

METALS & MINING

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Aluminium demand recovery a key trigger: Alcoa

- Aluminium price likely to be range-bound in the near term, with demand recovery likely to be back-ended in CY24
- Aluminium demand recovery is a key price trigger and could potentially result in a spike as supply of primary aluminium remains constrained
- Indian aluminium players likely to make strong margin amid range-bound aluminium price with easing raw material and energy prices

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We summarise the key takeaways from our interaction with Jim Dwyer, VP, Investor Relations and Pension Investments, Alcoa (AA US, Not Rated), and its other recent investor calls.

Demand recovery back-ended in CY24: For North America and Europe, aluminium demand has stabilised and there is potential for a moderate recovery throughout the year. Among sectors, demand is likely to be strong in electricals (due to EVs and renewables power infrastructure), normalise in auto from high growth last year, remain stable in consumer durables and machinery, improve in packaging after end of destocking, but likely to be weak in buildings & construction. For China, stimulus programmes are likely to prompt demand growth as those measures take effect.

Aluminium market modestly balanced in CY24: Aluminium market is likely to be balanced to slight surplus market in CY24, depending on the speed of demand recovery. Against this, the alumina market is likely to be short in CY24, due to steady demand from smelters and little inventory available. However, Guinea bauxite supply has been faring better despite the fear of disruptions so far.

Aluminium price likely range-bound near term: We believe that back-ended demand recovery coupled with easing of raw materials and energy prices will keep aluminium prices range-bound in the near term.

Triggers for price break-out: Recovery in demand in the western world along with at least some growth in China are the key triggers. This is while supply remains constrained due to few restarts or new projects on the horizon outside China, China holding to capacity cap and Yunan supply remains constrained by hydro energy.

Read-across for Indian aluminium players: With a range-bound aluminium price and easing of raw materials and energy prices, EBITDA margin for Indian aluminium players in the first quartile of cost curve are likely to be strong. Indian players are also benefitting from the improving availability of domestic coal. Players with a long alumina position are likely to benefit from a slight tightness in the alumina market.



Additional takeaways

Aluminium price

Risk of discontinuation of LME benchmark significant: LME stocks are now predominantly Russian-origin metal (90% of total stocks), which is unwanted by much of the western world. It is difficult to have confidence in the LME exchange price matching the true physical price of non-Russian aluminum.

Low carbon aluminium premium is small: At this stage, while the supply of low carbon aluminium, ie, below 4tCO₂/t is around 10-15mt, demand is at an early stage of development. This premium is likely to develop as demand ramps up.

Aluminium consumption

Usage of aluminium in automotive segment: Usage of aluminium has been increasing in the automotive segment with adoption of EV, and likely to be dependent on its pace of adoption. Even for ICE (internal combustion engine) vehicles, the need for improving fuel efficiency leads to lightweighting and continues to increase the usage of aluminium.

Aluminium supply

Few restarts on horizon: While restarts possibilities are limited to 100k-200kt in North America even with implementation of Section 45X incentives, restarts are constrained in Europe due to constraints on low-carbon energy at this stage. We believe there is a good possibility that European smelters may not be able to secure allocation of renewable electricity as use of renewables gets prioritised for other more important use cases. While the Middle East market has limited excess capacity, China supply is likely to peak out at 43-44mt given the current capacity cap of 45mt. Even support from inventory likely will be low with a sharp drop in global inventory levels to just 50 days of demand.

Few new primary aluminium projects on horizon: At this stage, only limited new primary aluminium projects are in progress – mainly in Indonesia and India. Outside China, the availability of low-carbon energy supply is posing a constraint on building a new primary aluminium supply project. As an example, Alcoa has decided to not invest in any new primary aluminum capacity till its carbon-free aluminium production technology – Elysis is available for commercial development, and which is now targeted only in the next decade.

Secondary aluminium supply growing faster than primary: At this stage, players in the western markets have been focusing on investments in secondary aluminium with processing of scrap. However, there is still a need for some addition to primary aluminium capacity to match supply-demand balance till 2030.

Good possibility of holding up China capacity cap: Domestic Chinese producers have been paying a good price to acquire rights to develop new capacity, ie, paying for closure of old capacity under current capacity swap rules. We believe this suggests that domestic players believe that a capacity cap is likely to stay.

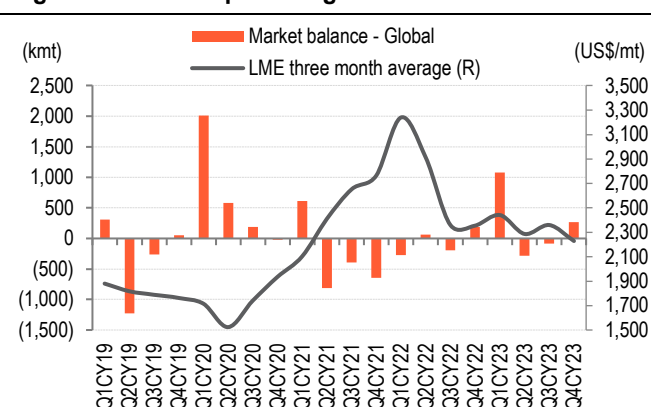
Alcoa specific

Alcoa targeting to double its EBITDA over next two years through its own

measures: From a low point of US\$ 500mn EBITDA in CY23, Alcoa has identified an action plan to improve EBITDA by US\$ 645mn over the next two years, ie, CY24-CY25. While half of the improvement targeted is from raw materials, others are from targeted actions on specific assets (Warrick restart, Alumar-ramp-up and Kwinana refinery curtailment). The improvement plan does not bank on any type of a metal market or alumina market improvement.

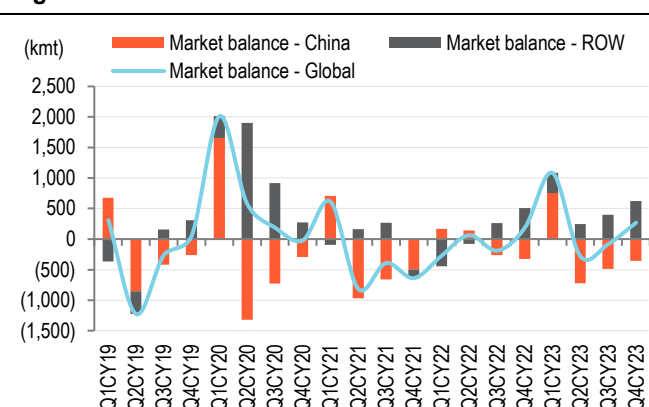
Alcoa interested in secondary aluminium only with its new technology: Alcoa is developing a new technology Astraea for the processing of large-sized post-consumer scrap into high-purity aeroplane grade aluminium.

Fig 1 – Aluminium price vs global market balance



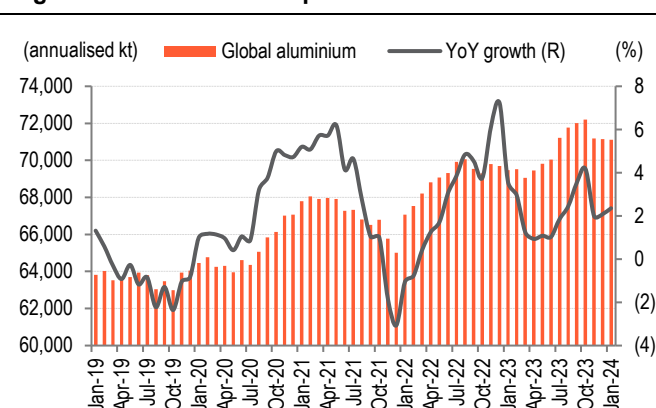
Source: Norsk Hydro

Fig 2 – Global market balance – China vs Ex-China



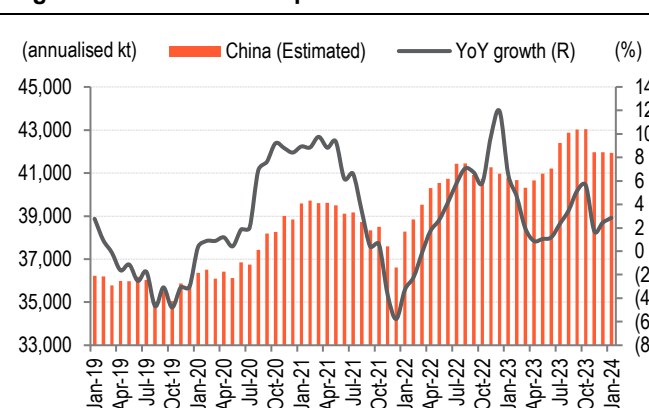
Source: Norsk Hydro

Fig 3 – Global aluminium production



Source: International Aluminium Institute

Fig 4 – China aluminium production



Source: International Aluminium Institute

Fig 5 – North America aluminium production

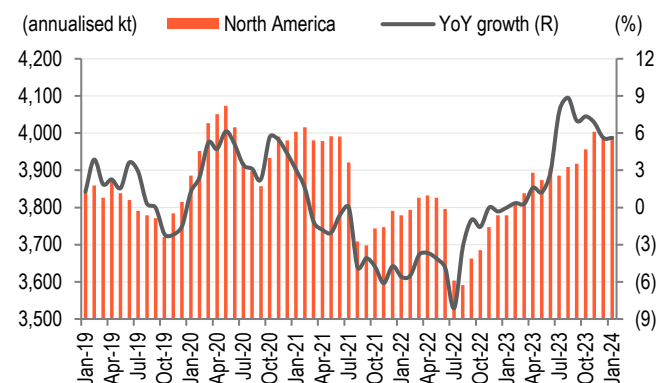


Fig 6 – Western & Central Europe aluminium production

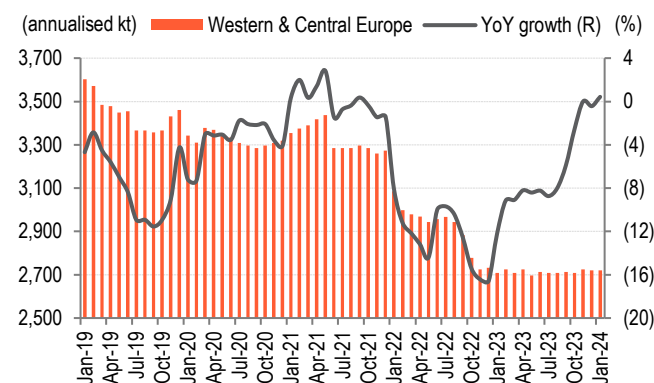


Fig 7 – Russia & Eastern Europe aluminium production

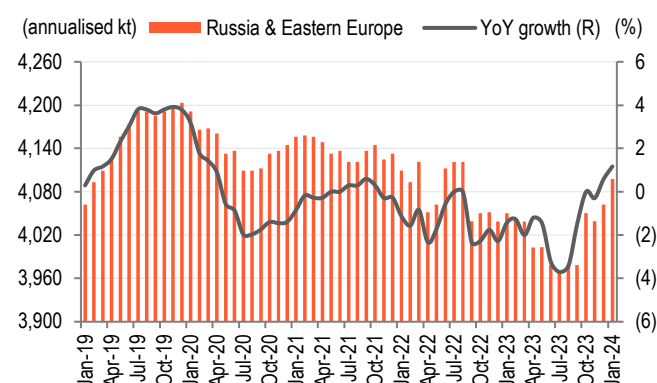


Fig 8 – Gulf Cooperation Council aluminium production

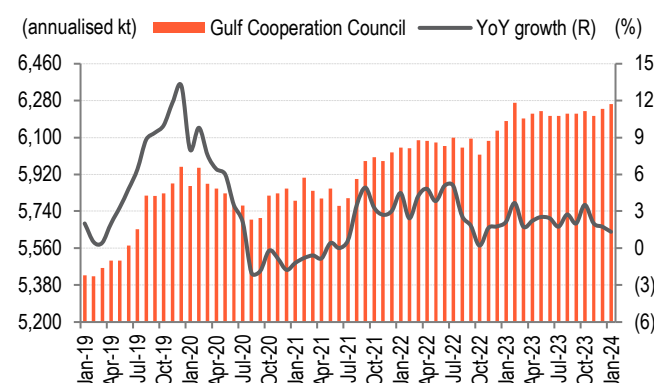


Fig 9 – Asia (ex China) aluminium production

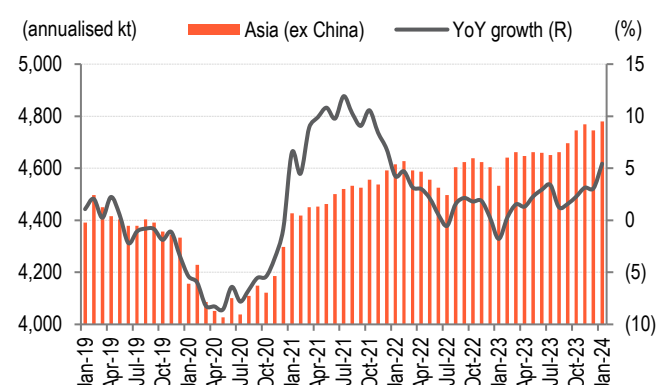
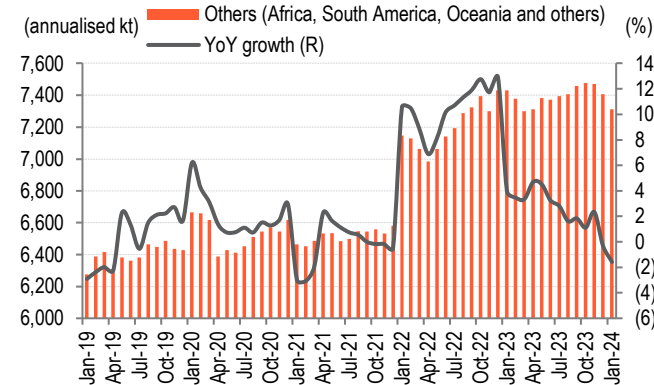


Fig 10 – Others aluminium production



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