The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Severstal's Foreign Assets Drag Q2 Profit

By The Moscow Times

September 06, 2010

Severstal, the county's largest steelmaker, said Monday that it swung to a second-quarter net profit of $192 million, missing analysts' forecasts, as it lost money on its Italian mills and its U.S. operations stayed in the red.

The company sold a 50.8 percent stake in its loss-making Italian business to Severstal chief executive Alexei Mordashov in June, and said Monday that it had an impairment loss of $208 million on the operations in the quarter.

The company's results were up from a year ago, when it posted a net loss of $290 million, but short of the $319 million average forecast in a poll of analysts.

Though steelmakers in Russia, the world's third-largest producer, have been benefiting from their position as low-cost producers after a difficult 2009, Severstal's foreign assets have remained a drag on the company.

Severstal said its U.S. operations posted a $1 million loss in the second quarter, compared with a first-quarter loss of $138 million.

Overall second-quarter earnings before interest, taxation, depreciation and amortization reached $955 million, ahead of the $849 million poll forecast.

Analysts said they were positively surprised by the operating results.

"The big surprise is [Severstal North America] finally turning positive in Q2 at the EBITDA level, and also the mining division, which contributed over 40 percent of consolidated EBITDA," Deutsche Bank analyst Olga Okuneva said.

Severstal Resources, which includes iron ore, gold and coal mines, achieved a second quarter EBITDA of $420 million, while EBITDA at its North American mills reached $59 million.

Total sales in the period were $4.25 billion, also beating the $4.12 billion estimate.

The company said its board was not recommending a second-quarter dividend, but that it anticipated resuming dividends "in the foreseeable future."

It did not provide any financial outlook for the rest of the year, though it sees global steel prices rising after a soft start to the third quarter.

Its shares closed down 0.4 percent on MICEX, underperforming the exchange's metals and mining index, which was up 0.4 percent.

Severstal's highly profitable domestic mills remain the key strength for the company, with second quarter EBITDA at $528 million, up 30.7 percent from the year-earlier period.

The company is investing a major part of its $1.4 billion annual capital-expenditure budget in the mills to enhance its product mix and improve its competitive position.

"I would distinguish, first of all, the necessity to continue operational improvements in Russia, which Russian steel demonstrated in the last year and a half," Mordashov said during a conference call with reporters.

Mordashov reiterated that his company was exploring a range of strategic options for the U.S. mills, while declining to comment on any specific asset sales.

"Restructuring is the highest priority for us," he said.

Severstal's net debt reached $4.3 billion in the second quarter, up from $3.6 billion at the end of last year.

The company also has cash and short-term bank deposits of $2.01 billion and credit lines of $564 million.

Original url:
https://www.themoscowtimes.com/2010/09/06/severstals-foreign-assets-drag-q2-profit-a1206