

With Production at 'Plateau,' Alrosa Seeks Gas Investors

By [The Moscow Times](#)

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Alrosa, Russia's state-run mining company, sees buying shares in diamond producers as the best way for investors to benefit from gem prices that are rising for a fourth year.

Rough diamond prices may climb 4 percent this year from the 2011 average of \$132 a carat, even as economic turmoil weighs on demand in some developed countries, said Leonid Tolpezhnikov, head of market analysis at Alrosa. Prices rose 32 percent in both 2009 and 2010, and added 24 percent last year.

"Diamonds aren't truly commodities," Tolpezhnikov said. "The value of each stone is appraised by independent experts. The result is subjective and unclear for investors. We think buying shares in diamond producers and jewelry houses may become an alternative for mass investors."

Alrosa has advanced 15 percent this year to \$1.10 in Moscow trading, valuing the company

at \$8.1 billion. Harry Winston Diamond Corp. rose 24 percent in New York in the same period. Chow Tai Fook Jewellery Group, a Hong Kong-based chain with revenue that exceeds Tiffany's, dropped 12 percent.

Investors may soon have greater access to Alrosa stock. Its board agreed March 16 that the government could sell 14 percent of the company's shares in a public offering as soon as first-half results are released under international standards, due in the second half of 2012.

Global production of the precious stones has reached a "plateau" of about 130 million carats a year, Tolpezhnikov said in an interview in Moscow.

Rather than pursuing acquisitions, Alrosa plans to spend about \$3 billion by 2015 developing its Russian mines, Tolpezhnikov said. Most of Alrosa's open pits date back to the 1970s, and the company needs to make investments to allow underground mining and increase output at newer sites, he said.

"We aren't interested in buying small or aging mines," he said.

Alrosa will seek investors for its natural gas assets after repurchasing them from VTB Group for \$1.04 billion.

VTB bought Geotransgaz and Urengoi Gas assets from Alrosa in 2009 to help the producer through the financial crisis. Alrosa has hired VTB Capital to advise on developing the projects and attracting strategic investors, it said Friday in a statement. The company has a preliminary deal to sell 25 percent to 26 percent to state oil and gas producer Zarubezhneft.

The assets have resources of 187 billion cubic meters of natural gas and 26.4 million tons of gas condensate in the northern Yamal-Nenets autonomous district, Alrosa said. It may start output of 1.8 bcm of gas and 250,000 tons of condensate a year from the fourth quarter.

The diamond producer announced Friday that it completed the purchase of 100 percent of the gas assets.

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