Северсталь
Достичь большего вместе

Severstal reports Q4 & FY2018 financial results

PAO Severstal (MICEX-RTS: CHMF; LSE: SVST), one of the world's leading steel and steel-related mining companies, today announces its Q4 & FY2018 financial results for the period ended 31 December 2018.

CONSOLIDATED FINANCIAL RESULTS FOR THE QUARTER ENDED 31 DECEMBER 2018

$ million, unless otherwise stated	Q4 2018	Q3 2018	Change, %	FY2018	FY2017	Change, %
Revenue	2,085	2,063	1.1%	8,580	7,848	9.3%
EBITDA[1]	794	768	3.4%	3,142	2,577	21.9%
EBITDA margin, %	38.1%	37.2%	0.9 ppts	36.6%	32.8%	3.8 ppts
Profit from operations	685	671	2.1%	2,707	2,162	25.2%
Operating margin, %	32.9%	32.5%	0.4 ppts	31.6%	27.5%	4.1 ppts
Free cash flow[2]	233	481	(51.6%)	1,601	1,393	14.9%
Net profit[3]	578	455	27.0%	2,051	1,355	51.4%
Basic EPS[4], $	0.70	0.56	25.0%	2.51	1.67	50.3%

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) Free Cash Flow is determined as the aggregate amount of the following items: Net cash from operating activities, CAPEX, proceeds from disposal of PPE, interest received and dividends received.

3) Net profit after FX fluctuations and other non-cash items.

4) Basic EPS is calculated as net profit divided by the weighted average number of shares outstanding during the period: 821.2 million shares for Q4 2018, 818.6 million shares for Q3 2018, 817.1 million shares for FY2018, 811.7 million shares for FY2017.

Q4 2018 vs. Q3 2018 ANALYSIS:

- Group revenue remained almost flat, increasing by 1.1% q/q to $2,085 million (Q3 2018: $2,063 million), as growth in sales volumes (steel products and iron ore pellets) was offset by a decline in steel prices q/q. Group EBITDA increased by 3.4% q/q to $794 million (Q3 2018: $768 million), reflecting increased profitability of the Resources division. The Group's vertically integrated business model delivered an EBITDA margin of 38.1%, remaining one of the highest in the industry globally.
- Free cash flow totalled $233 million (Q3 2018: $481 million), which reflects a q/q increase in CAPEX and net working capital accumulation at the end of Q4 2018.
- Net profit rose 27.0% q/q to $578 million (Q3 2018: $455 million) and includes a FX loss of $80 million and a $68 million reversal of the impairment provision including $51 million relating to Olcon.
- Cash CAPEX increased by 33.3% q/q to $224 million (Q3 2018: $168 million).
- Net debt grew to $1,227 million by the end of Q4 2018 (Q3 2018: $438 million), primarily reflecting lower cash balances after the dividend payout in Q4 2018. The Company's public debt includes outstanding loan participation notes and convertible bonds due in 2021 and 2022.
- Severstal is committed to returning value to its shareholders whilst managing and maintaining a low level of debt. Severstal's financial position remains strong with a Net debt/EBITDA ratio at 0.4 as at the end of Q4 2018. The Board of Directors has therefore recommended a dividend of 32.08 roubles per share for Q4 2018. FY2018 vs. FY2017 ANALYSIS: Group revenue increased 9.3% y/y to $8,580 million (FY2017: $7,848 million). The significant growth in revenue y/y was supported by a favourable pricing environment for steel and commodities in 2018 and a 2% growth in steel sales volumes y/y.
- Group EBITDA surged 21.9% y/y to $3,142 million (FY2017: $2,577 million) driven by topline

growth, which was partly offset by an increase in the cost of goods sold.

- The Company generated $1,601 million of free cash flow, which represents an increase of 14.9% y/y (FY2017: $1,393 million) as a result of earnings growth y/y. The Group maintained its prudent approach to CAPEX in 2018, with investments equal to $688 million in 2018, an increase of 16.4% y/y (FY2017: $591 million).

FINANCIAL POSITION HIGHLIGHTS:

- At the end of Q4 2018, cash and cash equivalents stood at $228 million (Q3 2018: $1,054 million), reflecting dividend payment made in Q4 partly offset by FCF generation for the period.
- Gross debt remained broadly unchanged during the period at $1,455 million (Q3 2018: $1,492 million).
- Net debt grew to $1,227 million by the end of Q4 2018 (Q3 2018: $438 million), primarily reflecting a fall in cash balances. The Net Debt/EBITDA ratio rose to 0.4 at the end of Q4 2018 (Q3 2018: 0.1). 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.
- The Group’s liquidity position remains strong, with $228 million in cash and cash equivalents and unused committed credit lines and overdraft facilities of $1,157 million, more than covering the short-term principal debt of $105 million.

Alexander Shevelev, CEO of Severstal Management, commented:

“The year of 2018 was a year of important changes to the Severstal business model. Pioneering with a complex programme of operational enhancements in 2010 in the Russian steel market we have been able to achieve and retain the highest EBITDA margin in the world among steel companies. Time to move forward. On top of our continued focus on costs we have identified two more development areas - superior customer experience and new business initiatives. All three pillars should help us to grow our EBITDA at a high pace in the coming years with the first effects already seen in 2018.

I am happy to say that in 2018 Severstal delivered a solid performance as a combination of strong market conditions and the effect of our strategic programmes. The latter contributed some $426 million to EBITDA and exceeded the initial target of $350 million. Looking forward into 2019 we have set the same ambitious target of $350 million of additional EBITDA, which demonstrates our continued commitment to deliver 10-15% annual earnings growth.

The fourth quarter of 2018 was in line with our expectations. Supported by our sales and marketing initiatives, our average selling prices declined at a lower rate than the decrease in global steel prices in Q4, and this contributed to the continued strong profitability of the Russian Steel division. Our vertically integrated business model enabled us to keep our EBITDA margins at the record level of 38% in an environment of rising prices for iron ore and coal.

As announced at our Capital Markets Day in November 2018, our 2019 target investment programme will amount to about $1.45 billion and will focus on downstream upgrades and upstream expansion. Despite increased CAPEX, we plan to maintain a high dividend flow by utilising our strong balance sheet.

Although domestic steel demand is moderating, we expect world steel demand to remain at good levels in 2019, based on a strong global economy and continued limits on steel production and economic incentives in China. This gives the Board of Directors confidence to recommend a dividend of 32.08 roubles per share for Q4 2018, bringing the dividend payout to more than 100% of the quarterly FCF.”

DIVIDEND

The Board is recommending a dividend payment of 32.08 roubles per share for the three months ended 31 December 2018.

The dividend is expected to be approved at the Company’s AGM, which will take place on 7 June 2019. The record date for participation in the AGM is 13 May 2019.

The recommended record date for the dividend payment is 18 June 2019. The approval of the record date for the dividend payment is also expected at the Company’s AGM, which will take place on 7 June 2019.

Efficient conversion of high EBITDA margins into free cash flow supports our commitment to be a quarterly dividend payer with up to 100% FCF payout, provided that Net Debt/EBITDA level is below 1.0.

OUTLOOK

In Q4 2018, global steel prices declined in both export and domestic markets due to lower than expected construction activity, the risk of trade wars and the slowdown of the Turkish economy. China’s active environmental policy, and its introduction of selective production restrictions, should support steel prices in 2019. Global demand for steel and raw materials is expected to remain at good levels.

Despite some signs of local demand softening, Severstal’s proximity to export routes continues to be a major competitive advantage, giving Severstal the flexibility to quickly redistribute shipments between domestic and export markets to take advantage of higher prices.

The Board is confident that Severstal will continue to be well-placed relative to both local and global peers.

NOTES

1. Full financial statements are available at
http://www.severstal.com/eng/ir/results_and_reports/financial_results/index.phtml

2. The Annual Report 2018 is available at
http://www.severstal.com/eng/ir/results_and_reports/annual_reports/index.phtml