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Severstal Defies U.S. Slump With Growth Plan

By The Moscow Times

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Alexei Mordashov, who lost more than $2 billion on the sale of U.S. plants, is defying economic forecasts with a spending plan set to boost capacity at Severstal North America by 45 percent.

The company plans to start new units at its remaining plants in Columbus, Mississippi, and Dearborn, Michigan, by the end of the year, Mordashov said in an interview. The expansions, costing $1.3 billion, will raise its output capacity in the United States to 5.2 million tons a year, narrowing the gap with top producers U.S. Steel, ArcelorMittal, Nucor and Steel Dynamics.

"Steel is a long-term business, and we believe that the U.S. economy has many reasons to prosper," said Mordashov, who controls more than 82 percent of Severstal and is its chief executive. The size of the United States and its population will ensure a "very strong economy" regardless of the current debt crisis, he said.

The company sold mills in Maryland, Ohio and West Virginia to Renco Group this year after idling capacity as slowing demand dragged down prices. Severstal got $85 million in cash and a $100 million secured note for the plants, which it bought three years earlier for about $2.2 billion. It expects to receive a further $36 million for the deal in March.

"We're targeting a margin of 10 percent on earnings before interest, tax, depreciation and amortization by 2015 through 2016 in the U.S.," he said. Columbus will become more competitive following the expansion and benefit from higher demand as automakers build plants in the area, he said.

At Dearborn, Severstal will start a cold-rolled steel mill and galvanizing line after becoming the first Russian company to win funding from the U.S. government's Advanced Technology Vehicles Manufacturing program. The Department of Energy agreed in July to loan Severstal $730 million over 18 years.

The money will go toward building high-strength, lighter auto steel designed to make cars more fuel efficient. Most of Dearborn's production is sold to General Motors, Ford and Chrysler, the company said in a Sept. 29 presentation to investors.

In 2008, Severstal bought Friedens, Pennsylvania-based PBS Coal to reduce its purchases of the steelmaking ingredient. PBS supplies coal to Dearborn and sells to other buyers. Severstal is seeking to double output at PBS Coal by 2015.

"Coking coal has become a self-sufficient business, and we want to make money out of it," Mordashov said. The U.S. unit is well located for exports and may even supply the company's Karnataka steel project in India, he said. Severstal and Indian iron-ore producer NMDC said last year that they plan to build a mill in the Karnataka state. The plant will use local iron ore.

Mordashov started buying U.S. steel plants in 2004, fending off U.S. Steel to acquire Dearborn-based Rouge Industries. The Dearborn and Columbus plants are now at the lowest end of the cost curve among U.S. producers, an advantage he says will help them resist economic stagnation, while strong fundamentals will buoy earnings in the years ahead.

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