

Mittal Steel South Africa

Investec
Securities

SA: Investec Securities Ltd

10 January 2007

Steel and Other Metals

South Africa

Sell

9750c

P/E relative at fair value but forecast to decline

Event:

In this report, we have compared MLA's P/E multiple and P/E multiple relative to 53 listed steel and steel product-related companies located in the Americas, Asia, Europe, India, Australia and South Africa. Our analysis indicates that MLA's P/E relative (to the FTSE/JSE All Share Index) at 61%, is comparable to the (simple) average global peer group P/E relative.

Impact:

MLA's P/E relative displays a positive correlation with rand steel prices. Based on our international steel price and R/\$ exchange rate forecasts, we calculate that rand steel prices will fall some 25% between current spot levels of R4,338/t to an average FY2007E-FY2010E level of R3,275/t. The implication is that MLA's long-term average P/E relative will fall to 46%.

Recommendation:

We calculate MLA's average FY2006E-FY2010E HEPS at 1084cps. Assuming a long-term FTSE/JSE P/E multiple of 14.75x, our forecast normalised or average P/E relative implies a long-term average P/E multiple for the group of 6.8x. However, increasing this multiple by 10% to 7.5x (to account for higher local sales volumes, efficiency gains and expansion plans), we calculate a target price for MLA of 8134cps and a total potential return on current share price levels of -12.8%. We maintain a Sell recommendation.

Performance

Year End: 31 December	2004	2005	2006E	2007E	2008E
Turnover (Rm)	23,053	24,032	26,702	29,451	30,579
EBITDA (Rm)	8,417	8,026	7,648	8,990	8,326
Operating profit (Rm)	7,458	6,855	6,298	7,434	6,564
PBT (Rm)	7,022	7,124	7,330	7,898	7,213
Headline Net Profit (Rm)	4,878	5,068	4,940	5,484	5,017
HEPS - Fully Diluted (c)	1,093.7	1,136.3	1,107.6	1,229.5	1,125.0
DPS (c)	400.0	380.0	369.2	409.8	375.0

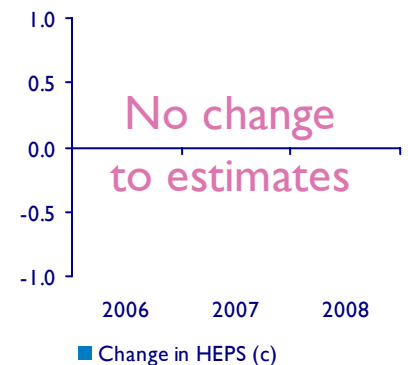
Source: Company Accounts/Investec Securities Estimates

Valuation

Year End: 31 December	2004	2005	2006E	2007E	2008E
Headline PE (x)	8.8	8.4	8.7	7.8	8.5
EV/EBITDA (x)	4.6	4.7	4.6	3.5	3.5
EV/EBITA (x)	5.2	5.5	5.5	4.3	4.5
Yield (%)	4.2	4.0	3.8	4.3	3.9
NPV - current			9,916		

Source: Company Accounts/Investec Securities Estimates

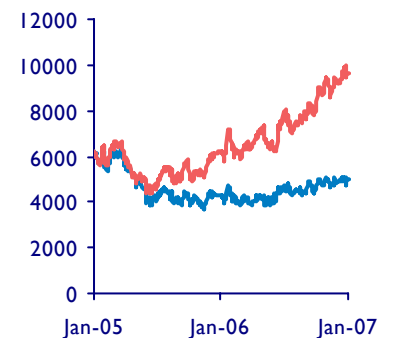
Impact On Estimates



Source: Investec Securities Estimates

Market Cap	R42,797m
JSE Code	MLA
Target Price/Risk	8134c/Low
Total Return	-12.8%

Share Price Performance



Source: JSE Securities Exchange

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Refer to important disclosures starting on page 11.