TRANSCRIPT: Q1 2020 NLMK Earnings Call (IFRS)

Corporate participants

Grigory Fedorishin - CEO

Shamil Kurmashov - CFO

Dmitriy Kolomytsyn - Director of IR & Capital Markets

Dmitriy Kolomytsyn

Good morning and good afternoon, ladies and gentlemen. This is Dmitriy Kolomytsyn from NLMK's Investor Relations and Capital Markets team. Thank you very much for joining us today on our conference call to discuss our operating and financial results for the first quarter of 2020.

As always, the elements of our presentation are forward-looking and based on our best view of the market. The company's Chief Executive Officer, Grigory Fedorishin, will present the highlights and provide market overview as well as talk about the impact of the coronavirus on NLMK's operations and the results, and what we've done in this area.

And following that, our CFO, Shamil Kurmashov, will discuss our financial and operating highlights in more details. We'll then be happy to answer your questions.

That's all on my side, and I hand this over to Grigory Fedorishin.

Grigory Fedorishin

Dear ladies and gentlemen, welcome to everyone who joined our conference call. As Dmitriy said, today I'm going to delegate the whole presentation of the first quarter results to our CFO, and he will take you through operating and financial highlights. And before that, in my part of the presentation, I will focus on the current COVID-19 environment and the company's response.

Let's start with Page 4. I would like to begin by stressing that in the current environment, we are placing the utmost focus on the safety of our people. Throughout our operations, we have implemented a wide range of measures to make sure we maintain safe working conditions for our employees and contractors, which, in turn, would allow us to keep production process flawless.

At this point, we have about 5,000 employees working remotely. Employees who are 60 years and older, and it's more than 2,000 workers, are staying at home, irrespectively of whether their work can be performed remotely, and we are paying them full income.

Across all our production sites, we distribute personal protection equipment for the whole crew. We perform regular disinfections as well as maintain strict safety protocols adjusted to local requirements and far beyond that.

To reduce the number of interactions and to create a safe distance among our employees and contractors, we have adjusted our working schedules and transportation routes. Special focus is on NLMK Lipetsk, where we currently have up to 20,000 people on site, including contractors.

The company provides support to local communities within the regions where we operate. Among other things, this includes distribution of personal protection and medical equipment to local hospitals. For more information on our countermeasures to minimize the risk of coronavirus spreading at the company's production facilities, please visit our corporate website.

Let's now turn to Page 5 to discuss steel prices dynamics in the first quarter and during the month of April. We had a good start of the year. January and February looked very solid in all markets where we operate. Steel prices, on average, increased quarter-on-quarter despite the coronavirus outbreak in the second half of the quarter.

Between January and mid-March, prices were going up in the U.S., the EU, Russia, and that was driven by quite a robust demand. Chinese prices have dropped 10% since the start of the virus outbreak in late January. But then stabilized and stayed at the level of $450 per tonne FOB until the end of March. During April, however, prices have started to come down rapidly everywhere. As of today, prices in certain regions and for certain products are down more than 20% comparing to the first quarter average. For example, prices for slabs have dropped 20% in April to $330 per tonne Black Sea FOB. Russian export HRC prices have also fallen more than 20%, and we observed the same situation in the U.S.

Steel and raw material prices were not moving exactly in parallel. Steel prices were falling faster, even though the Chinese steel exports didn't increase significantly, while many steel producers worldwide reduced their production because of coronavirus and the lack of demand. As a result, spreads have now been shrinking ever since March, and there is a risk they could drop even further if we don't see demand recovery or further supply response.

Let's now switch to Page 6. Overall, there is a high level of uncertainty in terms of the rate at which demand for steel is going to recover across different regions. We, therefore, had to start adjusting our production and changing the product mix at various sites accordingly. One thing that remains unchanged at this point is the 100% run rate at our flagship NLMK Lipetsk site.

The situation at other locations, however, is not that stable. At the Russian Long Products division, we had to reduce utilization rates due to the combination of shortage of scrap and construction restrictions in Moscow and Moscow region.

As you know, construction, in general, accounts for 65%-70% of steel demand in Russia, and the same portion of our Russian shipments goes to construction sites in the form of either long or flat steel. We also had to reduce operating rates in Europe and the U.S. The Europe Strip division was running at about 40% in April, and utilization of the U.S. sites was 60% on average. Utilization rate at the Europe Plate division was high at 75% on average. DanSteel's orders book remains solid due to the exposure to customers such as windmill producers that are located in countries with looser restrictions on industrial production.

During early April, we were looking for opportunities on various export markets to make sure we are able to redirect the volumes from our traditional geographies to other destinations. As a result, the export share in our shipments from Russian assets will increase from about 50% in February - March to more than 70% in May. We have already closed our export books for May and are in the process of booking June deliveries. Most of our steel in April and May will go to places such as China, South-East Asia, Middle East, including Turkey.

Let's please move to Page 7 to see what is happening with Russian demand at the moment. As I have already mentioned, steel demand from the construction market is very crucial for the Russian steel producers, including ourselves. At the moment, construction demand varies from region to region. Moscow and Moscow region have suspended activities for 2.5 weeks in April. That resulted in almost a 50% drop in demand during the last month. We expect the same magnitude of reduction in the second quarter, as you can see on the slide. It's therefore very important that construction in Moscow restarts. The expert community believes it may happen as early as mid-May, but we'll see. Other regions have not imposed such strict measures, and we hope it won't be the case.

The oil and gas sector is also expected to consume 50% less steel in the second quarter. Demand from automotive and white good producers has suffered significantly. The only sector that looks relatively strong is machinery: demand there could fall only by 10% - 15% during the second quarter.

Overall, we expect double-digit decline in steel consumption in May and June in Russia with potential recovery starting in July.

Let's now turn to Slide 8 to discuss the changes we introduced to our capital allocation given that situation. Let's start with CapEx. This year we plan to spend somewhere in the range of $900 million to $950 million, in total, and it's 20% less compared to our previous guidance of $1.2 billion. Of this amount, about $250 million will be allocated to structural maintenance CapEx. $350 million will be dedicated to the second phase of large-scale capital maintenance at NLMK Lipetsk blast furnace and steel making operations that we have guided for in our strategy. And then the remaining amount of about $300 million would go towards strategy 2022 implementation with a primary focus on the delivery of +1 million tonne of steel target at Lipetsk next year and related expansion on iron ore side. So the rest of the projects, we either postponed. So we don't start new big things now – that brings us to the CapEx number I'm giving to you.

On this slide, you can see how CapEx will be distributed in the course of the year. We made sure that we cut Q2 CapEx target to a low number of $200 million before we better understand the pace of the demand recovery. And then by the end of June, we will make another decision on whether we stay in this scenario or we cut CapEx even further. Our stress scenario shows number as low as $750 million per year. Overall, our average annual CapEx guidance during the current strategic cycle remains at $900 million per year. But obviously, now the spread between the years within the strategic cycle is different.

Switching to dividends. As you know, NLMK's shareholders decided not to approve the fourth quarter 2019 dividends and proposed to reduce them by 50%. The Board of Directors gave shareholders an updated recommendation on the payment of fourth quarter dividends in the amount of $250 million or 74% of free cash flow. The Board also recommended the first quarter dividends in the same amount of $250 million. Our dividend policy remains intact. We target 100% of free cash flow payout in 2020 with respective adjustment to be made later this year, depending on how quickly the market recovers.

Switching to our liquidity and debt profiles, liquidity has increased to preserve financial flexibility in light of market uncertainty. That's what we did in March. And we plan to roll over about 40% of the working capital lines maturing in 2020 and to extend another 40% until 2024-2025. So the debt that is formally classified as short-term, at least 80% of these will not be repaid this year but the plan is to roll over those working capital lines.

Let's discuss the outlook for the second quarter. I've said more than I usually do about our expectations for the upcoming quarters. I believe it's necessary considering the circumstances, but I would like to underline again that there is very low visibility now. Nevertheless, the company is doing its best, as always, to navigate through this challenging market environment.

In Asia and China, manufacturing activity has already largely resumed, while government support and infrastructure spending should stimulate steel consumption in the short term.

In Europe and the U.S., we anticipate steel demand to show a double-digit decline quarter-on-quarter. Lower steel production should offer some support to the supply and demand balance and prices.

In Russia the outbreak and containment measures have started to affect domestic economy and businesses almost a month later than in the U.S. and the EU, suggesting that back to normal conditions to start resurfacing in late June.

Going back to the company, we expect steel production at NLMK Lipetsk to be lower quarter-on-quarter due to the start of the second stage of the capital maintenance at blast furnace and steelmaking operations. So we are doing this according to the plan we announced last March in our strategy. And now it seems that it's perfect timing for such large-scale maintenance given the low markets.

This is it for my part. Now I would like to hand it over to our CFO, Shamil Kurmashov. Please, Shamil, go ahead.

Shamil Kurmashov

Thank you, Grigory. Good day, everyone. Let me now discuss our first quarter 2020 operating results as well as financial results.

Let's please move to Page 11. During the first quarter of 2020, our sales rose 8% to 4.5 million tonnes. One of the key reasons was the completion of the first stage of blast furnace and converter repair works at the Lipetsk site. The Russian slab division increased shipments by 8% quarter-on-quarter. This segment was key contributor to higher deliveries. Growth in sales was mainly in form of higher shipments of semi-finished steel to export markets. For example, pig iron sales were up 15% quarter-on-quarter. We sell pig iron mainly to the U.S., and there is no 25% tax charge to pig iron, which makes such sales quite attractive to us, especially in the current environment as well as during the times when we start ramping up production of upgraded BOF capacity.

Sales at our foreign division also increased during the first quarter due to higher demand in January and February. The shipments of finished steel were flat quarter-on-quarter at 2.8 million tonnes, and our sales of high value-added products were up 10% quarter-on-quarter and contributed $44 million to our EBITDA. Of that amount the Russian flat division alone brought $28 million.

Let's now move to Page 12. NLMK's revenue increased by 6% during the first quarter and reached $2.5 billion. This was supported by higher shipments that we saw on the previous slide, as well as increase in slabs and pig iron prices offset the increase in the share of semis and the decline in finished good prices during the first quarter. EBITDA was up strongly. It increased 24% quarter-on-quarter to the absolute amount of $594 million due to the widening of steel and raw material price spreads and growing sales volumes.

NLMK Strategy 2022 implementation was intact despite market volatility. The impact from operational efficiency gains in the first quarter EBITDA was $54 million. Commercial expenses were flat quarter-on-quarter at the level of $212 million, despite higher export volumes, supported by decline in average logistics costs for finished goals.

Net profit increased by 45% quarter-on-quarter to $289 million due to growth in revenue and foreign exchange risk hedging, which enabled NLMK to avoid significant losses related to the devaluation of the ruble. The amount of hedged revenue aligns the amount of payments on bonds and bonds' coupons. Our company's free cash flow was very strong and amounted to $331 million, and it was relatively flat quarter-on-quarter. I will talk about it in detail a bit later.

Total debt rose by 31% quarter-on-quarter to almost $3.5 billion, which was associated with the increase in NLMK short-term debt as the company drew down its revolving credit lines, subject to rollover as Grigory mentioned before. The lines were organized in the form of short term borrowing, mainly cash is retained on our balance sheet. You can either pay it back by the end of the year or to refinance or rollover them. We have the respective credit committee approvals from our counterparties.

Average cost of debt, however, remains at historically low level of 3%. Net debt decreased by 1% to $1.77 billion due to increased liquidity on our company's balance sheet. Our net debt-to-EBITDA at the end of the first quarter was unchanged quarter-on-quarter, and at the level of 0.72x.

Let 's now move to Page 13 to discuss first quarter EBITDA split by division. Russia Flat products division increased 43% quarter-on-quarter to $355 million, which was primarily driven by wider spreads and stronger shipments. Spread improved during the first quarter due to high steel prices. At the same time, weak ruble supported the segment's results.

Following the completion of the first stage of repairs and maintenance at our Lipetsk site, steel production increased which also supported sales dynamics, as I said earlier. As well, operational efficiency programs had their positive impact on the Russian Flat division EBITDA.

Russian Long Products division EBITDA increased by $16 million quarter-on-quarter, mainly due to higher rebar/scrap spread. It turned around from the negative zone in the previous quarter to $14 million. Both factors more than offset the 16% quarter-on-quarter decline in shipments.

The mining segment, on the other hand, recorded only slight quarter-on-quarter decline in revenue and EBITDA due to weaker prices. This is, however, up 16% and 19%, respectively, compared to the same period last year. This segment managed to retain strong EBITDA margin of 73%, which is very significant.

At NLMK U.S.A., revenue was up 17% quarter-on-quarter, and EBITDA improved from minus $22 million in the first quarter this year compared to minus $37 million in the fourth quarter of the last year. The reason why EBITDA remained so low was because the financial results were determined predominantly by the impact of the nonmonetary inventory revaluation at the end of March. But this also means that the impaired slab would contribute to extended margins for further periods. Without the reserve, quarter 1 EBITDA would be minus $7 million.

EBITDA at DanSteel increased to $6 million, driven by sales growth and gains from operational efficiency. And finally, at NBH, we saw a quarter-on-quarter improvement in EBITDA due to slightly wider slab/rolled steel spreads as well as higher sales. Nevertheless, EBITDA stayed in the negative territory. In late March, we had to stop the operations at the Verona mill for 2 weeks, following the government decree.

Let us now move to Page 14, where we can discuss cash flow dynamics. As I said earlier, our free cash flow was very strong in the first quarter. Year-on-year, free cash flow decreased by 51% as a result of lower sales profitability and an increase in CapEx due to the active phase of Strategy 2022 investment program implementation.

Operating cash flow decreased by 13% during the first quarter to the level of $617 million, driven by lower release of cash flow from working capital compared to the previous quarter. But at the same time, this represents cash flow conversion rate of more than 100%, 105%. Working capital movement turned better than initially expected when we held our previous earnings call.

Cash inflow from working capital in the first quarter totaled $85 million, out of which the positive effect of $126 million was related to flat inventories of finished products and minus $44 million was due to an increase in receivables, driven by higher steel product sales.

CapEx went down to $278 million, following the completion of the first stage of overhauls at the Lipetsk site.

I think that is it for my part. I would now like to thank you for your attention, and we would be happy to take your questions.

Questions and answers session

Analyst 1

Just the first on the dividends, where you've adjusted the previous payout. Can you just talk through a little bit around the thought process behind that? And perhaps why you haven't just perhaps reduced future payouts or focused on reducing future payouts rather than amending the historical one. And then on your sales, you mentioned that you're selling more into China, to Southeast Asia, Middle East, et cetera. Would you say these are new customers that you're selling to there? Or is it just sort of an expansion of relationship that you already have?

Grigory Fedorishin

Thank you for your questions. On the dividends we support the shareholder decision as to the fourth quarter dividend recommendation, it was made in a different market conditions. And in a situation like this, we believe it's prudent to adjust the capital allocation accordingly. And you see, we did this both in terms of dividends and in terms of CapEx. Saying that, we believe our dividend policy is relevant, even for the period like this. And if the market permits, we don't rule out topping up dividend payments to higher level based on subsequent quarters' results, and we target 100% free cash flow payout.

On your second question, export sales is not something new to us. So 70% export share – that's what we had in some of the periods before. So there is an existing customer base. There are existing relationships. And yes, you're right to say that we are expanding those. Usually we prefer not to sell a big portion of our volumes to Asia given the pricing there is usually worse comparing to North Africa, Middle East, Europe, so we prefer other destinations. But in this case, demand was there. Given ruble devaluation, we are making margins, good margins on those sales. That's why we keep selling there.

Timothy William Riminton - Barclays Bank PLC, Research Division - Credit Research Analyst

I just have a couple of questions to follow-up on the export point. So do you expect this to affect how much value-added products you're going to sell if you're exporting more? And then in terms of your exports to Europe, do you see them already declining a significant amount in Q2? And could you give us a little bit of color of what sort of industries and customers in Europe, you're seeing these declines driven by?

Grigory Fedorishin

Thank you. What we're exporting now is mostly slabs and hot-rolled coils to different destinations. If we are talking coated products, galvanized products, so those we keep selling locally. And actually, demand for these products in Russia is still there. So we're moving according to the plan we developed before the beginning of the year. Another group is electrical steels, transformer and dynamo steels. And again, the demand there seems to be a bit countercyclical. So we are fully utilized on those products and those we sell globally.

Answering again your question, export sales, it's mostly slabs, and hot-rolled and most of this hot-rolled was taken from weakened Russian market. That was the primary purpose of the reallocation.

Can you repeat the second question on the second quarter?

Timothy William Riminton

Yes. I just wanted to get a sense of what you're seeing in terms of export demand in your sort of usual markets in Russia and Europe, which sort of clients, which industries are you seeing decreased demand? And where are you seeing normalized or increased demand? I think you've answered it partly, but if you could expand a little bit in terms of Russia and Europe, that would be great.

Grigory Fedorishin

It's pretty much uncertain at this point, and we should discuss it region by region. In Russia, as I said, construction and energy was hit most; machinery is okay; automotive is weak. Our current forecast is at least 15% lower demand year-on-year in 2020. But that accounts for the quite strong first quarter. Talking about Europe, I'm looking through my numbers, the full year estimates, they vary greatly from 10% to 20%. And but we already understand that second quarter demand decline might be in the range of 15% to 25%. And it appears, at least, again, at this point, that loss from construction demand is materially lower comparing to autos. The reason is clear: automotive was stopped for quite some time.

U.S. market, another big market for us this year, may contract also by 15%-20%. Second quarter, 25%-30% decline that we see already with the biggest hit, I would say, energy and manufacturing and construction trending relatively stronger. That's sort of a picture.

Nikolay Sosnovskiy - Prosperity Capital Management - Director of Metals, Mining & Chemicals

It's Nikolay Sosnovskiy from Prosperity. I had a couple of questions. In addition to the information provided on Slide 7, on second quarter outlook, do you have any thoughts how quickly can we go from this minus 40%-50% back to more normal figures like in third quarter or fourth quarter? So what's your internal base case? This is my first question.

Grigory Fedorishin

Nikolay, as I said, visibility is extremely low now. So we limit our forecast now by June. I wouldn't comment on the pace of further recovery. China looks largely like bright spot but that's it. The level of uncertainty in other regions where we trade is pretty high.

Nikolay Sosnovskiy

Fair enough. So my second question was about your working capital and whether you have already seen any negative changes in terms of delay of payments, some growing receivables? And basically, what do you expect in terms of working capital changes this year? And to what extent NLMK is willing to subsidize and credit its customers this year?

Grigory Fedorishin

We implemented, as you know, our credit policy, and that's quite strict credit policy several years ago as an outcome of the previous industry crisis that we had in 2015. Even before that, we already had some credit measures. So far, we don't see big delays in the payments. The weakest segment, to my mind, is, again, construction on the Russian side, but most of our receivables there is covered by either insurance or bank guarantees or other instruments. So exposure is not that high. And if I understood you correctly, the second question was generally on the working capital movements, right?

Nikolay Sosnovskiy

Yes. To what extent, if you are possible to quantify that would be perfect, but I recognize it's hard to do so. But what should we expect now $200 million, $300 million, $400 million, $500 million put in working capital kind of in addition to the normal situation just to live through these couple of quarters?

Grigory Fedorishin

Actually, this is definitely not our preferred scenario. And when we saw Russian market weakening, and that's the market where we traditionally have quite a lot of stocks. We prefer to redirect quite a significant share of our volumes to exports. And that's what we keep doing. And we hope that with China and Asia recovering and then Europe recovering as a next step, there should be room for exports.

The second lever that is available for us is to create the stock in our supply chain, namely our re-rollers in Europe. And even the U.S., if the pricing permits, 25% import duty is still there, right? But at some level of prices, it may make sense to sell slabs there. So I would rather create stocks there in supply chain, waiting for the further recovery, but I would avoid stockpiling the finished products on the Russian side or elsewhere. And again, if you're talking about Europe, U.S., if you're talking about long products, all of those are either re-rollers or EAF based producers, which means they are flexible, and utilization there can be reduced at relatively low cost, fixed cost is not that high. And that's why, again, you see those utilization numbers.

As for the working capital, I wouldn't expect working capital buildup for the end of the second quarter, it should be actually either neutral or positive because, first, you have pricing reduced, which generally positive for the working capital, you have less sales in our longer supply chain to our European facilities. So instead of selling slabs to them, we're selling slabs elsewhere to the third parties, where supply chain is short, and we recover cash quicker. All those factors combined that should actually lead to working capital either release or staying flat.

Shamil Kurmashov

Yes. If I may, I can just confirm that this reverse in quarter 2 2020, we expect moderate working capital release. Main driver will be decrease in prices of inventories and steel products as well as decrease in accounts receivable due to sales dynamics. We expect approximately working capital release in the amount of $18 million. It's in addition to the release which we had in the first quarter.

Nikolay Sosnovskiy

Okay. That's very clear. And my final question is on coking coal supplies. Export prices on the weak side at the moment. And what sort of downside do you expect to negotiate with Russian companies, if any, in the current circumstances?

Grigory Fedorishin

You are right. Coking coal is now trading, for hard coking coal is less than $110 per tonne in China. So that gives us a lever, and we are busy negotiating. But most of our contracts are already linked to the formulas. The formula base linked to international pricing, which means that for the most of the volumes, it should happen automatically. And just to give you some numbers. Our consolidated cash cost. First quarter, it was $215 on the consolidated basis. Second quarter, we expected to be at the level of $185 -$190. Probably the biggest reason for that is the coking coal price reduction on the domestic market.

Analyst 2

Most of my questions have been answered. Could you give some details on the FX rate assumptions that you have assumed for in your CapEx guidance? And what projects have you decided to postpone?

Grigory Fedorishin

Let me take this one. For the rest of the year, talking about FX rate, we assumed RUB 80 per dollar fFX rate. And talking about projects, we have a structural maintenance. We have a blast furnace and steelmaking one-off maintenance this year, so another blast furnace and another converter. And that should allow us to increase our steel production next year by 1 million tonne at Lipetsk. That occupies most of our CapEx program this year. And then there are growth projects, but again, most of them are related to this 1 million tonne expansion which we believe makes sense even at this market. And that's iron ore mine expansion, concentrate production, pelletizer expansion and continuous caster reconstruction. This chain of projects consumes most of the CapEx. The new big things like, you remember that we have a big project of captive power plant in our pipeline, so we focused on the project works, we're focused on the works that take a lot of time, the ground works, but consume just a small money. And then ordering the big equipment suppliers, we postponed until we have more certainty on the market.

We cut the Q2 to the minimum of $200 million. And then by the end of second quarter, we should decide if we stick to this scenario of $900 million to $950 million per year all in or we go lower. So that's the plan.

Analyst 3

Just got a couple of questions on 2Q. Just given, obviously, the weakness in the domestic market and your shift to export, could you obviously, the volumes are going to be down to some extent. Can you give us an estimate for how much you expect volumes to decline, first of all. What sort of approximate shares are you expecting in terms of export to domestic for the quarter as a whole? What sort of share of high value-added products? And also, could you just compare the sort of margins you're making on export sales now compared to domestic sales on average, at current prices. And maybe, I know it's a hard thing to estimate, but could you give us some sort of ballpark for how much you expect EBITDA to potentially decline in the second quarter?

Grigory Fedorishin

Thank you. The last one is probably the most difficult, and we usually don't provide guidance on the financial numbers even in the stable sort of environment. In this environment, I would really wait commenting on this one. The only thing I may say that we have the positive free cash flow is our absolute priority as we have had for, I don't know, last 7 years. So we will make sure that we adjust our CapEx plan and we manage our working capital accordingly to arrive at the positive free cash flow.

Answering your first question on volumes. Lipetsk, as a site, is 100% utilized. May is sold. We are selling June. So I don't expect any lost volumes in the flat products. The only thing that you will see in the second quarter is a reduction in the steel production, and that will come in the form of slabs, probably. That's happening again because we have just started this big maintenance project. That was planned and guided for. And we believe that's a good, very good timing given the low market. But in terms of the flat products, we fully utilized and keep selling.

In other divisions, the situation is different. For long products, obviously, because they are almost exclusively focused on the domestic market, utilization will be low also. Now there are some also opportunities on export markets. We're selling billets to Asia and to Middle East and Turkey. The reason is that ruble devaluation has helped us on that. The pricing there remains relatively strong.

On the proportion, first 2 months of the year, we were focused mostly on the Russian market and the proportion of Russian sales to domestic market was about 50%. Usually, this season is a strong construction season. So I would expect otherwise to have this 50-50 breakdown. But given, again, the Russian market weakness, now only 30% goes to the Russian market, and the rest goes to exports. But now I'm talking general tonnes. If we talk high value-added products, most of them from Lipetsk site still goes to the Russian market, which are coated, galvanized and cold-rolled products to different industries.

You had another question on pricing and premium. The paper premium that we see now in Russia is high. It's up to $100 per tonne, but it's the paper one, right? So the volumes that can be sold at this premium are insignificant, and we don't believe it's sustainable given the overall state of the consumption.

Analyst 3

Okay. But I'm talking more about your profitability on domestic sales versus export sales at prices you can potentially actually truly transact at. So what sort of domestic prices are you selling HRC at on whatever volumes you are able to sell now? And what sort of EBITDA are you making per tonne from those sales? And how does that compare to your kind of FOB price at the moment for the export sales you're getting when you're selling to marginal destinations such as the Far East?

Grigory Fedorishin

Here I would have to excuse myself. It's a bit we are touching commercially sensitive numbers. You'll see this a bit later in the financial results for the second quarter.

Artem Bagdasaryan – BCS Global Markets – analyst

I have a short question on the long steel market. And the domestic long steel market. You answered mostly all of it. But in general, what are your expectations on like in stress scenarios for the second or in the third quarter for the domestic Russian long steel market? What can be the drop, the amount of drop in domestic demand? And how it can affect your long steel division?

Grigory Fedorishin

At this point, our estimation will be at least 15% to 20% of consumption in the long product segment and construction in general on the Russian side will be lost this year. Second quarter and how it evolves into the third quarter depends heavily on when the construction is released to start working. When the construction sites are open, we may see sudden spike and boost in construction activities and consumption. Just to give you a sense, Moscow and Moscow region is 25% of the overall Russian long product demand. So restarting construction sites in May, even in this one region should have a huge positive effect on the long products.

Coming back to the company, we are less worried about this division because we went through 2008, we went through 2015. We cut the headcount significantly, we cut the fixed costs significantly. That's very flexible means we have. So fixed cost there, even if they completely stopped, is relatively low. So we can vary utilization rate quickly. And additional benefit is if utilization rate got reduced, we have sudden release of the working capital in the chain in the form of scrap stocks, in the form of finished goods, rebar, billets and receivables. That may also help the cash flow generation.

Anna Antonova - JP Morgan Chase & Co, Research Division - Analyst

Just two follow-up questions from our side. First, on your European subsidiary, NBH. So in Q1, you have contributed and financially supported the company. If market conditions deteriorate, can we expect more financial outflows from NLMK to support NBH? That's the first question.

Grigory Fedorishin

This contribution that we made during the first quarter was not actually to support the operational performance of NBH or to cover losses, but it was mostly to finance the strategic projects, the investment program we have there. And that's part of the shareholder agreement that we signed last year with our Belgium partner, the state fund called SOGEPA. They are making symmetrical contributions to support the investment program. Namely, it's reconstruction of our hot strip mill we have at La Louvière, and that's the first phase of this expansion that should allow us to produce wider, thinner and higher strength products. It should happen in the fourth quarter this year. So that was the aim of that support.

Currently, given the reduced utilization, and again, quite a flexible cost base, we don't expect a significant amount of support needed to support NBH in the second quarter.

Anna Antonova

And the second question is on the dividends. I'm speaking about like theoretical, like certain scenarios, you have highlighted that remaining free cash flow positive is a priority for you, for the company. In what kind of market scenarios, would you consider cutting the Q1, Q2 dividends? Or perhaps delaying or deferring the dividend payment later into the year, as for example, some of your peers have. What should happen basically on the market for you to do this kind of actions?

Grigory Fedorishin

Here we are entering a bit of a theoretical discussion. The only limitation there that we have, and that's clearly stated in our dividend policy, that the financial stability of the company is of utmost importance. But now we feel comfortable with liquidity we have on the balance sheet, with the CapEx reduced and with some sort of additional liquidity we got from Q4 dividend cuts. So far we are comfortable following the dividend policy.

Dmitriy Kolomytsyn

Thank you very much, everyone, who joined this call, and we'll be very happy to see you again in about 3 months to discuss our second quarter 2020 financial results. Thank you, and have a good weekend.