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Evraz and Severstal Post H1 Losses

By The Moscow Times

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The country's largest steelmaker Evraz recommended scrapping its interim dividend Thursday as it posted a first-half net loss of $122 million, in line with analyst expectations due to weak steel prices.

The firm's loss was 165 percent deeper than in the same period of 2012, but shares rose 5 percent after earnings before interest, taxes, depreciation and amortization, or EBITDA, came in 12 percent above forecast at $939 million.

Steelmakers across the world have been struggling to cope with flagging prices as a growth slowdown in China and Europe's debt crisis hit construction and industrial production.

"The global steel market is expected to remain challenging during the second half of the year as structural problems continue to dominate the industry, with estimated global capacity utilization to remain at 75 percent," the firm said in a statement.

The company, partly owned by Chelsea soccer club owner Roman Abramovich, said revenue fell 3 percent to $7.4 billion.

The firm, which paid a first-half dividend in 2012, said it had recommended its board not to pay an interim dividend for the first half of 2013.

Severstal on Thursday announced first-half results of $6.7 billion in revenue, down 8.9 percent from the same period last year. Its EBITDA for the period was at $909 million, down 27 percent from a year ago. But both numbers for the second quarter showed improvement over the first quarter of 2013.

"Despite headwinds in the global steel and mining industries, Severstal has managed to deliver a second consecutive quarterly earnings improvement. All divisions contributed to this improvement: Severstal Russian Steel and Severstal Resources were both able to increase sales volumes and reduce unit costs, more than offsetting the effect of lower prices and increasing Q2 EBITDA," CEO Alexey Mordashov said in a statement.

"Looking at Q3 2013, steel demand in Russia and the U.S. is expected to remain strong with moderate upward pricing movements. However, European demand remains weak, and China will continue to face the problem of oversupply," the company said. While the short-term outlook for the steel industry is showing signs of improvement, over the medium- to long-term we expect the market will remain challenging, the statement also said.

Analysts said that the two steel giants had performed better than expected.

"Reports from Severstal and Evraz were better than expected. ... If we compare their earnings before interest, taxes, depreciation and amortization to market forecasts for this year, then Severstal has [already] fulfilled 48 percent, Evraz 52 percent," said Vladimir Dorogov, an analyst at Alfa-Bank.

Russia-focused gold miner Petropavlovsk posted a first-half net loss after a gold price slump forced it to take about $600 million of impairment charges, sending its London-listed shares sharply lower, Reuters reported.

Precious metals producers have had to write down billions of dollars after gold price fell 15 percent since the start of the year.

"These [impairments] have severely affected our earnings," Peter Hambro, Chairman of Petropavlovsk, said in a statement.

Petropavlovsk recorded a net loss of $742 million in the first half of 2013 compared to an $11 million profit for the same period last year. Its revenue was up 9 percent at $597 million.

Petropavlovsk is the hardest-hit by write-offs among Russian gold producers, after its rival Polymetal took an impairment of $305 million. Russia's top gold miner, Polyus Gold, has warned that write-offs could hit $480 million.

The company has factored in gold price of $1,300 per troy ounce for write-offs compared to a current market price of around $1,411 per ounce.

"I have reason to believe that demand for physical gold — as opposed to paper promises of gold — is strong and that this will, as a minimum, underpin the gold price in the coming year," Hambro added in the statement.

The company also maintained 2013 production target of 760,000-780,000 ounces Thursday and added that it had $59 million in cash and equivalents and $123 million in undrawn facilities at the end of 2013.

Its net debt is expected to be less than $1 billion by year-end, down from $1.15 billion as of June 30.

Material from The Moscow Times was included in this report.