METALS & MINING

Kaloti Jewellery Group

The Dubai-based refiner's expansion plans reflect faith in gold's long-term prospects

COMPANY SNAPSHOT

Date established 1988
Main business sectors Gold and precious metals refining, trading, gold assaying and financing
Main business regions World
Chairman Munir Ragheb al-Kaloti
General manager Monzer Medakka

STRUCTURE

Kaloti Jewellery Group traces its origins to a small jewellery workshop, which opened in Dubai's Gold Souk in 1988. Established as a limited liability company, it has expanded to become one of the world's largest gold refiners, assayers and trading houses.

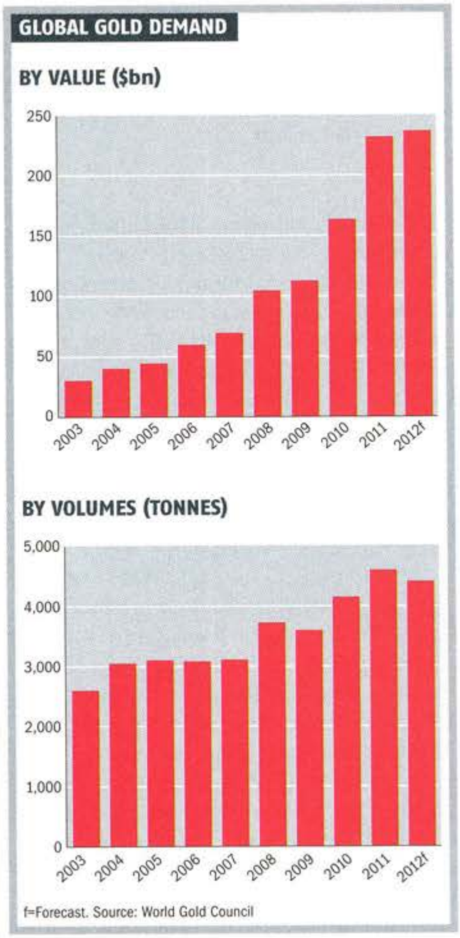
The group is owned by Jordan's Al-Kaloti family and Lebanon's Medakka family. Munir al-Kaloti is the group's founder, president and chairman. Monzer Medakka, the firm's general manager is Al-Kaloti's son-in-law. The company is focused on the Middle East, and in particular the Gulf, but also has subsidiaries and associates in Hong Kong, Singapore, Istanbul and Miami.

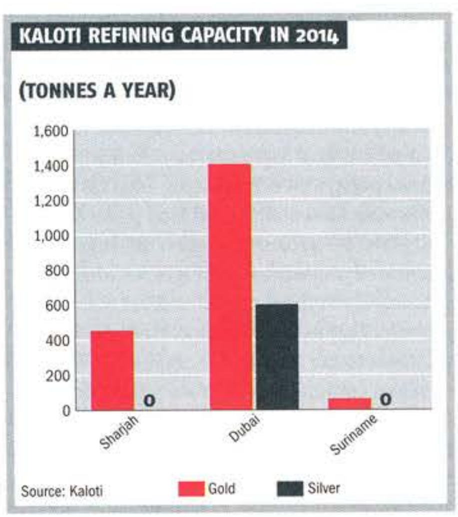
In 2005, Kaloti integrated its operations under the Dubai Multi-Commodities Centre (DMCC), providing precious metal solutions, from the financing of raw material mines to logistics and end products, which include jewellery and commercial bullion bars.

Kaloti is a member of the New York Mercantile Exchange (Nymex). It is also a member of the CME Group, a financial and commodity derivatives exchange, as well as Dubai Gold & Commodities Exchange (DGCX) and the Istanbul Gold Exchange. The firm's bullion production is accredited by the Dubai Good Delivery and the Hong Kong Mercantile Exchange. Kaloti employs more than 300 people across the world and is headquartered in Dubai at Jumeirah Lake Towers (JLT).

OPERATIONS

Kaloti's gold factory in Sharjah is the largest gold refinery in the region. It was built in 1991 and initially focused on jewellery production, but has since shifted its 450 tonne-a-year (t/y) capacity to produce bullion. The company buys precious metals, scrap and ore before refining it to 999.9 purity and producing 1 kilogramme and 400 ounce standard gold bars. In 2012, the factory refined 300 tonnes of gold.





The group's trading business requires the complex coordination of transport and insurance companies, to deal with shipping 2 tonnes of gold worth around $120m on a cargo flight for example. Kaloti has negotiated contracts with major carriers, including Swissair, Qatar Airways and KLM.

Insurance against non-delivery for all shipments is provided by Lloyds of London. It also organises transport in armoured vehicles. The gold bars are used internationally, mainly by dealers and fabricators in the UAE, the wider Middle East and North Africa, the Indian subcontinent and Southeast Asia.

In addition to physical gold scrap and bullion trading, Kaloti offers paper trading through its trading desk in JLT on the major global bourses covering trading, spots and futures derivatives.

The group trades and hedges hundreds of tonnes of bullion a year via international and local exchanges and some of the world's largest bullion banks, such as the UK's Standard Bank and HSBC, Canada-based Bank of Nova Scotia and Switzerland's Credit Suisse.

AMBITIONS

Kaloti plans to increase its refining capacity to capitalise on growing demand for gold. Its Sharjah facility is currently overbooked and Swiss refiners Valcambi and Argor Heraeus have covered Kaloti in case of supply shortages since 2002.

Expanding the existing refinery is not an option due to limitations on power supplies in Sharjah. Instead, Kaloti is building a new refinery in JLT in Dubai, with a capacity to refine up to 1,400 t/y of gold and 600 t/y of silver.

Process engineering contracts have been signed with Italy's Italimpianti Orafi, and Swiss and German companies. Engineering, procurement and construction contracts have also been finalised, although details of the deals have not been revealed. The project is expected to be completed by June 2014.

"To match demand with intermittent power is a [challenge for renewables]"

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Outside the UAE, Kaloti is expanding its presence in Suriname with the construction of a 60-t/y refinery in joint venture with the government. The initial phase is scheduled to begin processing in mid-2014, while the second phase will commence in 2016. Known as Kaloti Suriname Mint House, the refinery involves an investment of $20m.

Kaloti is also undertaking feasibility studies for new markets, focusing on Latin America and countries of the former Soviet Union.

MEED ASSESSMENT

Kaloti says its total turnover in 2012 from gold trading was $32bn. This is 25-30 per cent higher than the previous year and accounts for about 40 per cent of all the gold bullion handled in Dubai.

Kaloti is self-financed and has no debts. Its cash reserves allow the firm to finance mining operations across the world, without having to own the mines.

The group's expansion plans in Dubai, Suriname and its new trading offices reflect its faith in the long-term prospects for gold bullion, the company's main business line.

Given the precarious state of the global economy, gold's position as an investment and hedge against inflation and currency fluctuations has been reinforced. Central banks remain active buyers of gold and are forecast to buy about 425 tonnes in 2013, with the majority from lenders in emerging markets. These represent Kaloti's major customers. Analysts are forecasting increased demand and prices for gold, based on ongoing high commodity prices and the weak US dollar.

According to the UK-based World Gold Council, gold demand by value reached an all-time record of $236.4bn in 2012. Gold jewellery demand by volume, however, fell 3 per cent in 2012 to 1,908 tonnes, primarily due to a relatively weak year in India.

Together, China and India account for more than 56 per cent of global demand for jewellery. Despite the drop in volumes, the value of jewellery demand reached a record of $102.4bn in 2012 as consumers continued to allocate greater sums to gold jewellery.

Adal Mirza

PHOTOGRAPH: SUPPLIED

Q&A MUNIR AL-KALOTI, PRESIDENT AND CHAIRMAN

What are the long-term prospects for gold bullion?

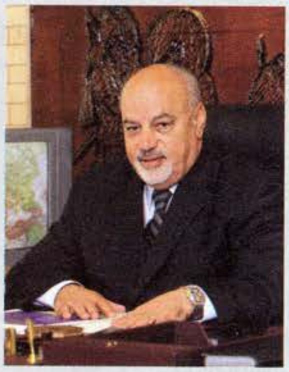
The global economic situation is still incredibly fragile, so this looks like it has reinforced faith in gold as an investment and as a hedge against inflation.

Physical gold bullion will indeed maintain its credibility for the future as the ultimate security in terms of investment, hedging and saving. The recent crisis that engulfed Cyprus is an example of the uncertainty that still prevails in the global markets.

Gold is seen as robust, safe and credible, with thousands of years of history associated to it. The current financial system has lost credibility and will take a very long time to regain investors' trust. Gold is now the ultimate security and will remain so for the foreseeable future.

Where in the Middle East does Kaloti sees the most growth in bullion? Is it still in the Gulf or perhaps emerging markets such as Iraq or North Africa?

In terms of volume, we continue to view the UAE, especially Dubai, as the key bullion market in the Middle East. Always known as the City of Gold, Dubai is emerging as a genuine gold bullion centre to rival London, Shanghai and others. Led by the Dubai Multi-Commodities Centre, it has transformed itself over the past 10 years and built specific, gold-related infrastructure, issued regulations such



as their own practical guidance on responsible sourcing of gold, and launched products and services, including Dubai Gold & Commodity Exchange. This has allowed firms such as Kaloti to make Dubai home and to use its logistics and infrastructure to trade gold bullion. Dubai now accounts for approximately 25 per cent of the world's annual gold trade.

What challenges will Kaloti face in meeting its ambitions?

The principal challenge the company faces is ensuring the responsible sourcing of gold. As of today, 70 per cent of senior management's time is spent on compliance, know your customer and due diligence-related processes. Our safeguard measures are beyond the minimum set out by trade associations and government bodies.

We implement all due diligence processes possible. In addition, it has been a recent requirement of the Dubai Good Delivery [Standard] to have an external audit of our policies. We have hired [the UK's] Ernst & Young to oversee the process. However, there is a cost associated to this, as well as a limited reach in the supply chain, and the large scope of work that needs to be done to implement these regulations. Another challenge is to continue the process of institutionalising the company, as well as maintaining its continuity and sustainability. These are some of the problems and challenges we will face and we are confident of overcoming these hurdles as we continue to grow and expand our operations internationally.

Who are your main competitors?

We compete with banks on one level because all banks have gold departments undertaking some aspects of our work pertaining to hedging and dealing. The advantage in our scope of work are the facilities we provide to our customers in regards to financing and providing credits. For example, we provide a less arduous and time consuming process for credit approval than banks. Moreover, our dealing and hedging department operates 24 hours a day, seven days a week, giving us another advantage.

Some governments can become our competitors in their effort to control the trade and export of gold in their effort to safeguard their currency and their economy. This is a matter of sovereignty, with which we cannot interfere.