14 percent over the last 12 months. Still, Tharani cut earnings estimates for the company for this year.

Commercial Metals shares fell 10 cents to $11.85 in afternoon trading.

Tharani said his top picks in the sector include metal service center companies such as Reliance Steel & Aluminum Co. and Allegheny Technologies Inc., a more specialized metals processor that serves industries including energy, aerospace and autos. He rates both "Buy."

In afternoon trading, shares of Reliance Steel fell $1.19, or 2.5 percent, to $47.48, while Allegheny dropped $1.24, or 4.1 percent, to $29.06.

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