

Fitch Affirms Siderur's FC and LC IDR at 'B+'; Outlook Stable

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Fitch Ratings-Chicago-13 March 2009: Fitch Ratings has affirmed the ratings of Siderurgica del Turbio, S.A. (Siderur) as follows:

- Foreign currency (FC) Issuer Default Rating (IDR) at 'B+';
- Local currency (LC) IDR at 'B+';
- US\$100 million unsecured notes due 2016 issued by Siderur Finance B.V., a wholly owned subsidiary of Siderur at 'B+/RR4';
- National scale rating at 'A+(ven)'.

The Rating Outlook is Stable.

The affirmation reflects Siderur's strong competitive position in its local market as one of two leading steel companies in Venezuela, as reflected by its 42% market share in rebar. The company has demonstrated a solid financial performance for its financial year ending Sept.30, 2008 with EBITDA of US\$142 million compared to US\$126 million in Sept.30, 2007 and committed projects pointing to a relatively healthy year for 2009. Siderur benefits from operating in a unique economic environment in which unprecedented fiscal stimulus by central government has fuelled fast-paced economic expansion in recent years. Additionally, Venezuela's fixed price controls on semi-finished and finished steel product imports discourage importing and act as a further benefit to Siderur's competitive position.

The ratings incorporate operating volume reduction in the medium term as a result of an expected slowdown in local construction, following reductions in public expenditure driven by lower oil prices. Fitch rates the Bolivarian Republic of Venezuela with a FC and LC IDR of 'B+' and has assigned a 'B+' country ceiling to Venezuela.

The Stable Outlook highlights Siderur's strong position within its rating category, which factors-in sovereign risks and the associated limitations resulting from governmental policies and regulations that can affect the performance and increase cash flow volatility of private sector companies. These policies include price controls and a foreign currency exchange regime that has been in place since February 2003. Siderur is also exposed to the fluctuations of Venezuelan economic activity, the construction sector in particular, and to the cyclicality of global steel prices which dropped sharply in fourth-quarter 2008 (4Q08). Raw material prices have also decreased, and as a result, Siderur could benefit going forward from some improvements in its operating margins.

Siderur's debt service profile is manageable at approximately US\$14 million annually in U.S.-dollar-denominated debt, and the company faces a bullet payment of US\$60 million for the unsecured notes due in 2016. During fiscal year 2008, Siderur generated US\$142 million of EBITDA, resulting in a total debt to EBITDA ratio of 0.8 times (x). This compares to US\$126 million of EBITDA and a total debt to EBITDA ratio of 1.0x in 2007. During 1Q09 (to Dec.31, 2008), Siderur's EBITDA declined to US\$17 million when compared to US\$26 million generated in 1Q08, equating to a 37% reduction, and principally due to a temporary production stoppage in October 2008 for site refurbishing.

Funds from operations (FFO) for the same period was US\$47 million compared to US\$143 million in 2007 resulting in a FFO adjusted leverage ratio of 1.8x in 2008, an increase from 0.8x in 2007. FFO cash interest coverage was 3.8x in 2008, also a decrease from 12.2x in 2007.

The company's liquidity and sizeable cash position ensures comfort for its rating category. Cash and marketable securities were US\$127 million for the fiscal year 2008 and as of 1Q09, Siderur's cash and marketable securities were approximately US\$97 million. Siderur had total debt of US\$117 million as of Sept.30, 2008 with US\$91 million relating to the remaining balance of the US\$100 million unsecured notes due 2016, and the rest originating from local market issuance.

Siderur is located in Venezuela and manufactures semi-finished and finished steel products including billets, reinforcing merchant bars, angles, beams, and specialty quality steel. The company's main production facilities consist of two melt shops with a capacity of 835,000 tons of crude steel, four rolling mills with a capacity of 570,000 tons of long finished products and a plant with a capacity of 67,000 tons of welded and drawn products. The melt shops are mini-mills that use electric arc furnaces to melt scrap metal and HBI, a scrap substitute. Siderur is the largest scrap buyer in Venezuela and owns 13 scrap yards. In fiscal year 2008, Siderur produced 568,000 tons of crude steel and 538,000 tons of rolled or finished products. Sales volumes totalled 635,896 tons, 97% of which was sold in the local markets.

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