

# Steelmaker Severstal Sells 2 U.S. Plants for \$2.3 Billion

By [The Moscow Times](#)

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Alexei Mordashov, the main owner of steel company Severstal.

Russia's Severstal said on Monday it had agreed to sell its two U.S. steel plants for \$2.3 billion, withdrawing from the U.S. market at a time of rising tension between Russia and the West and turning its focus to its domestic business.

The company said it would sell subsidiaries Severstal Columbus in Mississippi to Steel Dynamics and Severstal Dearborn in Michigan to AK Steel Corporation, sales that could allow the steelmaker to pay an extra dividend and reduce debt.

Severstal, Russia's second-biggest steel producer, said in May that it was considering a range of strategic options for its plants in Mississippi and Michigan, which produce steel products mainly for the automotive sector, having earlier divested steel plants in Maryland, Ohio and West Virginia.

The sale comes as tensions between Russia and the West grow over Moscow's involvement in the Ukraine crisis, which has already resulted in a series of sanctions against Russian companies and individuals and may lead to further sanctions.

Severstal, controlled by Russian billionaire Alexei Mordashov, said that politics did not influence its decision to sell its U.S. businesses but some analysts think the situation may have weighed on the final decision and the timing of the sale.

"The political sentiment could have pushed them to do it because it is safer for them to stay away from the U.S. market," said a London-based analyst, who declined to be named due to the sensitivity of the subject.

Severstal North America made up about 30 percent of the group's revenue.

The Russian steelmaker embarked on a series of international acquisitions in the early 2000s, near the peak of the cycle for steel and commodities. In the last couple of years, however, its focus has switched from international growth to its higher margin domestic Russian steel market.

Large steelmakers, including ArcelorMittal, Tata Steel and ThyssenKrupp, have been cutting production, jobs and idling or selling plants in the last few years in response to oversupply, weaker steel prices and sluggish demand.

"The Russian domestic business is more profitable than other parts of the business and that's why other parts, such as the U.S. branch, have lost some their appeal," said Credit Suisse analyst Semyon Mironov. "On top of that the U.S. part of the business has always traded at higher valuations than the Russian part so, from the shareholders perspective, if you can get a better price because of the geography, why not sell it."

Some analysts, however, say selling assets in the United States, a market that they see recovering in the next few years, is a questionable strategy.

"The sale has been talked about for quite a while but these assets are in pretty good shape, they are free-cash-flow positive so there was no rush for a sale," said VTB Capital analyst Vadim Astapovich.

"The sale will improve their total margin because the U.S. assets are lower margin than the Russian ones but every penny counts and these assets are still money making."

### **Debt Cut or Special Dividend**

Although the company was already pretty financially solid, having reduced its debt from a peak of \$8.3 billion in 2008 to \$4.8 billion in 2013, according to Thomson Reuters data, analysts said the cash it will obtain from the sale will allow it to reduce debt further or to pay a special dividend.

The company is targeting a reduction of its debt/EBITDA, which reflects how leveraged a company is, to below 1.5, from 1.7 in the first quarter of this year.

"The deal could reduce Severstal's net debt to EBITDA to 1.3 times. ... However, we do not rule

out the company paying special dividends, as deleveraging is not a pressing issue at this point," VTB Capital said in a note.

The closing of the deal is not subject to any financing conditions and is expected by the end of 2014, it said.

Last week, Severstal said it had agreed to sell Pennsylvania-based metallurgical coal producer PBS Coals to Canada's Corsa Coal for an enterprise value of \$140 million.

Moscow-traded shares in Severstal were up 1.42 percent by 9:55 a.m. GMT, outperforming a broader market index which was down 1.34 percent.

**See also:**

[Severstal Sells U.S.-Based PBS Coals to Canada's Corsa Coals](https://www.themoscowtimes.com/2014/07/21/steelmaker-severstal-sells-2-us-plants-for-23-billion-a37502)

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