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Suitors Wooing Algoma

By Tony Van Alphen

Algoma Steel Inc. (TSX: [ALC](#)) is talking to potential buyers and partners again.

The Sault Ste. Marie-based steel maker, which stopped looking for suitors last summer, revealed yesterday that the takeover of Dofasco Inc. has revived interest in the company.

In a mailing of a circular to shareholders, Algoma disclosed that the recent international battle for Dofasco has resulted in talks with unidentified “selective third parties” for “strategic activity.”

At the same time, investment bank Crosbie & Co. Inc. issued a report showing mergers and acquisitions jumped 42 per cent last year from 2004 to 1,244 announced transactions. The value of those deals shot up 47 per cent to \$166 billion.

Algoma said a special committee of directors, which had rejected the idea of a sale last August, resumed their work with the company’s financial and legal advisers late last year after Dofasco, one of the biggest prizes in the North American steel industry, became a public takeover target.

“Developments in the fourth quarter of 2005 and the first quarter of 2006 with respect to Dofasco Inc. have generated renewed interest in possible strategic activity involving North American steel companies including Algoma,” the company said in the circular.

“In that time frame, the corporation has engaged in discussions with selective third parties, including in some cases entering into confidentiality agreements, updating and reopening the corporation’s data room and facilitating on-site due diligence.”

An Algoma spokesperson would not identify or describe any parties and whether the discussions relate to a takeover or joint ventures.

“It could be a variety of strategic paths,” said Brenda Stenta, Algoma’s manager of corporate communications.

Arcelor SA of Luxembourg assumed ownership of Dofasco last week after shareholders with almost 90 per cent of the company's stock tendered their holdings.

In a two-month battle, Arcelor beat ThyssenKrupp AG of Germany with a bid of \$71 a share or about \$5.6 billion for all of Dofasco's stock.

It represents a premium of more than 60 per cent on the stock price before bidding started. It marked the first time that Dofasco had fallen under foreign ownership in its 94-year history and reflected consolidation sweeping the world's steel industry.

The Crosbie & Co. Inc. mergers report showed the jump in activity was spread across most sectors, but focused in energy and mining. The deals included Barrick Gold Corp.'s \$10.4 billion (U.S.) bid for rival Placer Dome Inc., and China National Petroleum Corp.'s \$5.1 billion (Canadian) takeover of PetroKazakhstan Inc.

"Soaring demand for energy and base metals has made Canadian resource companies highly profitable and attractive properties for targeting by domestic and international acquirers alike," said Ed Giacomelli, Crosbie's managing director.

The activity was strongest in the final two quarters of the year, when resource prices peaked. In the fourth quarter, there were 388 transactions valued at \$59 billion (Canadian), up from 217 deals worth \$29 billion in the year earlier quarter.

Algoma, the country's third-biggest shareholder, revealed the new outside interest in a circular that seeks to thwart an attempt by its biggest shareholder to gain control of the company's board.

Paulson & Co., a New York hedge fund holding about 19 per cent of Algoma's stock, wants to oust several directors and replace them with its own nominees at a meeting on March 22. Paulson sought the meeting after the current board rejected the investment fund's request for a payout of more than \$400 million to shareholders last year.

The U.S. fund argues Algoma needs changes because its stock price is severely undervalued. But Algoma counters Paulson's demand would mean a capital reorganization and a substantial reduction in liquidity that would weaken the company.

Algoma said the steel maker should keep significant cash resources in the first half of this year because the industry is entering a period of "substantial uncertainty."

The Algoma circular added Paulson has no business plan or long term interest in the company. Paulson's motive is to address the firm's own liquidity concerns because the size of its holdings makes it difficult to trade out of the position except at a discount to the market, according to Algoma.

Algoma's stock price slipped 49 cents to \$28.98 in trading on the Toronto Stock Exchange yesterday.

Meanwhile, Crosbie & Co. said in its report that it expects strong economic conditions and positive market psychology to drive merger activity in Canada this year.

“In the current M and A market, a well managed sale process is more likely to yield the seller maximum value,” said Giacomelli.

The statistics also showed Canadian firms bought foreign companies worth \$35 billion last year.

But foreign companies purchased \$65 billion in Canadian companies because of the strong economy and international demand for natural resources here.