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No Plans to Step Down for Norilsk CEO

By The Moscow Times

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Metals behemoth Norilsk Nickel plans to capitalize on its position as one of the world’s lowest-cost producers. **Vladimir Filonov**

When he took the helm of Norilsk Nickel last December as part of a deal that ended a long-running shareholder battle, billionaire Vladimir Potanin hinted that he saw himself in the job for about two years.

Almost a year on, Potanin is clearly relishing his role at the center of a major turnaround and indicates he has no plans to stand down as chief executive of the world's largest producer of nickel and palladium.

"I do not like deadlines," the 52-year-old Potanin said over tea in an upmarket London hotel last week, after a long day spent wooing investors.

His departure could be years away as he develops the Norilsk management into a world-class team, he said.

"For a rich and reasonably successful guy, it is impossible not to enjoy your job, otherwise why would you spend so much time and effort doing it? I am a great fan of Norilsk and I like this kind of challenge."

Potanin, whose more than $14 billion fortune began in banking, has long been a major shareholder in Norilsk, securing stock at a bargain-basement price in the loans-for-shares privatizations that followed the collapse of the Soviet Union and spawned a new oligarch elite.

He now holds a 30 percent stake, the single largest.

Until late last year, Potanin had rejected a direct role in managing the company, saying he preferred to leave the day-to-day running to professional managers. That has changed.

"When you supervise something, it is one thing. When you are in the middle of something, there is a different pace of life," said Potanin, sporting a sober gray suit instead of his customary open-necked black shirt.

He is now spearheading an austerity effort that echoes Norilsk's diversified peers in the mining sector, trimming back to its core assets, cutting spending, and even dividends, albeit still with sector-beating yields. And there is flexibility for more if markets worsen dramatically, he said.

Norilsk, which mines some of the world's largest nickel-copper-palladium deposits in Russia's far north, has battled lackluster prices — nickel has dropped by a fifth this year — and an image tarnished by years of draining infighting between key investors. Potanin and rival billionaire Oleg Deripaska, who owns 28 percent of Norilsk through indebted aluminum producer RusAl, were at loggerheads for more than four years.

Potanin has kept the largest stake but ceded control last year, with a deal that brought in Chelsea soccer club owner Roman Abramovich as a peace enforcer.

A Fine Balance

Under a new strategic plan unveiled over the past weeks, Norilsk will focus on its Russian assets, particularly the lucrative deposits in the Arctic where it sees potential to boost exploration and cut costs. It will sell off operations in Australia, South Africa and Botswana, bought during an expansion spree over the past decade, but now seen as too small.

The only overseas asset still under review is Harjavalta, a refining operation in Finland, Potanin said, which could remain.

It will trim spending to $2 billion a year, the bulk of that to go on growing the Polar Division, Norilsk's core, dating back to its origins as a Stalin-era mine, where Norilsk has world-class reserves and some of the best ore grades in the industry.

It has also hammered out an agreement between shareholders to pay lower dividends: 50 percent of core profit or at least $2 billion in 2013 and 2014. Potanin said that number had been stress-tested for a further drop in prices and significant cost overruns, but, like spending and other related plans, could come down still further in case of major shifts in the market.

"Even with the fact that some shareholders would have liked higher dividends, everyone is reasonable," he said, adding that the deal, which will require some borrowing in addition to Norilsk cash, satisfied those looking for high payouts and those hankering instead for a stronger balance sheet.

At these levels, Norilsk's dividend yield is more than 8 percent, compared to a sector average it estimates at below 5 percent.

"We have shown the ability to find that balance, which leads me to the conclusion that our model is sustainable for a period of several years. But we are ready in case of dramatic changes to react quickly."

Norilsk plans a modest nickel production increase of under 3 percent at most over the coming five years, but is still facing a market that could hit a painful surplus this year.

Potanin said Norilsk sees the nickel price as close to the bottom as, he believes, many loss-making rivals cannot continue to endure costs of $18,000 per metric ton and above, compared to a nickel price of closer to $14,000.

"They can survive quarters, but not years," Potanin said.

In the meantime, the metals behemoth will capitalize on its position as one of the world's lowest-cost producers, with enviable metal content in its ore. It also continues to benefit from its role as supplier of high-quality nickel to the European steel sector, a position it says cannot be usurped by nickel pig iron, a cheaper substitute which has battered nickel miners.

More than half of Norilsk's sales are to Europe, and it expects the market for high-quality nickel to recover faster than demand for nickel pig iron, which also depends significantly on low-cost input from places like Indonesia, now cracking down on the export of mineral ores.

Norilsk is also revamping its sales model to consider selling not just refined nickel and other metals but also intermediate products, and looking to an improved recovery of precious metals to help boost the bottom line.

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