The Moscow Times
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Severstal Returns to Q1 Profit, Plans Share Sale

By The Moscow Times

May 17, 2011



Severstal returned to profit in the first quarter after boosting revenue and selling U.S. assets, and said it will sell shares to reduce debt.

Severstal posted net income of $531 million in the period, compared with a net loss of $785 million a year earlier, the Cherepovets-based company said Tuesday in a statement. Sales rose 36 percent to $3.73 billion.

The steelmaker benefited from "strong market conditions and disposal of the underperforming assets in North America," Severstal said in the statement. "We expect further improvement in our operating and financial performance in the second quarter and are confident about our full-year outlook."

Severstal, led by billionaire Alexei Mordashov, agreed in March to sell three of its five U.S. plants to Renco Group after rising costs led to a $1.32 billion loss from the sites in three years.

Renco agreed to pay $125 million in cash and a $100 million secured note, and take on $967 million of liabilities.

At its U.S. division, Severstal posted earnings before interest, taxation, depreciation and amortization of $45 million, up from $2 million in the previous three months. The unit's EBITDA margin, a measure of profitability, was 6 percent, compared with an 18 percent margin at the Russian steel business.

Severstal plans to sell 2.3 million depositary receipts and 246,373 ordinary shares held in treasury this year to help reduce debt, the company said. The stock is currently valued at a total of $41 million.

Net debt was $4.3 billion as of March 31, according to Severstal's first-quarter presentation posted on its web site. The steelmaker will have to pay $1.18 billion of short-term debt this year, the presentation shows.

The company previously planned to pay down borrowings through an initial public offering of its Nord Gold unit. It scrapped the sale in February, citing "market conditions."

Nord Gold increased first-quarter sales 81 percent to $244 million and posted an EBITDA margin of 55 percent, according to Tuesday's statement.

Severstal rose as much as 2.2 percent to 476.90 rubles in Moscow trading, and was at 470.40 rubles as of 11:31 a.m. local time.

Prices for coking coal and iron ore, used to make steel, will increase in the second quarter, Severstal said. Steel prices may "moderate" in Russia, while "North America demand fundamentals remain positive" in the automotive and energy industries, the company said.

Severstal said it acquired a 7.4 percent stake in Johannesburg-based Iron Mineral Beneficiation Services for $7.4 million, increasing its ownership to 33 percent. Severstal made the acquisition in March, the company said in a quarterly earnings statement Tuesday.

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