



Metinvest (B3/B/BB-): weak 2019 financial results. Negative for the group's Eurobonds

Metinvest B.V., the parent company of a group of steel and mining companies, has released its audited IFRS consolidated financial statements for the 12 months ended 31 December 2019. The results look rather weak, reflecting a material deterioration of the credit profile in July-December 2019:

- Metinvest's consolidated revenues decreased by 9% y-o-y to \$10,76 mln. Against the background of unfavourable prices and falling sales, the metallurgical segment lagged behind and posted a 13% sales drop y-o-y. The trend was partially offset by the mining segment, which recorded a 14% revenues growth y-o-y. The company posted a bigger revenues drop y-o-y (-15%), to \$4.9 bln compared to 1H19. The local market share in the revenues structure was unchanged at 29%.
- The company saw a steeper margin drop. In 2019, the consolidated EBITDA margin dropped by 10 pp y-o-y to 11%. Lower average steel prices, higher spending on raw materials, the negative effect of the hryvnia's appreciation against the US dollar (+12% in 2H19) have affected operating efficiency. The metallurgical segment's EBITDA turned negative 1%, while the mining segment's accounted for bulk of the consolidated EBITDA. The 2H margin drop was even bigger as compared to 1H. Thus, in 2H19 Metinvest was unprofitable yet on an operational level. 2H19 EBITDA efficiency was only 7% against 15% for 1H19.
- The group's net loss in July-December 2019 amounted to \$67 mln.
- Metinvest posted a negative free cash flow (FCF) for the first time in a long time amid lower operating cash flow (even taking into account funds liberated from working capital) and planned apTbWTTn of the investment programme. 2019 capex increased by 17% to slightly over \$1 bln, in particular, environmental capex (ESG) totalled \$155 mln, allowing Metinvest to receive an MSCI ESG Rating of 'B'.
- At the end of 2019, total debt equalled \$3,032 mln (+13% y-o-y). The group raised gross new proceeds from eurobond offering completed in October 2019. At the same time, the proceeds were used to extend loans repayment schedules — over 80% of eurobonds due in 2023 or later.
- The group's net leverage grew markedly due to lower operating cash flow. Thus, the net debt/EBITDA ratio was estimated at 2.3x as of 31.12.2019 compared to 1x a year earlier.
- Metinvest public debt consists of three issues of USD-denominated bonds and one Euro-denominated bond issue. The notes have been declining recently amid global flight to quality and concerns about further fall of commodity markets. We believe the released financial results may add pressure on the company's securities.

METINVEST KEY FINANCIAL RESULTS, IFRS

\$ млн	2019	2018	2017	2П19	1П19
Revenue	10 757	11 880	8 931	4 939	5 818
г/г	-9.5%	33%	44%	-15.1%	-6%
Operating profit	325	1 556	1 300	-106	431
EBITDA	1 213	2 513	2 044	323	890
г/г	-51.7%	23%	77%	-63.7%	-33%
EBITDA margin	11%	21%	23%	7%	15%
Net profit	341	1188	11	-67	408
OCF	814	1103	595	244	570
Net CAPEX	896	800	465	457	439
FCF	-82	303	130	-213	131
Assets	13 837	11 178	10 083	13 837	12 177
Capital	6 930	5 403	4 308	6 930	6 032
Total Debt	3 032	2 683	3 010	3 032	2 730
Share of short debt, %	19.5%	18.2%	9%	19.5%	22.1%
Net Debt	2 758	2 403	2 751	2 758	2 451
Net Debt/EBITDA	2.3	1.0	1.3	4.3	1.5
EBITDA/interest	4.4	7.5	5.8	2.1	7.2
Debt/Capital	0.4	0.5	0.7	0.4	0.5

Sources: Company data, ITI Capital estimate

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