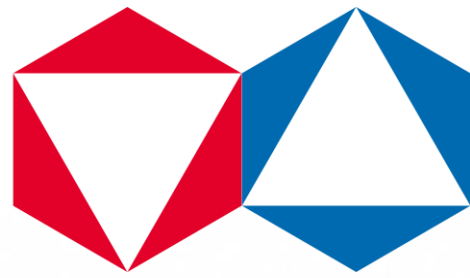


АЛРОСА



ALROSA

Brilliant idea to invest



Target price
RUB 123.24

▲ BUY 10%
Upside

RUB 111.91
23-April 2021



Vladislav
Kovalevskiy



Alexey
Gerasimenko



Sasha
Vasilevskaia



Tatsiana
Palkhouskaya

Investment summary



Enhanced operational efficiency, corroborated by the performance during crisis, puts ALROSA ahead of its peers



Demand in the diamond jewelry market is resilient during the pandemic and demonstrates promising prospects for recovery

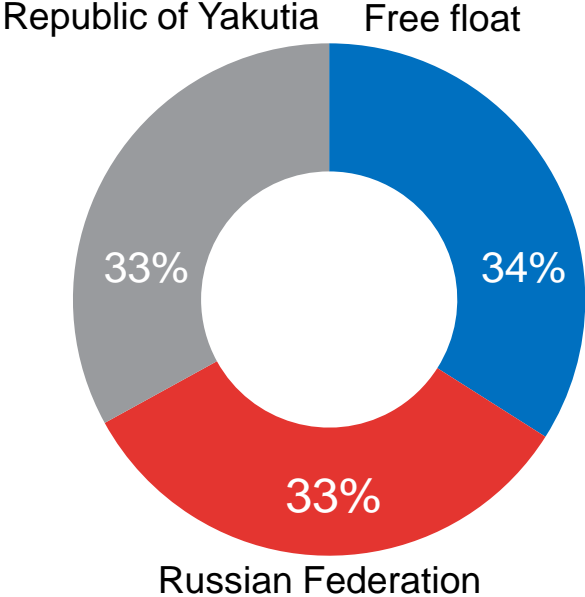


Solid FCF generation allows ALROSA to fully cover an attractive dividend yield and assure investment grade rating



ALROSA is vertically integrated Russia based diamond mining company with a significant share of the state in its shareholder structure

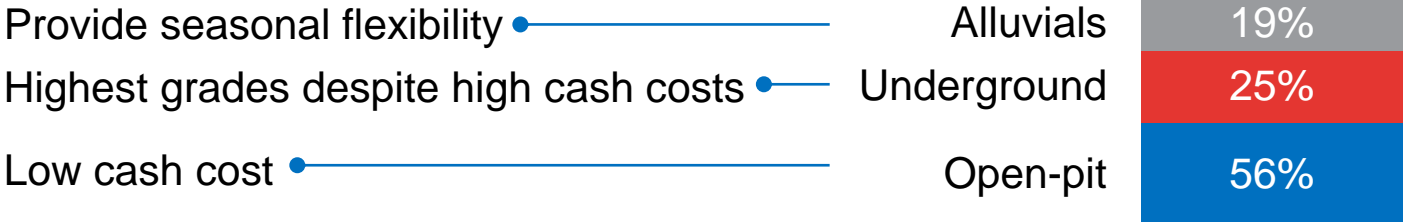
Shareholder structure



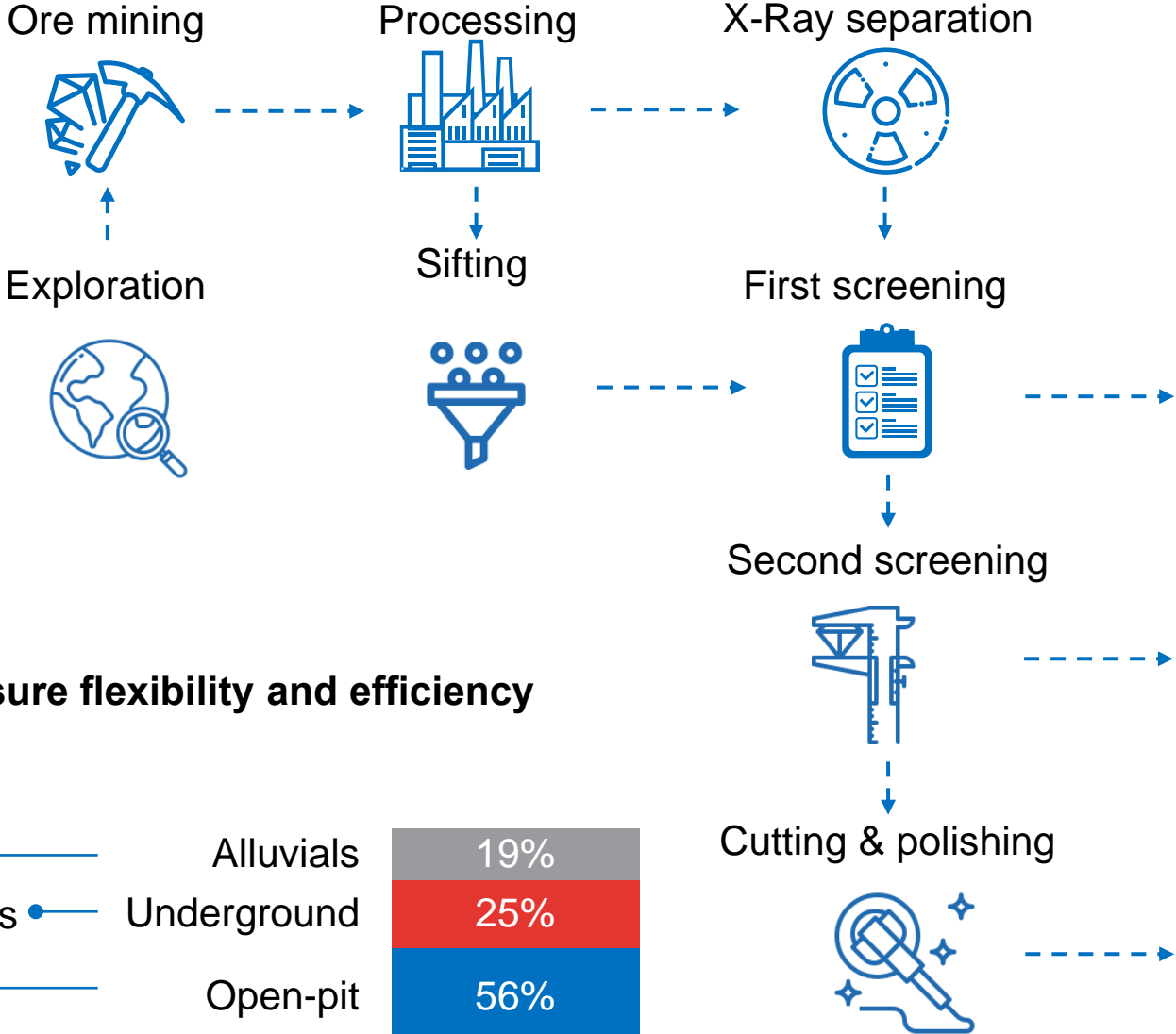
Source: Company data

Company's production facilities assure flexibility and efficiency

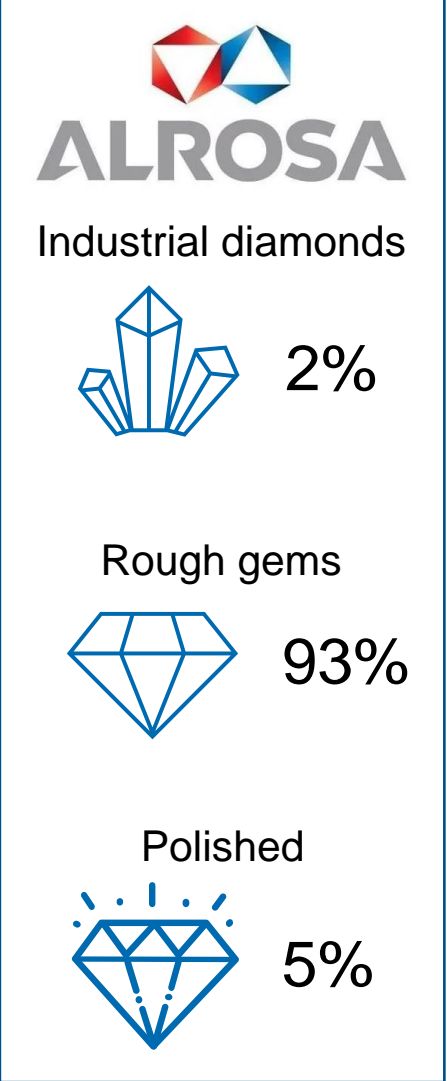
Type of mining
% shares 2016-2021 avg.



Source: Company data



Sales share 2020, %



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Company's COVID response was swift and resulted in strong rebound from pandemic-related slump

ALROSA's initiatives aimed at operational efficiency...

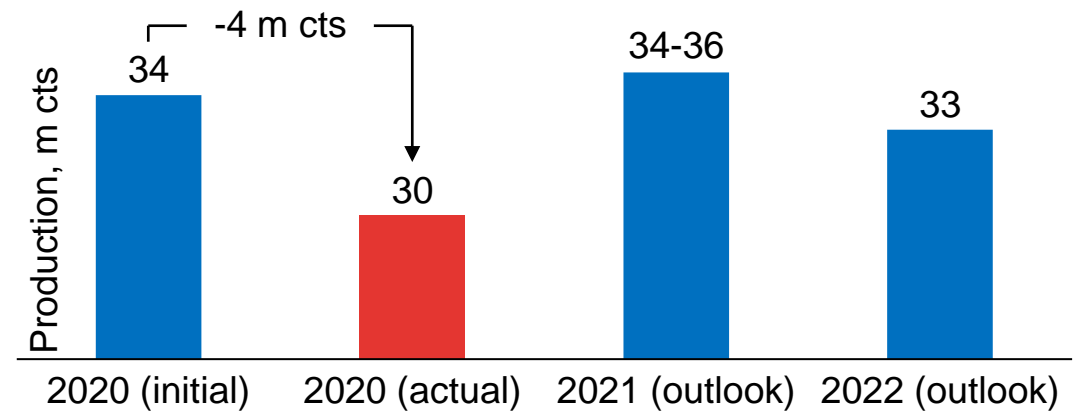
Best MES Mining Project Award
Wonderware Forum 2020



- ◆ Continuous improvement
- ◆ Real-time production visibility
- ◆ Standardized operations
- ◆ Integration with internal systems
- ◆ Reduced operational costs

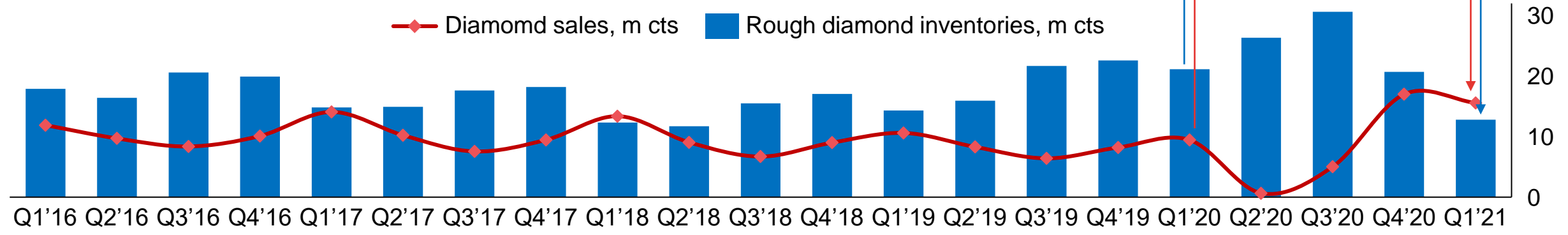
Source: Company data

...assured timely reduction in production volumes



Source: Company data

2021'Q1 operational results indicate steady recovery from the crisis

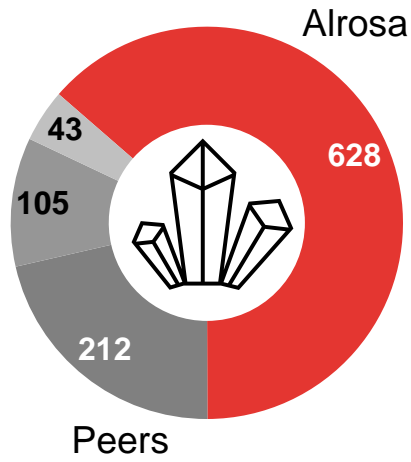


Source: Company data



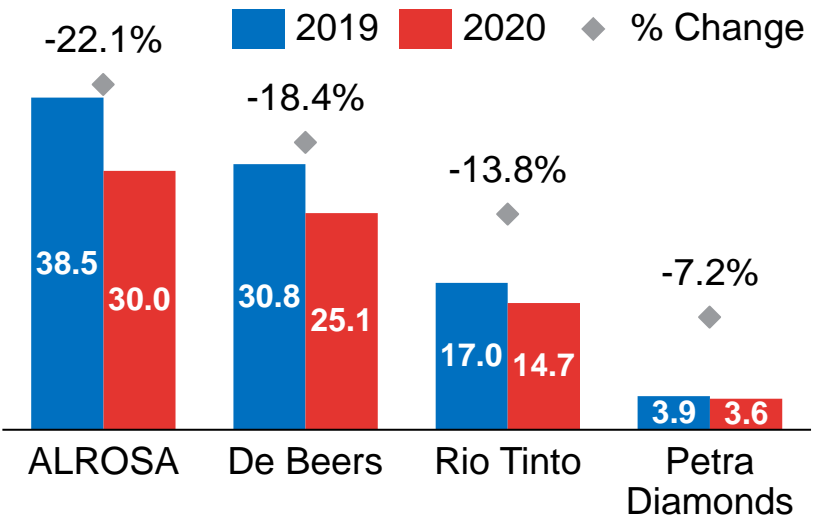
ALROSA has the largest reserves, demonstrates the highest profitability during the pandemic and promises the most attractive dividend yield among its peers

ALROSA has the largest reserves among its peers



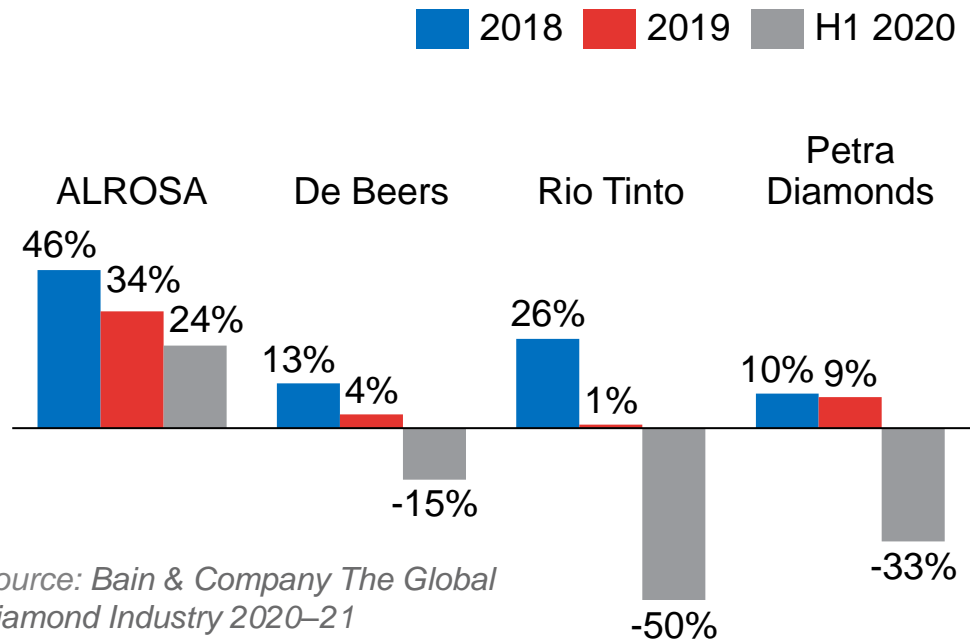
Source: Company data

Production volume of leaders in diamond industry, m cts



Source: Company data

Adjusted EBIT margin (gains (losses) not connected to continuing operations excluded), %



Source: Bain & Company The Global Diamond Industry 2020-21

Current key ratios

	ALROSA	De Beers	Rio Tinto	Petra Diamonds
ROCE (T12M), %	16%	0%	6%	-1%
Div. Yield (F12M), %	8.50%	2.24%	4.98%	0%
EV/EBITDA (T12M)	8.10	6.06	7.43	12.24

Source: Yahoo Finance, Team analysis



Investment summary



Enhanced operational efficiency, corroborated by the performance during crisis, puts ALROSA ahead of its peers



Demand in the diamond jewelry market is resilient during the pandemic and demonstrates promising prospects for recovery

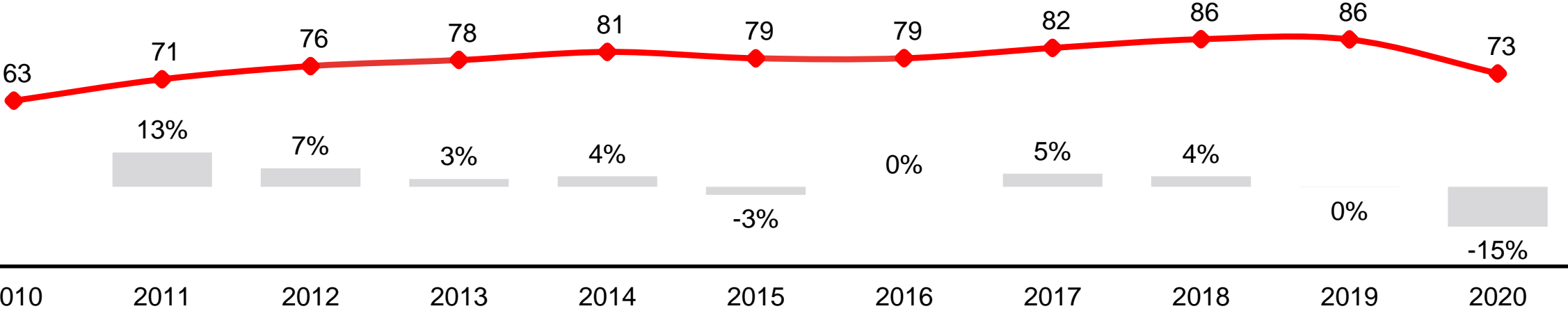


Solid FCF generation allows ALROSA to fully cover an attractive dividend yield and assure investment grade rating



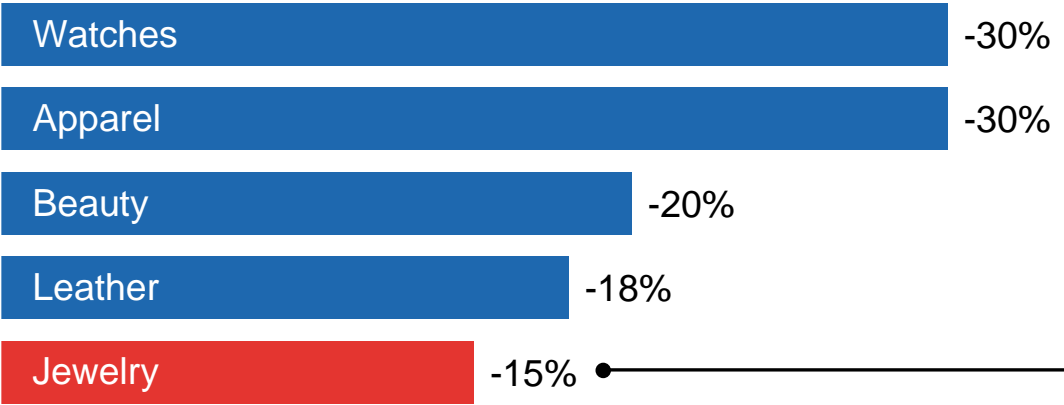
Demand in the diamond jewelry market demonstrates resiliency

Diamond Jewelry Sales, \$ bn



Source: Company data

Personal luxury market categories in 2020 vs 2019



Resiliency is supported by:



Substantial growth in sales of diamond jewelry through e-commerce



Sustained growth of sales in Asia-Pacific (mainly due to the recovery of Chinese demand)

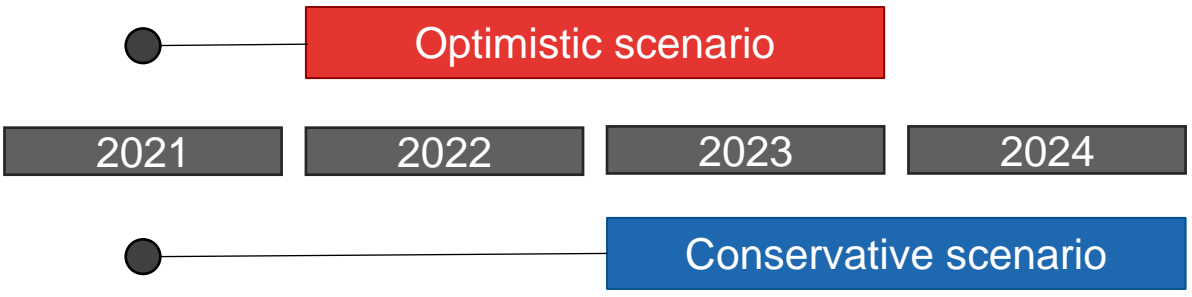
Source: Bain-Altagamma 2020 Worldwide Luxury Market Monitor, Team Analysis



Demand in the diamond jewelry market demonstrates promising prospects due to economic recovery after COVID-19

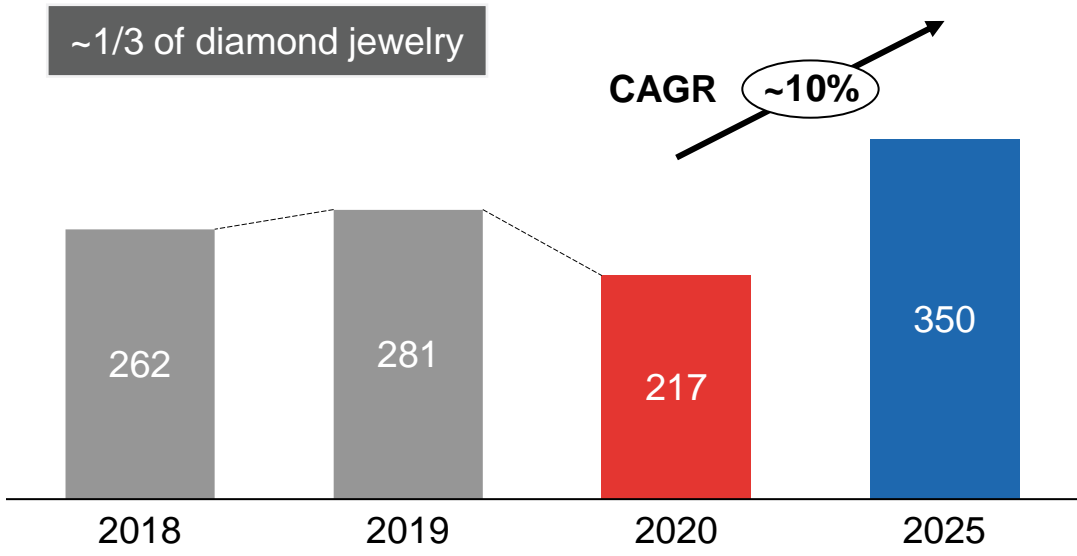
The global diamond jewelry market is going to reach the pre-pandemic level:

- In 2022-2023 in case of optimistic scenario and
- In 2023-2024 in case of conservative scenario



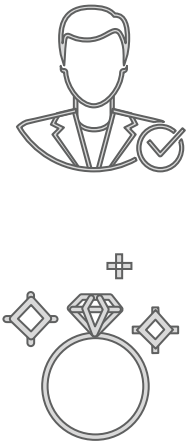
Source: Bain & Company The Global Diamond Industry 2020–21

Personal luxury market forecast, € bn



Sources: Company data, Bain & Company The Global Diamond Industry 2020–21

Drivers of demand on diamond jewelry



10% growth in global consumer confidence: 108* in Q1 2021 vs 98 in Q4 2020

Weddings postponed due to COVID-19 will be held (bridal diamond jewelry is 37 % of total diamond jewelry market)

* The value higher than 100 is considered positive



Investment summary



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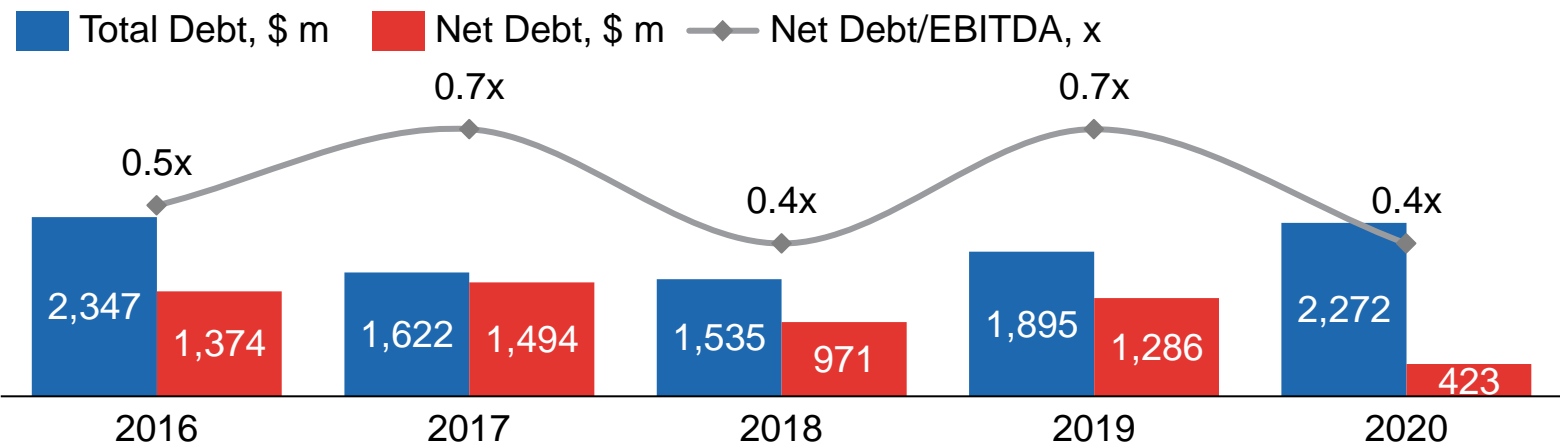
Demand in the diamond jewelry market is resilient during the pandemic and demonstrates promising prospects for recovery



Solid FCF generation allows ALROSA to fully cover an attractive dividend yield and assure investment grade rating

Robust performance with low leverage and strong EBITDA margin even during pandemics

Net Debt/EBITDA is line with the long-term target...



Source: Company data

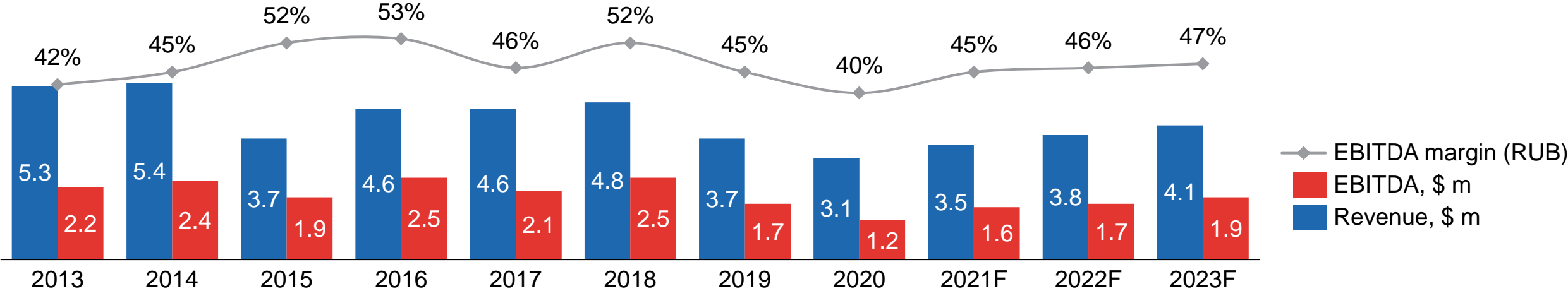
...and assures investment grade rating

FitchRatings BBB- / stable (2020)

MOODY'S Baa2 / stable (2020)

S&P Global BBB- / stable (2018)

EBITDA margin demonstrates resiliency during the economic downturn, showing positive prospects for future

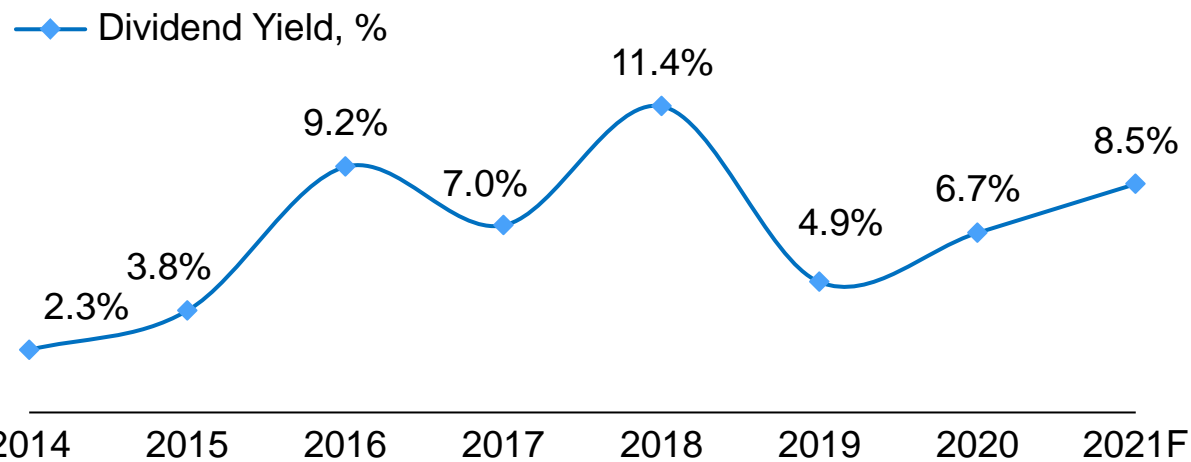


Source: Company data



Declining CAPEX leads ALROSA to stronger cash flows and more favorable dividend yields

Consistent dividend policy with the goal to maximize shareholders' wealth



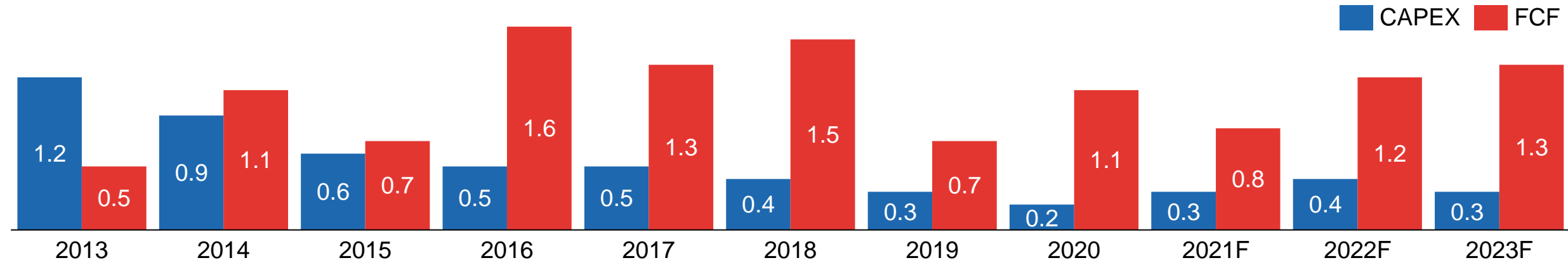
Source: Team analysis

Dividend base: FCF - CAPEX

Net debt/EBITDA	< 0.0x	0.0-1.0x	1.0-1.5x
FCF Payout ratio	> 100%	70-100%	50-70%
Minimum payment	50% of IFRS Annual Net Income If Net Debt/EBITDA not exceeding 1.5x		

Source: Company data

ALROSA's capital intensity continue decreasing



Source: Company data



Our DCF model suggests positive upside

DCF TARGET: 123 RUB

Cost of debt
7.63%

Cost of equity
11.99%

WACC
10.99%

Terminal growth
1.5%

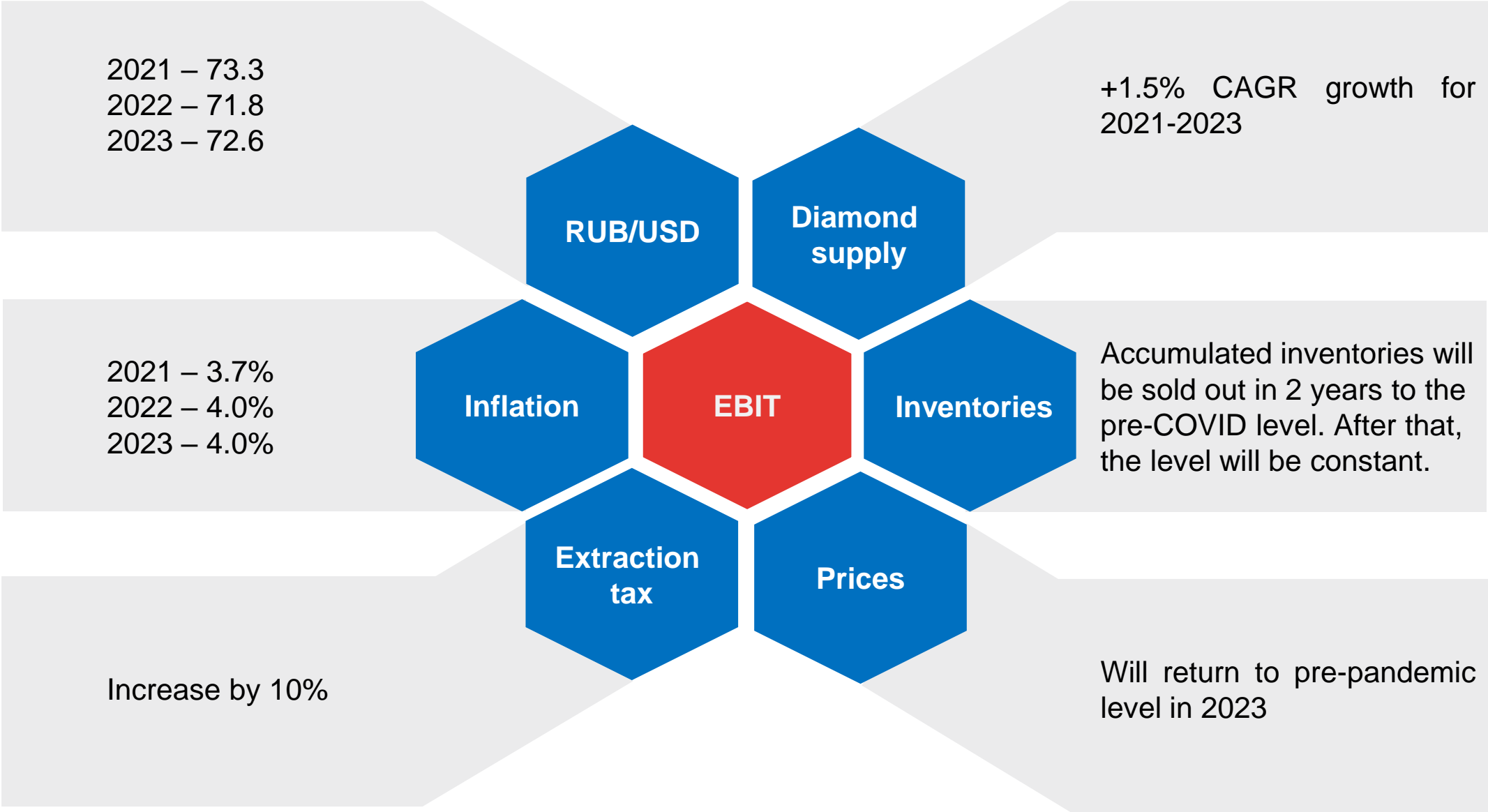
Upside: **10.2%**

PRICE PER SHARE, RUB

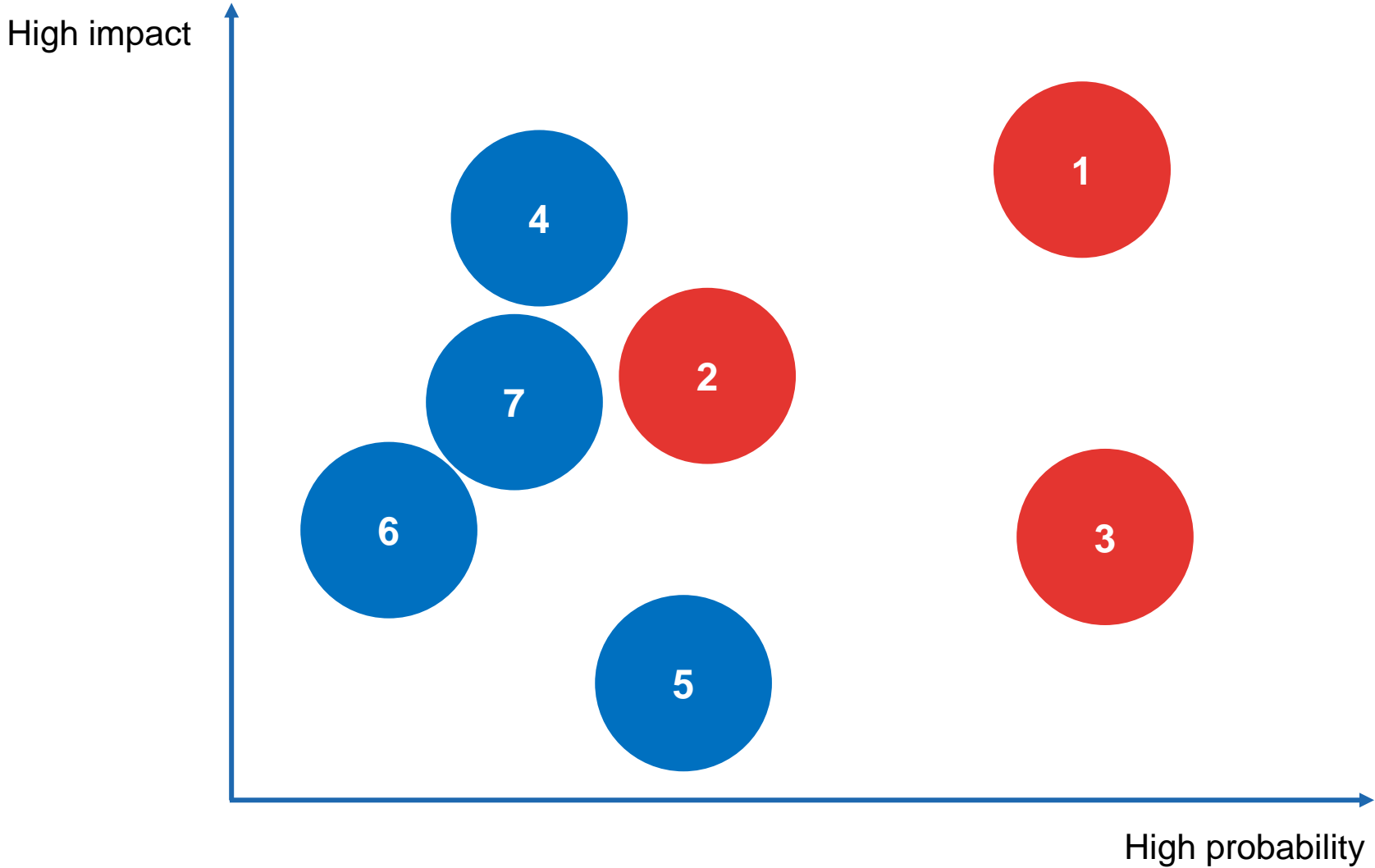
		Terminal growth rate				
		0.50%	1.00%	1.50%	2.00%	2.50%
WACC	9.49%	132	139	147	157	168
	9.99%	124	131	138	147	156
	10.49%	118	124	130	138	146
	10.99%	112	117	123	130	137
	11.49%	107	111	117	123	129
	11.99%	102	106	111	116	122



Main assumptions



The main risks are FX-risk, unfavorable Supply-Demand change and developing market of lab-grown diamonds



Major risks

- 1 FX risk
- 2 Unfavorable S/D change
- 3 Lab-grown diamonds

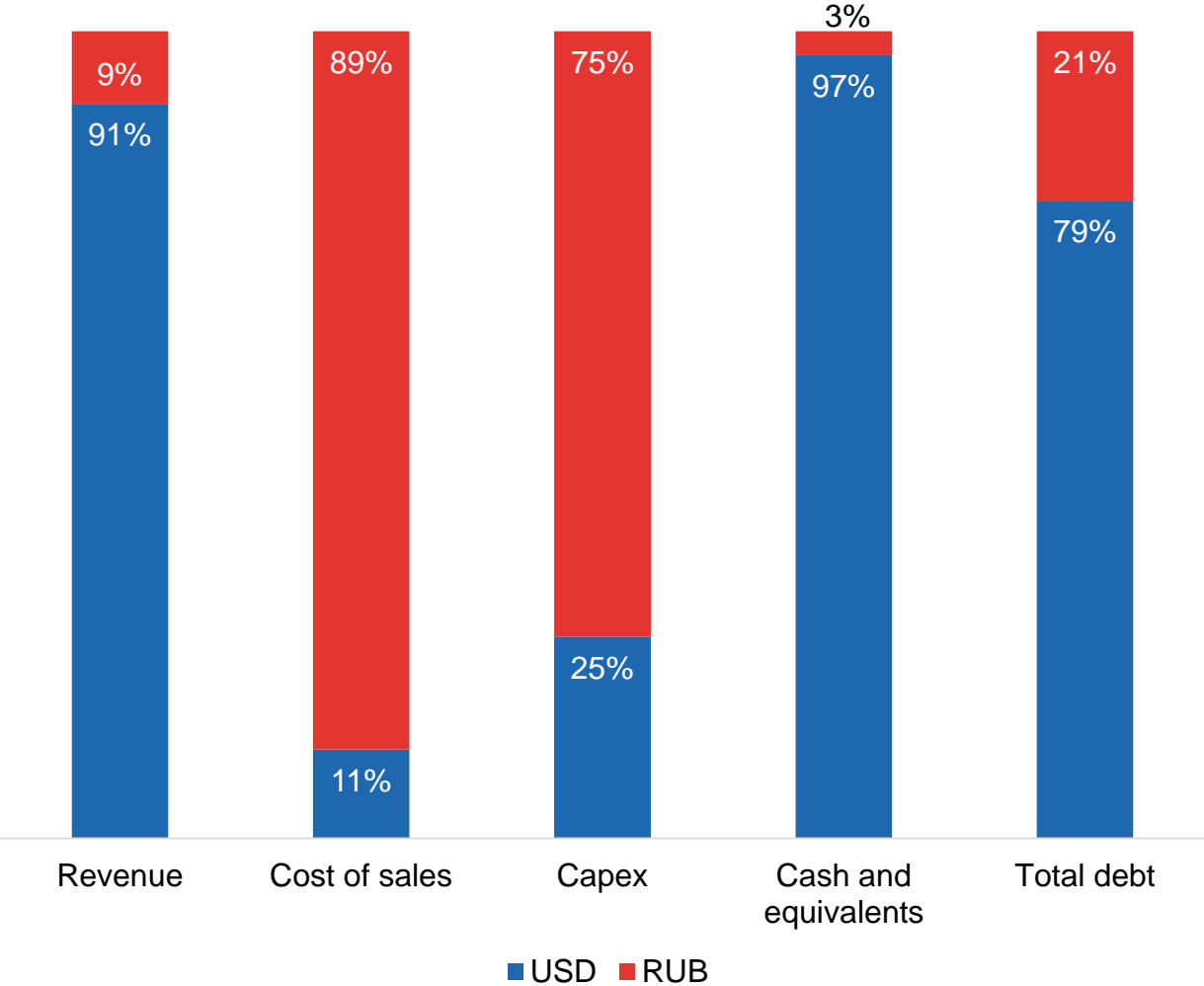
Secondary risks

- 4 Geopolitical risk
- 5 Trade barriers
- 6 Technological risk
- 7 Non-competitive ESG

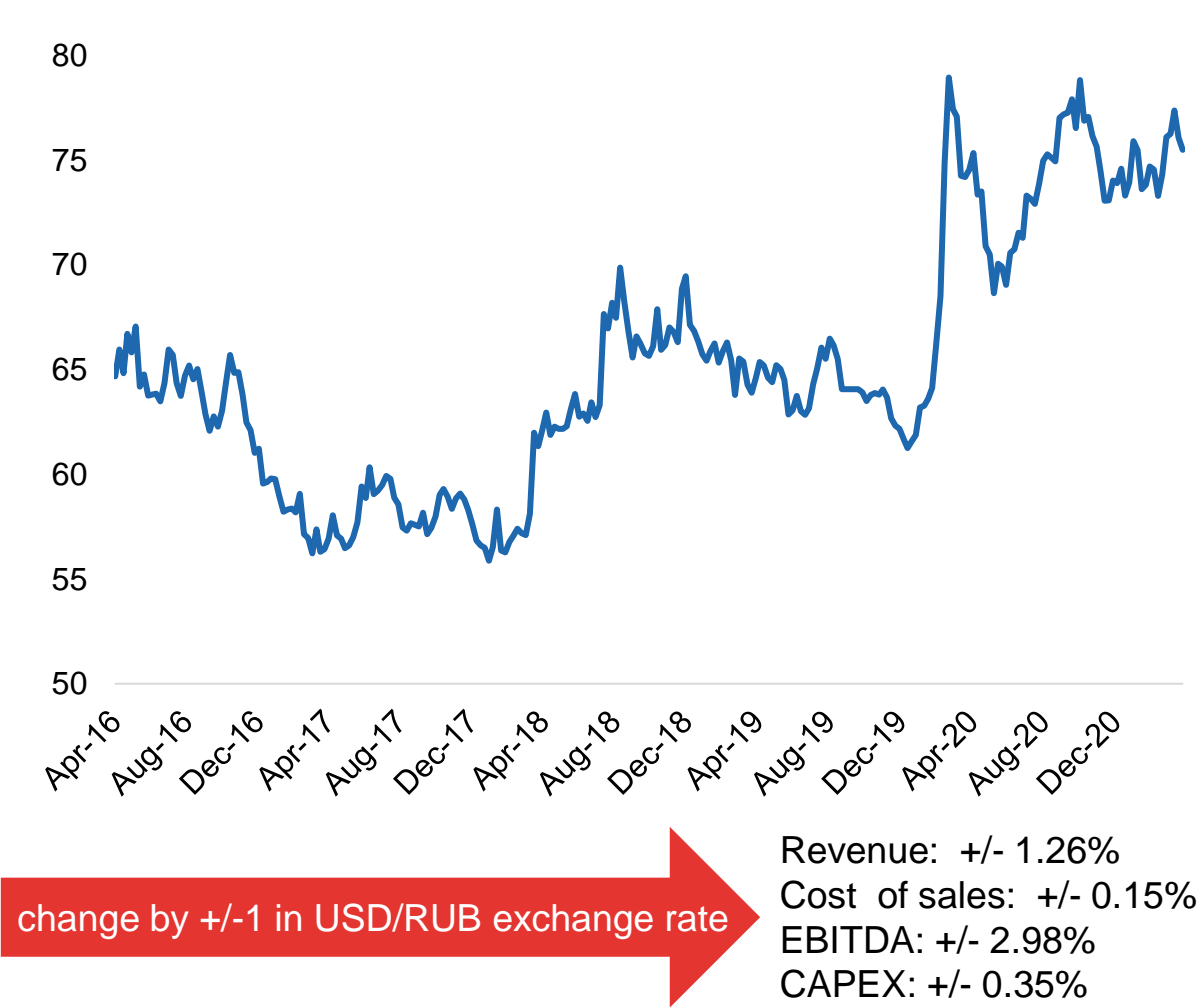
Source: Team Analysis

Borrowing in USD creates a natural hedge

Financial metrics breakdown by currency



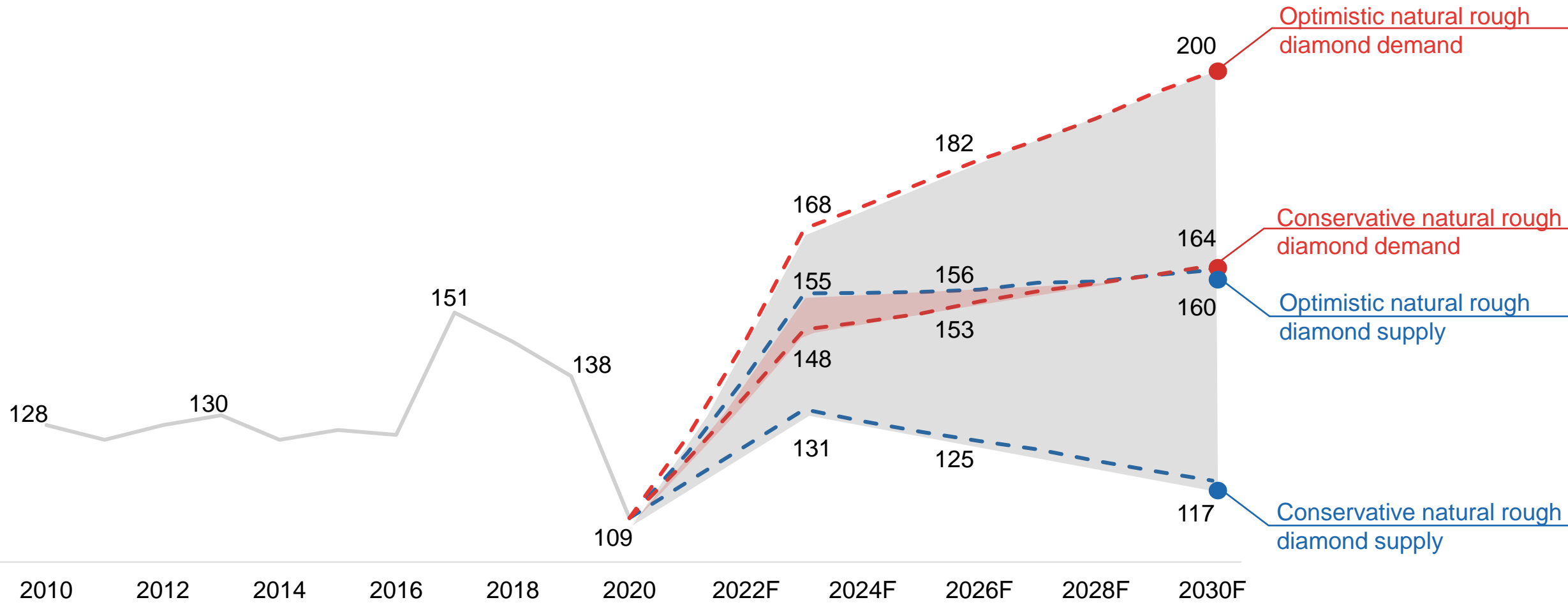
USD/RUB 5 year price



Source: Company data, Yahoo Finance, Team analysis

Sales polices like “Price over Volume” facilitate mitigation of the unfavorable supply-demand change

Global supply-demand balance outlook



Source: Company data, Bain & Company The Global Diamond Industry 2020–21, Team Analysis

Promotion of differentiation between natural and lab-grown diamonds sets up a barrier to the growing lab-grown diamonds market



Participation in Natural Diamond Council (NDC) to maintain and enhance consumer demand for natural diamonds

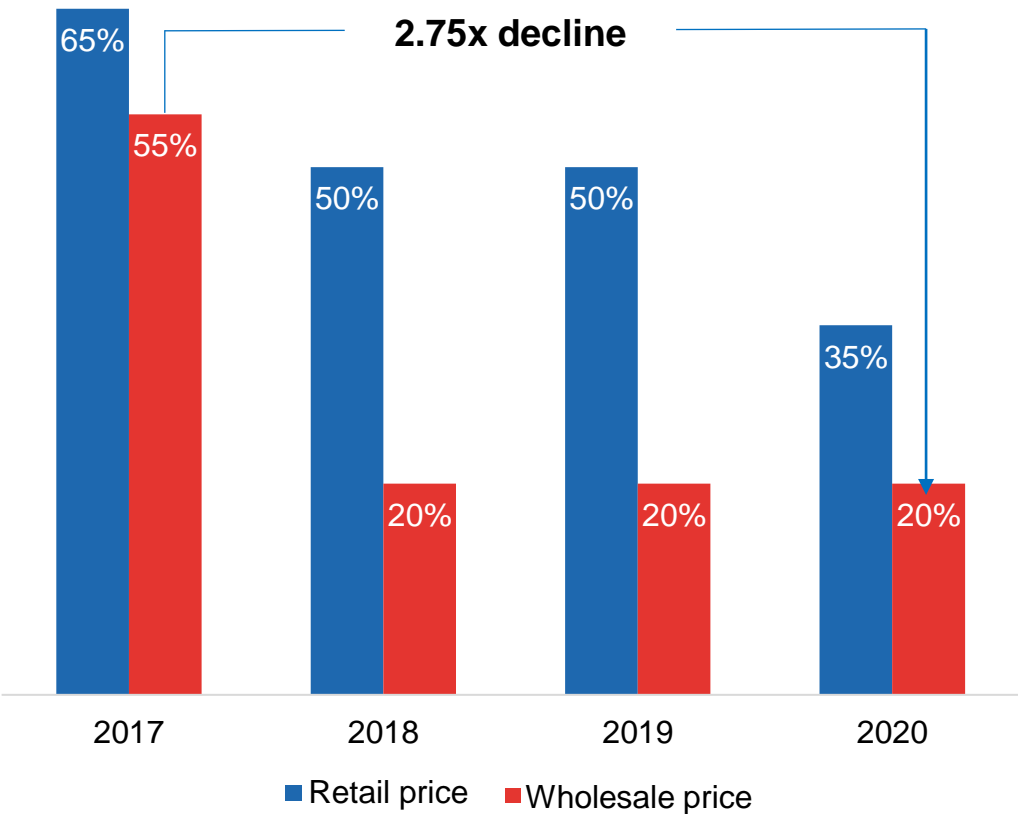


Promotion of **regulatory separation** between natural and lab-grown diamond markets

The Roles of Natural Versus Lab-Grown Diamonds (LGDs), According to U.S. Consumers

	Natural	LGD
Authentic	60%	6%
Romantic	41%	6%
Special	37%	3%

LGD Price as a percentage of natural diamonds

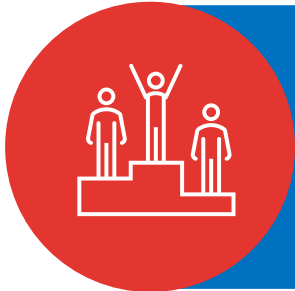


Source: De Beers Group Diamond Insight Flash Report

Source: Bain & Company The Global Diamond Industry 2020–21



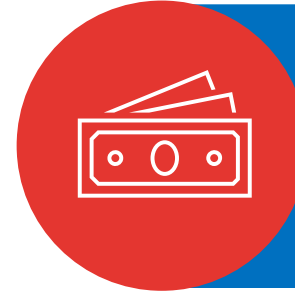
Brilliant idea to invest



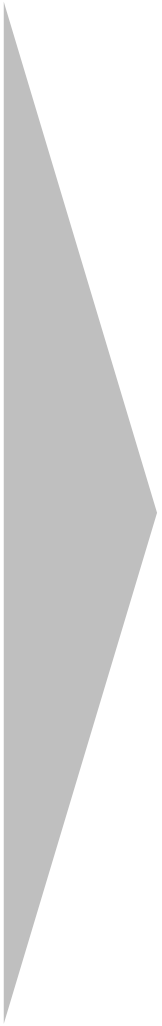
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Recommendation:
BUY

Target price
123.24