

RusAl Swings to Profit in Q2

By [The Moscow Times](#)

August 31, 2010

The  Moscow Times

HONG KONG / MOSCOW – United Company RusAl, the world's top aluminum producer, returned to profit in the second quarter, boosted by an aluminum price rebound it expects will drive more growth, in defiance of renewed global economic concerns.

"We believe the global industrial production growth supports [aluminum] fundamentals. ... Consumption has historically outpaced GDP growth," Maxim Sokov, head of corporate strategy, told reporters.

His comments came as European stocks prepared to record their sixth monthly loss this year and investors fretted about lingering worries over the health of the U.S. economy in particular.

The results were also in sharp contrast to those last week from China's largest aluminum maker, Aluminum Corporation of China, or Chalco.

Chalco suffered a loss of 96.7 million yuan (\$14.2 million) in the quarter because of higher costs and overproduction. Chalco said the rebound in demand was sluggish and the industry

faced a glut.

China, the world's largest producer and consumer of primary aluminum, has been the driver of global industry growth as U.S. demand slows, accounting for 42 percent of consumption globally in 2010, analysts estimated.

RusAl, headed by billionaire Oleg Deripaska, enjoys a competitive cost advantage over Chalco and other rivals because of cheap hydropower in Russia and favorable taxation.

RusAl posted a net profit of \$1.02 billion for the three months to end June, thumping an average forecast of \$478 million from eight analysts polled by Reuters.

The group's Hong Kong-listed shares edged up 0.66 percent to 7.65 Hong Kong dollars following the results, still well below the January initial public offering price of 10.80 Hong Kong dollars per share. The company announced new moves to court skeptical investors.

It appointed a new chief financial officer, Yevgeny Kornilov, who as CFO of Russian retail chain X5 restructured a heavily leveraged balance sheet and led a secondary share offer to finance a major acquisition.

To ease trading in the shares, RusAl said it would reduce its stock's board lot size in Hong Kong to 6,000 shares per hand from 24,000 shares from Oct. 4. The company's heavy debt and big lot size have been a drag on its stock.

It intends to start a Russian Depositary Receipts program to be listed on Moscow's MICEX and RTS exchanges by the end of 2010, which could pave the way for inclusion in the MSCI Russia Index, analysts said.

The share is not widely held so inclusion in a benchmark index could spark a wave of forced buying by tracker funds.

RusAl's \$1.27 billion first-half profit included more than \$1 billion in one-offs, including a revaluation of its 25 percent stake in the world's biggest nickel miner, Norilsk Nickel.

Analysts said a tight grip on costs at the aluminum giant — Russia's most indebted company with more than \$12 billion on the balance sheet as of June 30 — had also driven the return to profitability after an \$868 million loss a year ago.

"Cash operating costs trailed the aluminum price," VTB Capital analyst Alexander Pukhayev said.

Falling debt and improved profitability also reduced RusAl's effective interest rate to 5.5 percent from 7 percent and is likely to decrease further, said Oleg Mukhamedshin, head of capital markets.

"Currently, we are very happy about deleveraging targets," he said.

Mukhamedshin said RusAl had also received its share of Norilsk Nickel dividends, which would be used to pay down debt.

RusAl has been fighting a battle for influence on the board of Norilsk and is arguing for higher dividends.

Deripaska faced rival shareholder Vladimir Potanin in the Arctic mining town of Norilsk on Tuesday, with Prime Minister Vladimir Putin presiding.

Putin said they had made progress in the conflict over the past week, but neither side showed signs of reconciliation.

A revaluation of the one-quarter stake in Norilsk — a potential disposal target to raise funds to pay down debt — added \$450 million to RusAl's bottom line, Pukhayev said.

"Our shareholding in Norilsk Nickel continues to deliver value for UC RusAl," Sokov told a conference call.

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