Hryvnia Boosts Ukraine Steel But Not Enough –Execs

By Alex MacDonald
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LONDON (Dow Jones)--The steep devaluation of Ukraine's currency has been a boon for Ukrainian steelmakers in the export market, but it hasn't offset a squeeze to margins caused by a global slump in steel demand, senior executives at privately owned Ukrainian conglomerate Smart Holding, said.

Smart Holding is a vast conglomerate that operates in businesses ranging from steel, metals and mining, to shipping, agriculture and banking. The company owns a 25% stake plus one share in Metinvest, one of Ukraine's top five steel producers.

The "hryvnia devaluation had positive impact on the relative competitiveness of the domestic steel and iron ore players in the global context," Denis Rudev, the chief financial officer of Smart Holding said in an interview with Dow Jones Newswires on the sidelines of a conference on Ukraine in London.

"Obviously the dollar prices in the market have decreased significantly, resulting in a margin contraction in absolute terms. However, the local currency devaluation has, on a relative basis, improved the cost position of the players and thus resulted in a better competitive position versus its global peers," he said.

"Ukraine's steel capacity utilization was approximately 50% at the end of last year and now is increasing to approximately 70% to 80%," Vitali Simonenko, head of strategy and corporate development at Smart Holding, said during the same interview.

"Ukraine is supplying to the seaborne market including deliveries to the Middle East, Northern Africa and Europe," he said.

Ukrainian steel production increased 9.1% in February compared with January but was still down 33.6% compared with the same month a year ago, according to figures from the World Steel Association. Ukrainian steel production on a yearly basis has fallen as customers in key automotive and construction industries around the world have pared back orders because of the economic downturn.

Ukraine, however, increased production on a monthly basis - albeit from a low base - partly because its currency has lost value. The amount of hryvnia needed to buy a U.S. dollar increased 57% since the beginning of the fourth quarter of 2008 and rose nearly 10%, to 8.67 hryvnia, between the end of January and the end of February.

Although devaluation has helped improve the competitiveness of Ukrainian steel, it hasn't been enough to offset the negative impact of a global slump in demand.

"The crisis...had an immediate effect on export supplies. It has considerably reduced (capacity utilization rates) and margins, thus respectively resulting in a lot weaker bottom line," Simonenko said. Ukraine exports about 70% of its crude steel production, he said.

Simonenko expects steel prices to continue their downward trend for now. "We hope for stabilization by the end of the year and a slow recovery in early 2010," he said.
In the meantime, Ukrainian steelmakers will either have to idle more capacity or restructure their businesses in order to weather the current economic downturn, Simonenko said.

Smart Holding is in a strong financial position to weather the current economic downturn, Rudev said.

At Smart Holding "refinancing is not our challenge at the moment. Our leverage is close to zero. Our challenge is to maintain margins. Given that most of our businesses are capital intensive...we are trying to keep the jobs in our portfolio companies - and this is quite a challenge," Rudev said.

Smart Holding also has extra cash on hand after deciding to walk away from a deal to operate the bankrupt Bulgarian Kremikovtzi steel plant on behalf of the Bulgarian government and other creditors.

Smart Holding offered to invest EUR220 million in the plant over a five-year period in return for potential ownership of the plant at a later date. It also offered about EUR80 million plus equity participation to the noteholders and about EUR100 million plus equity to other creditors.

Unfortunately, "we couldn't advance enough with any of the parties in the five months between October and March. Assuming the opportunity cost of financial and management capital, we had to decide to withdraw from the project despite our strong interest in the plant," Simonenko said.

Rudev said in a presentation that Smart Holding would continue to invest in various projects to bolster its portfolio of assets. Investment projects include expanding an iron ore mine in Russia, shifting its shipbuilding assets to production of fully assembled ships, and expanding into grain harvesting, storage and trading, among other things.

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