

FINAL CASE  equity
research

RUSAL

Advanced Business Valuation 2023/2024

Team 10

30.05.2024

UC Rusal – is a public company

About company

Exchanges: Moscow & Hong Kong

Rusal is Russia's leading vertically integrated global aluminum manufacturing company. It is included in **TOP-3 aluminum producers in the world**

The company was formed in 2000 (by combining the assets of Oleg Deripaska's SIBAL and Roman Abramovich's Millhouse Capital).

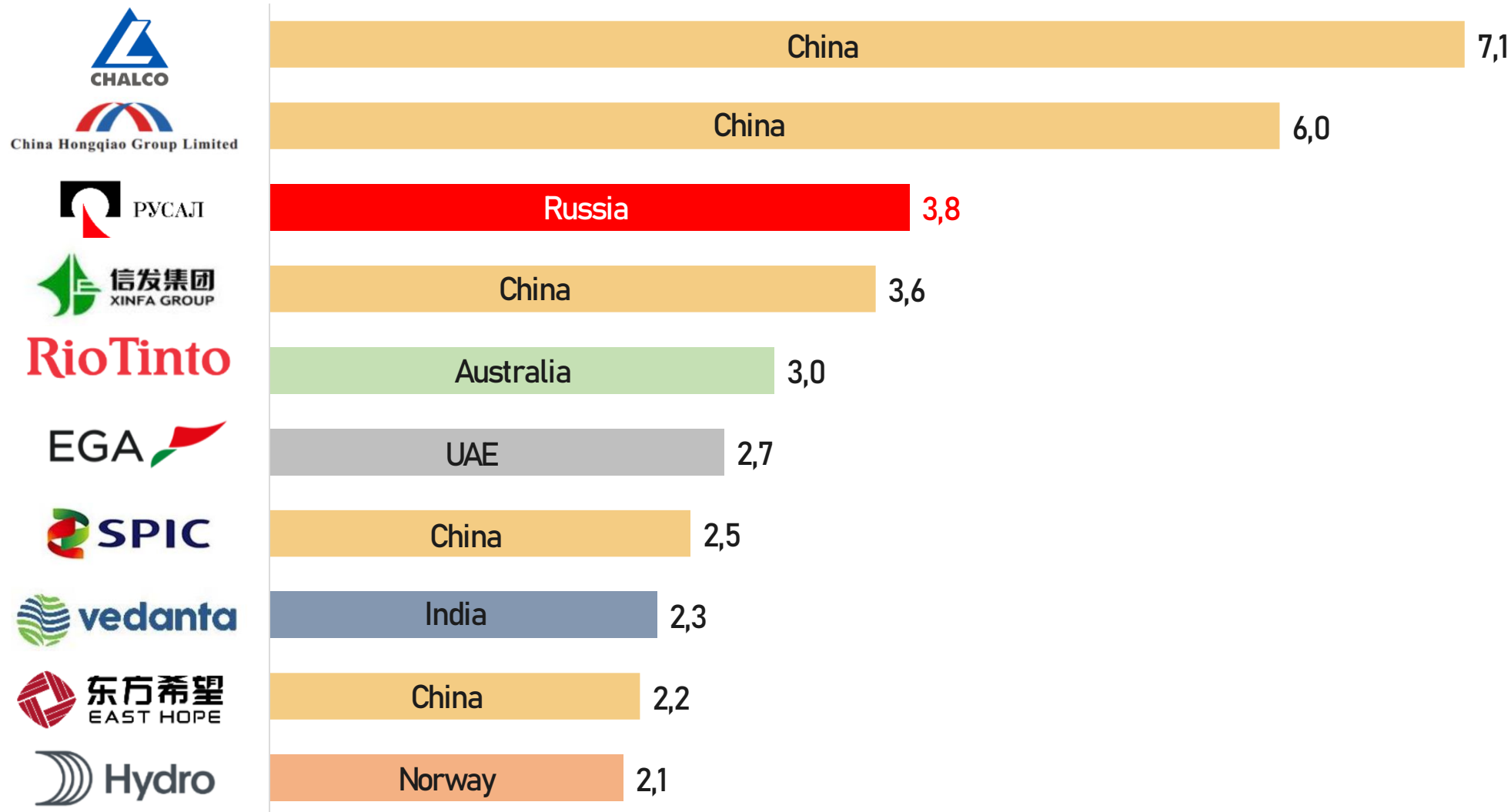


Source: Rusal, Yahoofinance, Moscow Exchange (26.05.2024)

Main competitors

Market research

The largest aluminum producers in the world (mnl tones, 2022)



Aluminum ¹³Al

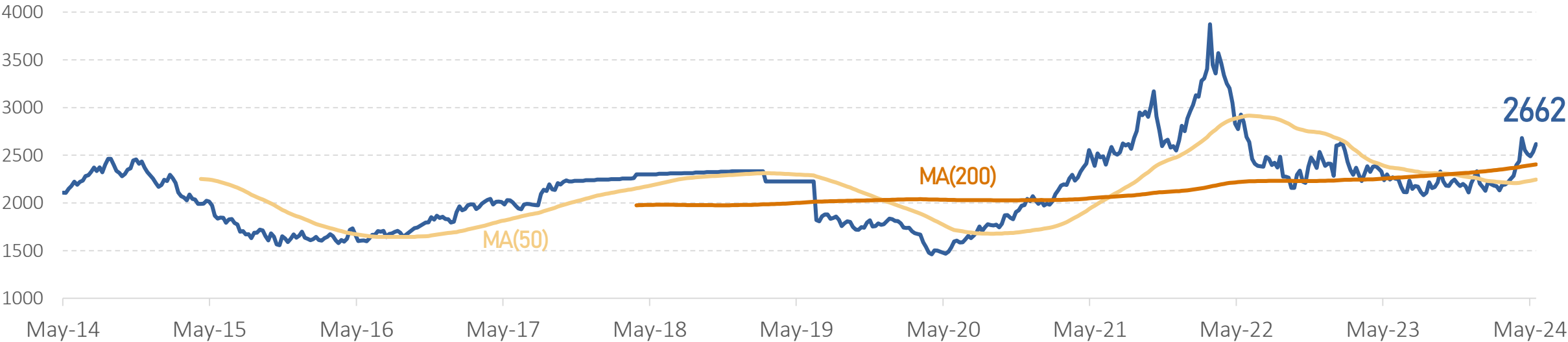
Market research

Aluminum and its alloys are used almost everywhere — in everyday life, manufacturing, mechanical engineering, aircraft construction, etc.

Aluminum is a commodity and its prices are cyclical

Production	Consumption
China 57%	China 60%
Asia 17%	Europe 14%
Europe 13%	Asia 11%
North America 5%	North America 9%
Others 7%	Others 6%

Aluminum Exchange Rate - (AL3, US\$)



Source: Yahoofinance, Sovcombank (26.05.2024)

Aluminum

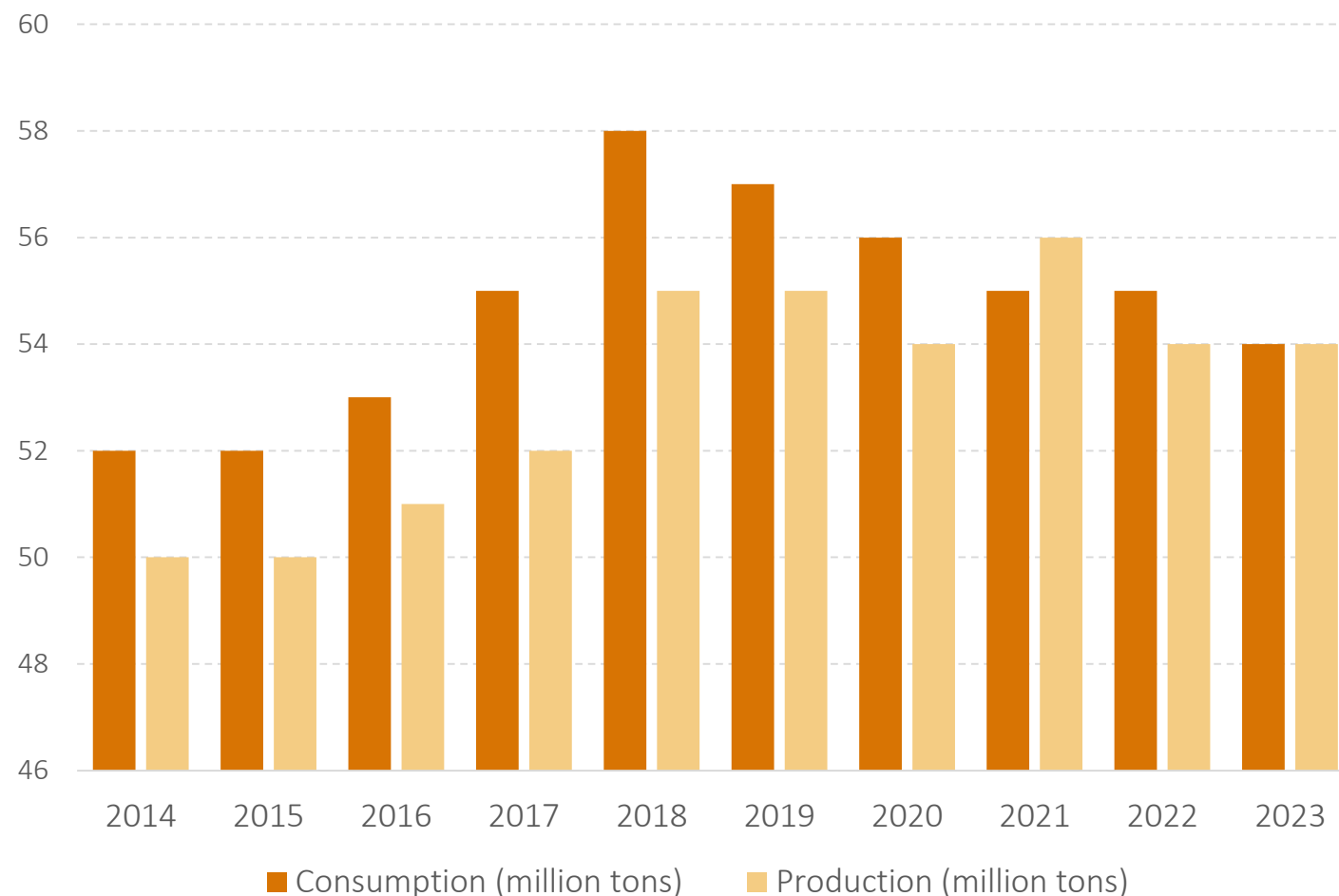
Market research

The dynamics of aluminum prices is determined by the supply-demand balance.

In 2023, there was a balance in the market



Supply/Demand balance in the primary Aluminum Market



Assumptions

Forecasting



Reporting period:
2018 – 2023



Forecasting period:
2024 – 2030



Tax rate: 20%



Terminal growth: 3%

Valuation date: 31.12.2023

Units of measurement: mln of US\$

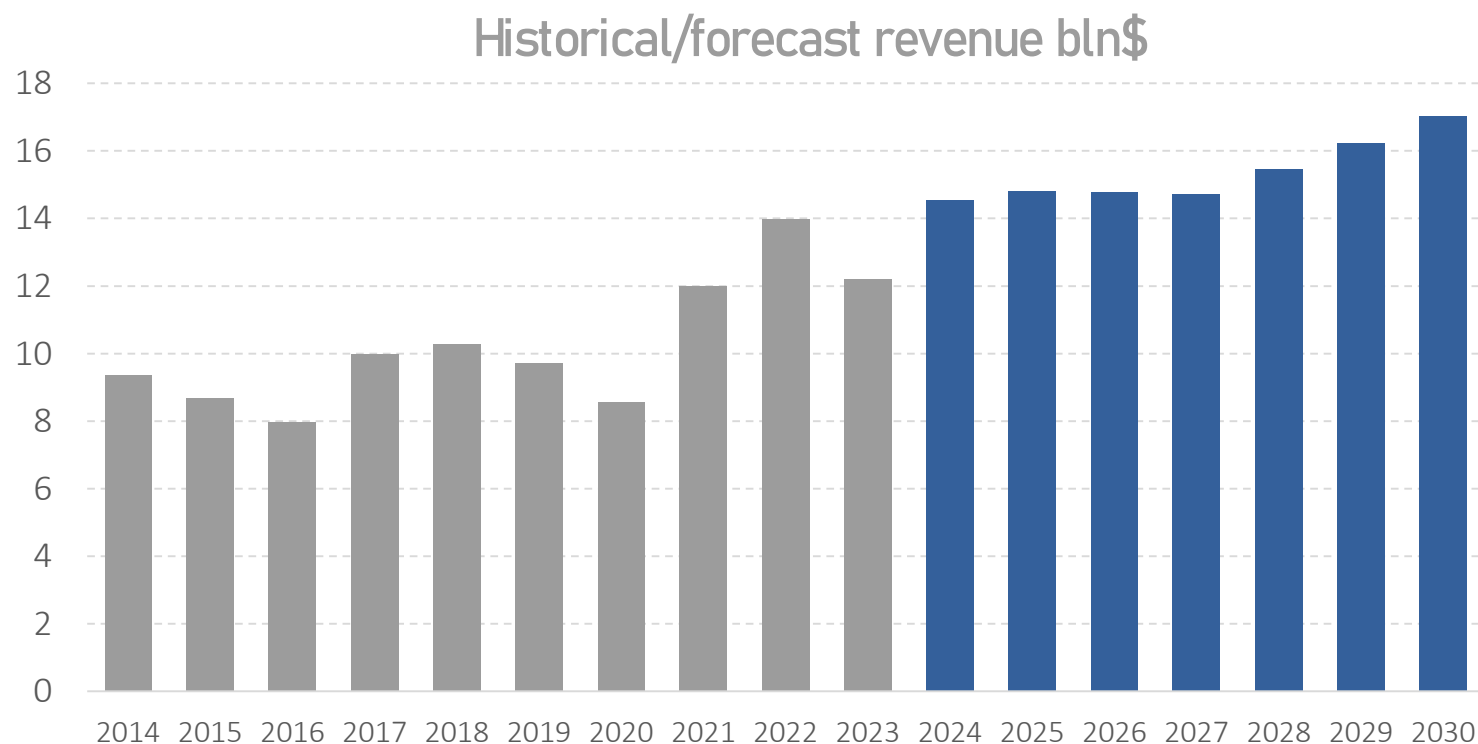
Our goal:

Company research to make an investment recommendation

Revenue forecast

From the company's reports we can see, that revenue depends on aluminum: prices & supply/demand balance.

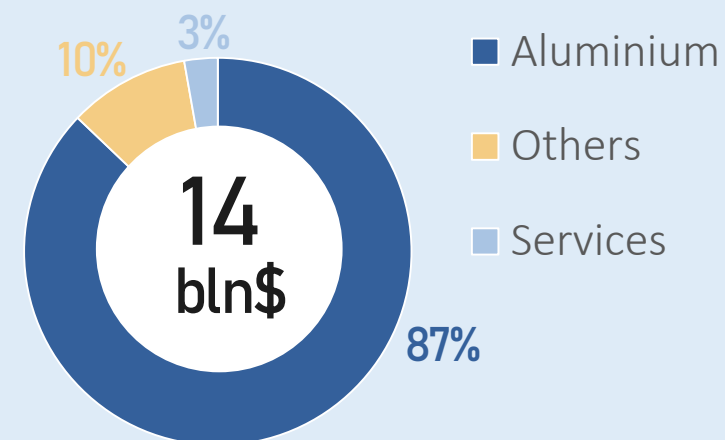
The revenue forecast is based on **aluminum futures prices**.



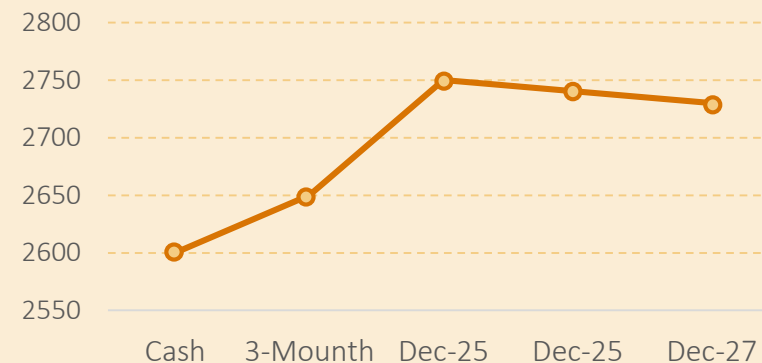
Source: Rusal, LME (26.06.2024)

Forecasting

Revenue structure in 2022



This revenue structure has been maintained for at least 4 years



UC Rusal export more that 70% and get revenue in dollars, thus we calculated dollar WACC

WACC component		Source / comment	
Risk-free rate	4.46%	UST 10Y YTM index	Cbonds
Equity risk premium	6.0%	Analyst assumption	
Beta unlevered	0.64	Median for peer companies	
Debt / Equity median ratio based on comparable companies	0.64	Median for peer companies	
Tax rate	20.0%	Russian income tax	
Beta levered	0.97		
Size premium	0.57%	Kroll (Size Premium)	
Specific risk premium	3%	Analyst assumption	
Cost of equity	13.8%		
Cost of debt	8.0%	YTM of UC Rusal Bonds	Cbonds
Income tax	20%		
Cost of debt	6.4%		
Equity share	61%		
Debt share	38.9%		
Debt / Equity	64%		
WACC	10.9%		

Source: team calculation

DCF-model

Valuation

	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Terminal
EBIT	418	2,400	2,514	1,970	2,323	2,204	2,217
Income tax	(84)	(480)	(503)	(394)	(465)	(441)	(443)
NOPAT	334	1920	2011	1576	1858	1763	1773
D&A	555	582	610	640	671	704	738
CAPEX	(1,124)	(1,237)	(1,113)	(1,002)	(1,102)	(1,212)	(1,333)
Delta NWC	324	1,212	157	(31)	(55)	452	450
FCFF	89	2477	1665	1182	1373	1707	1628
Disc. Rate	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%
Dics. Factor	0.90	0.81	0.73	0.66	0.60	0.54	0.48
Disc. FCFF	80	2012	1220	781	817	916	787

Enterprise value = 12,199

Equity value = 6,545

Target price, USD = 0,43\$

Target price, RUB = 39₽

Target price sensitivity to Terminal growth rate and WACC						
WACC		Terminal growth rate				
		2.50%	2.75%	3.00%	3.25%	3.50%
	9.0%	60	62	65	68	71
	10.0%	46	48	49	51	53
	11.0%	36	37	38	39	41
	12.0%	28	29	29	30	31
	13.0%	22	22	23	23	24

Comparables Approach

Valuation

Due to the low EBITDA and EBIT of 2023, these multiples give negative results

Company			Financials			Valuation		
	Enterprise Value	Net Debt	Revenue	EBITDA	EBIT	EV/Revenue	EV/EBITDA	EV/EBIT
BHP Group Limited (BHP)	162,762		55,336	22,644	17,410	2.9x	7.2x	9.3x
Hindalco Industries Ltd	1,245,452		2,145,600	166,270	166,270	0.6x	7.5x	7.5x
China Hongqiao Group Ltd	124,123		133,624	26,344	19,158	0.9x	4.7x	6.5x
Aluminum Corporation of China Limited	167,131		207,747	19,673	19,673	0.8x	8.5x	8.5x
UACJ Corporation	212,409		882,393	64,003	25,495	0.2x	3.3x	8.3x
Vedanta Limited	1,008,689		1,417,930	405,720	298,280	0.7x	2.5x	3.4x
Rio Tinto Group (RIO)	127,187		54,041	21,076	15,742	2.4x	6.0x	8.1x
UC RUSAL	12,199	5,654	12,213	784	244	1.0x	15.6x	50.0x
High						2.9x	8.5x	9.3x
75th Percentile						2.4x	7.5x	8.5x
Average						1.2x	5.7x	7.4x
Median						0.8x	6.0x	8.1x
25th Percentile						0.6x	3.3x	6.5x
Low						0.2x	2.5x	3.4x
UC RUSAL Valuation (Median)						EV/Revenue	EV/EBITDA	EBIT
Implied Enterprise Value						9,825	4,731	1,971
Net Debt						5,654	5,654	5,654
Implied Market Value						4,171	(923)	(3,683)
Shares Outstanding						15,193,014,862	15,193,014,862	15,193,014,862
Implied Value Per Share, USD						0.27 -	0.06 -	0.24
Implied Value Per Share, RUB						24.62 -	5.45 -	21.74

Source: team calculation

Sensitivity analysis

Valuation

WACC sensitivity to risk-free rate and cost of debt

		Risk-free rate				
		3.9%	4.2%	4.5%	4.8%	5.1%
Pre-tax cost of debt	6.0%	9.9%	10.1%	10.3%	10.5%	10.7%
	7.0%	10.3%	10.4%	10.6%	10.8%	11.0%
	8.0%	10.6%	10.8%	10.9%	11.1%	11.3%
	9.0%	10.9%	11.1%	11.2%	11.4%	11.6%
	10.0%	11.2%	11.4%	11.6%	11.7%	11.9%

WACC sensitivity to beta and Debt share

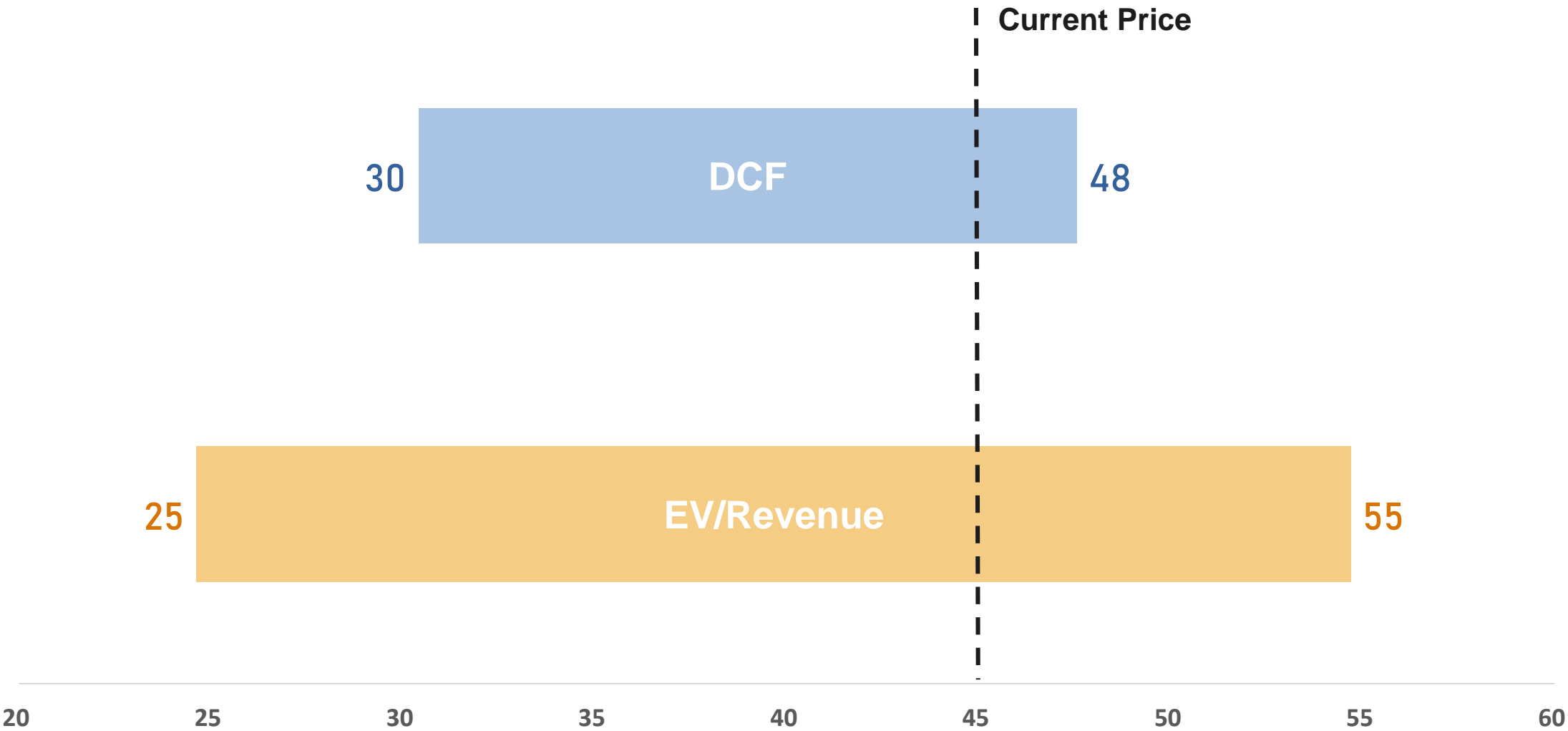
		Debt share				
		28.9%	33.9%	38.9%	43.9%	48.9%
Beta	0.8	9.6%	9.9%	10.2%	10.5%	10.8%
	0.9	9.9%	10.3%	10.6%	10.9%	11.2%
	1.0	10.3%	10.6%	10.9%	11.3%	11.6%
	1.1	10.7%	11.0%	11.3%	11.6%	11.9%
	1.2	11.0%	11.4%	11.7%	12.0%	12.3%

Source: team calculation

Football Field

Target Price per Share, RUB

Current Price



Source: team calculation

Recommendation★

Conclusion

Basing on the provided valuation with two approaches, target price of the UC Rusal is near its market price, thus there is a limited upside opportunities

Our consensus is "Hold on"

The share price is highly dependent on the price of aluminum. Therefore, it is recommended to consider buying a company if you believe in the active use of aluminum in the future and its prices are rising

Disclaimer: it is not an Individual Investment Recommendation,
all matches with real people are random

