# Fitch Affirms Sidetur's Ratings; Assigns Outlook Negative

Fitch Ratings – Chicago – April 30, 2010: Fitch Ratings has affirmed the ratings of Siderurgica del Turbio, S.A. (Sidetur) as follows:

--Foreign currency Issuer Default Rating (IDR) at 'B+';
--Local currency IDR at 'B+';
--USD100 million unsecured notes due 2016 issued by Sidetur Finance B.V., a wholly owned subsidiary of Sidetur at 'B+' RR4;
--National scale rating at 'A+(ven)';
--National short term rating at F1(VEN).

The rating outlook is Negative.

Sidetur's negative outlook reflects the challenging political and macroeconomic conditions in Venezuela. The company's cash flow from operations is expected to come under pressure during 2010 due to electricity rationing and a new exchange regime. Should the political and macroeconomic conditions continue to deteriorate and further erode Sidetur's profitability, the ratings could be downgraded.

The rating affirmation is supported by the company's conservative debt management policy, comfortable liquidity, and leading market position as a domestic producer of rebar with 44.2% market share in 2009. Sidetur had a total debt-to-EBITDA ratio of 0.9x, FFO adjusted leverage ratio of 1.3x and FFO fixed charge coverage of 4.4x for FYE09, strong for its rating category.

Energy Rationing to Hurt Sales Volumes; Leverage to Remain Low

Sidetur's revenues and EBITDA are expected to fall as a result of lower sales volumes to around USD534 million and USD87 million in FYE10 from USD647 million and USD119 million in FYE09, respectively. The primary driver of lower volumes is the compulsory energy rationing in Venezuela. In spite of this decline, the company's leverage should remain low with a total-debt-to-EBITDA ratio at around 1.2x, and under 1.0x on a net basis for the year. Sidetur does not have integrated power generation capability, other than a diesel generator for emergency use that can only generate enough power to maintain the heat in the furnace and keep core computer systems and crane magnets operating.

Sound Liquidity Profile:

Sidetur's liquidity profile was comfortable for the year-end with cash to short term debt coverage of 3.0x and manageable debt maturity schedule of USD5 million a year until 2016. As of Dec.31, 2009, the company held USD68.8 million of cash and marketable securities, a significant reduction on USD149 million held in FYE08. USD7.6 million of the latest cash position was restricted cash, which guarantees a quote of capital and interest of the bonds issued by Sidetur. The company's 1Q10 short term debt to total debt ratio remains low at 0.3x, and it also has access to additional undrawn credit lines for the next year with banks, totalling USD50 million.

Raw Material Prices to Rise Sharply

Sidetur is also faced with pressure on profit margins from higher raw material prices following the Bolivar devaluation in January 2010. Under Venezuela's dual official exchange rate system, the USD exchange rate for priority imports such as food, medicine and other essential goods was set at VEF2.60/USD1.00, while the rate for other foreign exchange transactions was set at VEF4.30/USD1.00. The VEF4.30 rate affects Sidetur's raw material input of hot briquetted iron and the VEF 2.6 rate affects Sidetur's electrodes and spare parts.

Construction Activity Contraction expected in 2010:

The company ended FYE09 with revenues equivalent to USD647 million, up 6.8% on FY08's USD606 million. This increase reflects the level of construction activity in Venezuela during 2009, but represents a significant slowdown on revenue growth from 2006-2008, which averaged over 21% year-on-year. Negative sales growth of around 15-20% is expected in 2010 as a result of the slowdown in the Venezuelan construction sector combined with the compulsory reduction of energy consumption. This expectation has played out in the company's 1Q10 revenues of USD110.9 million which show a 22% reduction on 1Q09 revenues of USD141.7 million. However, the majority of this revenue decrease was due to the stoppage at Sidetur's Caracas rolling mill for maintenance and upgrades for five weeks.

Profit Margins Under Pressure:

Sidetur's EBITDA declined to USD119 million in FYE09, compared to USD 142million in FYE08, with the EBITDA margin declining to 18.5% from 23.4%, respectively. This margin erosion was due to increased production costs stemming from high inflation which could not be fully passed on as a result of price controls, and rising salary costs that are given semi-annually. Inflation in Venezuela was 29% on average in 2009 and is expected to accelerate at 31% on average in 2010. Sidetur has recorded decreasing EBITDA margins since 2007 due to the price regulations on local rebar sales, which accounted for 45% of total sales in FYE09. The company strategy to combat this is to concentrate on increasing product sales that have not yet been imposed with price regulations, along with promoting additional efficiencies in the production process.

Potential Rating and Outlook Drivers:

Sidetur has an aggressive dividend policy that has resulted in negative free cash flow since 2008, as calculated by Fitch. If this aggressive dividend policy continues, it could damage the company's current liquidity cushion and lead to a ratings downgrade. Sovereign-related risks associated with rebar price controls and the dual foreign currency exchange regime, as well as the risks of operating in a small market driven by construction spending will remain key drivers for Sidetur's ratings. There is also ever-present nationalization event risk.

Sidetur's ratings reflect the application of Fitch's current criteria, which are available at 'www.fitchratings.com' and specifically include the following reports:

--Corporate Rating Methodology (Nov.24, 2009)

--National Ratings – Methodology Update (Dec.18, 2006)

--Country-Specific Treatment of Recovery Ratings – Revised (Aug.21, 2006)

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