

RusAl Trails in Share Value as Norilsk Battle Goes On

By [The Moscow Times](#)

February 17, 2011

The  Moscow Times

United Company RusAl is trailing Alcoa and all other peers as billionaire founder Oleg Deripaska snubs shareholders' pleas to end a two-year battle for control of Norilsk Nickel.

RusAl, trading at about 6.5 times estimated 2011 earnings, has the lowest valuation on that measure among its five main peers, with Alcoa at about 12.3 times earnings and Aluminum Corporation of China at 11.9 times, Deutsche Bank data show. RusAl has also lagged behind Alcoa's share gains since the Russian company listed in Hong Kong on Jan. 27, 2010.

Chief executive Deripaska, who rebuffed two offers last year for RusAl's 25 percent holding in Norilsk, received a sweetened \$12.8 billion bid last week from the nickel company to buy back most of its stake. Deripaska rejected that price in an interview with CNBC. The holding's market value has risen 56 percent in a year to \$11.4 billion, almost half RusAl's value.

"A sale of the Norilsk Nickel stake at a premium to the market may prove to be the best

outcome for RusAl, putting the company in a solid net cash position and opening the door to development opportunities, both organic and through M&A," Marat Gabitov, an analyst at UniCredit in Moscow, said in a note.

Investors in RusAl's initial public offering a year ago, including billionaire Li Ka-shing and New York hedge-fund manager Paulson, saw the stock tumble as much as 38 percent before recovering. While the rebound was helped by an increase in Norilsk's value, RusAl would do best to sell the stake, according to some analysts.

Deripaska has been embroiled in a dispute over control of Norilsk with fellow shareholder Vladimir Potanin since 2008. The battle has also drawn in RusAl investors including Glencore International and Mikhail Prokhorov, who favors a sale, and Trafigura Beheer, which agreed to buy 8 percent of Norilsk.

RusAl investor and chairman Viktor Vekselberg also sought to maintain talks with Norilsk over the stake in the face of opposition from his chief executive, Interfax reported Jan. 24.

RusAl said in an e-mailed statement on Feb. 11 that its board would consider the latest offer received from Norilsk. Maria Uvarova, a Norilsk spokeswoman, and Vera Kurochkina, a spokeswoman for RusAl, declined to comment further.

Norilsk, the largest nickel and palladium producer, on Feb. 11 raised its bid to buy back its shares to \$12.8 billion for a 20 percent stake, from \$12 billion for 25 percent. That followed talks in late December when Deripaska demanded \$16 billion, a person with knowledge of the matter said Jan. 19.

Glencore, the biggest commodity trader and Trafigura rival, might not be awarded any contracts by Norilsk, said the person, declining to be identified because the talks were private.

By holding out, Deripaska has forced Norilsk to offer about \$3.5 billion above the odds for RusAl's stake, a transfer of value from the nickel producer to the billionaire's company, said Dmitry Smolin, an analyst at UralSib Capital. RusAl would be able to pay off all its debt and still have about \$1 billion in cash as a result, he wrote in a Feb. 14 note.

"Norilsk made a beneficial proposal to RusAl," Prokhorov said Wednesday in an e-mailed statement, adding that his Onexim Group will support the deal. "The situation has obviously come to a dead-end, so one of the parties should take the decision to sell." RusAl, valued at about \$25 billion based on prices in Hong Kong, could increase to as much as \$35 billion should it sell out of Norilsk, Prokhorov said Dec. 23. The billionaire owns 17 percent of the company.

Deripaska on Jan. 27 said he expects Norilsk's market value to surge to at least \$70 billion this year. That would boost the value of RusAl's stake to \$17.5 billion and add to a buyback's cost. He also said RusAl's debt will fall within four years.

"Debt will be so insignificant, it won't be worth mentioning," he said in an interview in Davos, Switzerland.

RusAl's net borrowings fell to below \$12 billion as of Sept. 30 after almost doubling to as much as \$16.6 billion following the company's purchase of Norilsk shares in 2008.

"Though many investors were first skeptical about RusAl, the company has been aggressively repaying its debt," said Alexandre Starinsky, a fund manager at Atria Advisors, with \$300 million in assets including RusAl IPO shares. "RusAl performed well due to rising aluminum prices and its cost leadership based on access to cheap electricity."

Part of the attraction for investors is the potential for RusAl's market valuation to begin to catch up with its peers should the company resolve the battle over Norilsk's ownership.

RusAl trades at just over half the price-to-earnings ratio of Alcoa and Aluminum Corporation of China, the Russian company's closest rival on the Hong Kong Stock Exchange, according to Deutsche Bank's latest figures, sent by e-mail on Tuesday.

The ratios, prepared before Norilsk's most recent offer, were 20 times for Alumina, 18.6 times for India's National Aluminium and 13 times for Norsk Hydro.

"RusAl's decision to stick with the Norilsk stake has been curbing its development," Vladimir Zhukov, an analyst at Nomura International, said. "Some of its investors are questioning the rationale. Selling this stake would enable RusAl to eliminate completely its debt and unlock significant organic growth potential."

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