THE EFFECT OF METAL PRICE CHANGE ON THE PERFORMANCE OF THE STEEL RELATED COMPANIES

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Abstract

In the first part of this study the effect of metal price change on the accounting performance variable (EPS) will be analyzed. Secondly, the effect of metal price change on the stock price of these companies will be reviewed. The stock price change is a kind of the response in the capital market. It is the result of how the investors expect the metal price change in the respect of future performance. If there are differences in the effect of metal price change over the different industries and companies, it might be from the differences of cost structure. It will be discussed with the empirical results of this study.

Keywords: metal price, steel related companies, performance, stock price

1. INTRODUCTION

This study is about the relationship between metal price and performance of these companies. The results of the relationship analysis will be discussed in the respect of economic meanings. Government and investors can have good information in planning and carrying out the policy and investment decision.

2. METHOD AND RESULTS

The samples of this study are Korean 3 Motor companies, 6 Ship manufacture companies and 7 E&C companies. Correlation and Regression analyses are carried out on the Metal price data (index number from IMF) and EPS and Stock price. The data are for the period 1995-2009, semi-annual data.

The sign of the relationship between metal price and EPS proved to be negative. This effect is said to be ex-post. The sign of the relationship between metal price and stock price is shown to be positive. The stock price change is a kind of the response in the capital market. It is the result of how the investors expect the metal price change in the respect of future performance. This effect is said to be ex-ante. These results imply that metal price increase is not a bad news in capital market. And there are differences in the effect of metal price change over the different industries and companies, it is inferred to be from the differences of cost structure.

4. CONCLUSION

1. The result of this research shows that the sign of the effect of metal price change on the EPS is negative (-), and the sign of the effect of metal price change on the stock price is positive (+) commonly in motor, ship, E&C companies.
2. The negative relationship between metal price change and EPS change means that an increase of metal price cause to a decrease of profit in the steel related companies.
3. The positive relationship between metal price change and stock price change means that an increase is not accepted as a bad news in capital market.
4. Investors expect that an increase of raw material price will bring a better performance of companies in the long run.
5. To improve this research foreign exchange rate change needed to be considered.
LITERATURE