

Severstal: Weak 4Q11 Operational Results



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Severstal published its 4Q11 operational results yesterday. In 4Q11 total steel production decreased by 6% q-o-q to 3.8 mn tonnes. Rolled and downstream products sales contracted by 13% and 8% q-o-q respectively. The company`s realized prices for HRC and CRC decreased by 6% q-o-q.

In 2011 Severstal increased its steel production by 4% y-o-y.

th. tonnes	2010	2011	Change y-o-y	3Q11	4Q11	Change q-o-q
Steel production	14725	15293	4%	4010	3762	-6%
Semi-finished products sales	1300	1292	-1%	342	312	-9%
Rolled products sales	11393	11631	2%	3296	2859	-13%
Downstream products sales	1745	1901	9%	500	459	-8%
Average selling prices, USD per tonne						
Semi-finished products	489	592	21%	612	549	-10%
HRC	619	747	21%	758	713	-6%
CRC	705	866	23%	879	822	-6%

We view the published results as weak. A decrease in demand for metal products in 4Q11 in both the domestic and export markets was the main factor for the contraction in Severstal`s quarterly sales volumes and realized prices. As a result, final product sales shrank by 12% q-o-q in 4Q11. The company`s operational results were weaker than NLMK, Evraz, and MMK`s 4Q11 operational results and slightly better than Mechel`s steel segment results.

Taking into account the published sales volumes and realized prices, in 4Q11 we estimate that Severstal`s consolidated revenue will decrease by 19% q-o-q, EBITDA will drop by 25-30% q-o-q. These results are weak when compared to the company`s main Russian peers (in 4Q11 we estimate the EBITDA of MMK, NLMK and Evraz to be 15-20% q-o-q lower).

The market reaction to the published results was neutral. In our view, the company`s weak 4Q11 finished products sales relative to its main peers will be the limiting factor for the growth of Severstal`s shares in the short term.

Ticker LSE	SVST
GDR price, USD	14.38
Mcap, USD mn	14 590
EV, USD mn	19 058



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