

Severstal reports Q3 2021 financial and operational results

[Press release for 3Q2021 financial and operational results](#)

[Full consolidated financial statements](#)

[Presentation](#)

PAO Severstal (MOEX: CHMF; LSE: SVST), one of the world's leading steel and steel-related mining companies, increased its revenue by 9% qoq to \$3,206 mln, EBITDA reached \$1,723 mln (+5% qoq), EBITDA margin amounted to 54% (-2 ppts qoq).

KEY CONSOLIDATED OPERATIONAL AND FINANCIAL RESULTS

	Q3 2021	Q2 2021	qoq
Financials, \$ million			
Revenue	3,206	2,946	9%
EBITDA ¹	1,723	1,647	5%
EBITDA margin, %	54	56	(2ppts)
Free cash flow ²	992	936	6%
Net profit	1,237	1,139	9%
Net debt/EBITDA ³	0.29	0.37	(22%)
Basic EPS ⁴ , \$	1.48	1.36	9%
Production, kt			
Hot metal	2,728	2,627	4%
Crude steel	2,878	2,776	4%
Sales, kt			
Steel products, incl:	2,694	2,678	1%
HVA	1,146	1,308	(12%)
Iron ore products	1,092	1,310	(17%)
Coal	127	282	(55%)
Health and safety			
LTIFR (staff) ⁵	0.93	0.57	63%
LTIFR (staff + contractors)	0.88	0.63	40%

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 the 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: 838 million shares for Q3 2021 and 834 million shares for Q2 2021; 833 mln shares for 9m 2021 and 825 million shares for 9m 2020.*
- 5. LTIFR refers to Lost Time Injury Frequency Rate, the number of lost time injuries occurring in a workplace per one million 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.*

Q3 2021 vs. Q2 2021 ANALYSIS:

Consolidated operational results

- Production: Hot metal output grew by 4% qoq to 2.73 mln tonnes due to end of scheduled BF repairs. Crude steel production raised to 2.88 mln tonnes (+4% qoq), as a result of completed BOF shop and casting machines upgrade. The upgrade will allow us to increase crude BOF steel output by 0.5 mln tonnes per annum.
- Steel sales were up by 1% qoq to 2.69 mln tonnes, due to strong sales of pig iron and slabs. Sales of HVA decreased by 12% qoq to 1.15 mln tonnes on the back of customer's expectations of further price decline. Sales of hot-rolled steel and plate increased by 1% qoq to 1.12 mln tonnes. The total share of export sales volume, including sales of pig iron increased by 6 ppts qoq to 51% due to a softening of the demand in Russia.
- Total share of high value-added (HVA) products amounted to 43% (-6 ppts qoq) due to softening demand and increase of pig iron sales. If we don't take into account the increase in pig iron shipments, the HVA share in the product portfolio has not changed almost qoq.
- Raw materials sales: Sales of coal decreased by 55% qoq to 0.13 mln tonnes, driven mainly by a decline in steam coal sales due lower output qoq because of long wall repositioning. Iron ore sales were down by 17% qoq to 1.09 mln tonnes, driven by a redistribution of sales to Cherepovets steel mill, coupled with lower pellet production on the back of repairs.

Consolidated financial results

- Revenue increased by 9% qoq to \$3,206 mln due to higher sales volumes and increase in weighted average steel prices. Sales growth was primarily driven by export markets with an increase of revenue from the North America region (4x growth qoq) as well as from the Middle East region (2x growth qoq).
- EBITDA increased to \$1,723 mln (+5% qoq), higher revenue was partially impacted by the additional export duties imposed by the Russian government. EBITDA margin was 54% (-2 ppts qoq).
- Free Cash Flow increased to \$992 mln (+6% qoq), driven by higher EBITDA and lower build-up of working capital (-\$58 mln). The build-up of inventories associated with the growth of export sales share was partially compensated by an increase of accounts payable and advances received. CAPEX amounted to \$284 mln (+4% qoq).

9M 2021 vs. 9M 2020 ANALYSIS:

Consolidated operational results

- Production: Hot metal production increased by 12% yoy to 8 mln tonnes, due to BF-3 commissioning in December 2020. Steel output grew to 8.62 mln tonnes (+1% yoy), driven by the EAF-1 start up in April 2021 and completion of BOF shop and casting machines upgrades.
- Steel sales were marginally lower at 8 mln tonnes (-1% yoy). Sales of semi-finished products grew by four times yoy to 1.07 mln tonnes following higher output of pig iron and crude steel, coupled with repairs in the hot-rolled shop. Sales of hot-rolled steel (incl. plates) decreased by 20% yoy mainly due to a large-scale upgrade of one of the continuous slab heating furnaces.
- High value-added (HVA) sales increased by 4% yoy on stronger sales of high value added hot-rolled steel, cold-rolled steel (+19% yoy to 0.79 mln tonnes) and LDP (+74% to 0.23 mln tonnes). The HVA share in total sales amounted to 46% (+2 ppts yoy).
- Raw materials sales: Sales of coal decreased by 32% yoy to 0.75 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 24% to 3.4 mln tonnes, driven by the redirection of iron ore flow to own 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 3.3 mln tonnes. Iron ore concentrate sales to third parties decrease substantially in Q3 2021, amounting to just 78 kt in 9m 2021 (-58% yoy).

Consolidated financial results

- Revenue increased to \$8,371 mln (+63% yoy) due to higher steel prices and improved product mix.
- EBITDA grew to \$4,532 mln (2.6x yoy) due to higher steel prices in the first 9m of 2021. EBITDA margin reached a record high of 54%.
- Net profit totaled \$3,097 mln (increase of 5x yoy), including FX losses of \$45 mln (vs FX losses of \$472 in 9m 2020).
- Free Cash Flow increased by 4x yoy to \$2,425 mln, driven by higher earnings.
- CAPEX amounted to \$835 mln.

Financial position

- Cash and cash equivalents decreased to \$281 mln (-64% qoq) on the back of Q2 2021 dividend payments and the repayment of \$500 mln of eurobonds.
- Total debt declined to \$1,815 mln (-22% qoq) due to the redemption of eurobonds with a 3.85% coupon in August 2021.
- Net debt stood at \$1,534 mln (flat qoq). The Net debt/EBITDA ratio improved to 0.29 (vs 0.37 as at 30 June 2021).
- A strong liquidity position, with \$281 mln in cash and cash equivalents, in addition to unused committed credit lines and overdraft facilities of \$1,158 mln, more than covers the Company's short-term debt of \$45 mln.

Health and safety performance

- LTIFR among employees increased to 0.93 (+63% qoq) in Q3 2021. The overall LTIFR for employees and contractors reached 0.88 (+40% qoq) in the reporting period.
- In 9m 2021 LTIFR among employees improved to 0.68 (-4% yoy). The overall LTIFR for employees and contractors was 0.73. The improvement is attributed to the deployment of the Contractor Safety Management and Fatal Injury Avoidance projects in all business units of the company, but regrettably we had five fatalities in 9m 2021. Each of these cases was investigated with a change in some internal processes to prevent similar incidents in the future.

DIVIDEND

The Board of Directors is recommending a dividend of 85.93 roubles per share for Q3 2021. Approval of the dividend is expected to take place at the Company's EGM on 3 December 2021. The recommended record date for the dividend payment is 14 December 2021. The approval of the record date for the dividend payment is also expected to take place at the Company's EGM on 3 December 2021.

MARKET UPDATE AND OUTLOOK

Iron ore prices fell by almost \$100/t CFR China from all-time maximums due to a softening of Chinese demand as China limits steel output. This led also to a decline in steel prices from the record level reached in Q2. The Chinese steel market is affected by steel production restrictions which is positive to price sentiment, however Chinese property market cooling creates the risk of a weakening of steel demand. At the same time the coking coal market entered severe deficit in China and as a result domestic Chinese coal prices skyrocketed, which also pushed prices in the global market higher. Australian high-grade coking coal export prices have exceeded \$400/t FOB.

In Russia a temporary 15% export duty has caused domestic HRC price fall below export parity net of duty.

The Russian authorities have confirmed a new tax mechanism which will replace export duty (a complex set of measures including introducing a new excise tax and changing the MET calculation methodology). These changes will adversely affect Severstal's financial performance in 2022.

Alexander Shevelev, CEO of Severstal Management, commented:

“We continue to develop our response to the continuing issues with the COVID-19 pandemic. In our aim to ensure a safe environment in the workplace for our employees and contractors we continue to encourage our staff to get vaccinated. Today more than 65% of them have already been vaccinated. Also we have successfully achieved our internal target of having employees with immunity through vaccination or antibodies of more than 80% by the end of the summer thus creating a safer environment for everyone.

We also continue to focus on injury prevention. LTIFR for our staff declined in 9m 2021 by 4% to 0.68. However, the combined LTIFR for both our staff and contractors grew in Q3 2021 to 0.88 and regrettably we had two fatalities in the reporting quarter in Vorkutaugol. We conducted an investigation of each of these cases, and took actions to prevent similar incidents in the future. In particular, we strengthened control over compliance with the requirements of mine passports, as well as an intensified focus on the process of assessing and training of our operations managers in health and safety.

In Q3 2021, we saw first signs of a normalisation in the steel market. Iron ore prices fell by almost \$100/t from all-time maximums due to a decrease in the Chinese demand, as China limits steel output. In line with our expectations, spot steel prices also declined from the record level of Q2. The semi-conductor shortage pushed automotive output down in Europe which led to lower steel demand and declining lead times from steel mills, resulting in supply and demand being in balance. The introduction of export duties in Russia caused domestic HRC price to fall to a level below export parity, net of duty.

However, the growth in sales coupled with higher average selling prices (due to the lag between spot prices and actual prices) pushed the Company’s financial results to new records. Revenue grew by 9% qoq to \$3.2bn and EBITDA rose by 5% to \$1.7bn. Continuous focus on effective management of working capital enabled us to reach a record FCF of almost \$1bn (+6% qoq). Net debt/EBITDA ratio declined to 0.29.

Severstal's strong performance in Q3 2021 and financial strength of the company help the Board to recommend a dividend of 85.93 roubles per share for Q3 2021.”

Адрес оригинала:

<http://www.severstal.com/eng/media/news/document74956.phtml>

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