

Russia-China Gas Deal Will Boost Steelmakers Severstal and MMK – Moody's

By [The Moscow Times](#)

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Russian steelmakers such as Severstal and MMK will benefit from a landmark 30-year deal for Russia to supply natural gas to China that will require huge construction projects, ratings agency Moody's said Monday.

The deal, worth more than \$400 billion, was signed last month, marking a triumph for Russia as it risks losing European gas customers over Moscow's annexation of Ukraine's Crimea peninsula earlier this year.

Russia and China have agreed on a \$25 billion pre-payment under the deal, bolstering Moscow's plans to invest \$55 billion in exploration and pipeline construction to China.

"The deal entails developing two gas fields and building a 4,000-kilometer pipeline. The project will require substantial quantities of oil country tubular goods, or OCTG, pipes

and large-diameter pipes, or LDP. The demand will positively affect TMK, Severstal and MMK," said Moody's.

It warned, however, that even if tendering for the construction projects begins in the third quarter, the prompt positive effect on the companies' near-term order backlogs is unlikely to be enough to affect their ratings.

Under the deal, Russia plans to begin delivering gas from 2018, building up gradually to 38 billion cubic meters a year. The gas will be transported along a new pipeline linking Siberian gas fields to China's main consumption centers near its coast.

"We estimate that the total project investment will exceed \$55 billion over 2014 to 2019," said Moody's.

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