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## **AHMSA Default Brings Concerns that Other Mexican Firms Might Follow**

by LADB Staff

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The decision by troubled steel company Altos Hornos de Mexico (AHMSA) to suspend payments to creditors has raised some concern that other Mexican companies might take similar actions. AHMSA and its parent company Grupo Acerero del Norte (GAN) received bankruptcy protection from a federal court after defaulting on loan payments totaling more than US\$63 million during April (see SourceMex, 1999-05-05). Construction and engineering company Grupo Bufete had been rumored to be considering similar action, which raised concerns in Mexican and foreign financial markets in late May and early June.

The rumors about Bufete came in part from the company's announcement that its debt as of the end of March had increased by US\$21 million. But Bufete quashed the rumors, instead announcing a plan to refinance about US\$412 million in debt. As part of the plan, announced in early June, Bufete also said the company would seek a strategic partner to inject new capital into the enterprise and help boost the company's competitive position on the global market. Bufete also plans to sell about US\$30 million in nonstrategic assets and embark on a cost-cutting plan, which is expected to include employee layoffs.

### *AHMSA finds sparse interest in search for partner*

Meanwhile, as part of its strategy to inject new capital into the ailing enterprise, AHMSA announced plans in May to seek a merger with other domestic or international steel manufacturers. But a spokesperson for US financial services company J.P. Morgan, which is handling the search for potential partners, said the only viable offer received as of early June came from Mexican steel company Grupo Villacero.

Industry analysts said Villacero's economic capacity is unknown because the company is not listed on any stock market. Villacero accounts for only about 10% of Mexico's steel production. The J.P. Morgan spokesperson said Mexico's two other large steel manufacturers, Grupo IMSA and Grupo Hylsamex, made inquiries but did not submit a formal offer. Industry analysts said the two companies only made the inquiries to obtain whatever information was available about AHMSA's steel customers. Foreign companies showed no interest in forming a partnership with AHMSA or acquiring the company.

Analysts said the lack of foreign interest, particularly the lack of interest from firms based in the European Community, was a "bad sign" and showed little confidence in the Mexican steel sector. The EU and Mexico are negotiating a free-trade agreement, and the acquisition of AHMSA would have given an EU steel company a foothold in Mexico. AHMSA's suspension of debt payments, meanwhile, has also affected 200 suppliers in the company's home state of Coahuila and in other northern states. Many of these companies have requested permission to suspend contributions to the Instituto Mexicano del Seguro Social (IMSS).

"In some cases, AHMSA was the only client for these companies," said Agustin Estrada Briones, IMSS representative in Coahuila. The bankruptcy procedure has also affected other GAN subsidiaries, including fertilizer manufacturer Agromex, whose operations are paralyzed because of its inability to make payments to state-run oil company PEMEX for recent purchases of ammonia. AHMSA has attributed its financial problems to an oversupply of steel, unfair competition from Russian and Eastern European countries, and a slowdown in Japan and other key Asian economies.

But some analysts say mismanagement and miscalculations were also a factor, particularly the decision to expand too rapidly. While the Mexican steel sector has experienced generally poor sales in recent months, at least one of AHMSA's competitors is projecting increased sales later this year. Hylsamex, a subsidiary of Grupo Alfa, has projected a 25% increase in production of flat steel, primarily because of potentially strong exports to the US. Hylsamex expects to benefit from new US restrictions on low-priced steel imports from Russia, Brazil and several Asian countries. The company reported a 12% decline in production in 1998. (Sources: La Jornada, 05/25/99, 05/27/99; Bloomberg news service, 06/03/99; The News, 05/27/99, 06/04/99; Proceso, 06/06/99; Novedades, 05/25/99, 05/27/99, 06/03/99, 06/07/99; Reuters, 05/24/99, 05/26/99, 06/01/99, 06/08/99; Excelsior, 05/25/99, 06/08/99; El Economista, 05/25/99, 06/02/99, 06/04/99, 06/08/99, 06/09/99; El Universal, 05/25/99, 05/27/99, 06/04/99, 06/07- 09/99)

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