
Moody places Ba3 rating for Evraz under review

Tuesday, 09 Jun, 2009

It is reported that Moody's placed the Ba3 rating for Evraz under review for possible downgrade. At the same time the ratings for Senior Unsecured Notes totaling USD 300 million due in 2009 rated Ba2, Senior Unsecured Notes totaling USD 2750 million due in 2013, 2015, and 2018 rated B1 were also placed under review for possible downgrade.

Moody's said that "The rating action was prompted by the severity of the downturn in the steel industry which is likely to lead to significantly lower cash flows generated by Evraz than has been previously anticipated, and hence potentially impact its financial strength going forward more than had been expected and built into the current rating. Though Moody's recognizes that Evraz has benefited from a competitive cost position further favored by the depreciation of the ruble, the metrics could deteriorate in 2009 to levels no longer in line with a Ba3. The review also reflects that despite notable progress in extending its short term refinancing, the short maturity profile of its debt continues to make the company dependent on its ability to extend facilities and the uncertainty associated with this process. Moody's also expect to see headroom under the covenants of some debt instruments to tighten significantly with a possible breach under certain economic scenarios, including on certain of its public debt issue which could be more difficult to manage smoothly."

It added that the review will therefore be focused on

1. The 2009 operating performance as well as the capacity utilization based on possible volume and price evolution in the steel markets
2. The pace of progress achieved in negotiation with the banks (notably Russian State ones) regarding the extension of up-coming maturities for the next 12 months
3. The level of operating efficiency of Evraz's US assets and their expected profit and cash-flow contribution in 2009 and 2010
4. The ability of the company to generate positive free cash flow
5. The headroom under the company's covenants and likelihood of breach as well a review of the company's options and possible initiatives to manage such an occurrence and strengthen the capital structure.

The last rating action was on 1 December, 2008 when Moody's downgraded CFR of Evraz from Ba2 to Ba3.

The principal methodology used in rating Evraz was Global Steel Industry, October 2005 (94683), which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating Evraz can also be found in the Credit Policy & Methodologies directory.

Evraz Group is one of the largest vertically integrated steel companies in Russia (by volume and assets) with assets also in Europe, North America and South Africa that produced 17.6 million tones of steel products, reported revenue of USD 20.39 billion (58.6% increase Y-o-Y) and EBITDA of USD 6.35 billion (45.9% increase Y-o-Y) in 2008. In the 1 Q 2009 the company reported USD 2.39 billion in revenue and USD 259 million in EBITDA.

Evraz's principal assets are steel plants in Russia, Europe, North America, South Africa and Ukraine, iron ore and processing facilities, as well as coal mines, logistics and trading assets.

For more news visit at www.steelguru.com