

W U T I S



Long ALCOA

Trading Division

Target Price: 40.30 \$

Entry Price: 32.40 \$

Upside Potential: +24.4%

Recommendation: BUY

Investment Horizon: 6 months

Vienna, June 11, 2021

Team Overview

Trading Division - Group A



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- Macroeconomic Research
- Aluminum Market



- MSc Banking and Finance
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Agenda

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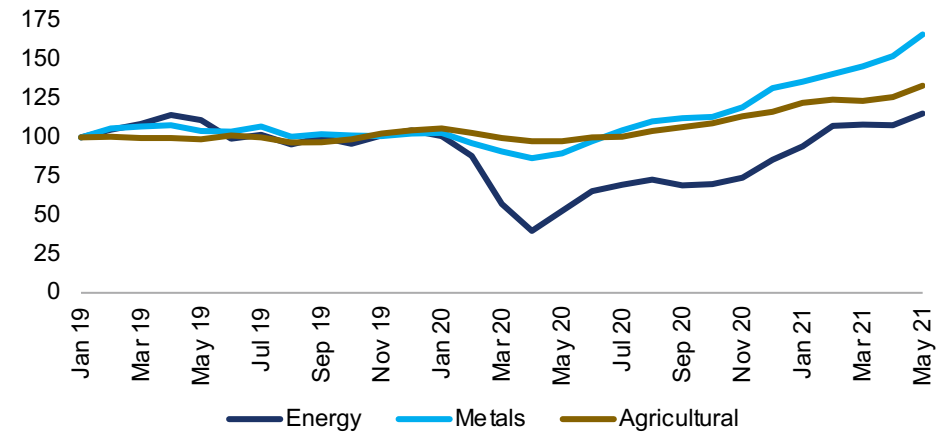
Macroeconomic Environment

Global commodity prices see strong increase after COVID-19 slump

Market Developments in Commodities

- The COVID-19 pandemic had a noticeable impact across all **commodity prices**, especially **energy prices** were hit the hardest, whilst metal prices dropped only 16%
- In 2021 nearly all commodity prices continued their **recovery**
- Although being hit the hardest in 2020 the **recovery in oil** was the fastest ever seen in oil price history
- Global **metal prices continue to rise**, World Bank's Metals and Minerals Index up 22% YTD

Commodity Price Index (2019 = 100)



Metal Market Developments

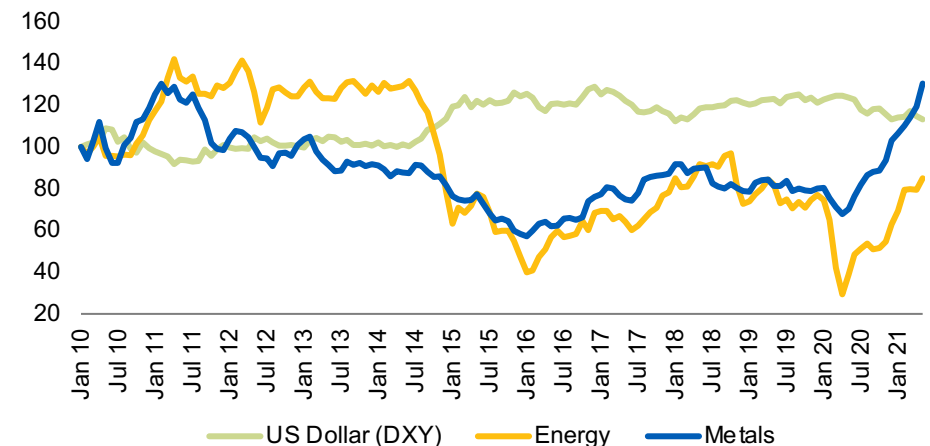
Metal prices tend to move **cyclical**. Contrary to oil prices, metal price fluctuations are primarily driven by **demand shocks**

- Global recession 2008-09, technological changes, government policies

Factors that have recently affected metal prices:

- Ongoing global economic recovery leading to **increasing global demand**
- Strong demand out of **China**
- **Supply chain disruptions** caused by COVID-19
- **US Dollar**

Oil & Metals Price Index vs US Dollar (2011 = 100)

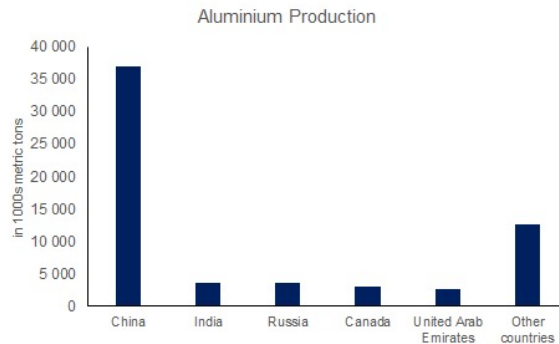


Aluminum Market Overview

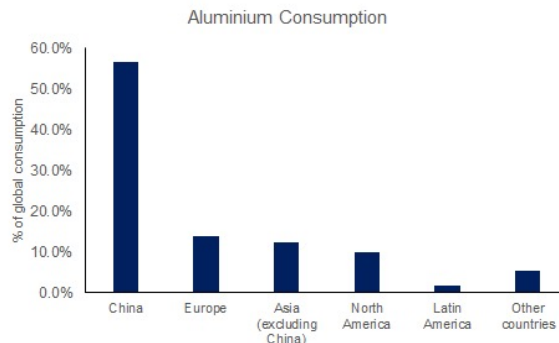
Healthy demand in combination with potential short-term disruptions

Supply and demand dominated by China

- World's most abundant metallic element, does not occur in the natural state, usually extracted from bauxite
- Nearly 60% of aluminum in 2020 was produced in China

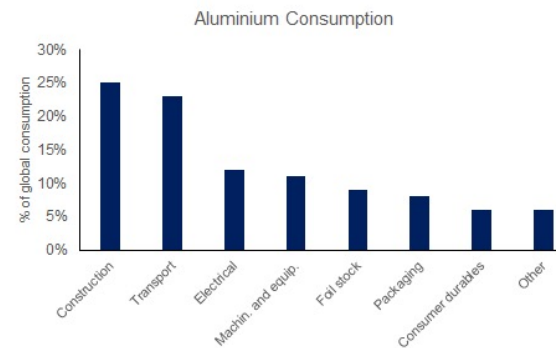


- China accounted for 55% of global consumption in 2019



Chinese construction and transport sectors drive the price

- Construction and transport sectors combined correspond to a half of aluminum consumption



Key price drivers:

- Chinese economy
- Demand for transportation (mostly automobiles)
- Construction activity
- Electricity prices
- Strength of the US dollar

Strong demand side

- Chinese economy is set to grow at a highest pace since 2011
- The Global Construction Activity Index positive in all regions first time since the start of the pandemic in Q1 2021
- Global auto sales are expected to grow by 9.4% YoY

Weaker supply side

- Reduced aluminum production in Inner Mongolia due to The 14th Five-Year Plan energy consumption targets



ALCOA Company Overview

ALCOA is a global aluminum supplier based in the US

Business Description

- ALCOA is a global aluminum producer based in the US
- Their operations include mining, refining, smelting, fabricating and recycling
- **Founded:** 03/10/2016
- **Headquarters:** Pittsburg, Pennsylvania
- **Market Cap:** USD 6.97 bn
- Nearly 55% of revenues stem from international customers
- 1Q2021 Highlights: Highest revenue and income since 2018, generated net income: \$175 million

Quarterly Income Statement Highlights (Q1 2021)

<i>In \$ mn, Expected per share amount</i>	Q1 20	Q4 20	Q1 21
Revenue	2,381	2,392	2,870
Net income (loss)	80	(4)	175
Diluted earnings (loss) per share	0.43	(0.02)	0.93

Adjusted income statement highlights

Adjusted EBITDA excluding special items	321	361	521
Adjusted net (loss) income	(42)	49	150
Adjusted diluted (loss) earnings per share	(0.23)	0.26	0.79

Product Portfolio

Bauxite

- World's second largest miner with assets across four continents

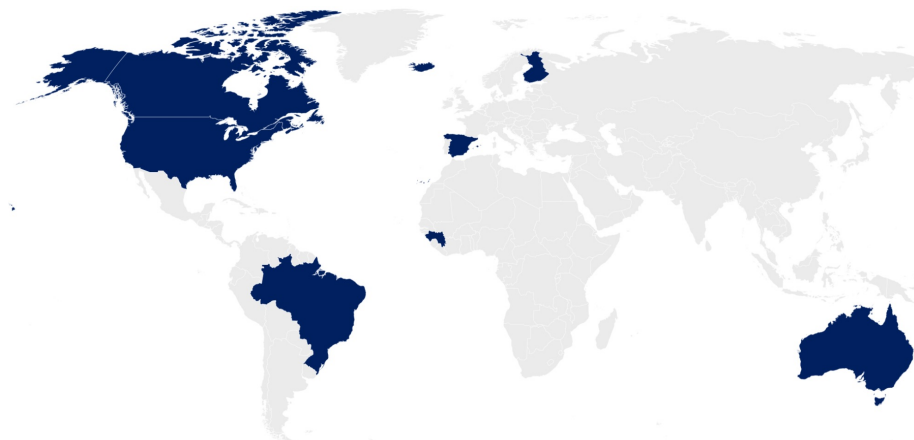
Alumina

- Largest refiner and largest long position, outside of China
- Lowest CO2 intensity refiner

Aluminum

- Strong focus on ESG targets and developing new sustainable technologies
- World 8th largest aluminum producer

Global Operations



ALCOA – Price Performance

Weekly Chart



Price – Major Events

- 6/2016-01/2018 A 25% increase in Aluminum price led to stronger investors' sentiment
- 05/2018-03/2020 High Aluminum tariffs, a 21% decrease in Aluminum price, following by weak demand as Covid-19 has erupted, resulted in a huge plunge in Alcoa's share price
- 03/2020-06/2021 Investors' sentiment strengthened as Aluminum demand has increased

ALCOA – Price Performance

Daily chart



Price – Major Events

- (1) 21/04/2021 - Entering the trade at **32.40\$**. Setting two profit takers at 40.30\$ and 49.90\$
- (2) 21/04/2021 - Setting a stop loss at **27.70 \$**
- (3) 05/05/2021 - Taking profit at 40.30\$ for 50% of the trade.
- Adjusting S/L to **36.55\$**
- (4) 19/05/2021 - S/L was triggered for the remaining 50% shares at 36.55 \$
- The overall profit for this trade was **18.5%**.

Trade Overview

Trade Description

- Alcoa is a global aluminum supplier and its product portfolio includes Bauxite, Alumina and Aluminum
- World's eighth largest producer of aluminum
- Technology, mining, refining, smelting, fabricating, and recycling

Market Environment

- Global aluminum demand on the rise again after the slip in 2020
- Because of the strong demand a widening of the supply gap has to be accounted for and therefor rising prices
- Supply shortage is seen rising to 1m tones in 2023

Catalysts

- Easing mobility restrictions
- Robust industrial activity
- Increasing construction activities in the Asia-Pacific region

Entry/Exit, Stop Loss

- Entry price: 32.40\$
- Stop loss price: 27.70\$
- 1st Profit taker price: 40.3 \$
- 2nd Profit taker price: 49.90 \$

Risks

- Risk/Reward: 1.63
- Slowdown in the Global Automotive Industry
- Unfavorable Conditions Arising Due to COVID-19 Outbreak

Appendix

Sources

Source Name	Link	Date of Retrieval	Used for
Trading-view	https://www.tradingview.com/chart/ccjtapc7/4	06. June 2021	ALCOA Chart Analysis
World Bank	https://thedocs.worldbank.org/en/doc/c5de1ea3b3276cf54e7a1dff4e95362b-0350012021/original/CMO-April-2021.pdf	06. June 2021	Commodity Prices Outlook
World Bank	https://thedocs.worldbank.org/en/doc/c5de1ea3b3276cf54e7a1dff4e95362b-0350012021/related/CMO-April-2021-special-focus.pdf	06. June 2021	Metal Price Shocks
CM Group	https://www.world-aluminium.org/media/filer_public/2020/05/28/initial_assessment_of_the_impact_of_the_covid-19_on_global_al_demand_.pdf	06. June 2021	Global Aluminum Demand
ALCOA Corporation	https://alcoa.q4cdn.com/375357455/files/doc_presentations/2021/May-2021-Investor-Presentation_PDF.pdf	06. June 2021	ALCOA company data
Accenture	https://www.accenture.com/be-en/insights/consulting/coronavirus-supply-chain-disruption	06. June 2021	Supply Chain Disruptions
Forbes	https://www.forbes.com/sites/sarahhansen/2021/03/15/chinas-economy-soared-at-the-beginning-of-2021-as-beijing-looks-to-wind-down-stimulus/?sh=3ef67cf26a5f	06. June 2021	China Stimulus Program
U.S. Geological Survey	https://pubs.usgs.gov/periodicals/mcs2021/mcs2021.pdf	06. June 2021	Aluminium Production Data
Government of Canada	https://www.nrcan.gc.ca/our-natural-resources/minerals-mining/minerals-metals-facts/aluminum-facts/20510	06. June 2021	Aluminium Consumption Data
Bank of Nova Scotia	https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.autos.global-auto-report.february-24---2021.html	06. June 2021	YoY global car sales growth
Royal Institute of Chartered Surveyors	https://www.rics.org/globalassets/rics-website/media/knowledge/research/market-surveys/construction-monitor/q1-2021-global-construction-monitor-final1.pdf	06. June 2021	Global Construction Activity Index