



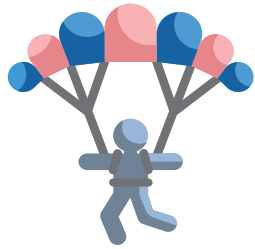


**High
margins**

**Low
leverage**

**Strong dividend
yield**

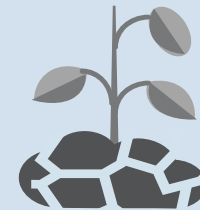
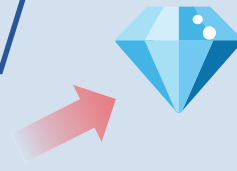
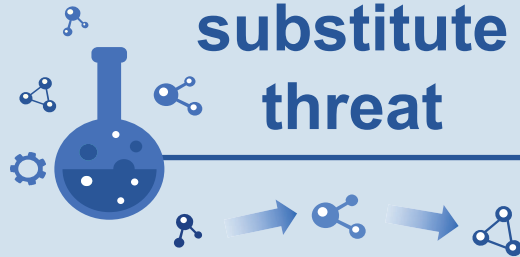




Demand structural changes

Synthetic substitute threat

No growth opportunities



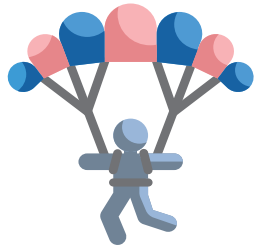


SELL

15% Downside

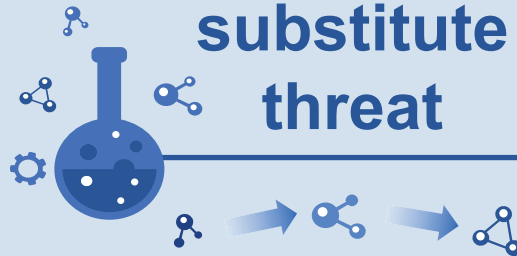
US\$1.36
Closing price

US\$1.16
Target price

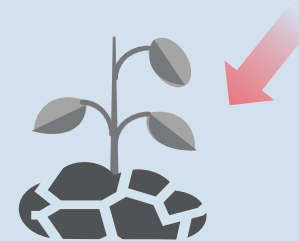


Demand structural changes

Synthetic substitute threat

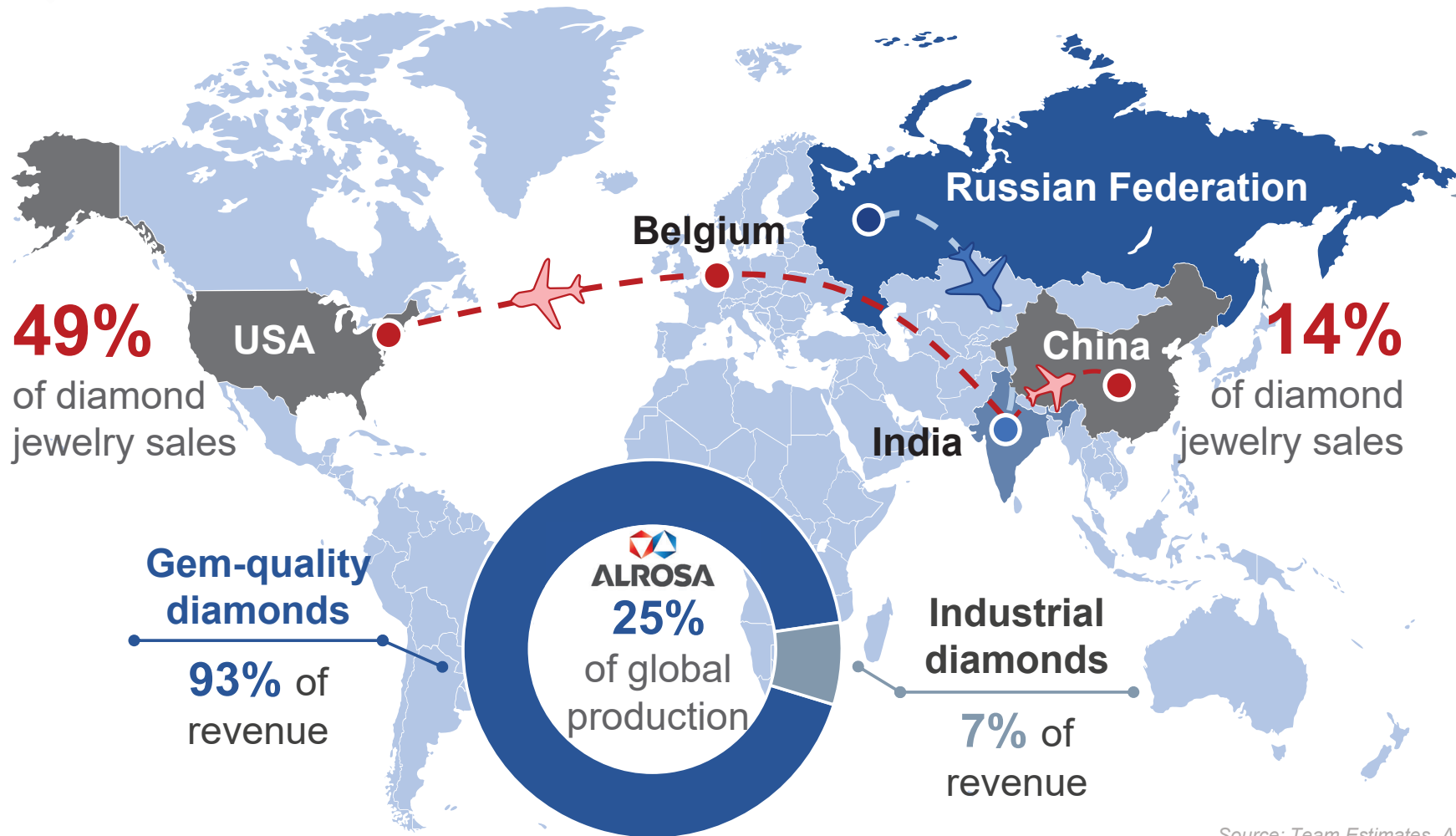


No growth opportunities



Industry turbulence

Main end-markets are USA and China



Source: Team Estimates, Alrosa, De Beers

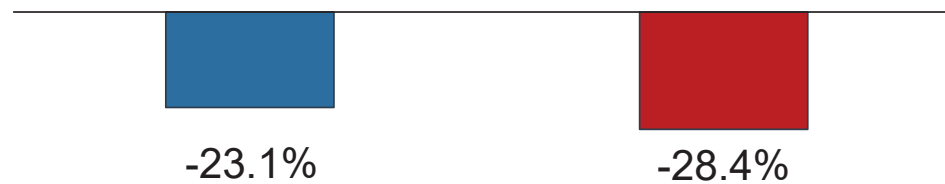
Industry turbulence

Diamond industry only worsened its performance over the past 10 years

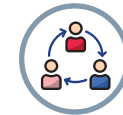


Top 3 miners 2019 vs 2010

■ Sales % change
■ Average price per carat, % change



Oligopoly



Concentration ratio 4 = **67%**

Negative factors for diamond industry:



Trade war between USA and China – the main consuming countries



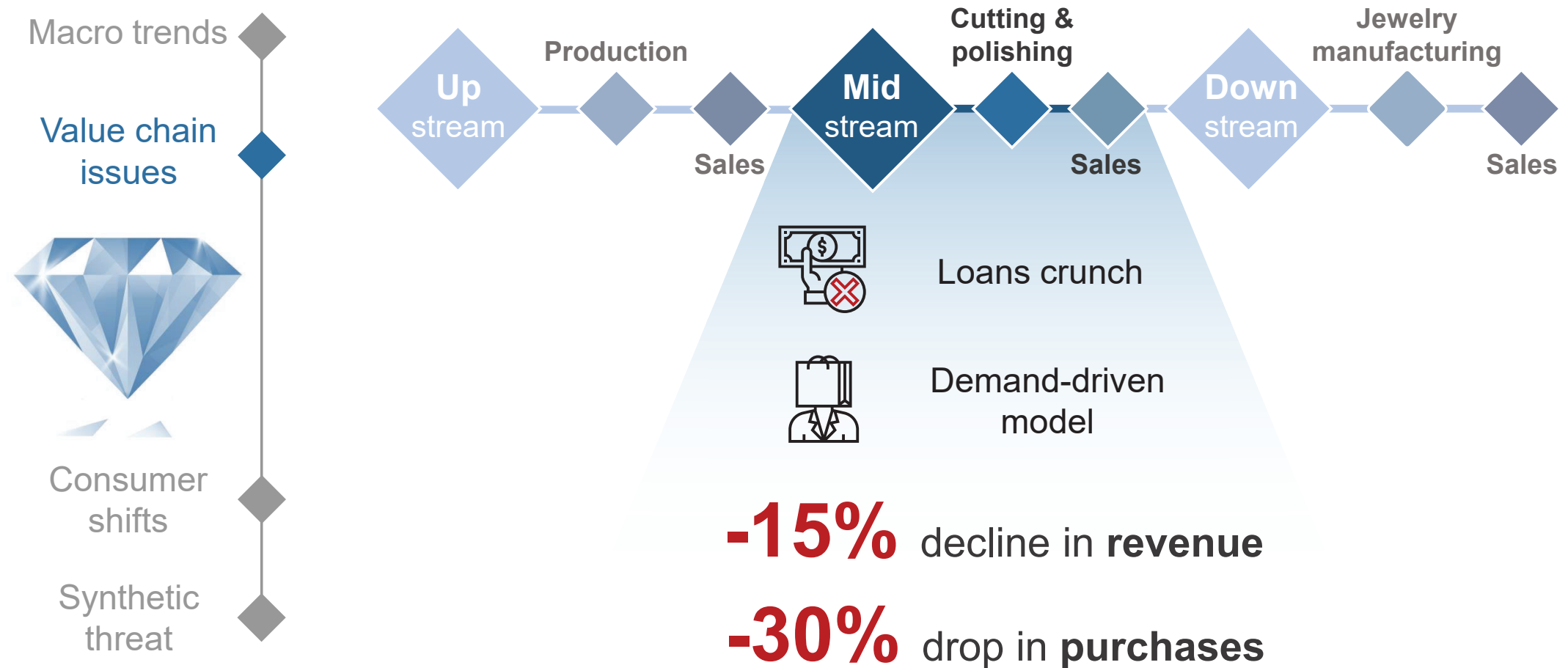
End-markets GDP slowdown



Stagnation of wealthy population growth

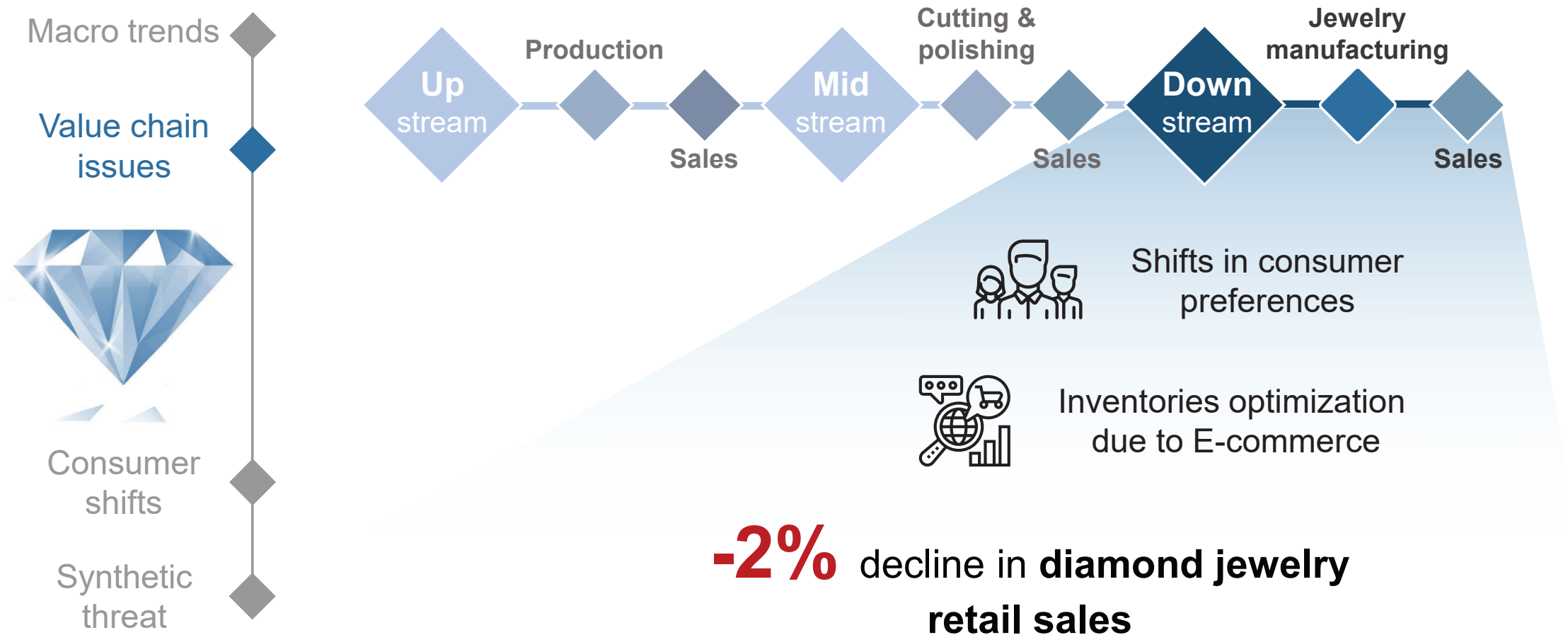
Industry turbulence

Problems occur on different stages of the value chain



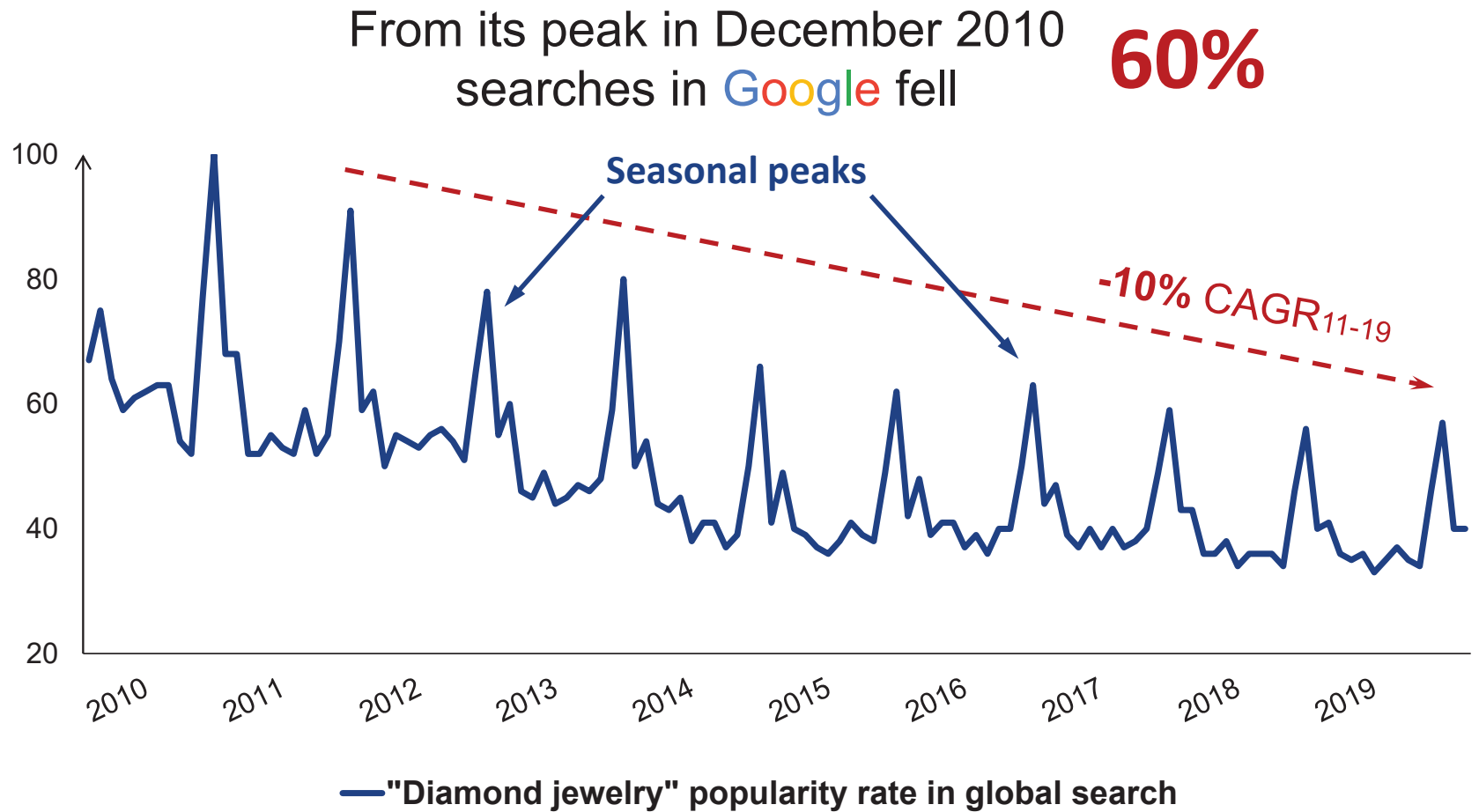
Industry turbulence

Problems occur on different stages of the value chain



Industry turbulence

Long-term decay in consumer interest



Industry turbulence

It is not a trend anymore for new generations to accumulate wealth



Macro trends



Value chain issues



Consumer shifts



Synthetic threat



GEN X

1960-79



Status

- Brands and cars
- Luxury articles

Share of the global personal luxury goods sales by 2035

20%

GEN Y

1980-94



Experience

- Festivals
- Travel

40%

GEN Z

1995-2010



Customization

- Ethical
- Sharing

35%

Source: Bain, McKinsey

Industry turbulence

ALROSA didn't manage to become a full-fledged leader



Macro trends



Value chain issues



Consumer shifts



Synthetic threat



Synthetic diamonds tend to substitute the natural ones



Shifts in consumer preferences

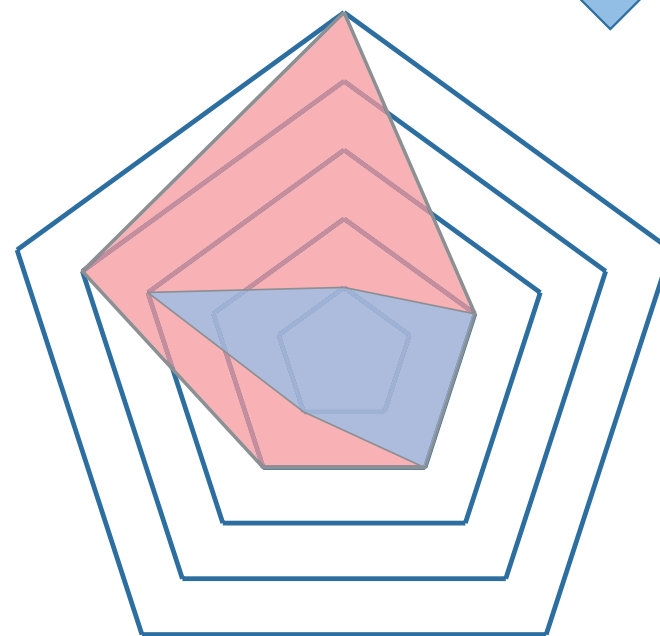


Non-diversified business does not allow to strengthen our market position

Threats from substitutes



Threats from buyers



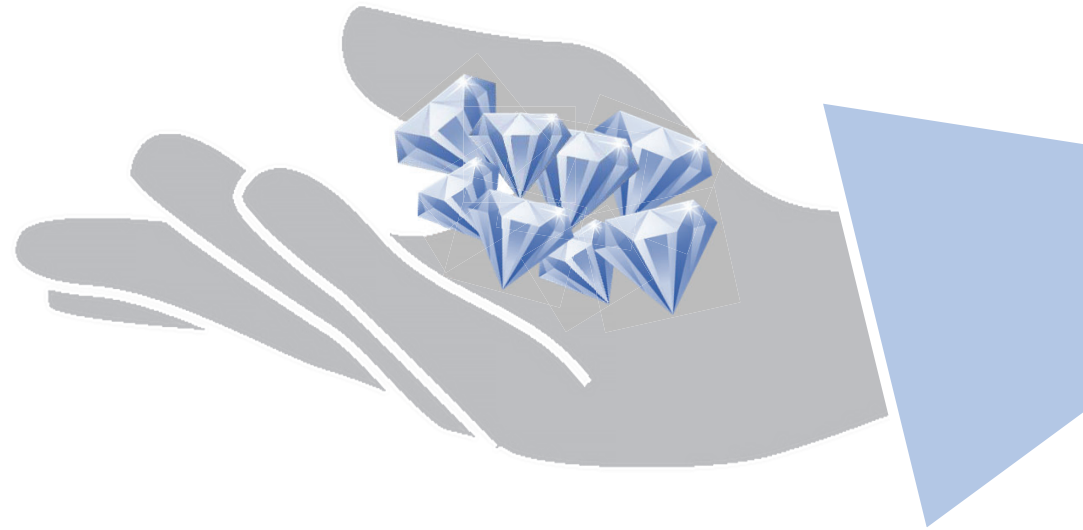
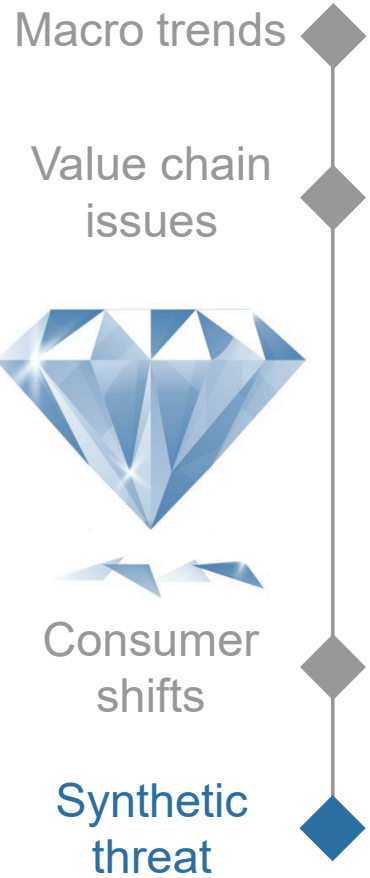
Internal competition

Threats from suppliers

New rival's entrance

Industry turbulence

One 10 carat diamond is superior than ten 1 carat diamonds



Industry turbulence

One 10 carat diamond is superior than ten 1 carat diamonds



Macro trends



Value chain issues



Consumer shifts



Synthetic threat



Industry turbulence

Small low-quality diamonds prevail in the ALROSA's product mix



Macro trends



Value chain issues



Consumer shifts



Synthetic threat



Substitute threat



DE BEERS



171 \$/ct



PetraDiamonds



131 \$/ct



ALROSA



116 \$/ct

Industry turbulence

Small low-quality diamonds prevail in the ALROSA's product mix

Macro trends

Value chain issues

Consumer shifts

Synthetic threat

Substitute threat



DE BEERS



PetraDiamonds



ALROSA

35%
of revenue is
under threat



171 \$/ct



131 \$/ct



116 \$/ct

84% of sales volume is
made of **<0.75 ct** stones

Average realized price



Industry turbulence

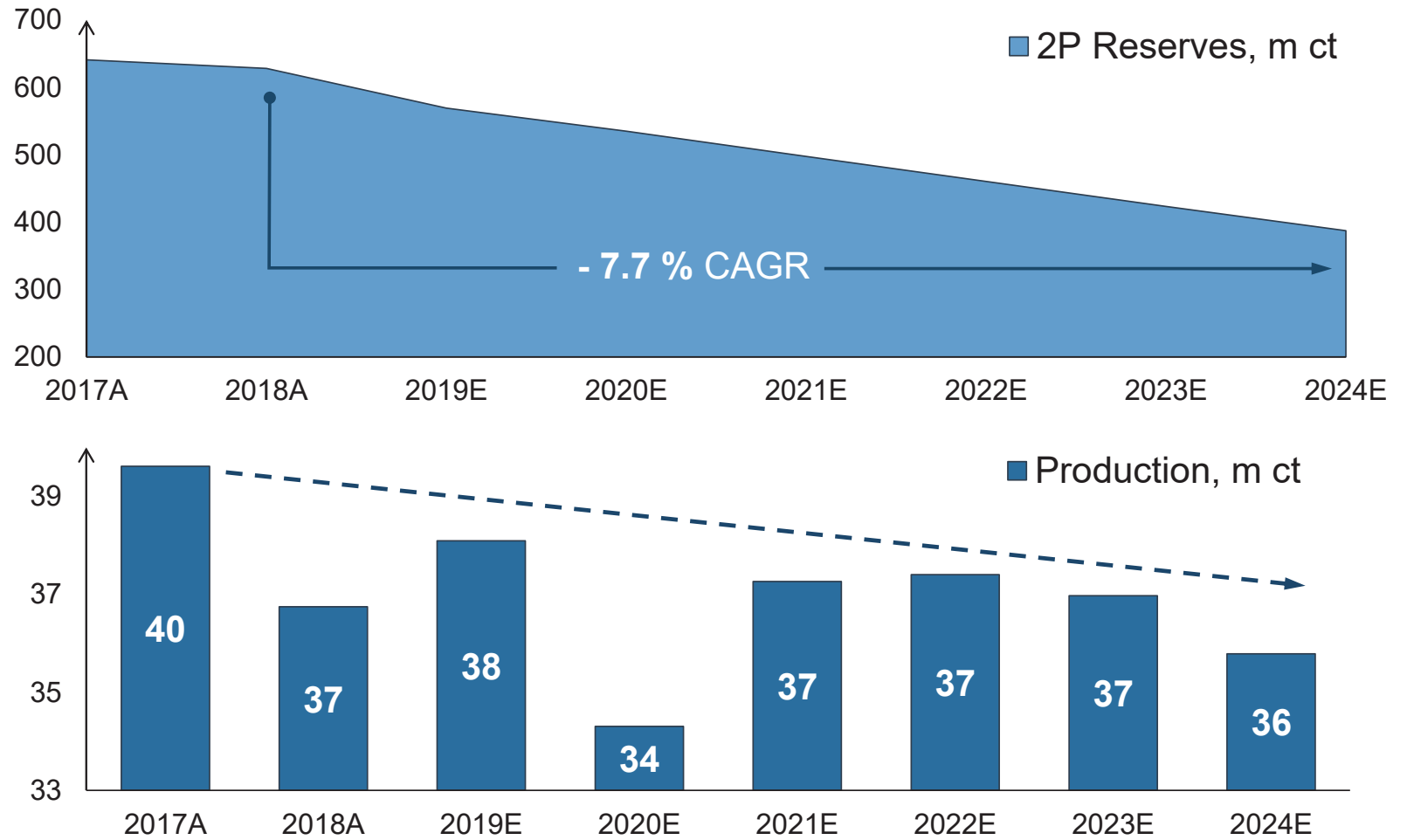
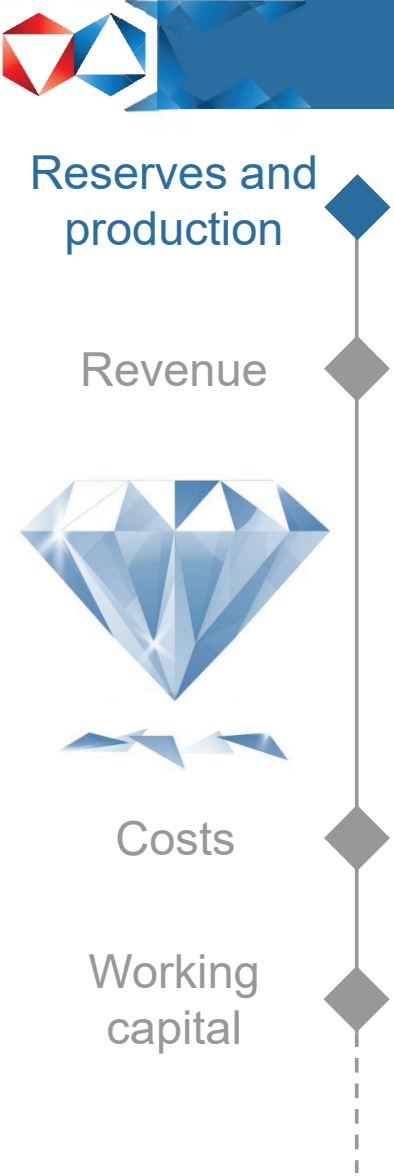
Financial analysis

Valuation

Upside risks

Financial analysis

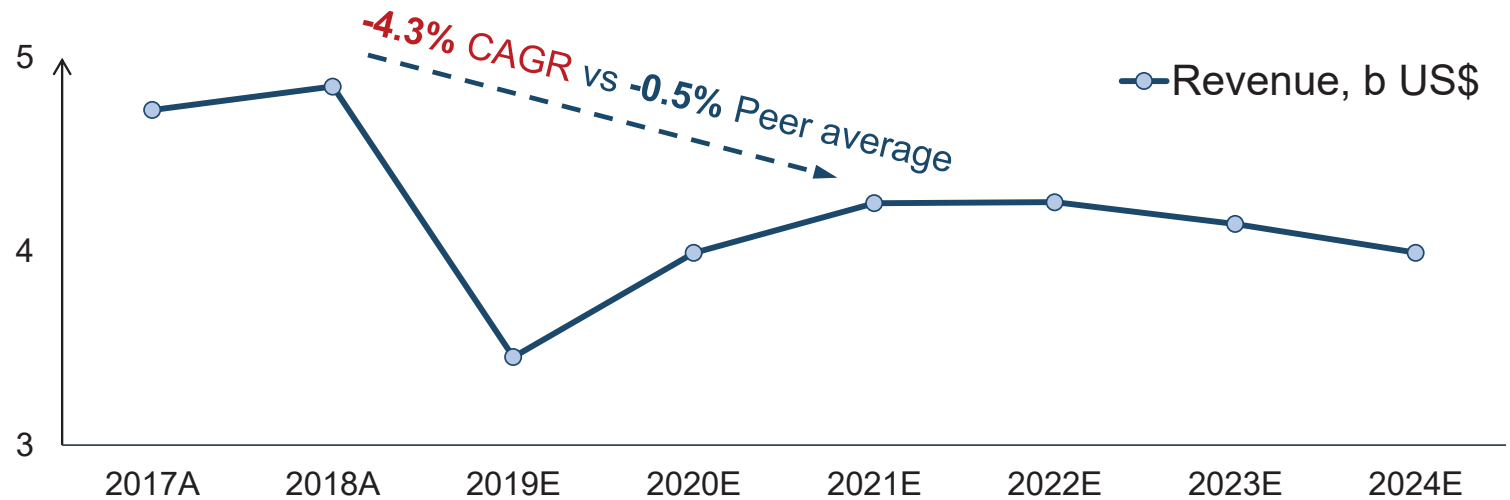
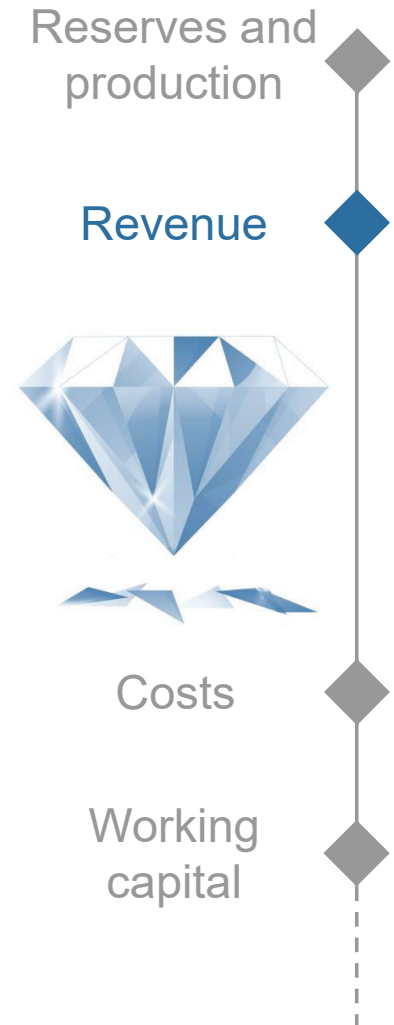
Proved and probable (2P) reserves will be depleted by 2045



Source: Team Estimates, Alosa

Financial analysis

Decreasing revenue is inevitable



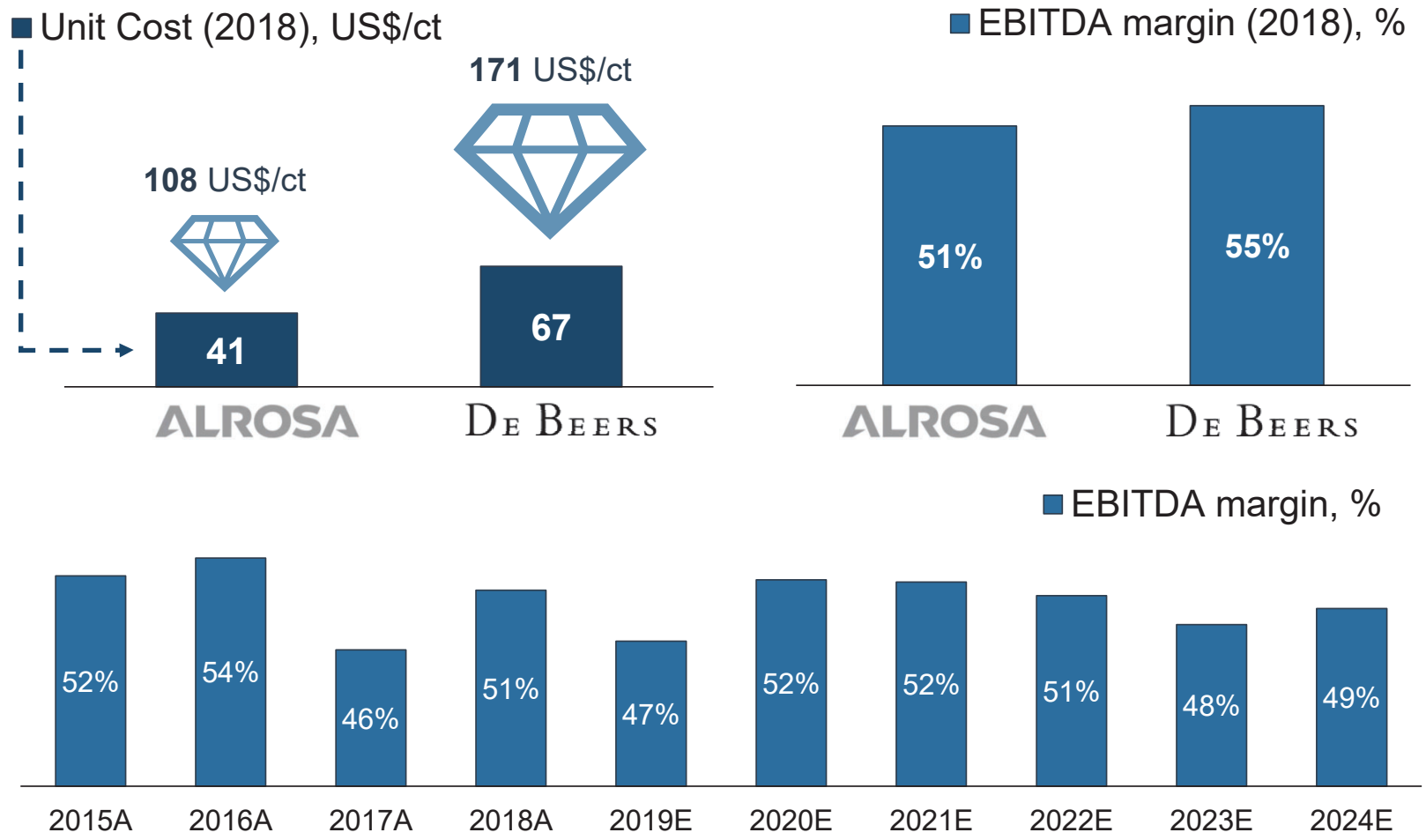
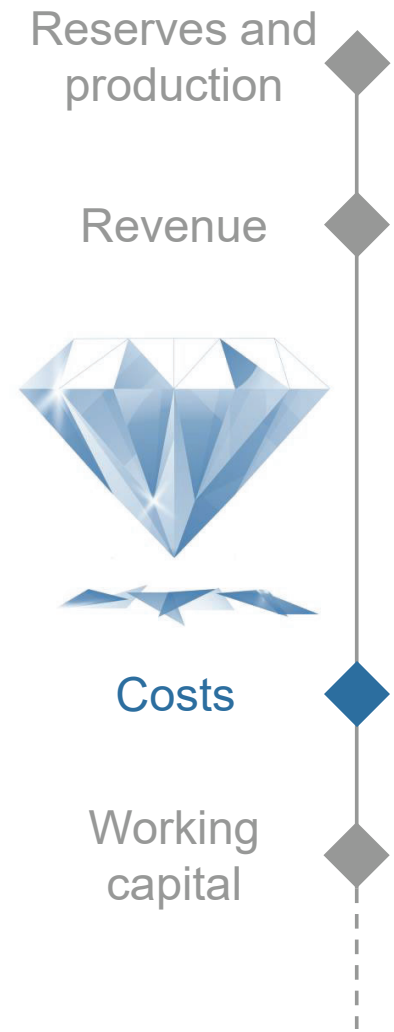
What also prevents ALROSA's growth?

- ⊗ No M&A targets in upstream
- ⊗ The absence of strong brand for downstream
- ⊗ Low margins and troublesome conditions in midstream

Source: Team Estimates, Alrosa, Bloomberg

Financial analysis

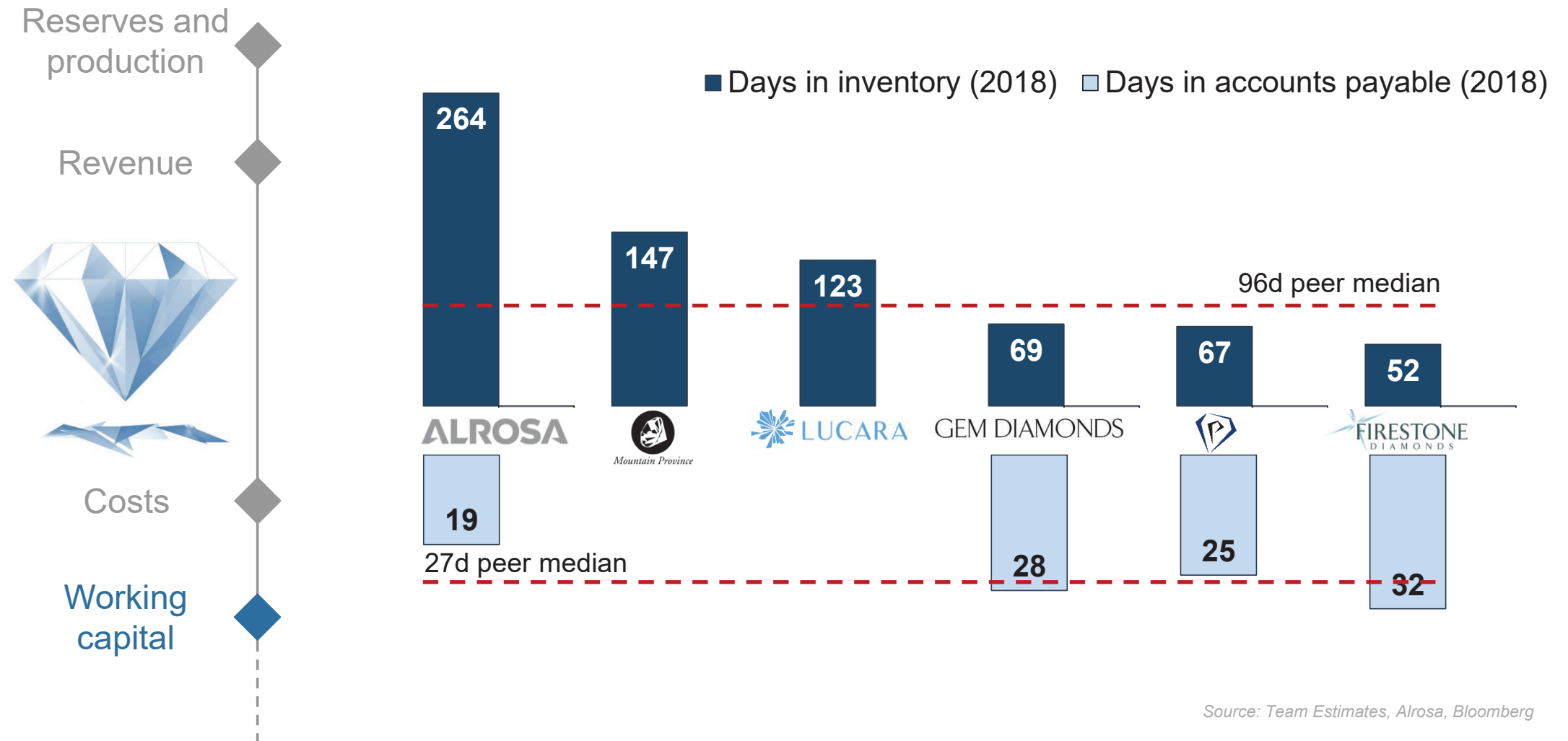
For the diamond industry unit cost is not a relevant measure



Source: Team Estimates, Alrosa, De Beers

Financial analysis

The highest days in inventory and the lowest days in accounts payable



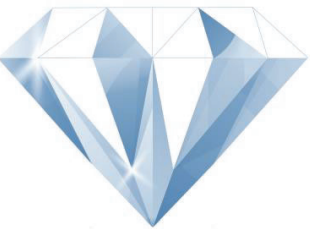
Financial analysis

Mining capacity share in Capex would fall by 42 p.p.



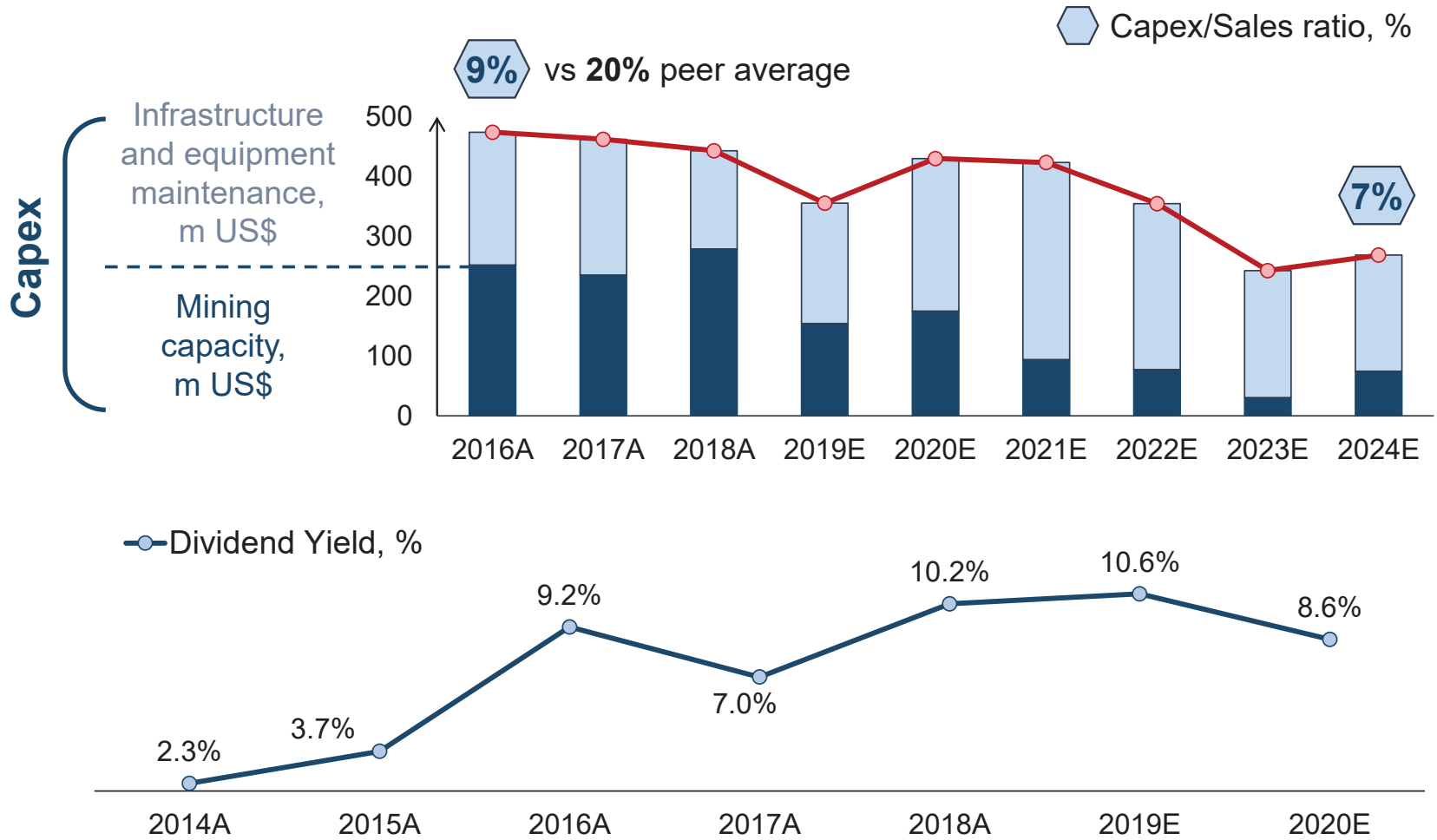
Revenue

Costs



Working capital

Capex and dividends



Source: Team Estimates, Alrosa, Bloomberg



Industry turbulence

Financial analysis

Valuation

Upside risks

Valuation

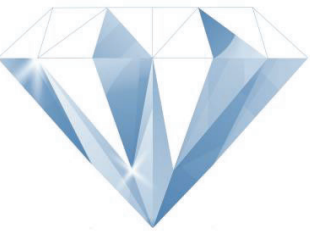
50/50 mix of intrinsic and relative valuation



Target price



DCF



Real options



Multiples



US\$1.14
+
US\$0.01

DCF + Real Options
50%



US\$1.18

Trading multiples

50%

Valuation

DCF for developed assets valuation



Target price

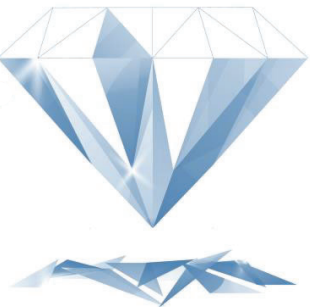
DCF

US\$1.14
0.9x DCF-based
Target Price

WACC 8.7%

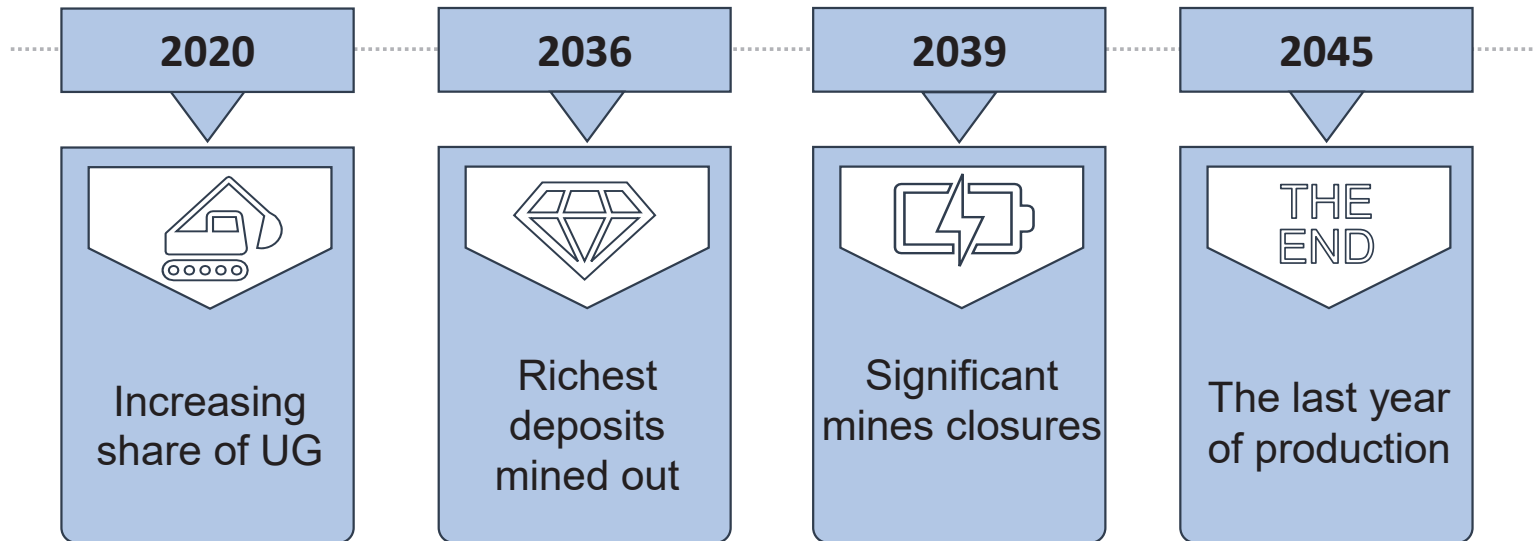
Cost of Equity	9.52%
Risk-free rate	1.92%
Beta	0.863
Equity Risk Premium	5.24%
Country Risk Premium	3.06%

Cost of Debt	4.08%
Pre-tax Cost of Debt	5.10%
Marginal tax rate	22%
D/E	0.15x



Real options

Multiples

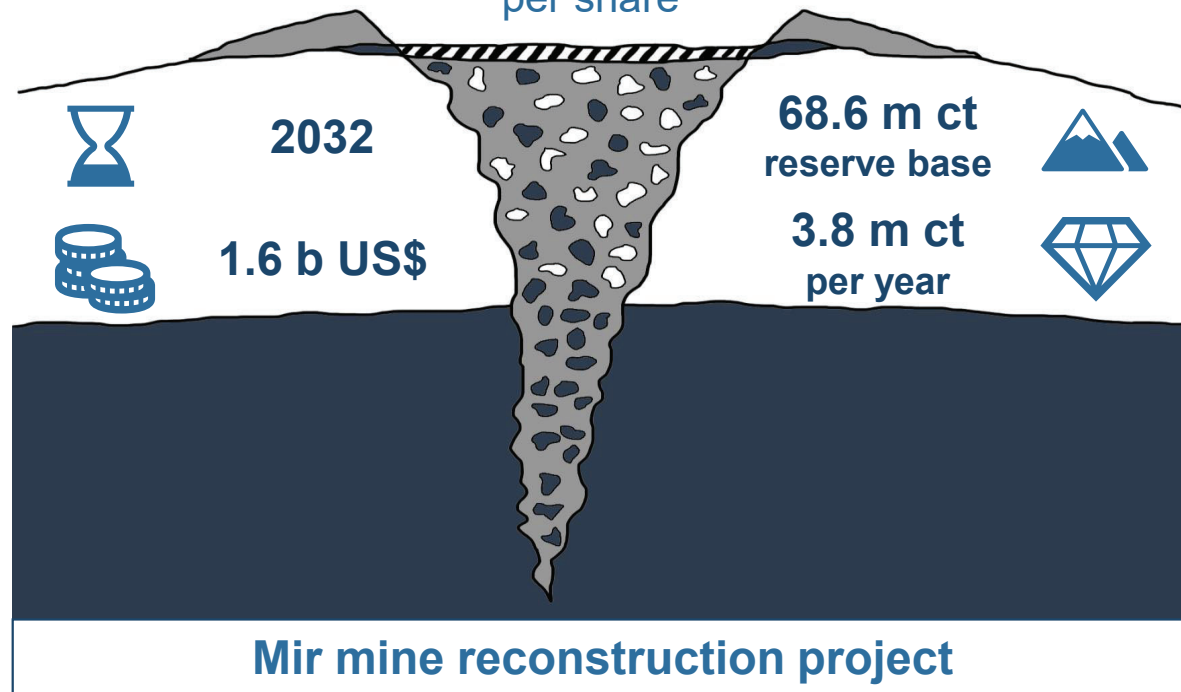


Valuation

Real Options Value approach for Mir mine reconstruction project

Before accident Mir mine accounted for 9% of total ALROSA production

Additional
US\$0.01
per share



Target price

DCF

Real options

Multiples

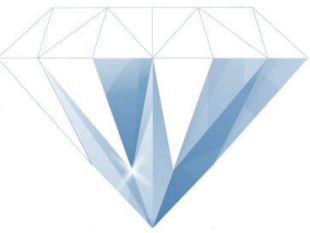
Valuation

Trading multiples approach



Target price

DCF



Real options

Multiples

FCFF(+/-1% WACC)
 EV/EBITDA NTM Adj
 P/E NTM
 EV/2P adj
 DDM (+/-1% CoE)

Peer Universe
 BHP
 RioTinto
 LUCARA DIAMOND
 ANGLO AMERICAN
 GEM DIAMONDS
 PetraDiamonds

Target Price
US \$1.16

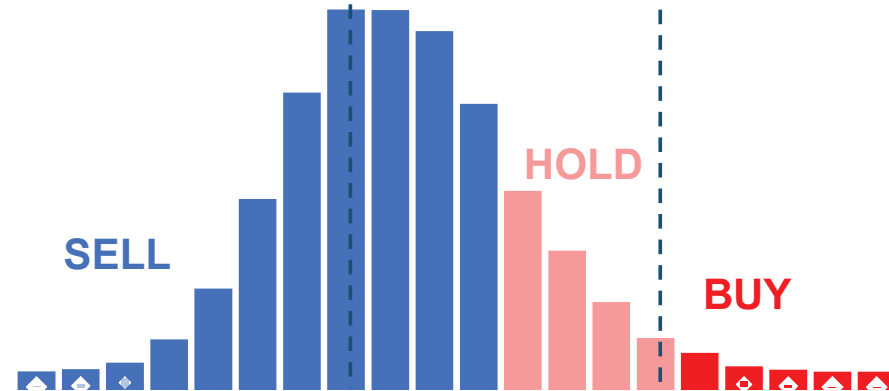
Close Price
US \$1.36

Implied
 EV/EBITDA NTM

50%
50%

4.4x – 4.7x
 4.4x - 4.8x

0.9 1.0 1.1 1.2 1.3 1.4 1.5



Source: Team Estimates, Bloomberg



Upside risks

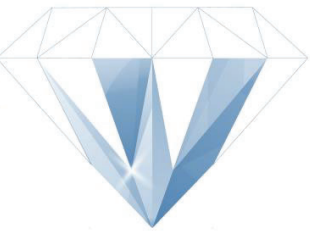
Three major risks for SELL recommendation



Risk matrix



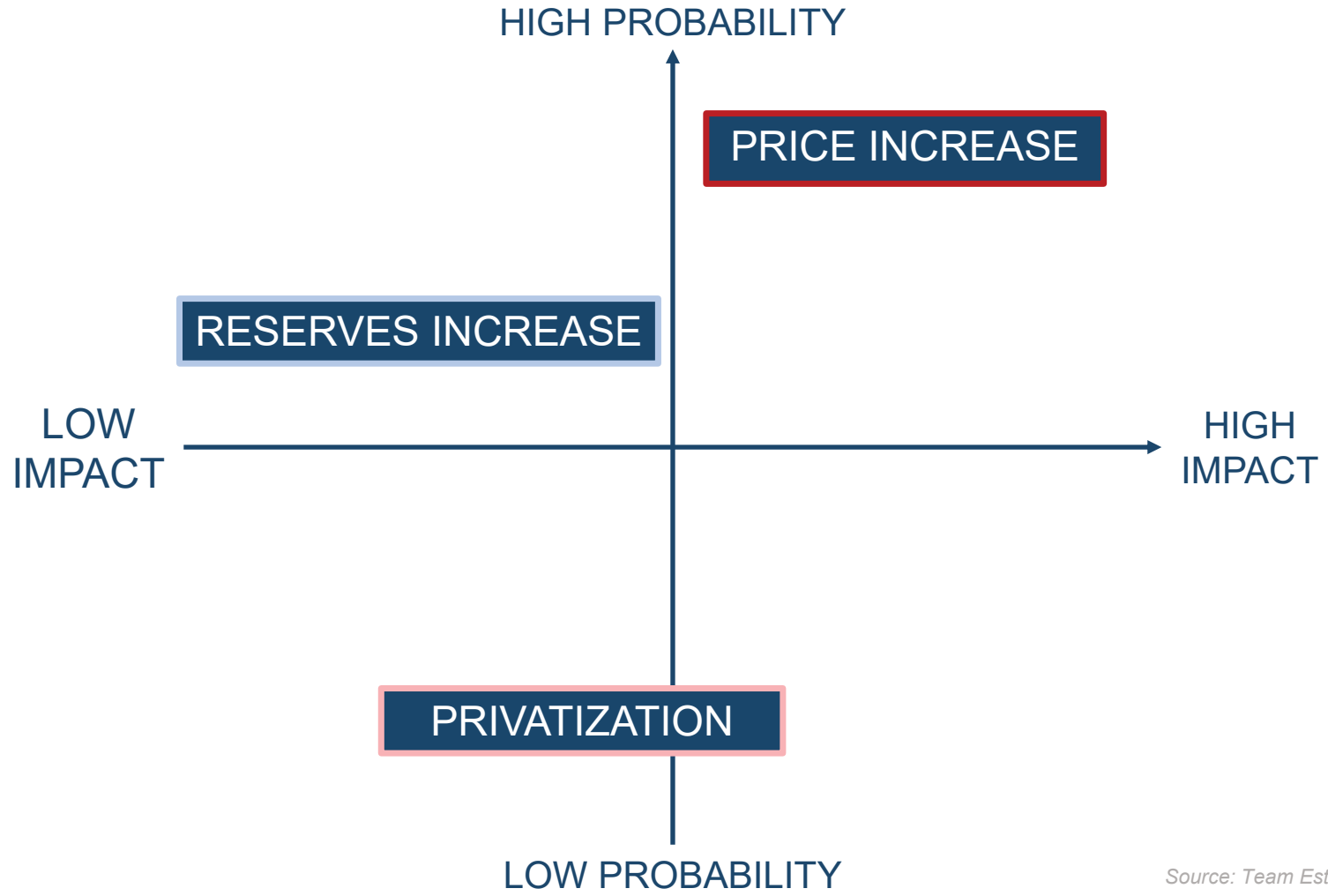
Average realized price



2P reserves

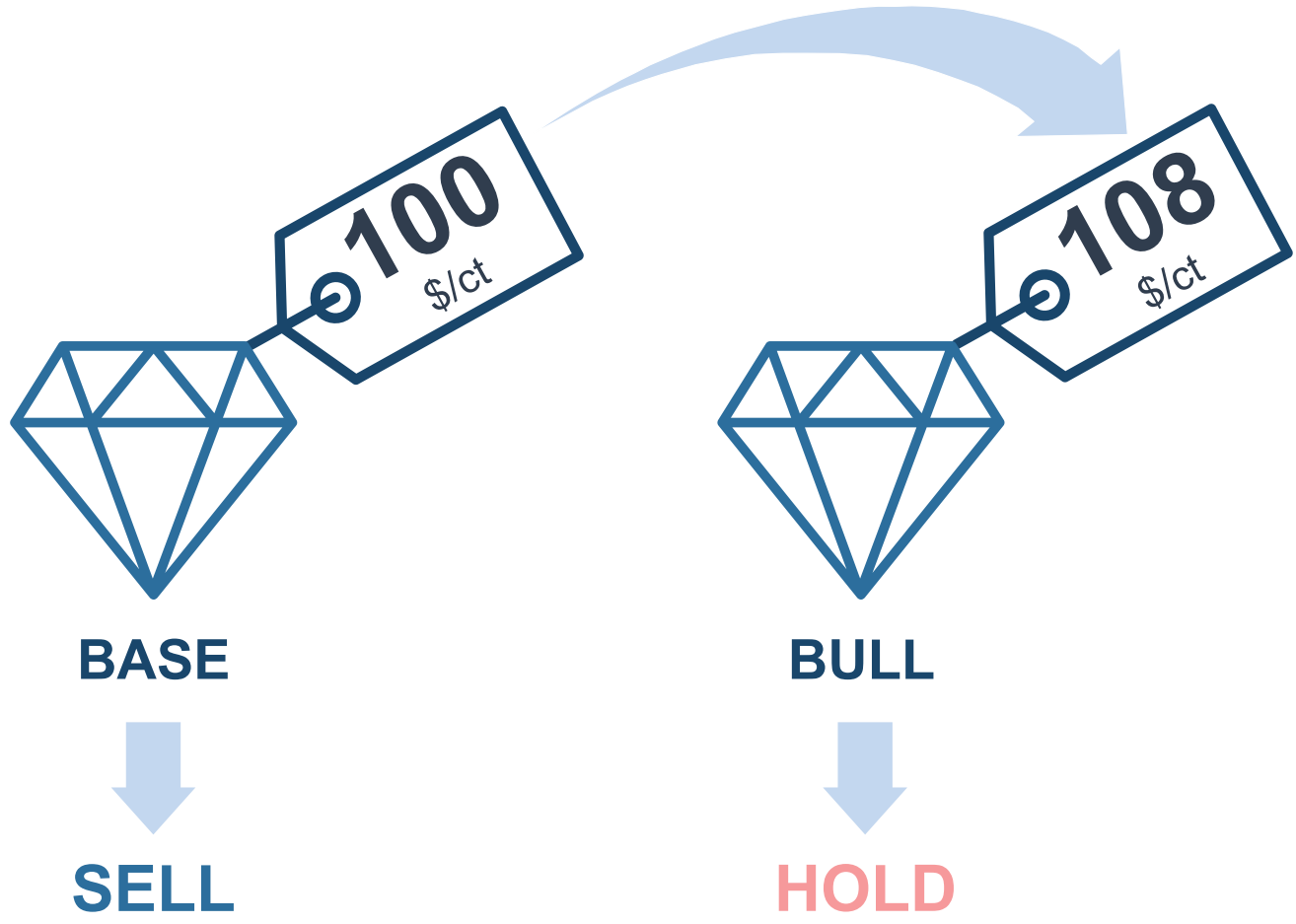


Affiliated BoD



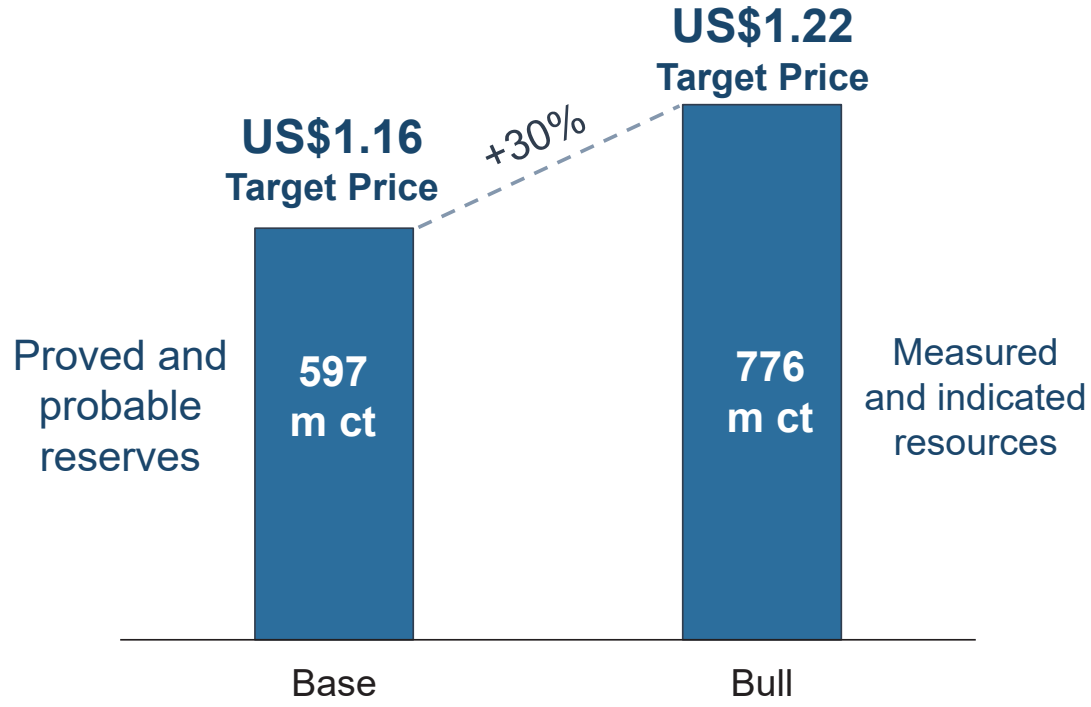
Upside risks

Price volatility is the biggest threat



Upside risks

2P reserves reassessment affects only distant cash flows

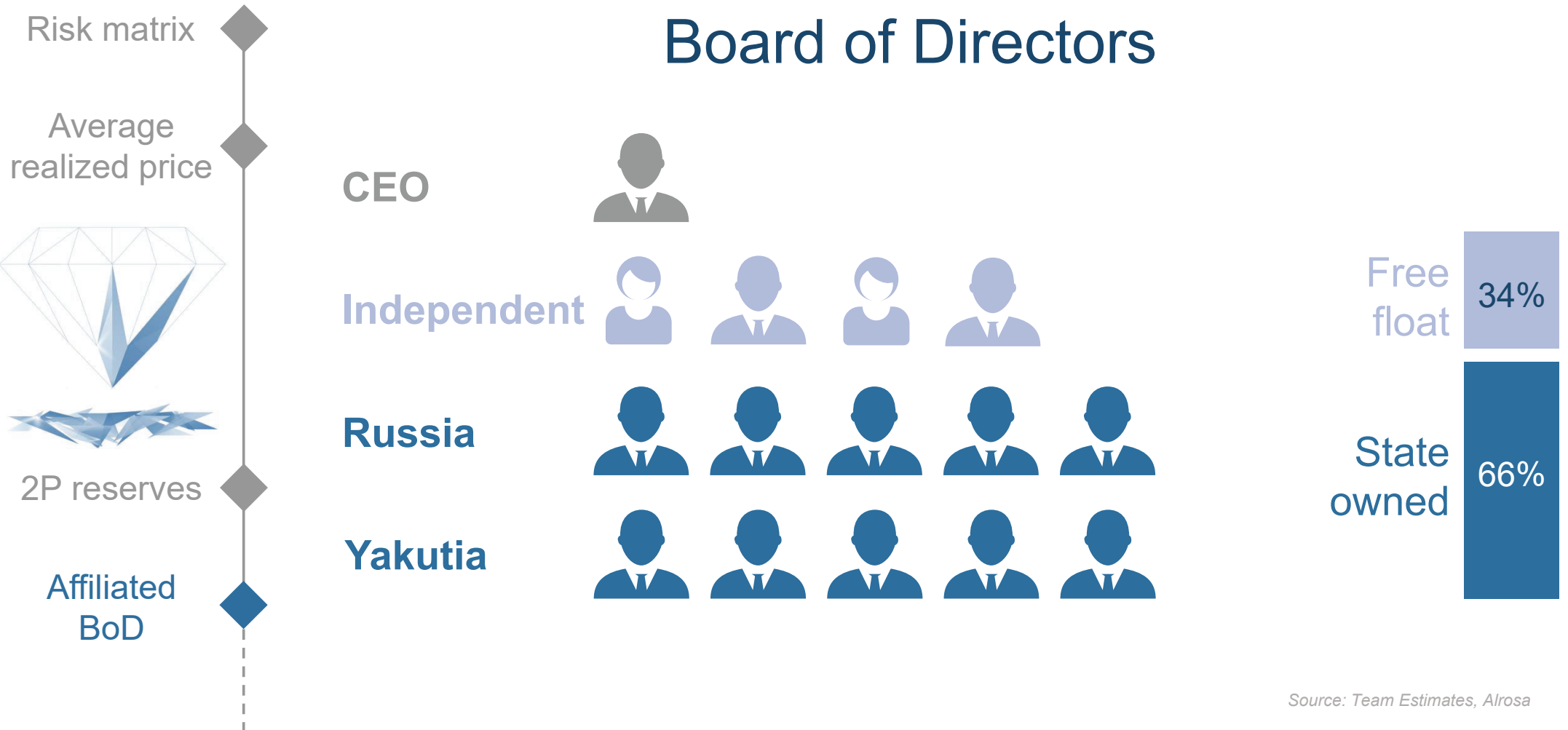


Source: Team Estimates, Alrosa

Upside risks

Latent lack of independency

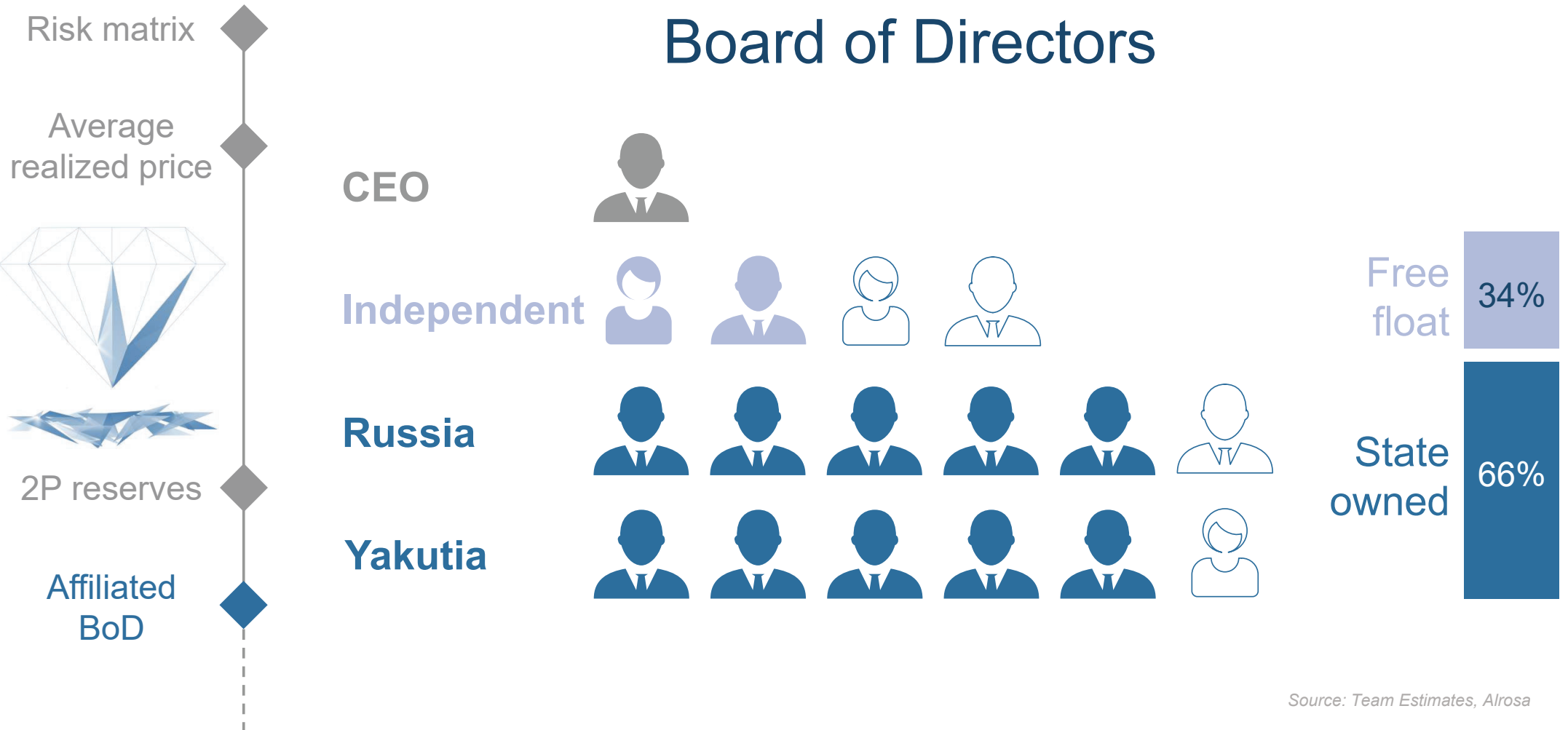
Board of Directors



Upside risks

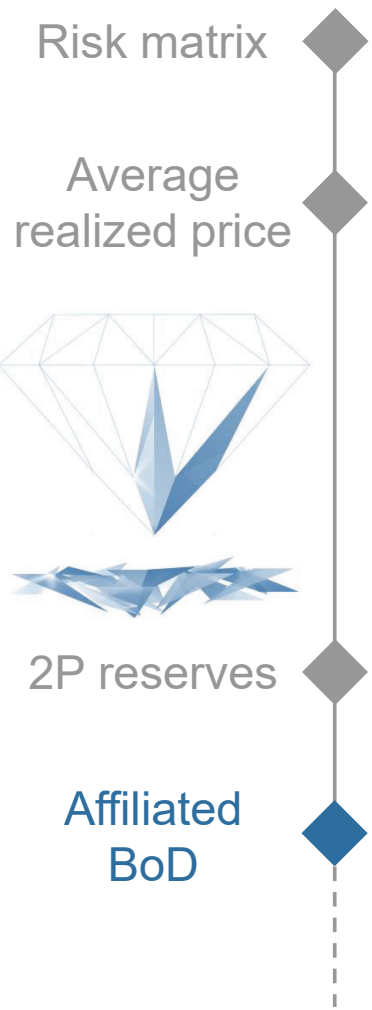
Latent lack of independency

Board of Directors



Upside risks

Latent lack of independency



Board of Directors

CEO



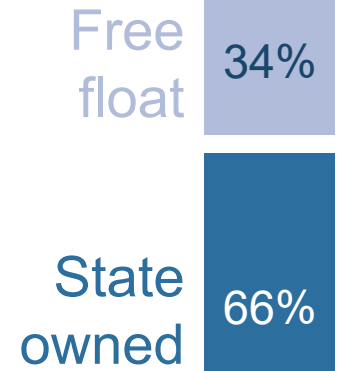
Independent



Russia

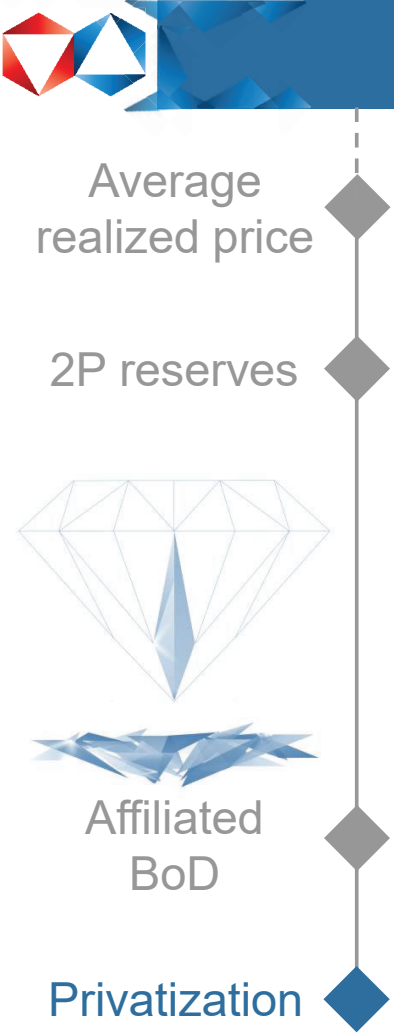


Yakutia

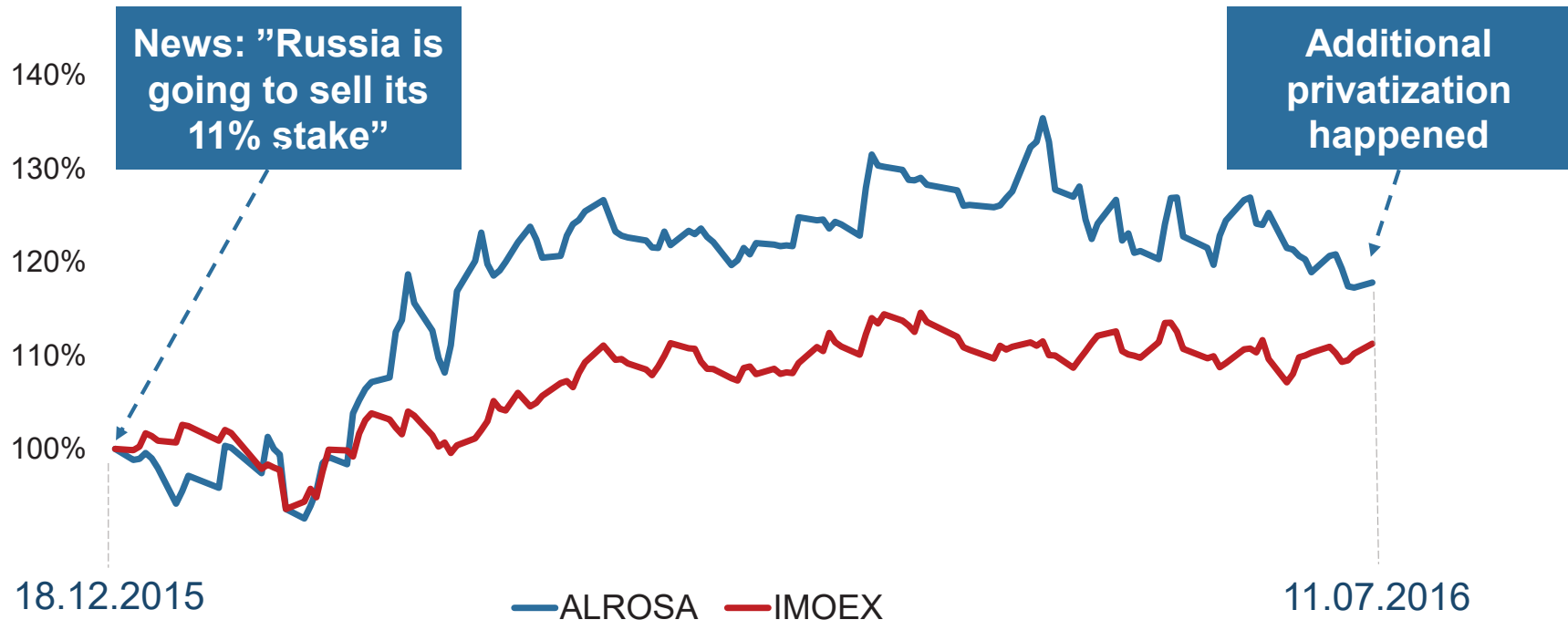


Upside risks

Privatization risk



Event study



9% abnormal return for 7 month



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