

MMK Plans To Increase Production By 60%

By [The Moscow Times](#)

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Magnitogorsk Iron & Steel, or MMK, plans to increase crude-steel output by more than 60 percent by 2014 as demand grows from domestic customers, including automakers.

MMK expects to raise production to 18.6 million metric tons, from a forecast of “more than 11 million tons” this year, chief financial officer Oleg Fedonin said during a conference call with analysts Thursday.

That compares with current output capacity of 14.3 million tons.

Russian steelmakers are building more plants at home to meet an increase in domestic demand for finished products ranging from car parts to rail tracks. The expansion has the backing of Prime Minister Vladimir Putin, who has urged industry to diversify in a bid to reduce Russia’s economic dependence on natural resources such as oil and gas.

MMK will spend about \$1 billion to build a basic-oxygen furnace and supporting infrastructure with an annual capacity of 2 million tons at its main production site in the Ural Mountains, Fedonin said. Its Atakas mill in Turkey, scheduled to reach full capacity by 2012, will add a further 2.3 million tons, he said.

Russia's steel production capacity may exceed demand at some sites, including the electric smelters in European Russia that make construction steel, Fedonin said. Magnitogorsk won't be affected because it plans to make more higher-grade products such as steel plate for pipe producers and automakers, which were previously imported.

Also Thursday, MMK posted a second-quarter net profit of \$53 million, with one-off charges causing it to miss forecasts.

MMK said it booked \$69 million of charges from currency effects and unpaid bills, with net profit excluding these factors at \$122 million, matching the forecast in a Reuters poll and after a \$59 million profit a year ago.

"It is really close to consensus," Renaissance Capital analyst Boris Krasnozhenov said.

Fedonin said MMK's third-quarter profits could decline from the second quarter because of volatile prices in the July-September period.

"We could expect some softening of the profitability for Q3," Fedonin said.

He did not provide any specific figures in his outlook.

MMK's second-quarter crude-steel output rose 38 percent year on year to 2.99 million tons.

Second-quarter revenue doubled to \$2.07 billion, ahead of the \$1.98 billion forecast.

Earnings before interest, taxation, depreciation and amortization totaled \$437 million, ahead of the \$426 million forecast and up from \$207 million a year ago.

MMK shares closed down 1.1 percent Thursday on MICEX, lower than the overall market index drop of 0.37 percent.

Severstal, the largest steel producer, is the only other domestic producer to report second-quarter results. It swung to a \$192 million net profit, also below estimates, from a loss in the 2009 period.

(Bloomberg, Reuters)

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