


METALS & MINING

17 October 2024

Positive market environment for alumina and aluminium: Alcoa

- **Alcoa's result confirms significant upside from higher prices and modest impact of lower metal prices for Indian players in Q2FY25**
- **Alcoa's commentary has turned positive on demand recovery, implying possible tightening of market balance over CY25**
- **Alumina market tightness likely to continue near term and could return to balance over CY25 with new supplies and resolution of disruptions**

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Alcoa Q3CY24 beat: Q3CY24 EBITDA at US\$ 455mn was 17% ahead of Bloomberg consensus on 30% beat in the aluminium segment partially offset by the 7% miss in alumina segment. Q3 EBITDA increased 30% sequentially primarily due to higher alumina prices, improved energy and raw material costs and lower other costs, only partially offset by lower metal prices.

Read-across for Indian alumina players for Q2FY25: Near doubling of EBITDA sequentially confirms good upside for players long in the alumina segment this quarter. Among Indian players, NALCO is likely to benefit the most with higher third-party sales and its preference sale on spot (rather than index-linked prices).

Read-across for Indian aluminium players for Q2FY25: Indian players will face higher impact of the US\$ 150/t QoQ decline in LME prices than Alcoa due to lower benefit of regional premia. Also, Indian players (except Vedanta) will not face the impact of higher alumina prices being net long on alumina due to net long position.

Aluminum market could tighten over CY25: Alcoa's tone on demand commentary has turned positive from 'steady' outlook last quarter. Alcoa cites continuing recovery in packaging, steady transport despite slower growth in automotive, possibility of recovery in building and construction with onset of rate cuts in Europe and the US. With China approaching production capacity caps, and limited restarts as well as projects in pipeline, aluminium market balance could potentially tighten over CY25.

Alumina: Near-term tight, back in balance in CY25? Alumina price index (API) has tightened to US\$ 700 with very low availability of spot alumina. Alumina market could return to balance over CY25 subject to resolution of curtailments and timely ramp-up of new capacities in Indonesia and India. While China alumina production has ramped up by 7.7mt this year recovering from bauxite shortage, Jamalco refinery (1.2mtpa) has largely recovered from the hurricane impact and Queensland refinery are likely to add 0.5mt additional production in CY25 recovering from gas shortage. However, Kwinana curtailment (2.2mt) is unlikely to recover before CY27.



Alcoa Q3CY24 results confirm sequential upside

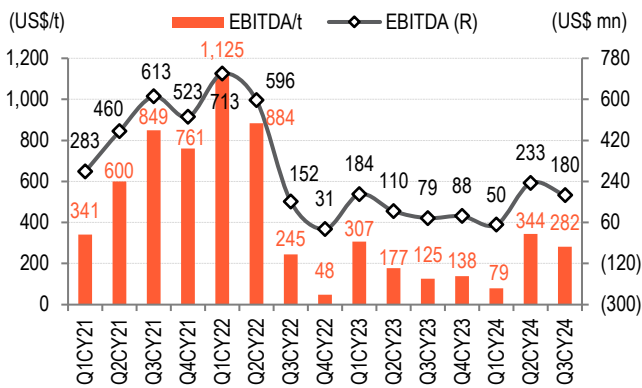
Q3 beat driven by Aluminium. Alcoa's Q3 Adj EBITDA at US\$ 455mn was 17% ahead of consensus with a 30% beat in Aluminium segment partially offset by 7% miss in Alumina segment.

Q3 EBITDA increased 30% sequentially primarily due to higher alumina prices, improved energy and raw material costs and lower other costs, only partially offset by lower metal prices.

Alumina segment earnings nearly doubled QoQ to US\$ 367mn as 9% higher alumina realisation more than offset the impact of lower shipments, higher production costs, raw material, energy and other costs.

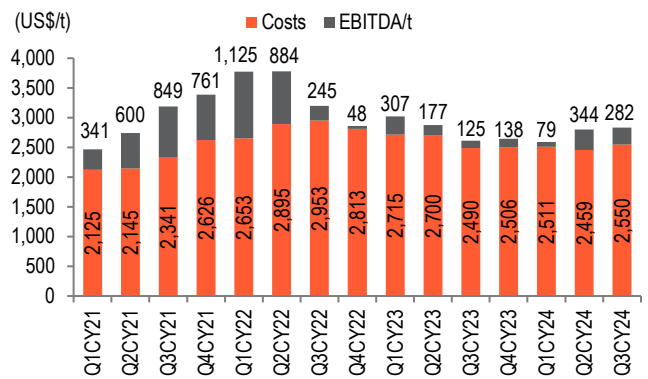
Aluminium earnings fell 22% QoQ, impacted primarily by lower shipments, higher alumina costs, lower metal prices and only partially offset by raw material, energy and production cost improvements.

Fig 1 – Alcoa's aluminium EBITDA declined QoQ...



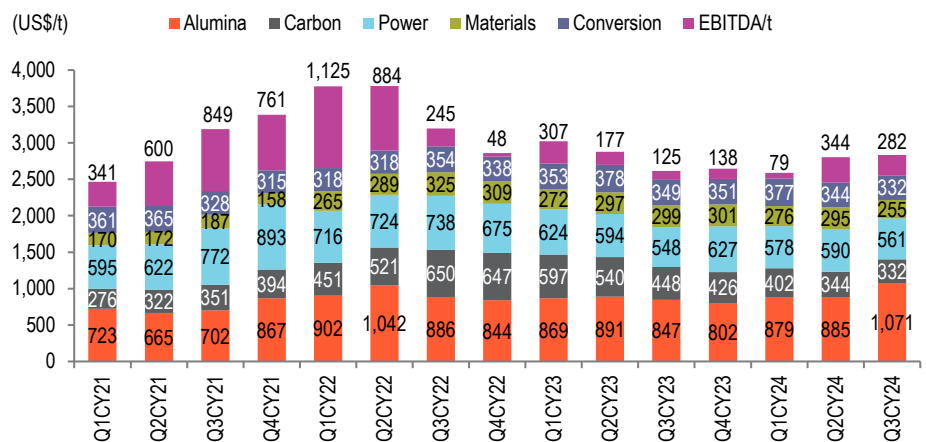
Source: Company, BOBCAPS Research

Fig 2 – ... on higher alumina cost and lower metal price



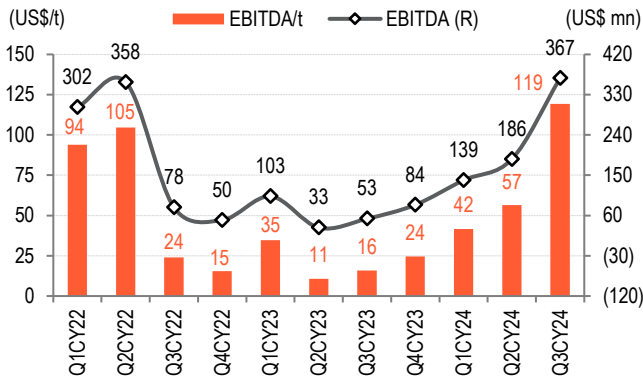
Source: Company, BOBCAPS Research

Fig 3 – Alcoa's aluminium cost and profit breakdown



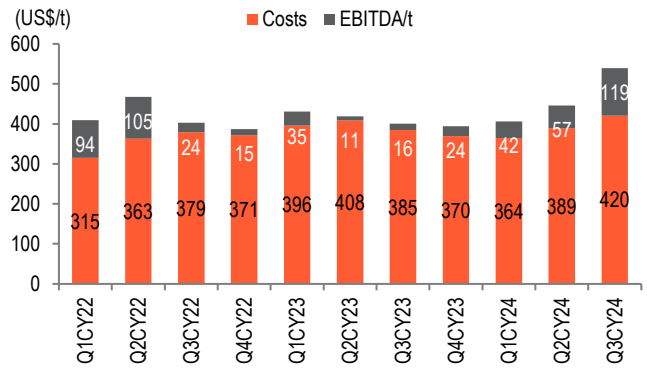
Source: Company, BOBCAPS Research

Fig 4 – Alcoa’s alumina EBITDA nearly doubled QoQ...



Source: Company, BOBCAPS Research

Fig 5 – ... primarily due to higher realisation



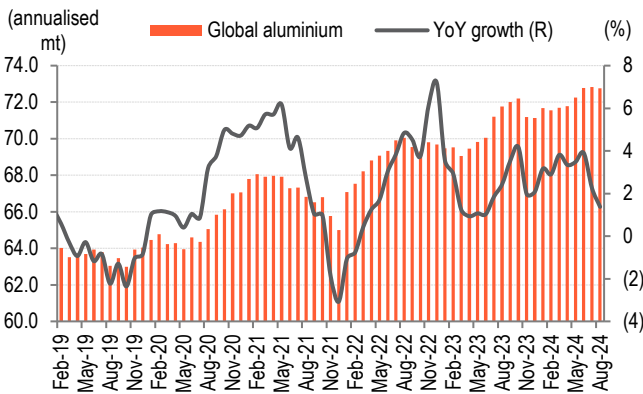
Source: Company, BOBCAPS Research

Positive environment for alumina and aluminum

Aluminium demand recovery to tighten market over CY25

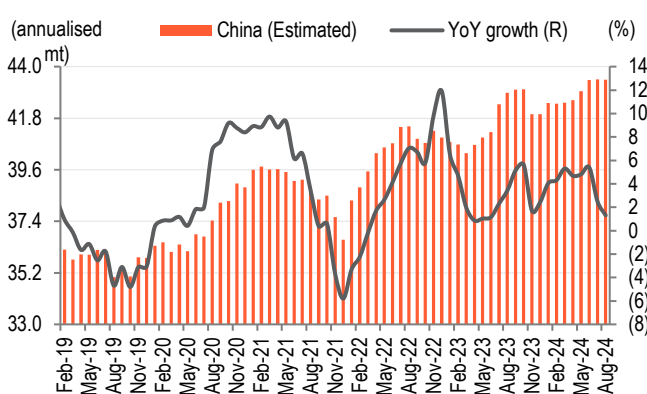
- **Global aluminium demand at record levels.** Alcoa’s tone on demand commentary has turned positive from the ‘steady’ outlook last quarter. Demand recovery from packaging is progressing well in both North America and Europe. Demand from transportation has been steady although growth is slowing within the automotive sector. Demand from building and construction are likely to improve at some stage with rate cuts in Europe and in the US.
- **Limited aluminium supply growth ahead.** While Chinese supply ramped up 1.5mt this year to 43.5mt annualised level in Aug’24, Chinese supply is now approaching ‘internal’ production capacity cap of 45mt limiting further increase. While some restarts have been seen in Europe (150kt) and Russia and Eastern Europe (90kt), limited new supply is in the pipeline.
- **Inclusion of aluminium industry in carbon trading scheme in China.** China has announced the inclusion of its aluminum in its National Emissions Trading Scheme, which sets national carbon pricing. This suggests that industry will be subject to carbon emissions pricing at some stage.

Fig 6 – Global aluminium production recovering



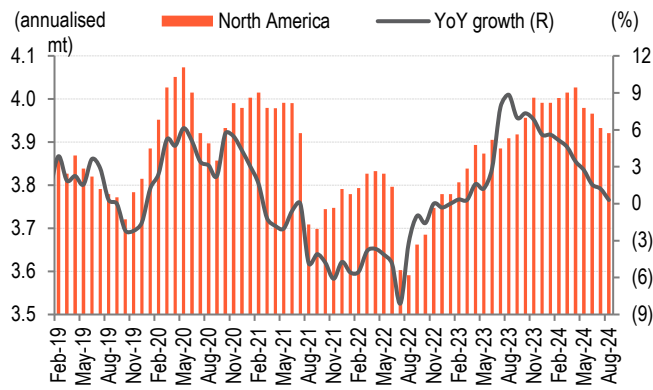
Source: International Aluminium, BOBCAPS Research

Fig 7 – China aluminium production approaching capacity cap



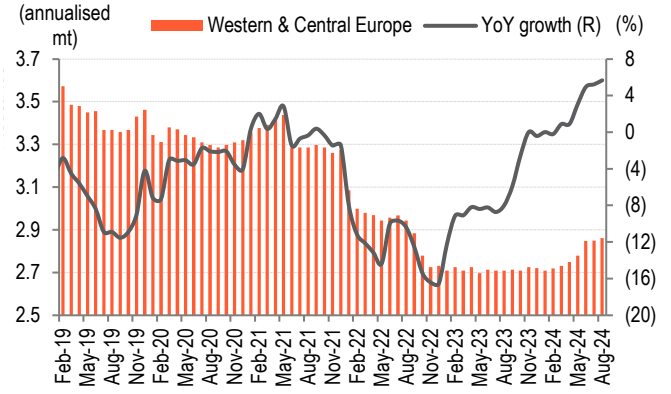
Source: International Aluminium, BOBCAPS Research

Fig 8 – North America aluminium production has limited scope for recovery



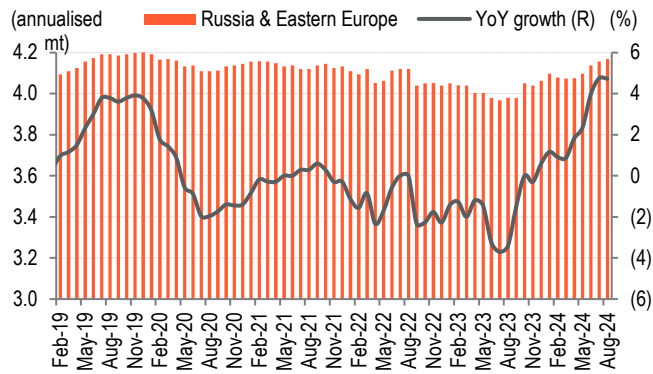
Source: International Aluminium, BOBCAPS Research

Fig 9 – Western & Central Europe aluminium production has seen restarts of 150kt over last quarter



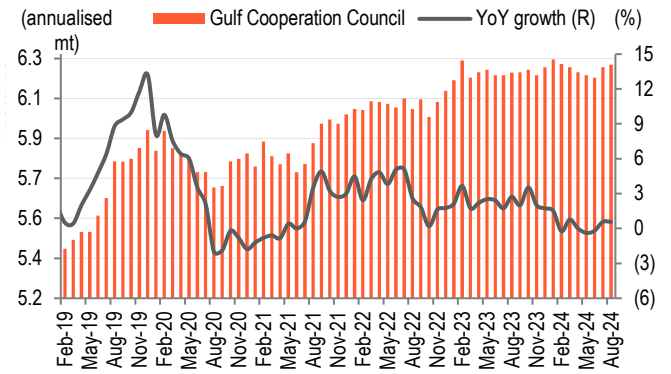
Source: International Aluminium, BOBCAPS Research

Fig 10 – Russia & Eastern Europe aluminium production stable



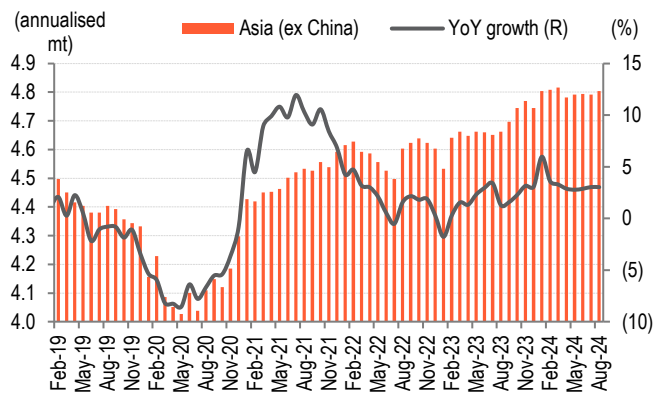
Source: International Aluminium, BOBCAPS Research

Fig 11 – Middle East aluminium production stable



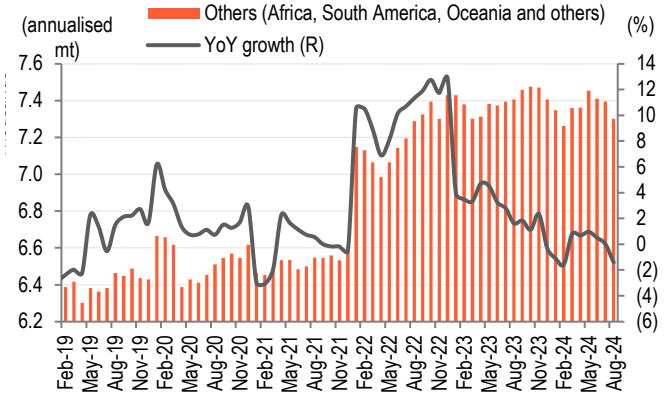
Source: International Aluminium, BOBCAPS Research

Fig 12 – Asia (ex China) aluminium production stable



Source: International Aluminium, BOBCAPS Research

Fig 13 – Others (Africa, South America, Oceania, others) aluminium production down



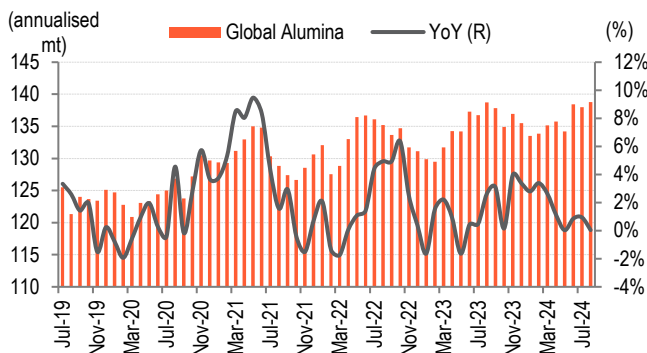
Source: International Aluminium, BOBCAPS Research

Alumina: Near-term tight, back in balance in CY25?

- **Alumina price tightened:** Alumina price index (API) has tightened to US\$ 700 with very low availability of spot alumina.
- **Alumina market could come back in balance in CY25:** For the market to come back into balance, both the resolution of the recent disruptions and the ramp-up of scheduled projects in Indonesia and India will be needed.
- **Recovery in supply:** Jamalco refinery resumed full production of 1.2mt in August, recovering from the impact of a hurricane. Refineries at Queensland (Rio Tinto) have started ramping back alumina production with better availability of gas supply and are likely to recover 0.45mt of additional alumina production in CY25. While Chinese domestic bauxite supply continues to be tight, Chinese alumina production has recovered by 7.7mt from the recent lows with higher bauxite imports. Alcoa guides for 0.2mt of extra shipments in CY24 by increasing trading activities.
- **Supply disruption to continue:** Kwinana refinery (2.2mt curtailment) is unlikely to restart operations until the improvement of bauxite availability in CY27.

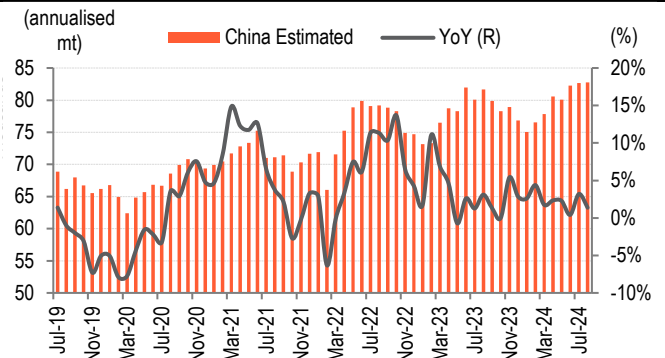
Risk of supply disruptions: Media has reported disruptions around bauxite production in Guinea, however, no impact has been confirmed yet. Within India, alumina refinery of Vedanta in Odisha faced the collapse of a runoff storage pond. Although Vedanta confirmed no impact to refinery production, this needs to be watched for any further disruption.

Fig 14 – Global alumina production slowly recovering



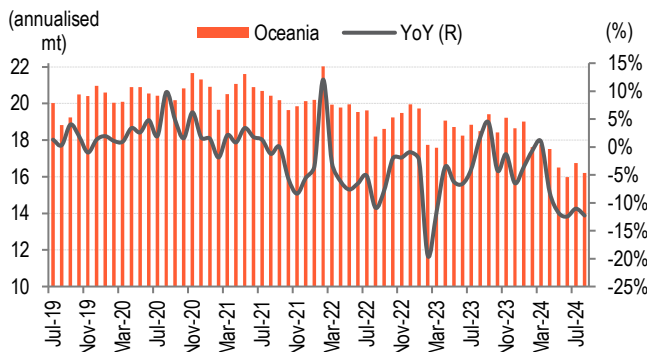
Source: Company, BOBCAPS Research

Fig 15 – China alumina production is driving recovery



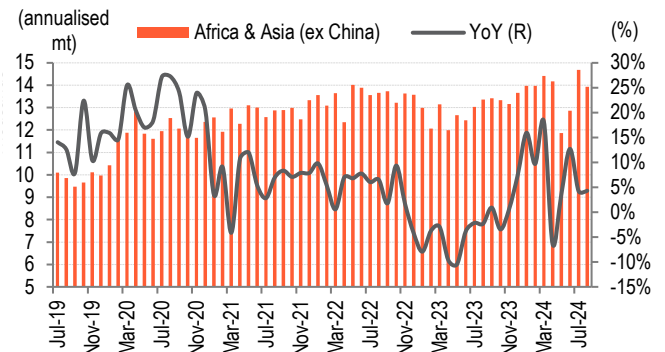
Source: Company, BOBCAPS Research

Fig 16 – Oceania alumina production: Queensland recovering, Kwinana curtailment through CY26



Source: Company, BOBCAPS Research

Fig 17 – Africa/Asia alumina production: Jamalco refinery largely recovered from outage



Source: Company, BOBCAPS Research

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