

## Severstal reports Q1 2019 financial results

PAO Severstal (MICEX-RTS: CHMF; LSE: SVST), one of the world's leading steel and steel-related mining companies, today announces its Q1 2019 financial results for the period ended 31 March 2019.

### CONSOLIDATED FINANCIAL RESULTS FOR THE QUARTER ENDED 31 MARCH 2019

\$ million, unless otherwise stated	Q1 2019	Q4 2018	Change, %	Q1 2019	Q1 2018	Change, %
<b>Revenue</b>	2,031	2,085	(2.6%)	2,031	2,173	(6.5%)
<b>EBITDA<sup>1</sup></b>	663	794	(16.5%)	663	706	(6.1%)
<b>EBITDA margin, %</b>	32.6%	38.1%	(5.5 pts)	32.6%	32.5%	0.1 pts
<b>Profit from operations</b>	555	685	(19.0%)	555	585	(5.1%)
<b>Operating margin, %</b>	27.3%	32.9%	(5.6 pts)	27.3%	26.9%	0.4 pts
<b>Free cash flow<sup>2</sup></b>	389	233	67.0%	389	289	34.6%
<b>Net profit<sup>3</sup></b>	428	578	(26.0%)	428	461	(7.2%)
<b>Basic EPS<sup>4</sup>, \$</b>	0.52	0.70	(25.7%)	0.52	0.57	(8.8%)

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). A reconciliation of EBITDA to profit from operations is presented in Severstal's quarterly financial statements.

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. A reconciliation of free cash flow to net cash from operating activities is presented in Severstal's quarterly financial statements.

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: 822.5 million shares for Q1 2019, 821.2 million shares for Q4 2018, 814.1 million shares for Q1 2018.

#### Q1 2019 vs. Q4 2018 ANALYSIS:

- Group revenue marginally decreased 2.6% q/q to \$2,031 million (Q4 2018: \$2,085 million), as growth in steel sales volumes was offset by a decline in steel prices q/q.
- Group EBITDA declined to \$663 million (Q4 2018: \$794 million), reflecting lower revenues as well as a higher cost base. The Group's vertically integrated business model delivered an EBITDA margin of 32.6%, remaining one of the highest in the industry globally despite global steel prices softening.
- Free cash flow surged 67.0% to \$389 million (Q4 2018: \$233 million), which primarily reflects positive changes in net working capital q/q despite lower earnings. □ Net profit totalled \$428 million (Q4 2018: \$578 million) and includes a FX gain of \$71 million.
- Cash CAPEX was \$209 million (Q4 2018: \$224 million). Severstal's investment programme for 2019 is expected to amount to \$1.45 bn.
- Net debt declined to \$863 million by the end of Q1 2019 (Q4 2018: \$1,227 million), primarily reflecting growth of cash balances.
- 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 of 0.3 as at the end of Q1 2019. The Board of Directors has therefore recommended a dividend of 35.43 roubles per share for Q1 2019.

#### Q1 2019 vs. Q1 2018 ANALYSIS:

- Group revenue declined 6.5% y/y to \$2,031 million (Q1 2018: \$2,173 million). The drop in revenue y/y was a result of weaker pricing for steel and lower steel sales volumes y/y.
- Group EBITDA was 6.1% lower y/y, at \$663 million (Q1 2018: \$706 million), primarily reflecting

the lower revenues which were partially offset by a lower cost of sales. EBITDA margin therefore remained almost flat at 32.6% (Q1 2018: 32.5%).

- The Company generated \$389 million of free cash flow, which represents an increase of 34.6% y/y (Q1 2018: \$289 million) as a result of positive net working capital changes y/y.

#### **FINANCIAL POSITION HIGHLIGHTS:**

- At the end of Q1 2019, cash and cash equivalents stood at \$583 million (Q4 2018: \$228 million), reflecting FCF generation for the period.
- Gross debt remained broadly unchanged during the period at \$1,446 million (Q4 2018: \$1,455 million).
- Net debt declined to \$863 million by the end of Q1 2019 (Q4 2018: \$1,227 million), primarily reflecting growth of cash balances. The Net debt/EBITDA ratio declined to 0.3 at the end of Q1 2019 (Q4 2018: 0.4). 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 \$583 million in cash and cash equivalents and unused committed credit lines and overdraft facilities of \$1,188 million, more than covering the short-term principal debt of \$336 million.

Alexander Shevelev, CEO of Severstal Management, commented:

"I am pleased to highlight that in Q1 2019 Severstal delivered a sustainable financial performance despite the combination of weak pricing for steel products versus rising cost of the raw materials basket. Our strong results once again demonstrated the competitive advantages of our vertically integrated business model, which enables us to maintain high profitability and cash flow generation in any market conditions, to deliver sustainable returns. The Company generated \$389 million of free cash flow, which represents an increase of 34.6% y/y as a result of positive net working capital changes.

At our Capital Markets Day in November 2018 we committed to growing our EBITDA by 10-15% annually, and presented investment projects for the coming five years that should ensure this growth. In Q1 2019 our operational efficiency improvements, increased self-sufficiency in raw materials and cost reductions have enabled us to deliver a positive EBITDA effect of \$106 mln.

I would like to list some strategic and operational highlights for Q1 2019:

- In February, we announced an agreement with Tenaris to form a joint venture to build a welded pipe plant, combining Tenaris's know-how in oil country tubular goods (OCTG) pipe manufacturing and sales with Severstal's expertise in producing high quality steel products. We have committed to providing our clients with unique solutions based on a deep understanding of their needs.
- In March we launched Severstal SteelTech Accelerator – Russia's first full-scale industrial accelerator for start-ups in the metallurgical industry. Its main goal is to find innovative solutions in the industrial sector, which can be successfully integrated into Severstal's production cycle.
- The majority of CAPEX for the period was committed to our hot-end modernisation programme, which will reduce cash costs, increase productivity and reduce environmental impact. We have already launched construction works and completed groundwork at our Blast Furnace #3.

We remain focused on improving our sustainability performance. In Q1 2019, Sustainalytics increased Severstal's rating and upgraded us to 'Outperformer'. In 2019, we will continue to improve our ESG disclosure, minimise our negative impact on the environment and ensure the health and safety of our employees and contractors.

The Board remains confident of Severstal's future prospects, which allows to recommend a dividend of 35.43 roubles per share for Q1 2019, bringing the dividend payout to more than 100% of the quarterly free cash flow."

#### **DIVIDEND**

The Board is recommending a dividend payment of 35.43 roubles per share for the three months ended 31 March 2019.

Approval of the dividend is expected at the Company's EGM which will take place on 7 June 2019. The record date for participation in the EGM 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 EGM which will take place on 7 June 2019.

#### **OUTLOOK**

In Q2 2019, we expect our financial results to be positively impacted by seasonal construction recovery in China and Russia, as well as the effect of higher iron ore prices in Q1. Steel demand in Russia is expected to grow by 1% in 2019, supported by increased consumption in the automotive and energy industries.

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](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](http://www.severstal.com/eng/ir/results_and_reports/annual_reports/index.phtml)

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