Growth ESI's multi-billion dollar investment plan is to include two new steel plants

Beyond the crisis

LONDON
BY STACY IRISH

At a time when the global financial crisis has forced the majority of steel producers to cut output and implement cost-cutting programmes, Abu Dhabi's state-owned Emirates Steel Industries (ESI) is using cash generated from oil revenue for a multi-billion dollar investment plan, which will include two new steel plants and the expansion of its existing facility.

ESI has already begun rolling rebar and wire rod on two mills at its Mussafah location in Abu Dhabi with a combined capacity of 1.12 million tpy.

Now it plans to increase this capacity to a combined 1.55 million tpy in the first $1.2 billion phase of its investment programme, which will also include the installation of a 1.4 million tpy electric arc furnace and a 1.6 million tpy DRI module, scheduled for commissioning at the end of the first quarter.

Until now, Emirates' rolling lines have been dependent on billet imported from around the world.

"You need to be brave to invest," says Jim White, ceo of Abu Dhabi Basic Industries Corporation (Adbic), the parent company of Emirates Steel Industries.

"It's the companies who aren't brave who are at a disadvantage," he continues. "When they start trying to build it will be more expensive to build steel plants. The cost of building is lower now."

The increase in rebar and wire rod production at the Mussafah mill will position ESI as a strategic competitor to Turkish rebar exporters, and stands to capture a share of a market traditionally dominated by imports from this region, White says.

The second phase of the programme is no less ambitious.

At a cost of $1.5 billion, the company plans to build Abu Dhabi's first heavy sections rolling mill, and has targeted the middle of 2011 for commissioning. The 1 million tpy mill will also be fed by a 1.4 million tpy meltshop and a 1.6 million tpy DRI module.

Investing: Emirates Steel Industries bucks the trend with expansion plans

The remaining billet will be fed to its Mussafah facility.

"Our main market will be the UAE, but we've seen new opportunities to export to GCC countries – mainly Qatar, Bahrain and Oman," White tells MB.

But it is the final stage of the programme that will be the largest.

ESI plans to build a three million tpy flat products plant in Taweela, Abu Dhabi, scheduled for commissioning at the end of 2013 and which is likely to include a steelmaking plant.

This final stage, which will come with an estimated cost of $3 billion, is still under consideration and ESI is conducting studies as to which exact products it will produce.

The initial plan is to construct a hot strip mill. But the company may also invest in cold rolling, galvanizing and plate-making facilities depending on the results.

In the first three quarters of last year the Middle East imported a total of 13.5 million tonnes of long products and 7.1 million tonnes of flat products, according to statistics provided by the Iron and Steel Statistics Bureau (ISSB).

The UAE was the largest importer, followed by Iran and Saudi Arabia, according to the figures.

"When world demand for steel rebounds we need to have the capacity," White continues. "You have to take a long-term view – it will take three to four years to build the steel plant."

"You can't ignore the problems of the world but you shouldn't let the problems of the world distract you from your strategy," he adds.

And the logistics for the programme are already in good order.

"We have long-term supply contracts for our DRI plants," White reveals. "We have four...pellet suppliers – Vale, Samarco, GIIC and IOC – [and] there is a possibility that we could set up a joint venture with an iron ore pellet producer in the future."

While recent reports have indicated that the construction market, and thus demand for construction-related steel products, in Dubai may be cooling, demand from consumers in Abu Dhabi remains relatively strong, he says.

"Government infrastructure projects will go ahead as planned," one local trader tells MB. "The Abu Dhabi government have lots of money – they are the world's third largest oil producers. They're sitting on $800 billion in cash."

"The private investors are the ones that are suffering because they are dependent on finance from the banks," he adds.

ESI remains confident that demand will return. And when it does, it plans to have the capacity to take a significant portion of the market.

"Buyers in the UAE had to import from Turkey because we didn't have the capacity," White says. "The new plants will be competitors to Turkish imports – there is no reason why they should buy from Turkey when we're situated so close to neighbouring GCC countries."