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Severstal's Q2 Profit Plummets on Weak Prices

By Irina Filatova

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Severstal might benefit from Russia's accession to the WTO, since the country will abolish steel export quotas. **D. Grishkin**

Steel giant Severstal's net profit dropped 75 percent year on year to $155 million in the second quarter due to weakening steel prices and foreign exchange losses, the company said Wednesday.

Net profit reached $582 million in the first six months ending June 30, down 49 percent from the first half of 2011, Severstal said in a statement.

The decrease in net profit is mainly attributed to foreign exchange losses of $143 million in April to June, compared with the gains of $122 million in the first quarter of the year, as well as the split-off of gold miner Nord Gold earlier this year, the statement said.

Another reason is weak steel prices, which were significantly higher in 2011, Severstal's chief

financial officer Alexei Kulichenko told reporters at a conference call.

The cash price for steel billet on the London Metal Exchange fell from around $600 per metric ton at the end of June 2011 to $400 per metric ton as of June 30, 2012. Steel now trades at around $350 in cash per metric ton.

Severstal saw its second-quarter EBITDA plummet to $664 million from $1.12 billion a year earlier, with the EBITDA margin at 17.9 percent.

A high level of vertical integration didn't allow for a significant reduction of costs, which resulted in Severstal losing leadership in profitability and being outstripped by Novolipetsk Steel, which had an EBITDA margin of 18.3 percent, Nomos-Bank said in a note.

Severstal's second-quarter revenue stood at $3.72 billion, down from $4.4 billion a year earlier.

Meanwhile, Severstal owner and chief executive Alexei Mordashov remained optimistic about the company's future performance.

"The seasonal summer softening of demand put pressure on steel and raw materials prices, but we anticipate improvements in pricing and demand from September," he said in the statement, adding that the company expects its results in the second half of the year "to be broadly similar" to the first half figures.

Severstal said in the statement that it expects stable domestic demand in the third quarter, enabling "continuing high-capacity utilization of the Russian mills."

"Domestic steel consumption is expected to increase, driven by high construction activity. On the export front we anticipate decreasing prices," it said.

Domestic steelmakers could gradually increase exports to the European markets in the future after Russia's accession to the World Trade Organization last week gave a green light to terminating steel export quotas, according to a Moody's Credit Outlook published Monday.

Kulichenko said that Europe has its advantages from the logistical point of view, but the domestic market remains a priority for the company.

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