

Severstal: More Acquisitions are Underway

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Alexei Mordashov is prepared to slash his stake in the company to fund new purchases.

Despite the steelmaker Arcelor having dropped its plans to merge with Russian steel giant Severstal, the company's chairman Alexei Mordashov still hopes to create one of the largest steel companies in the world. To achieve that goal, he is prepared to reduce his stake in Severstal from the current level of 82 percent to between 40 and 45 percent, using the revenue from the stock to finance large acquisitions. Mordashov has already selected several targets for merger.

Severstal's assets are the fastest growing in Russia's steel making sector, largely due to its aggressive acquisition policy abroad. In 2008 alone, Severstal purchased the US company Sparrows Point and reached an agreement to buy WCI, also bidding for Esmark. Before the end of the year, the Russian steel group also hopes to complete the acquisition of Redaelli Tecna, Italy's steel wire rope manufacturer.

However this is insufficient for Mordashov and he could reduce his stake in Severstal by around a half, from 82 percent to 40-45 percent, using the stock to finance new acquisitions. He may use it to pay for acquisitions, and a stake of 40-45 percent could be large enough to control the company. Severstal has already selected some target companies and secured funds for new projects. The company would also like to expand its iron ore and coal assets in the US, in order to optimize costs. Indeed, Severstal has recently filed an application to buy a US coal firm.

Mordashov was once close to his cherished goal: two years ago Severstal agreed to merge with Luxembourg's Arcelor. The result would be the world's largest steel producer, where Mordashov would have a 25 percent stake. But this did not happen as Arcelor scrapped the deal, deciding in favor of the rival Mittal Steel. The merged company, ArcelorMittal, produced 116 million tonnes of steel last year, accounting for about 10 percent of the global steel market. The closest rival, Nippon Steel, produced three times less than that, and Severstal's output was six times less.

Currently, there is less chance for a mega merger as there are very few available assets of Arcelor's scale on the market. Nevertheless Mordashov seems to be prepared to sell stock worth a total of \$11 billion to gear up for next big deal and stick to its declared plan of investing \$16.3 billion in raw materials and steel production before 2012.