



Metinvest

FY13 trading update: EBITDA exceeds guidance

Sector
Metals & MiningCredit ratings by Moody's/S&P/Fitch
Caa1/--/CCCBloomberg ticker
METINV

WEDNESDAY, 19 MARCH, 2014

RESEARCH INSIGHT

Despite slipping sales, higher profitability supported EBITDA.

According to its FY13 trading update released on Monday, Metinvest reported revenues up 2% YoY to US\$12.807bn while EBITDA increased 15% YoY to US\$2.291bn. While management disclosed no details on the net income, these results exceeded management's most recent guidance of US\$2-2.2bn for 2013 EBITDA. As of end-2013, Metinvest's net debt declined 6% YoY to US\$3.528bn, while the company's net debt/EBITDA ratio declined to 1.5x from 1.9x as of end-2012.

Higher volumes boost revenues. Metinvest's aggregate sales volumes grew 26% YoY to 17.375mt and helped the company offset the negative effect from the decline in steel prices. The company's segment of semi-finished steel products performed the strongest, up 17% YoY to 3.066mt, boosted by buoyant sales to Europe, MENA and Turkey. Average prices for Ukrainian steel shipped from Black Sea ports declined 6-10% YoY in 2013. At the same time, we believe that Metinvest benefited from the strong iron ore market, as prices for TSI Fe 62% iron ore rose 4% to US\$135/t.

Capex remains focused on higher efficiency. Metinvest's capital expenditure was nearly flat (-2% YoY) at US\$747m. Construction of pulverized coal injection units at Yenakieve Steel and Ilyich Steel were the key projects implemented in 2013. We think that the successful introduction of the PCI plant at Ilyich Steel was also one of the factors that boosted EBITDA in 2013.

Operations are unabated by Ukraine's political crisis. Addressing the market's concerns on the current events in Ukraine, management assured that Metinvest continued operating in Ukraine as normal and without disruptions. The company continued to ship its products from the Black Sea ports, including iron ore exports from Odessa and Yuzhni ports and steel exports from Mariupol, Odessa, Mykolaiv, Zaporizhia and Avlita (Sevastopol) ports. As Avlita accounted for 7% of Metinvest's steel exports, we deem its contribution immaterial to overall operations should any disruptions occur in the future.

2014 poses potential risks and opportunities. As Russia accounted for 8% of Metinvest's revenues in 2014, given the rising production capacity of Russian steel makers, the weakening Russian economy and existing Russian-Ukrainian political tensions, Metinvest's sales to Russia are at risk of further reductions in 2014. However, the company should be able to offset potential losses of Russian sales by further expanding sales to MENA, Turkey and Europe. As we expect iron ore and steel prices to decline 10-12% YoY and 0-5% YoY, respectively, our projected 20% devaluation of the UAH to UAH10/USD should be one of the key factors enabling the company to support 2014 EBITDA close to the 2013 level.

Key financial figures and ratios

	2010	2011	2012
P&L (US\$m)			
Revenues	9,358	14,189	12,569
Cost of sales	-6,372	-9,873	-10,078
Gross income	2,986	4,316	2,487
General & admin exp	-285	-395	-394
Distribution costs	-820	-1,049	-1,122
Other oper exp (net)	-263	-171	8
Operating income	943	2,701	979
Interest exp	-246	-265	-269
Pre-tax income	707	2,504	701
Income taxes	-270	-650	-266
Net income	437	1,854	435
EBITDA	2,552	3,565	1,996
Balance sheet (US\$m,eop)			
Cash	449	792	530
Total debt	3,164	3,981	4,278
ST debt	1,424	1,147	1,474
LT debt	1,740	2,834	2,804
Net debt	2,715	3,189	3,748
Cash flow (US\$m)			
FFO ¹	1,808	2,478	1,035
Working capital ²	-773	-534	111
Net operating CF	1,035	1,944	1,146
Capex	582	1,165	765
Free CF	93	1,294	1,028
Ratios			
Gross mrg (%)	31.9	30.4	19.8
Operating mrg (%)	10.1	19.0	7.8
EBITDA mrg (%)	27.3	25.1	15.8
EBITDA int cov (x)	10.4	13.5	7.4
Debt-to-EBITDA (x)	1.2	1.1	2.2
Net debt-to-EBITDA (x)	1.1	0.9	1.9
ST debt (% of total)	45.0	28.8	34.5

Note: eop – end of period; LT – long-term; FFO – funds from operations; CFO – cash flow from operations; ann – annualized; int – interest. Sources: Company data, ICU.

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Table 1. Highlights of Metinvest's sales in 2013

Sales by product	US\$m			000 t		
	2012	2013	Change (% YoY)	2012	2013	Change (% YoY)
Metallurgical division						
Semi-finished products	1,417	1,479	4	2,621	3,066	17
Finished products	6,560	5,803	-12	8,941	8,939	0
Other steel products and services	1,010	1,879	86	1,579	3,179	101
Other coke products and services	304	566	86	625	2,191	251
Total metallurgical division	9,291	9,727	5	13,766	17,375	26
Mining division						
Iron ore products	2,469	2,691	9	25,895	25,282	-2
Coal products	809	389	-52	4,548	3,089	-32
Total mining division	3,278	3,080	-6	30,443	28,371	-7

Source: Metinvest.

Table 2. Highlights of Metinvest's 2013 financial results

(US\$m)	2012	2013	Change (% YoY)
Revenues	12,569	12,807	2
Adjusted EBITDA	1,996	2,291	15
EBITDA margin (%)	16	18	2
Capital expenditure	765	747	-2
Total debt	4,278	4,311	1
Including seller's notes	240	168	-30
Total debt to EBITDA (x)	2.1x	1.9x	-0.2x
Cash	531	783	47
Net debt	3,747	3,528	-6

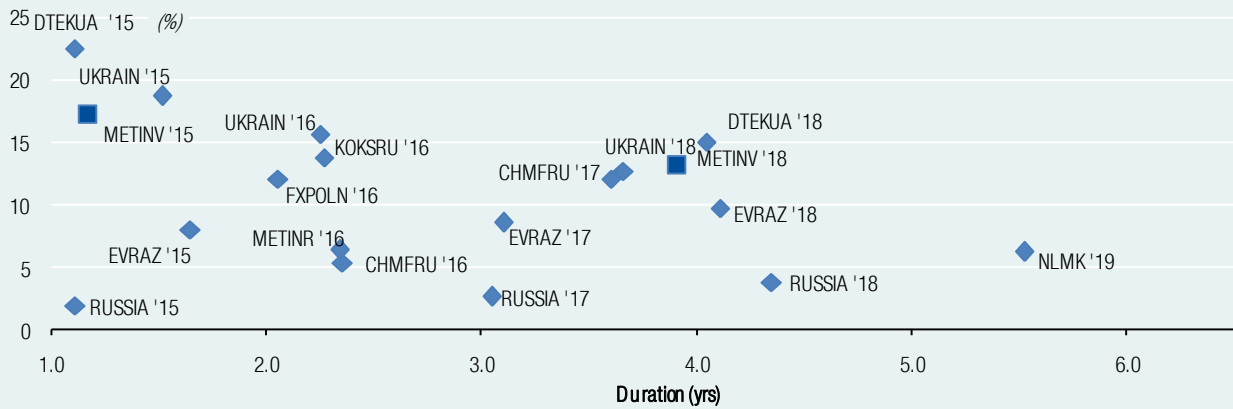
Source: Metinvest

Table 3. Metinvest Eurobonds as of market close, 18 March, 2014

Maturity	M/S&P/F	Ccy	Volume	Coupon (%)	Price (%)	YTW (%)	Spread (bp)	Recomm'n
20-May-15	Caa1/--/CCC	USD	500m	10.25	93.625	17.207	1,691	BUY
14-Feb-18	Caa1/--/CCC	USD	750m	8.75	87.875	12.797	1,125	BUY

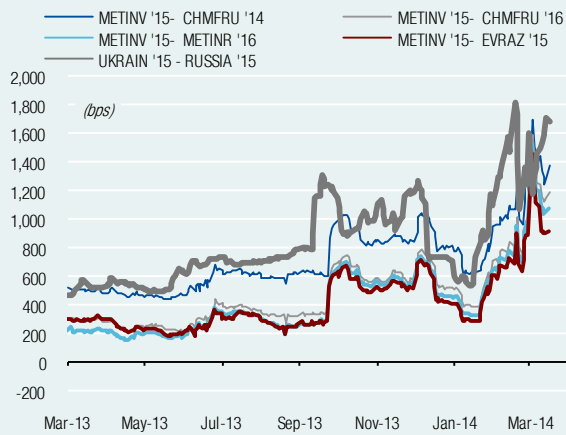
Source: Bloomberg.

Chart 1. Yields vs. duration of select Ukrainian and Russian issuers (%)



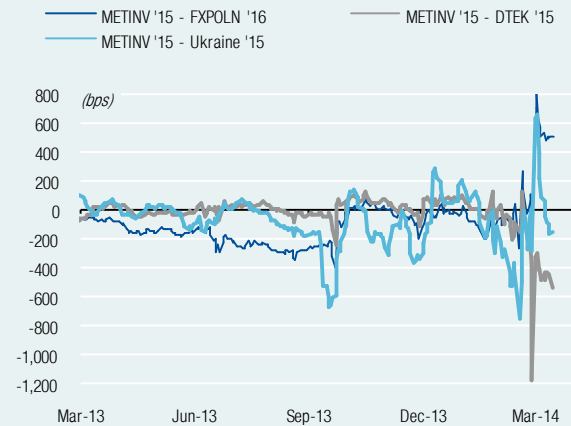
Source: Bloomberg.

Chart 2. Metinvest-15 spreads over select issuers (bps)



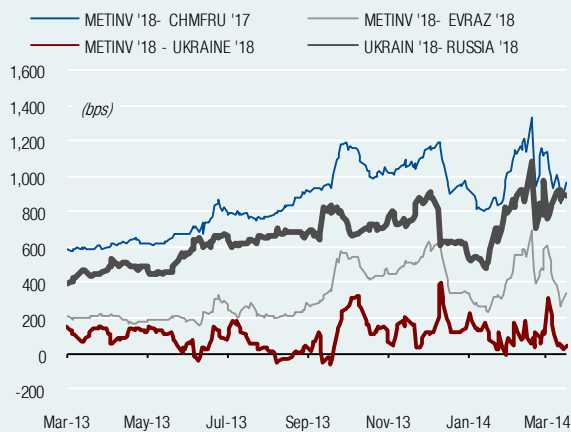
Source: Bloomberg.

Chart 3. Metinvest-15 spreads over select Ukrainian issuers (bps)



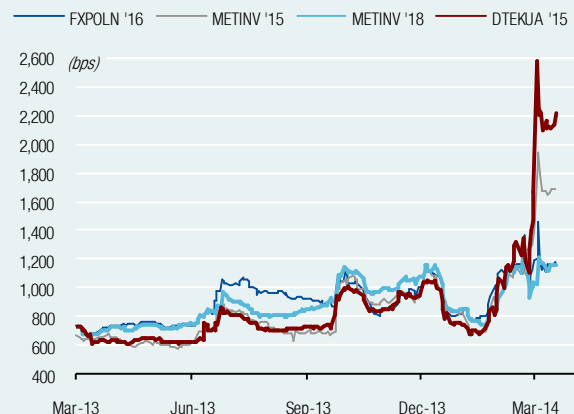
Source: Bloomberg.

Chart 4. Metinvest-18 spreads over select issuers (bps)



Source: Bloomberg.

Chart 5. Mid benchmark spreads of Ukrainian industry issuers over US T-notes (bps)



Source: Bloomberg.

Disclosures

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This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.



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