

## Severstal reports Q2 2021 financial and operational results

PAO Severstal (MOEX: CHMF; LSE: SVST), one of the world's leading steel and steel-related mining companies, increased its revenue by 33% qoq to \$2,946 mln, EBITDA reached \$1,647 mln (+42% qoq), EBITDA margin increased to 55.9% (+3.5 pts qoq).

*The full version of the press release is available at [the link](#).*

### KEY CONSOLIDATED OPERATIONAL AND FINANCIAL RESULTS

	Q2 2021	Q1 2021	qoq
<b>Financials, \$ million</b>			
Revenue	2,946	2,219	32.8%
EBITDA <sup>1</sup>	1,647	1,162	41.7%
EBITDA margin, %	55.9%	52.4%	3.5 pts
Free cash flow <sup>2</sup>	936	497	88.3%
Net profit	1,139	721	58.0%
Net debt/EBITDA <sup>3</sup>	0.37	0.52	(28.8%)
Basic EPS <sup>4</sup> , \$	1.36	0.87	56.3%
<b>Production, kt</b>			
Hot metal	2,627	2,674	(2%)
Crude steel	2,776	2,961	(6%)
<b>Sales, kt</b>			
Steel products, incl.:	2,678	2,630	2%
HVA	1,308	1,222	7%
Iron ore products	1,310	1,024	28%
Coal	282	345	(18%)
<b>Health and safety</b>			
LTIFR (staff) <sup>5</sup>	0.57	0.50	14%
LTIFR (staff + contractors)	0.63	0.69	(9%)

Notes:

1. EBITDA represents profit from operations plus depreciation and amortisation of productive assets (including the Group's share of 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 ("FCF") is determined as the aggregate amount of the following items: Net cash from operating activities, CAPEX, proceeds from disposal of PPE and intangible assets, interest received and dividends received. A reconciliation of FCF to net cash from operating activities is presented in Severstal's quarterly financial statements.
3. Net Debt/EBITDA ratio is calculated as net debt divided by EBITDA for the last 12 months and is included in Severstal's quarterly financial statements. Net debt equals the total debt less cash and cash equivalents at the end of the reporting period.
4. Basic EPS is calculated as profit for the period divided by the weighted average number of shares outstanding during the period: 834 mln shares for Q2 2021 and 826 mln shares for Q1 2021; 830 mln shares for 6m 2021 and 825 mln shares for 6m 2020.
5. LTIFR refers to Lost Time Injury Frequency Rate, the number of lost time injuries occurring in a workplace per 1 mln hours worked. The scope covers injuries and hours worked for staff and contractors, using the cumulative data from the beginning of the calendar year.
6. These data include adjustments made in connection with the change in presentation described in Severstal's quarterly financial statements.

## Q2 2021 vs. Q1 2021 ANALYSIS:

### Operational results

- **Production:** Hot metal output decreased by 2% qoq to 2.63 mln tonnes due to scheduled BF repairs. Crude steel production decreased to 2.78 mln t (-6% qoq), as a result of lower hot metal output and seasonal servicing works in BOF shop.
- **Steel sales** were up by 2% qoq to 2.68 mln tonnes, mainly due to strong sales of semi-finished and HVA products. The start of the construction season in Russia supported the demand for CRC, colour coated steel and metalware. Sales of hot-rolled steel and plate decreased by 7% qoq to 1.1 mln tonnes due to significant scheduled repair works. As a result, the share of the domestic market increased to 55% (+7 pts qoq).
- **Total share of high value-added (HVA) products** amounted to 49% (+3 pts qoq).
- **Raw materials sales:** Sales of coal decreased by 18% qoq to 0.28 mln t, driven mainly by a decline in steam coal sales as demand softened during the summer season. Severstal continued to focus on implementing its environmental strategy during the period, and in June 2021 Vorkutaugol announced the termination of steam coal production, starting from the first quarter of 2022 ([press-release](#)). Sales of iron ore products increased by 28% to 1.3 mln tonnes, driven by strong demand for pellets in Europe (sales grew by 34% qoq), as crude steel production continued to recover in the EU27.

### Financial results

- **Revenue** increased by 33% qoq to \$2,946 mln reflecting a 30% increase in weighted average steel prices qoq and higher sales

volumes. The revenue increase was primarily driven by Russia and Europe where revenues grew by 43% qoq and 26% qoq respectively.

- **EBITDA** grew to \$1,647 mln (+42% qoq), primarily reflecting the higher revenue fueled by wider price spreads between slab and raw materials baskets. EBITDA margin reached 56%, maintaining the Group's position as the global leader by EBITDA margin in the steel industry.
- **Net profit** totaled \$1,139 mln (+58% qoq), as a result of revenue and profitability growth.
- **Free Cash Flow** increased by 88% qoq to \$936 mln, driven by higher EBITDA and marginally lower CAPEX, which amounted to \$273 mln (-2% qoq). This was partially compensated by a build-up in working capital of \$151 mln (vs. \$224 mln in Q1 2021) due to an increase in trade accounts receivable (\$134 mln in Q2 2021) and a build-up of inventories (\$170 mln).

## 6M 2021 vs. 6M 2020 ANALYSIS:

### Operational results

- **Production:** Hot metal production increased by 12% yoy to 5.3 mln tonnes, due to BF-3 commissioning in December 2020. Steel output grew to 5.7 mln tonnes (+1% yoy), driven by the EAF-1 start up in April 2021.
- **Steel sales** were up by 4% yoy to 5.3 mln tonnes. Sales of semi-finished products grew by 181% yoy to 0.58 mln tonnes following higher output of crude steel, coupled with repairs to the hot-rolled shop. Sales of hot-rolled steel and plates decreased by 17% yoy due to a large-scale upgrade of one of the continuous slab heating furnaces. The total share of domestic sales volume went down by 7 pts yoy to 51% due to favourable export market conditions in Q1 2021.
- **High value-added (HVA)** sales were up by 12% yoy to 2.5 mln tonnes, mainly due to strong sales of cold-rolled (+32% yoy to 0.54 mln t) and galvanized steel (+31% yoy to 0.53 mln t). The HVA share in consolidated sales amounted to 48% (+4 pts yoy).
- **Raw materials sales:** Sales of coal decreased by 17% yoy to 0.63 mln tonnes driven mainly by a decline in coal concentrate sales on the back of lower output impacted by the long wall repositioning. Sales of iron ore products decreased by 26% to 2.3 mln tonnes, driven by the redirection of iron ore flow to owned assets following the start-up of BF-3 in the end of 2020. Sales of iron ore pellets to third parties reduced by 23% yoy to 2.3 mln tonnes. Iron ore concentrate sales to third parties decrease substantially in Q2 2021, amounting to just 47 kt in 6m 2021 (-74% yoy).

### Financial results

- **Revenue** increased to \$5,165 mln (+57% yoy) due to higher steel prices and sales volumes.
- **EBITDA** grew to \$2,809 mln (+166% yoy) due to higher steel prices in 6m 2021. EBITDA margin reached record high 54%.
- **Net profit** totaled \$1,860 mln (increase of 4x yoy), including FX losses of \$13 mln.
- **Free Cash Flow** increased by 5.9x yoy to \$1,433 mln, driven by higher earnings.
- **CAPEX** amounted to \$551 mln.

## Financial position

- Cash and cash equivalents decreased to \$783 mln (-15% qoq) on the back of the Q4 2020 and Q1 2021 dividend payments and the execution of convertible bonds rights, partially settled in cash.
- Total debt declined to \$2,324 mln (-7% qoq) due to the redemption of convertible bonds.
- Net debt declined to \$1,541 mln (-3% qoq). The Net debt/EBITDA ratio amounted to 0.37 (Q1 2021: 0.52). Severstal's Net debt/EBITDA ratio remains one of the lowest among steel companies globally, and enables the Company to return value to its shareholders in accordance with its dividend policy.
- Strong liquidity position, with \$783 mln in cash and cash equivalents in addition to unused committed credit lines and overdraft facilities of \$1,148 mln, which more than covers the Company's short-term debt of \$554 mln.

## DIVIDEND

The Board of Directors is recommending a dividend of 84.45 roubles per share for Q2 2021. Approval of the dividend is expected to take place at the Company's EGM on 20 August 2021. The recommended record date for the dividend payment is 2 September 2021. The approval of the record date for the dividend payment is also expected to take place at the Company's EGM on 20 August 2021.

## MARKET UPDATE AND OUTLOOK

- In Q2 2021 steel prices reached another record level in export markets. Iron ore prices also tested all-time highs due to strong demand in China and a recovery of pig iron production outside China. The coking coal market was divided between China and the rest of the world due to a ban on imports from Australia. As a result, Chinese import prices approached \$300/t CFR, while Australian export prices were subdued and only recently started to grow to \$190/t FOB.
- Steel demand was strong in Q2 2021 thanks to a recovery in industrial production, low inventory levels and optimism due to the progress of international vaccination programmes. Supply was unable to meet demand, resulting in longer lead times in the EU and the USA.
- The Asian market was supported by the seasonal increase in consumption during the Spring, but this subsided in June. Asian supply moved to the Middle East and Europe, causing some weakening of export prices in the Black Sea region. Turkish demand has also weakened, putting additional pressure on prices. At the same time, market conditions in Europe and USA remain exceptionally tight due to import barriers and inadequate domestic supply.
- The Chinese government is combating higher prices by discouraging steel exports and imposing strict regulation on futures trading.
- As for the domestic market landscape going forward, the Russian Government is imposing a temporary 15% export duty on steel coming into force from 1 August 2021 until 31 December 2021, which might impact local pricing.

## Alexander Shevelev, CEO of Severstal Management, commented:

“The COVID-19 pandemic continues to challenge regions across the world, and Russia is no exception. The number of new cases has grown significantly in recent weeks. The health of our employees is Severstal’s number one priority, and we have intensified all preventive measures. As an essential part of our efforts to reduce the risk of infection, we have started an information campaign encouraging our employees and contractors to get vaccinated. Today more than 50% of our staff already has immunity through vaccination or antibodies after infection and we aim to reach 80% by the end of the summer.

Another vital health and safety focus is workplace injury prevention. LTIFR for both our staff and contractors declined in Q2 2021 to 0.63. However, the LTIFR for our staff was unfortunately up 14% to 0.57 qoq and regrettably we had two fatalities in Q2 2021: one fatality among staff and one among contractors.

We also continue to improve our environmental strategy. Thus we set a medium-term goal to reduce the carbon intensity of CO2 emissions per tonne of steel by 10% by 2030. The medium-term target will be achieved through projects including the technical re-equipment of production facilities and the introduction of the best available technologies at all the Company's assets ([press-release](#)).

As for the macro-environment, Q2 2021 was remarkably strong. The continued global economic recovery supported steel and raw materials prices across all key regions. This led to a robust set of financial results in the reporting quarter. Revenue grew by 33% qoq to \$2.9bn due to an increase in average prices coupled with a growth in sales volumes and an improved product mix, with the share of HVA products expanding by 3 ppts qoq to 49%. EBITDA rose by 42% to \$1.6bn following a widening of revenue and price spreads.

Management's continuing efforts focused on cash generation resulted in a record FCF of \$0.9bn (+88% qoq). Our net debt/EBITDA ratio decreased to 0.37, which helped us to recommend a dividend in line with our policy.

Severstal's strong performance in Q2 2021 has demonstrated the benefits of our business model and sales flexibility. Although we expect steel and commodity prices to soften later this year, the Board of Directors remains confident in our ability to deliver industry-leading margins and strong returns.”

## SEGMENTS PERFORMANCE

### Severstal Russian Steel (RSD)

<b>\$ million, unless otherwise stated</b>	<b>Q2 2021</b>	<b>Q1 2021</b>	<b>qoq</b>
Steel sales, kt	2,691	2,642	2%
Semis	317	259	22%
Commercial	1,066	1,161	(8%)
HVA	1,308	1,222	7%
Revenue	2,759	2,154	28.1%

EBITDA	1,021	689	48.2%
EBITDA margin, %	37%	32%	5 pts

Notes:

1) These data include adjustments made in connection with the change in presentation described in Severstal's quarterly financial statements.

- Steel sales increased by 2% qoq to 2.7 mln t driven by higher sales of semis and HVA products. The Company increased its share of domestic shipments to 55% (+7 pts qoq) due to the start of the construction season in Russia.
- Total share of high value-added (HVA) products amounted to 49%.
- Revenue increased by 28% qoq to \$2,759 mln.
- EBITDA grew by 48% qoq to \$1,021 mln. EBITDA margin expanded to 37% (+5 pts).
- The total non-integrated cash cost of slab per tonne at the Cherepovets Steel Mill increased to \$457/t (+23% qoq) affected by higher input costs. The integrated cash cost of slab amounted to \$175/t (-5% qoq).

### Severstal Resources

<b>\$ million, unless otherwise stated</b>	<b>Q2 2021</b>	<b>Q1 2021</b>	<b>qoq</b>
Coal sales, kt	1,149	1,298	(11%)
Iron ore sales, kt	4,659	4,142	12%
Revenue	999	747	33.7%
EBITDA	733	525	39.6%
EBITDA margin, %	73.4%	70.3%	3.1 pts

- Coal sales decreased by 11% qoq to 1.15 mln tonnes mainly as a result of coking coal concentrate sales reduction due to a decline in output qoq affected by the long wall repositioning.
- Sales of iron ore increased by 12% qoq to 4.66 mln tonnes due to accelerating of pellets sales to third parties and concentrate to captive assets.
- Revenue from the Resources Division increased to \$999 mln (+34% qoq). EBITDA increased by 40% qoq to \$733 mln. The EBITDA margin increased to 73%.
- [At Vorkutaugol, the cash cost of coal concentrate per tonne](#) amounted to \$90/t (+30% qoq). The cash cost of iron ore pellets per tonne at Karelsky Okatysh was \$33/t (+14% qoq). At Olcon, the cash cost per tonne of iron ore concentrate decreased to \$27/t (-18% qoq).

### NOTES

1. Full consolidated interim condensed financial statements are available at [http://www.severstal.com/eng/ir/results\\_and\\_reports/financial\\_results/index.phtm](http://www.severstal.com/eng/ir/results_and_reports/financial_results/index.phtm) This includes the review report from KPMG, Severstal's external auditor, carried out in accordance with International Standard on Review Engagements 2410.

2. Severstal's Annual Report 2020 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)
3. Each of the directors who is a director at the date of the approval of this document confirms that to the best of their knowledge: that the consolidated interim condensed financial statements has been prepared in accordance with IAS34; that the consolidated interim condensed financial statements give a true and fair view of Severstal's assets, liabilities, financial position and profit or loss; and that this document contains a fair review of important events that have occurred during the first six months of the year and their impact on the consolidated interim condensed financial statements; and of the principal risks and uncertainties for the remaining six months of the year; and that the report contains a fair review of related party transactions.

***The full version of the press release is available at [the link](#).***

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<http://www.severstal.com/eng/media/news/document66192.phtml>

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