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MMK Will Pay $485M to Buy Out Atakas Share

By The Moscow Times

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Magnitogorsk Iron & Steel, billionaire Viktor Rashnikov's steelmaker, agreed to buy out its Turkish partner from the Atakas venture to gain 100 percent of the company.

Magnitogorsk, based in the Ural Mountains, will pay $485 million to the Atakas family for the half of MMK-Atakas it doesn't own, the company said in a statement Friday. The purchase will be completed by November, it said. The deal is aimed at "establishing presence on the key and rapidly growing markets in Russia and Middle East, primarily in Turkey," Magnitogorsk chairman Rashnikov said in the statement.

Magnitogorsk, Russia's fourth-largest steelmaker, is spending $2.1 billion to build the Atakas mill to supply rolled steel to Turkish customers including automakers and meet growing demand in the country. Capacity will reach 2.3 million tons next year, the company said in the statement.

"It's quite logical for Magnitogorsk to fully consolidate its Turkish unit, which will reach full capacity in 2012 and will add about 10 percent to the company's earnings before interest, taxes, depreciation and amortization," Dmitry Smolin, an analyst at UralSib Financial, said by telephone.

Steelmakers in Russia, the world's third-largest producer, benefit from their position as leading low-cost producers after suffering through a difficult 2009 when global steel demand declined.

Rashnikov's company is in the midst of an aggressive expansion that will see total steel output reach 18.6 million tons by 2014, up from 11.4 million tons last year.

Rashnikov said in an interview with Reuters earlier this month that he expects domestic steel demand to increase by at least 10 percent this year.

"Already at the start of 2011 we observed continued strong demand from railcar manufacturers, machine builders and pipe companies," Rashnikov said in written answers to questions.

The company sold 69 percent of its metal products on the domestic market last year.

Magnitogorsk stands to benefit from the infrastructure rollout required for the 2018 World Cup, which Russia will host.

"For the projects which must be realized — stadiums, airports and roads — it will be necessary to increase output of flat and rolled steel," Rashnikov said. "Our plant has the most modern rolled-steel production capacity, and this will allow us to satisfy the growing demand."

Russia's winning bid included plans to build 13 new stadiums and carry out extensive renovations at three Soviet-era venues.

The company is planning to develop the Prioskolsky iron-ore deposit, which has enough reserves to cover its requirements for more than 60 years. Rashnikov did not say when it might begin operations.

Magnitogorsk is also planning to increase its value-added steel production via projects such as Mill 5000, which it launched in 2009 to supply pipe makers and shipbuilders.

(Bloomberg, Reuters)