

Rusal is BlackRock “Favourite” in Russia on Low Costs year

By Marina Kolesnikova, - February 15th 2011

United Co. Rusal, the world’s largest aluminum maker, is among BlackRock Inc.’s “favorite” Russian companies because of its low costs and high debt.

“We do like Rusal because of the fact that it’s relatively leveraged and it’s got a competitive cost advantage in terms of its hydropower,” Catherine Raw, who helps manage the flagship \$17 billion World Mining Fund with Evy Hambro, said in a Geneva interview yesterday. “Rusal is one of our favorite positions.”

BlackRock, the world’s largest money manager, bought Rusal when the shares plunged last year after a \$2.24 billion initial public offering in Hong Kong, Raw said. Rusal is up 21 percent since the IPO, after falling as much as 38 percent in mid-2010. BlackRock bought 352.4 million Rusal shares, or a 0.18 percent stake, in October, according to data compiled by Bloomberg.

Rusal has recovered along with metals prices and as it cut net debt to below \$12 billion by Sept. 30. Borrowings almost doubled to as much as \$16.6 billion after the company’s purchase of OAO GMK Norilsk Nickel shares in 2008 ahead of a collapse in world commodity prices. Aluminum for three-month delivery on the London Metal Exchange is up 40 percent since February 2009.

“Because their balance sheet is leveraged, any small move in the aluminum prices is going to lead to a large move in their share price,” Raw said.

Russian Risk

BlackRock also owns Norilsk, OAO Polyus Gold, OAO Polymetal and Petropavlovsk Plc. in its mining fund and the \$9.2 billion World Gold Fund, Raw said. Russian assets make up less than 5 percent of the two funds because of the country’s perceived political risk and strategic-resource regulations, she said.

“Russia is incredibly natural resources-rich,” Raw said.

“The challenge for a Western investor is being able to guarantee or to be able to predict what the returns are going to be over time.” As a result, Russian mining companies trade at a discount to their peers elsewhere, she said.

Rusal trades at barely half the price-to-earnings ratio of Alcoa Inc. for 2011, and the lowest valuation among its five in international rivals, according to Deutsche Bank AG estimates. Rusal’s 2011 price-to-earnings ratio is estimated at 6.5, compared with 12.3 for Alcoa, Deutsche Bank said.

“With respect to gold, the growth that you are seeing in gold companies in terms of reserves and production means that we’ll always be in Russia, but we could own more if we felt more comfortable,” Raw said.