

Severstal reports Q2 & H1 2017 financial results

- Stable performance driven by integrated business model -

PAO Severstal (MICEX-RTS: CHMF; LSE: SVST), one of the world's leading steel and steel-related mining companies, today announces its Q2 & H1 2017 financial results for the period ended 30 June 2017.

CONSOLIDATED FINANCIAL RESULTS FOR THE QUARTER ENDED 30 JUNE 2017

\$ million, unless otherwise stated	Q2 2017	Q1 2017	Change, %	H1 2017	H1 2016	Change, %
Revenue	1,931	1,767	9.3%	3,698	2,677	38.1%
EBITDA¹	629	578	8.8%	1,207	799	51.1%
EBITDA margin, %	32.6%	32.7%	(0.1 pts)	32.6%	29.8%	2.8 pts
Profit from operations	528	476	10.9%	1,004	624	60.9%
Operating margin, %	27.3%	26.9%	0.4 pts	27.1%	23.3%	3.8 pts
Free cash flow	382	70	n.a.	452	310	45.8%
Net profit²	136	359	(62.1%)	495	878	(43.6%)
Basic EPS³, \$	0.17	0.44	(61.4%)	0.61	1.08	(43.5%)

Notes:

1) EBITDA represents profit from operations plus depreciation and amortisation of productive assets (including the Group's share in depreciation and amortisation of associates and joint ventures) adjusted for gain/(loss) on disposals of PPE and intangible assets and its share in associates' and joint ventures' non-operating income/(expenses).

2) Net profit after FX fluctuations.

3) Basic EPS is calculated on the following basis: net profit divided by the weighted average number of shares outstanding during the period: 810.6 million shares for Q2 2017, Q1 2017, H1 2017 and H1 2016.

Q2 2017 vs. Q1 2017 ANALYSIS:

- Group revenue was up 9.3% q/q at \$1,931 million (Q1 2017: \$1,767 million) driven by sales volumes increase and relatively high steel and raw material average selling prices in Q2 2017 at both the Russian Steel and Resources divisions.
- Group EBITDA increased 8.8% q/q to \$629 million (Q1 2017: \$578 million) as top line growth coincided with growth in input costs due to an increase of raw material costs and repair expenses primarily at Russian Steel. Group EBITDA margin remained almost unchanged at 32.6% (Q1 2017: 32.7%). Severstal's EBITDA margin continues to be one of the highest in the global industry despite commodity and steel market headwinds.
- Net profit of \$136 million (Q1 2017: \$359 million) includes a FX gain of \$31 million and non-cash translation reserves of \$343 million related to foreign operations which had been either disposed of or are in the process of being liquidated and which were recycled through the Income Statement in Q2 2017. Adjusting for this non-cash item, Severstal would have posted an underlying net profit of \$448 million (Q1 2017: net profit of \$340 million).
- Free cash flow surged to \$382 million (Q1 2017: \$70 million) resulting from higher Q2 earnings and relatively flat working capital change q/q. Seasonal growth in net working capital in Q1 was a result of inventory accumulation in anticipation of the construction season. Free cash flow generation remains one of the Company's key strategic financial priorities.
- Cash CAPEX of \$139 million increased 0.7% q/q (Q1 2017: \$138 million).
- Net debt increased 4.9% at \$827 million by the end of Q2 2017 (Q1 2017: \$788 million) as a result of reduced cash balances.
- Recommended dividend payment of 22.28 RUB per share for the three months ended 30 June 2017.

H1 2017 vs. H1 2016 ANALYSIS:

- Group revenue up 38.1% y/y to \$3,698 million (H1 2016: \$2,677 million). During the first six months of 2017 the Company benefited from a favourable steel and commodities pricing environment which enabled Severstal to achieve significant revenue growth y/y.
- Group EBITDA was up 51.1% y/y to \$1,207 million (H1 2016: \$799 million) as a result of increased Group revenue.
- The Company generated \$452 million of free cash flow which is higher than in the previous year (H1 2016: \$310 million) which primarily reflects stronger pricing y/y.
- The Group maintained its prudent approach to CAPEX with an investment of \$277 million, 17.4% higher y/y (H1 2016: \$236 million) mainly impacted by RUB appreciation y/y.

FINANCIAL POSITION HIGHLIGHTS:

- At the end of Q2 2017, cash and cash equivalents totalled \$1,895 million (Q1 2017: \$1,939 million) which reflects the net effect of free cash flow generation offset by the dividend payout. In June and July 2017 Severstal made the payment of the outstanding dividends for 2016 and for the first three months of 2017, major part of which was accounted in Q2 2017 financial statement. The remaining amount will be reflected within the Group's Q3 2017 financial statement.
- Gross debt in USD-terms remained unchanged marginally declining 0.2% to \$2,722 million (Q1 2017: \$2,727 million).
- Net debt increased 4.9% to \$827 million by the end of Q2 2017 (Q1 2017: \$788 million) reflecting the abovementioned cash balance decline. The Net Debt/EBITDA ratio remained flat at 0.4x at the end of Q2 2017 (Q1 2017: 0.4x). Severstal's Net Debt/EBITDA remains one of the lowest amongst steel companies globally and enables Severstal to maintain a low level of debt whilst returning value to its shareholders.
- Liquidity position remains strong, with \$1,895 million in cash and cash equivalents and unused committed credit lines of \$675 million, more than covering the short-term principal debt of \$1,195 million.

Alexandr Shevelev, CEO of Severstal Management, commented:

"After reaching peak levels in Q1 2017, in Q2 2017 raw material and steel prices began to decrease due to high inventory levels in China and

market oversupply. Despite this, Severstal delivered a sustainable performance due to the strengths of our vertically integrated business model, which enabled us to maintain one of the highest EBITDA margins in the industry.

The Company is focused on being a world-class producer, committed to enhancing operational efficiency and minimising our environmental impact. Our goal remains to be a leader in value creation for all of our stakeholders. Safety and customer care remain our key priorities.

Industry experts continue to forecast global economic growth. In 2017 we anticipate growth in global steel demand, supported by China's commitment to close inefficient steel and mining facilities and stimulate domestic economic growth. In Russia, domestic steel consumption is expected to rise by approximately 1.5-2% in 2017 supported by Russia's GDP growth. Having flexibility in distribution of shipments quickly between domestic and export markets, Severstal is well positioned to benefit from the local steel demand recovery".

REVIEW OF THE SECOND QUARTER ENDED 30 JUNE 2017

In Q2 the Company maintained a steady performance despite the downward trend within the global steel and commodities markets. This reflected the strength of our operations and the management's ongoing focus on enhancing efficiency. During Q2 2017 the Company sold-off stocks of HVA products accumulated in previous quarters. However, the share of HVA in the product mix remained flat, at 44%, as growth in cold rolled, colour-coated and galvanized sales volumes was matched by growth in hot-rolled coil and long products. The beginning of the construction season led to an improvement in domestic demand which triggered an increase in domestic shipments to 60%. Severstal's proximity to both its main export and domestic consumers allows it to shift flexibly between export and domestic sales depending on the market environment.

An increase in sales volumes in the relatively stable pricing environment resulted in stronger Group revenue, which was matched by an increase in input costs due to higher raw materials, finished goods, as well as repair expenses. EBITDA in Q2 2017 increased 8.8% q/q. In Q2 2017, Severstal's EBITDA margin was boosted by the Resources division which benefited from global trends and remained one of the highest amongst global steel producers at 32.6%.

Free cash flow in the second quarter surged to \$382 million which is higher than in the previous quarter, supported by stronger earnings and minimal change in net working capital.

Severstal is committed to returning value to its shareholders whilst managing and maintaining a low debt level. Severstal's financial position remains solid with its Net debt/EBITDA ratio at 0.4x as at the end of Q2 2017. As a result, the Board of Directors is recommending a dividend of 22.28 roubles per share for Q2 2017.

DIVIDEND

The Board is recommending a dividend payment of 22.28 roubles per share for the three months ended 30 June 2017.

Approval of the dividend is expected at the Company's EGM which will take place on 15 September 2017. The record date for participation in the EGM is 21 August 2017.

The recommended record date for the dividend payment is 26 September 2017. The approval of the record date for the dividend payment is also expected at the Company's EGM which will take place on 15 September 2017.

OUTLOOK

Expectedly, H1 2017 saw a solid recovery in the domestic steel demand on the back of overall Russia's GDP growth. This positive trend is likely to continue into the second half of 2017. In terms of pricing, steel imports coming from the CIS countries are putting pressure on the local market.

In our export markets the situation remains healthy with low steel inventories in China, relatively high iron ore and coking prices leading a steel price recovery. Global capacity utilisation is staying above 70%. At the same time, continued anti-dumping initiatives are creating some uncertainty.

In this environment the Board is confident that the Company's vertically integrated business model, high quality and cost competitive operations, low debt level, and sizeable share of high-value added products in the portfolio, means that Severstal continues to be well positioned relative to both local and global peers.

See full version of [press-release](#).

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A conference call on Q2 2017 results for investors and analysts hosted by Alexey Kulichenko, Chief Financial Officer, will be held on 20 July 2017 at 14.00 (London)/ 16.00 (Moscow).

Conference ID: 6934306

International Dial:

+44 (0)330 336 9412

Russian Dial:

+7 495 213 1767 (Local access)

8 800 500 9283 (Toll free)

The call will be recorded and there will be a replay facility available for seven days as follows:

Replay Passcode: 6934306

International Dial:

+44 (0) 207 660 0134 (Local access)

Russian Dial:

8 800 2702 1012 (Toll free)

Адрес оригинала: <http://www.severstal.com/eng/media/news/document20642.phtml>

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