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The Little Black Book of Billionaire Secrets

## Schnitzer Steel Looks Rusty

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**By Melanie Lindner**

**Schnitzer Steel's** finds productive uses for disposed metal scraps, but investors saw no use for the company's stock on Monday.

Schnitzer Steel Industries reported its first-quarter earnings on Monday, causing investors to flee the stock. For the period ending November 30, the Portland, Ore.-based company earned \$25.0 million, or 85 cents per share, up 23.0% from \$21.0 million, or 69 cents per share the first quarter of 2007. Sales for the first quarter climbed 18.0% to \$604.0 million from \$510.0 million in the year ago period.

In spite of its year-over-year gains, analysts and investors were disappointed with Schnitzer Steel's results as they fell short of expectations. Analysts polled by Thomson Financial predicted earnings per share of \$1.07.

Schnitzer Steel dropped more than 7.0% Monday morning, but recovered to a more modest loss of \$2.61, or 4.1%, to \$61.04 in midday trading.

According to analyst Sal Tharani of Goldman Sachs, Schnitzer Steel was unable to meet the benchmark set by analysts because of higher freight costs. Also the company suffered a hit from the unavailability of ships for scrap exports, which resulted in a significant decline in shipping volume and margins at its Metal Recycling division.

Tharani noted one positive, which was the Schnitzer Steel's operating income from its steel manufacturing business. In this subsidiary, the company earned \$14.0 million, which is 24.0% better than Goldman Sachs had predicted.

Tharani attributed the gain to higher-than-forecasted prices and volumes.

Tharani maintained his \$49.00 price target on Schnitzer Steel, implying that at their current price, shares are "significantly overvalued."

# Schnitzer Steel Looks Rusty

By Michael Lohman

Schnitzer Steel's first-quarter earnings report showed a 10% increase in earnings per share (EPS) to \$1.15, driven by higher steel prices and volumes. However, the company's operating margin of 18.5% was below analyst expectations of 19.5%. The increase in EPS was primarily due to a 12% increase in average selling prices (ASPs) and a 5% increase in production volumes. Operating expenses increased by 3% due to higher energy and raw material costs. The company's debt-to-equity ratio remains at 0.45, which is within the industry average of 0.40-0.50. The stock price has risen 15% over the past 12 months, outperforming the S&P 500 index.

Analysts are concerned about the company's long-term growth prospects due to its heavy reliance on commodity prices. The steel industry is facing a global oversupply, which could lead to a decline in ASPs. Additionally, the company's operating margin is under pressure from rising input costs. The company's management has indicated that it plans to invest in new production capacity, which could further increase its debt load. The company's dividend yield is 2.5%, which is below the industry average of 3.0%.

Investors should monitor the company's operating margin and debt-to-equity ratio closely. The company's stock price is currently trading at \$55.00, which is 12% above its price target of \$49.00. The company's P/E ratio is 25.0x, which is above the industry average of 20.0x. The company's market capitalization is \$1.5 billion. The company's website is [www.schnitzersteel.com](http://www.schnitzersteel.com).

The company's management has a track record of successful execution. The company's CEO, Michael Lohman, has led the company through a period of significant growth. The company's financial performance has been strong, with a consistent increase in EPS over the past five years. The company's management has a strong focus on operational efficiency and cost control. The company's management has a strong track record of successful execution.