Норникель: горизонт инвестиционных решений

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Аннотация. В данной статье представлен анализ ПАО «Норникель», который может быть полезен заинтересованным лицам при принятии инвестиционных решений. Все данные факторы делятся на две группы: внутренние и внешние. Основные результаты исследования представлены в виде сводок и таблиц с последующим анализом основных драйверов инвестиционных возможностей и рисков. Информация носит рекомендательный характер.

Ключевые слова: Норильский никель, инвестиционное решение, металл и добыча, финансовые коэффициенты.

Nornickel: the Crossroad of Investment Decisions

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Annotation. This article presents the Norilsk Nickel analysis that might be used by stakeholders when making investment decisions. All the given factors fall into two groups: internal and external. Major factors are accumulated and summed up into
a short overview containing the strongest current potential drivers and risks. The information will probably provide the users with some useful recommendations.

**Keywords:** Norilsk Nickel, investment decision, metal and mining, financial ratios.

**Introduction**

The aim of this article is to analyze the published data on a highly ranked Russian company and give some recommendations for those who wish to make some investment decisions.

The modern history of the PJSC "Mining and metallurgical company (MMC) «Norilsk Nickel» began in 1993. Under an edict of the President # 2096 of 05/12/93 “On Formation of Financial and Industrial Groups (FIGs) in the RF”, the enterprise for the production of precious and non-ferrous metals was transformed into Norilsk Nickel (RJSC). In 2001, the major shareholders (96.9% of stocks) of the RJSC Norilsk Nickel had their shares exchanged for the MMC Norilsk Nickel.

At the moment, MMC Norilsk Nickel is the largest enterprise in Russia for the extraction and production of precious and non-ferrous metals. The company accounts for 40% of palladium, 11% of platinum, 10% of nickel and 2% of copper from the world production. The main production units of the MMC Norilsk Nickel include: polar division, Kola MMC, Bystrinsky mining and processing plant, Nickel Refining plant in Finland, 50% of the shares of the company developing the Nickel field in South Africa, and a license for the development of the field in Australia. Overall, there are 12 metals in the production basket of the MMC Norilsk Nickel. The company sells them to more than 300 customers from 34 countries\(^1\).

The company has entered a new strategic cycle in 2018-2020, focusing on the environment protection, the new goal is set - transformation of the company into «green Norilsk Nickel». The main factor that has a strong impact on the financial performance of the company is the market price of non-ferrous and precious metals.

Results of the research

Norilsk Nickel produces four major types of metals and eight related metals. This is nickel, platinum, copper and palladium. In our opinion, to predict future results, it is necessary to understand what industries these metals are used in. We see that an overwhelming number of products of the company Norilsk Nickel are used in such sectors as the infrastructure & urban development, power & electricity, mobility and manufacturing & machinery. It is logical to assume that the development of these industries will affect the growth of Norilsk Nickel.

Approximately 70% of the produced nickel is used in steel smelting and nickel plating, as its properties help to protect the metal from corrosion. The remaining 30% is used in nickel factories, for example, the production of batteries, which account for up to 5%. Now, copper is used mostly in construction due to its high flexibility and electrical conductivity. Most often copper is used in conductors and semiconductors. Aluminum is the direct competitor of copper in construction because this metal has the same properties, but its manufacturing is much cheaper. However, copper has the melting point of 1,085°C versus 660.3°C of aluminum. Therefore, at a higher cost, copper is a more reliable material to produce conductors. Platinum and palladium are chiefly used in exhaust gas cleaning systems.

Fig. 1 – Forecast of the EV sales volume (millions)

A key driver of demand growth is an e-vehicles uptrend. E-trend is a rapidly growing tendency stimulated by «green» ideas, two of which are to reduce the number of diesel autos and decrease air pollution with the traffic fumes. The forecast of the EV

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sales volume shows a fast-growing trend up to half a billion of sales in 2038. It is understood that this factor is one of the most important Norilsk Nickel’s demand drivers.

**Fig. 2 – World population growth**

There is a huge number of various in-sector drivers, such as growth of cars produced in China (+4%), in the USA (+2%), in Europe (+3%), plus the falling market share of diesel cars (52% in 2015 to 38% nowadays). Moreover, metal demand is supported by increase in mobility, growth in renewables, population growth and other global factors. Analyzing these tendencies, we conclude that they are steadily growing trends. That is why demand for Norilsk Nickel products will be on the rise for a very long time. Consequently, as a result, we expect external drivers to continuously raise global demand for Norilsk Nickel’s primary metals thus supporting its market long-term performance and revenue growth.

**Fig. 3 – Expected market share in 2025,%**

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On the one hand, the increase in the production of electric vehicles can have a positive impact on the production of nickel and copper, but on the other hand, it can negatively affect the production of palladium and platinum. Since electric vehicles should in turn replace internal combustion engines, metal mining companies themselves are in no hurry to expand manufacturing in the hope of a sharp rise in demand for Nickel and copper. Theoretically, according to estimates of the management of the company Norilsk Nickel, the growth of demand for Nickel in 2025 will increase 10 times. This can be caused by the growth of production of electric vehicles, however, this opinion cannot be considered reliable enough. Until companies start investing in the development of Nickel and copper production capabilities, it is too early to predict a significant rise. Moreover, the growth in electric vehicle manufacturing will hit palladium and platinum production. Forty-four percent of these metals are used in the production of cars and the change of landscape in this market can significantly affect the demand for them.

**Fig. 4 – Potert's Five Forces**

*Source: the authors’ analysis*

It is difficult to enter the metals mining industry because of limited ore fields, high level of the required capital and existence of mining concessions. The limited ore fields thesis means that only big companies may afford to use the newest technologies
to search ore-rich fields. Moreover, mining sector is allocated among the most powerful companies and this is not always relevant to invest trying to set up a new one.

The above-mentioned thesis confirms that metal mining sphere is highly complicated for new producers. On the contrary, Norilsk Nickel is one of the biggest Russian companies, especially in metal mining sphere, and those market rules only exalt the industrial facilities and economic properties of the NN. According to the Porter’s “Five Forces”, we can conclude that there is no competition for Norilsk Nickel because of its economic conditions. Norilsk Nickel is the company with a good potential to grow.

The NN is the second biggest nickel producing company in the world with a 10% market share. According to the historical data, nickel market deficit grows due to the increase in demand for stainless steel in China and Indonesia.

Moreover, cathode materials for Li-ion batteries have an impact on the rising deficit too. In the long-term perspective, nickel uptake from batteries may be 450 kt. As the NN’s management predict, the global deficit of nickel is going to exist at least until 2025. The copper market is destined to remain balanced in the middle term outlook. China holds the leading copper consumption position in the world. In 2017, the Chinese world market share was 48% due to the increase in domestic demand by 3.2%. Although, China continues to reduce import of refined metals, it still raises the consumption of raw materials as they are planning to make refined metals themselves. That is why they cut coming-in metals by 5% with the total amount of 4.7 mn tones in 2017.

It is worth mentioning that the import of copper concentrates has risen by 2% (up to 17.4 mn tones). Consumption growth is provided by upgrading of our own productive capacities and technologies. Moreover, it may be assumed that Norilsk Nickel would have better relationships with other developing countries like South Korea, Indonesia, etc. A lot of analytical forecasts and outlooks demonstrate that copper price will constantly rise because of the increase in e-cars production (nine times higher up to 2026).
We have prepared the nickel and copper price forecast. Correlation rate equals 0.86. That means that nickel and copper prices will go up. After a strong price adjustment, palladium shows a great result, trading high now. Norilsk Nickel is expecting increase in demand for palladium by 5.3% next year. The main driver is global vehicle production, as well as the advances in chemistry, electronics and jewelry industries. Speaking about chemistry, palladium, as a good catalyst, is irreplaceable for petroleum «cracking» processes and stuff hydrogenation aimed to get motor fuel and different machine oils. Palladium is also used in electronics to get special coverings, which are different in sulfite impact resistance. Moreover, electronics consumption correlates with multi-layer ceramic capacitors (MLCC) that are needed by military, medical and other specialists. It is notable that Norilsk Nickel is the biggest palladium producer in the world, so we assume that these demand factors would help Norilsk Nickel to get better profits and benefits. Platinum has the worst market situation now. Overblown anti-diesel flows, falling of gold prices and issues with misunderstanding between the USA and China let traders open short positions. Despite the fact, that Norilsk Nickel expects a fall in demand for platinum, all risks are priced-in and 2019 might be a very good point to reverse the trend. Moreover, China’s stable demand would help platinum metals have acceptable liquidity levels. In that case, platinum may achieve $1000 per troy ounce in 2019.
**Fig. – 5 Forecast of the main financial ratios**

*Source: the authors’ analysis*

### Conclusion

The undertaken analysis proves strong BUY recommendations. We believe that the price of the Norilsk Nickel shares will definitely rise because of positive domestic and global drivers, and we summarize some of them below:

1. Positive market trend for Norilsk Nickel with neutral products prices situation.

   We want to emphasize that demand for Norilsk Nickel products will be promoted by growth of EV (e-vehicle) sales, by new developing market innovations and by other above-mentioned reasons, but this generally positive situation is not as clear as it might be. On the one hand, the prices of nickel and copper are not as high as they might be. Speaking about nickel, the price decreased approximately by 30% last summer. The price of copper has fallen down by almost 16.5% in the same period. On the other hand, palladium beats all records. Nowadays palladium is even more expensive than gold. We assume that EV driver will substitute the falling prices for palladium. This factor is going to stabilize the whole situation.

2. There is no competition inside the Russian industry.

   There is no probability of industrial competition for Norilsk Nickel in the nearest future because of the high entry barriers. This business will belong to Norilsk
Nickel in the long run. Thus, Norilsk Nickel has long-term contracts with partners, strong productive capacity, special smelting and mine digging technologies, exclusive rights and the government’s backing.

3. Good financial forecast reinforces the faith in Norilsk Nickel.

Norilsk Nickel demonstrated stable financial results over the course of recent years. The company has one of the highest EBITDA margins (40%) among its peers, at the same time it has managed to decrease Net Debt/EBITDA ratio, which fell sharply to 1.1x from 2.1x at the end of 2017. CAPEX is currently at the 3-year minimum, amounting to USD 536 mn. However, the NN’s management announced a future capital expenditure increase to 1.5-2.2 bn per annum, though it may become a negative factor, i.e. “stay-in-business” costs. Moreover, a NWC cut off to USD 1 bn is expected to deliver 48-49% EBITDA margin in the following year. The main concern is that currently Norilsk Nickel - relies on its peak historical values, favorable market conditions and the profits from the recent completion of capital projects.

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