

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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