

Output two Metinvest Mariupol plants flat mm in February

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Analyst: "we remain bullish on Metinvest bonds as we see a high margin of safety in the holding's ability of generating free cash flow at current steel and iron ore price levels."

MARIUPOL, Mar 7, 2017 - The two Mariupol-based steel mills of Metinvest produced 544 kt of crude steel in February, a 10.1% mm drop, Concorde Capital informed its clients based according to recent data from Interfax-Ukraine. This implies their average daily output was 19.4 kt in February, which is almost flat compared to January's level of 19.5 kt. This includes declining steel output by Ilyich Steel to 7.3 kt per day (-9.7% mm) and boosted Azovstal production to 12.2 ktday (+6.0% mm).

Recall, Azovstal's CEO reported on Feb. 23 that Metinvest's Mariupol-based plants had to reduce their output due to a trade blockade of railway connections in Donbas by Ukrainian MPs and activists. Meanwhile, the output decline at Ilyich Steel was mostly the result of a lack of coke due to the railway blockade. No data on February steel production by another Metinvest steel mill, Yenakiyeve, is unavailable yet. Recall, Yenakiyeve had to stop its production of hot iron and steel as of Feb. 20, due to the blockade. Zaporizhstal, in which Metinvest has a 49.9% stake through a joint venture, produced steel in the amount of 10.5 ktday, flat mm. Concorde analyst Andriy Perederey added: We estimate that Yenakiyeve Steel produced about 110 kt of steel in February, which amounted to about 28.6 kt per day in February in Metinvest's total attributable steel production (that includes the 50% stake in Zaporizhstal). This is 7.4% less compared to January, but 0.9% more compared to average production in 2016 (which was 28.3 ktday). In essence, these figures indicate that so far, we are not observing any decline at Metinvest's Mariupol-based plants, despite management complaints. This might mean that the output decline reported almost two weeks ago was short-lived. Alternatively, this might mean that the production decline in the last week of February was offset by much better production in the three first weeks of the month. We see a risk that March production in Mariupol will be about 7%-10% lower mm, on a daily average basis, if the trade blockade continues. At the same time, we expect Metinvest will be able to resolve its bottlenecks with supplies of coke and some other raw materials, and will restore its output in Mariupol in further months, in response to an ongoing blockade. All in all, we remain bullish on Metinvest bonds as we see a high margin of safety in the holding's ability of generating free cash flow at current steel and iron ore price levels.

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