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Evraz Eyes Asset Sales, Moves to Cut Debt

By The Moscow Times

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Evraz, Russia's largest steelmaker, may sell assets and rein in capital spending to help manage its $6 billion of debt in a weakening market, its chief financial officer said.

Russian steelmakers invested heavily to expand until the 2008 global financial crisis hit steel demand and forced them to borrow to support their operations.

Two of Evraz's Russian peers, MMK and Mechel, are struggling to service debts they piled up to pay for acquisitions and growth projects.

London-listed Evraz, controlled partly by Chelsea football club owner Roman Abramovich, announced the sale of noncore transportation unit Evraztrans but could consider more asset disposals.

Chief financial officer Giacomo Baizini said the FTSE 100 company may post weaker second-half results, buffeted by volatility in foreign-exchange markets.

But Evraz, which expects to generate enough cash to service its debts in 2012 and 2013, would not consider any new bond issues unless the market offers especially favorable terms.

"Given the current environment, we are considering options for some of our noncore or nonperforming assets," Baizini said. "We aim to reduce our net debt by a combination of cash generation by the business and by selected disposals."

The company previously named Vitkovice Steel in the Czech Republic, where the production line was recently shut, as an asset that has not performed to expectations.

Another is its South African steel and vanadium business, Evraz Highveld, which has been hit by labor strikes.

The operational problems at the two units contributed to a 3 percent decline in Evraz's overall steel production in the third quarter from the previous period.

Evraz has an equity market value of $4.9 billion. Its shares have lost half their value since peaking in January.

In June, Evraz announced ambitious plans to invest $6 billion over the next four years to meet growing global demand for railroads and pipelines.

Weak operations led the company to rein in previously bullish capital-spending plans, Baizini said.

"We are probably not going to invest as much in development as we would have thought a year ago," he said. "We plan for our [capital expenditures] in 2013 to be less than in 2012."

Evraz recently asked holders of its $750 million bond maturing in 2015 to approve the removal of a covenant limiting the required net-leverage ratio.

Earlier this year, Evraz negotiated amendments to a $950 million syndicated structured credit facility maturing in 2015 as well as a number of bilateral facilities.

"We are simply aligning the covenants on the 2015 eurobonds to the covenants that are on all our other eurobonds," Baizini said. "And we think we are going to achieve this."

Evraz, which swung from a $263 million net profit last year to a $50 million net loss in the first half of 2012, expects weaker second-half results, with foreign-exchange fluctuations affecting its second-half and full-year figures, Baizini said.

"Given that revenues are well below the levels before the crisis, the ... adjustments for fluctuations in [foreign exchange] and other similar adjustments have an important effect on our bottom line," he said.

Baizini said Evraz will generate enough cash to sustain its debt this year and next.

Based on analyst consensus forecasts for core earnings of $2 billion this year and $2.3 billion in 2013, Evraz would be able to cover annual interest costs of about $500 million, capital expenditures of $1 billion and tax payments of "a couple of hundred million."

"We should remain free-cash-flow neutral to positive," Baizini said.

Evraz has no immediate plans to issue new bonds but will keep its borrowing options open, he added.

Evraz is 75 percent owned by a holding company controlled by Abramovich and his partners Alexander Abramov, Alexander Frolov and Yevgeny Shvidler and an affiliate.

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