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# RusAl Q1 Down 84%

By The Moscow Times

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Analysts say the poor showing could increase pressure on Deripaska to sell the company's Norilsk Nickel stake. **Denis Sinyakov**

The world's biggest aluminum producer RusAl posted an 84 percent drop in first-quarter net profit as prices fell, potentially fueling a shareholder row over the company's refusal to sell its stake in Norilsk Nickel.

RusAl also nominated Matthias Warnig, a former East German secret agent who has known President Vladimir Putin since the 1990s, as an independent director in what analysts saw as an attempt to play up management's good standing with the Kremlin.

Chief executive and controlling shareholder Oleg Deripaska has resisted pressure to dispose of RusAl's 25 percent share in the world's largest nickel and palladium company to pay down debts at a time when aluminum markets are weak.

Deripaska's dreams of a megamerger with the $14 billion stake purchase four years ago, financed through debt, were dashed when the global crisis struck.

RusAl was forced into a debt restructuring, and shareholder and billionaire Viktor Vekselberg urged Deripaska to sell the Norilsk stake, now worth $7.9 billion based on Reuters calculations.

Net debt rose 0.7 percent to $11.13 billion at the end of March from December, RusAl said in its earnings statement. The company said it has no outstanding debt obligations this year.

In addition to the dispute over Norilsk, Vekselberg, who resigned as chairman in March, is challenging a large aluminum supply deal with a third RusAl shareholder — commodities-trading giant Glencore.

In March, RusAl appointed Barry Cheung, an independent director of the company and head of the Hong Kong Mercantile Exchange, to replace Vekselberg. Analysts have questioned how much influence he can exert over Deripaska, who owns 47.4 percent of the aluminum producer.

"The company has just kept creating more headwinds, more risks, and who knows how those are going to go," said Alexander Latzer, an analyst at Daiwa Securities. "The stock is only for the most risk-accepting investors."

In a separate statement on Monday, RusAl said it had nominated Warnig as an independent nonexecutive director for election at the annual general meeting on June 15.

Warnig, who got to know Putin in the 1990s when he worked in St. Petersburg for Dresdner Bank, has since 2006 been managing director of Nord Stream, which has built an underwater gas export pipeline across the Baltic — a priority project for Putin.

"They are trying everything they can to lift the stock price — short of selling the Norilsk stake — and the Warnig appointment looks like a marketing move," a Moscow-based analyst said.

Shares in RusAl, which competes with U.S. aluminum maker Alcoa, fell as much as 2.6 percent to 4.90 Hong Kong dollars ($0.64) after the earnings announcement.

That price represents less than half of the stock's 2010 Hong Kong IPO value of 10.80 Hong Kong dollars each.

While global aluminum consumption in the first quarter grew 5 percent from a year earlier, the average price of the metal used in cars, construction and beverage cans fell 13 percent to $2,177 per ton, RusAl said.

Net profit, which included its share of earnings in Norilsk and noncash items, slumped to $74 million in the three months ended March from $451 million a year earlier.

Recurring net profit fell 77 percent to $112 million, compared with an average forecast of $94 million in a poll of eight analysts by Reuters.

"EBITDA was below my estimate, net profit was kind of in line, and I don't think it's getting any better in the second quarter, as aluminum prices are falling," Latzer said.

Adjusted earnings before interest, tax, depreciation and amortization, or EBITDA, dropped 38 percent to $237 million, compared with an average forecast of $257 million by analysts.

"We consider the results as negative because EBITDA missed consensus by a significant amount," said Barry Ehrlich, a metals and mining analyst at Alfa Bank in Moscow.

Ehrlich said he expected second-quarter EBITDA to be as low as $125 million, which could trigger a significant downgrade in consensus forecasts for this year. RusAl said it would take 4 percent to 6 percent of production offline due to market weakness.

Its rival, Alcoa, surprised the market last month with a profit after a loss in the last quarter of 2011 as demand for aluminum in North America was strong in most industrial sectors except for building and construction.

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