Severstal restarting US steel operations as economy recovers

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Russia-based steel producer OAO Severstal which has coal-mining operations in the United States March 9 that its 2009 earnings were impacted by the world economic slowdown but did show recovery as the year went along.

Mr Alexey Mordashov CEO of OAO Severstal said "2009 was a difficult year for the global steel industry but the decisive actions we took during the year leave the Company well positioned for 2010. Solid economic growth in emerging markets and a gradual recovery of demand in mature markets have improved the outlook for 2010. Furthermore, growing demand from China for raw materials has already led to higher spot prices for iron ore and coking coal in 2010, a trend we believe will be sustained during the year."

The company performance improved in the fourth quarter of 2009 as a more favorable trading environment and cost-cutting measures had a positive impact on the operational performance of all divisions. Against a background of stronger pricing, crude steel production increased by 2.3% QoQ leading to higher capacity utilization, especially in our European operations. The production of coking coal concentrates and iron ore products increased by 40.6% and 3.2%, respectively QoQ as a result of higher demand. The main contributor to the increase in coking coal production was PBS Coals where production increased threefold QoQ.

The company said in its March 9th financial statement "The Company benefited from its vertical integration through Severstal Resources which provides more than 90% of coking coal needs for Russian Steel and has excess volumes of pellets which it sells to third party customers. Increased sales volumes at PBS Coals, which sells a large portion of its production to customers outside the Company, provided an important economic hedge for our North American steel operations. Vertical integration into raw materials remains one of the key elements of our business model and an area of focus for our long-term strategy."

OAO Severstal and several other international steel producers and steel commodities providers have in the past couple of years bought heavily into US and international coal production businesses in an effort to secure supplies of coking coal. India based steelmaker Essar Group has a tentative deal to buy Central Appalachia coal producer Trinity Coal Corp just the latest example of that trend.

OAO Severstal capital expenditure was USD 1.0 billion in 2009, in line with its target for the year. The company said it will increase its CapEx program to USD 1.4 billion in 2010 due to its improved confidence in the market outlook.

The company said "Approximately USD 685 million will be spent on key projects in the Russian Steel Division, USD 356 million in the Resources Division and USD 413 million in North America. These investments will support the Company organic growth and enhance our competitive position. They will be focused on enhancing our vertically integrated model and mini-mill capacity to target growth in the Russian infrastructure and construction markets and on improving our competitive position in higher value added markets in the US."

At Severstal Resources which includes PBS Coals, Q4 2009 revenue grew 32.1% to USD 621 million compared to USD 470 million in the third quarter of 2009 as a result of increased sales volumes and very strong price performance from October to December. PBS Coals reduced per unit cost of production of coking coal concentrate by 1.1%. In the fourth quarter, the coking coal market in Russia remained tight resulting in price increases of 34.0% QoQ the company said. Also in the fourth quarter, QoQ production of coking coal concentrate increased 40.6%. Following stronger demand both from Severstal North America and third-party customers, PBS Coals produced 607,000 tonnes of coking coal concentrate, compared to 185,000 tonnes in the Q3.

In OAO Severstal North American steel operations, Q4 2009 revenue was USD 1.06 billion, down slightly from USD 1.08 billion in the third quarter of 2009. The company said the production of galvanized products grew 12% in the Q4 due to the restart of finishing operations at Wheeling, West Virginia in December 2009. The restart of finishing operations at Wheeling and cost reductions at operating mills improved the financial result, notwithstanding lower sales volumes during the Q4. Reported EBITDA, for the North American operations in Q4 was negative USD 97 million including USD 52 million of restructuring expenses at Wheeling and Warren."

The steel producer said "As part of our operational plans for 2010, we plan to re-start the steel making and hot rolled facilities at Warren at the end of Q1. This will increase capacity utilization and improve the profitability of our North American operations. On-going cost saving measures, including labour and production efficiencies are expected to deliver stronger results in 2010. Over the longer term, we expect the cost position of our North American business to improve as a result of further investment in operational efficiencies. In 2010, USD 413 million will be invested in projects, including the replacement of the tandem mill at Dearborn. This will substantially improve processing costs at Dearborn's cold rolling facilities and pickling lines by 2013. We will also begin Phase II at Columbus and by its completion, expected to be in 2012, this project will add a further 1.5 million tonnes of mini mill capacity per year to our North American operations. Dearborn is in Michigan, and Columbus is in Mississippi."

The company said "We believe that the North American market will continue to improve in 2010 and that we will achieve better capacity utilization. As such, we continue to focus on implementation of our restructuring plan, delivering further cost reductions and tightly managing capital expenditure."