The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

RusAl Net Plummets Due to Norilsk Reversal, Price Drop

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March 19, 2012



United Company RusAl said Monday that its net profit slumped 92 percent in 2011 from a year earlier due to a decline in the value of its stake in Norilsk Nickel, an apple of discord between the aluminum giant's billionaire owners.

RusAl, the world's largest aluminum producer, posted a net profit of $237 million last year compared with $2.87 billion in 2010, the company said in a financial statement. Revenue rose 12 percent to $12.29 billion due to growth in the average aluminum price.

"The reduction in the carrying value of the company's investment in Norilsk Nickel, which is attributable to the sales and purchases by Norilsk Nickel of its own shares ... during the year, was a primary reason for the decrease in net profit," the statement said.

The net asset value of RusAl's 25 percent stake in the nickel producer declined by $1.4 billion to $9.2 billion last year after Norilsk Nickel bought back about 11 percent of its shares from the

market, according to the document.

RusAl said the market value of its Norilsk stake had declined from $11.2 billion in 2010 to $7.4 billion last year.

The slump in market value results from the overall turmoil on the domestic stock market, which faced correction at the end of last year, said Dmitry Smolin, an analyst at UralSib Capital.

But the company is likely to pare gains by the end of this month, he added.

The market value of the stake recovered in the first quarter of this year to reach $9.3 billion at the beginning of last week, RusAl said.

The asset was a sticking point in a conflict between the aluminum giant's biggest shareholders, which escalated last week after Viktor Vekselberg, who owns 15.8 percent in RusAl, resigned as its chairman.

RusAl, which has elected head of Hong Kong Mercantile Exchange Barry Cheung as its new chairman, threatened Vekselberg's SUAL Partners with "legal action" on Sunday following the company's criticism regarding the election of a foreigner to chair the board.

RusAl said such comments damage its reputation and lead to a decrease in its shareholder value. It also reiterated that Cheung's candidacy had been supported by the majority of the board.

Meanwhile, Anatoly Tikhonov, first deputy chairman of Vneshekonombank and a RusAl board member, abstained during the vote, a spokesperson for the bank told Interfax on Monday.

The bank, which holds about 3 percent in the aluminum company, doesn't consider Cheung the right candidate, the spokesperson said.

Vekselberg and fellow shareholder Mikhail Prokhorov pushed for the sale of the Norilsk stake, which would allow the aluminum producer to reduce its debt burden, but they faced resistance from RusAl chief executive and majority owner Oleg Deripaska.

Given that Deripaska considers Norilsk Nickel a strategic investment, he's unlikely to shed the stake, despite the strained market conditions and RusAl's debt load, which remains rather high, Smolin said by telephone.

RusAl said its adjusted net profit — which should be considered the major indicator of its core business results — increased 24.6 percent last year to $987 million after the company completed the refinancing of its debt, which totaled $11 billion as of the end of December.

The aluminum maker has no scheduled debt repayments this year and "is comfortable with existing debt requirements," Oleg Mukhamedshin, head of equity at RusAl, said on a conference call early Monday, Reuters reported.

RusAl faced a significant decline in demand at the end of last year, while aluminum prices slid to about $2,000 per ton at the end of December after peaking at $2,809 per ton in April.

But the company said it remains optimistic about this year's prospects.

"While the current global economic volatility, in conjunction with excessive stock levels, will continue to put pressure on aluminum prices in the near term, global aluminum demand remains well above 2009 recession levels, and we anticipate that the rising influence of developing countries will ensure demand remains robust throughout 2012," Deripaska said in the statement.

Tatyana Soina, a RusAl executive director, tendered her resignation from the board as of March 16, with Maxim Sokov, the head of strategy, taking her place, RusAl said Monday, Bloomberg reported. Maxim Goldman took the place of Viktor Vekselberg on the board, representing the 15.8 percent stake in RusAl owned by the billionaire and his partner Len Blavatnik.

RusAl took out a full-page advertisement in the Financial Times on Monday, asking shareholders of Norilsk Nickel to support its proposal to set up a trust that would pay the nickel company's independent directors. The independents on Norilsk's board have not been paid for the last year, RusAl said in the advertisement.

RusAl "has been a laggard against both the broader market and aluminum peers recently, driven by the negative corporate news flow," VTB Capital said in a note. "The stock could find a floor now, given that the results brought no further negative surprises, and the appointment of an independent as chairman of the board somewhat improves sentiment."

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