

## Alcoa Corporation

# Q1'24 preview: increase EBITDA estimate on higher aluminum pricing; lift PO to \$32

Reiterate Rating: NEUTRAL | PO: 32.00 USD | Price: 30.44 USD

## Revised BofAe Q1 EBITDA now in line with BBG consensus

With commodity pricing (15/30-day lag on aluminum/alumina) locked in, we update our Alcoa (AA) model and now see Q1'24 adjusted EBITDA of \$121 million (m), above our prior estimate of \$97m due mainly to higher aluminum pricing. BofAe EBITDA is now in line with Bloomberg (BBG) consensus at \$119m, but below Visible Alpha (VA) at \$140m. We raise our price objective (PO) to \$32 per share (from \$31) based on 4.5x/3.5x 2024E /2025E EV/EBITDA and 1.0x net asset value, with each equally weighted (methodology unchanged). On 11-Mar-24, AA entered into a binding agreement to acquire Alumina Limited (AWC). While we like the transaction's strong industrial logic and the BofA Commodities team is bullish aluminum longer-term, this is balanced by transaction-related EPS dilution, near-term uncertainty over the future of the 'loss-making' San Ciprián assets, and higher mining costs/permitting risks in Western Australia. Reiterate Neutral rating.

## Bauxite & Alumina segment up QoQ; Aluminum a bit lower

We expect Bauxite & Alumina segment EBITDA to rise 48% quarter-over-quarter (QoQ) to \$124m in Q1'24E on \$20 per tonne (/t) higher alumina pricing, partly offset by \$15m of higher maintenance costs. Aluminum segment EBITDA is forecast to decline modestly from \$88m in Q4'23 to \$73m in Q1'24E, as the benefit of a higher LME prices / regional premiums (+\$20/t vs. -\$25/t prior) is more than offset by higher alumina costs and the end of the Alumar hedging program. Non-segment items (transformation, corporate, and inter-segment eliminations) are estimated to be less of a drag QoQ at -\$76m. Thus, we expect Q1'24 consolidated adjusted EBITDA of \$121m vs. \$89m in Q4, and now see a Q1'24E loss per share of \$0.83 from \$0.92. We raise 2024E EPS to \$1.27 from \$1.16.

## Opportunity knocks: consolidating AWAC assets

On 25-Feb-24, AA announced an agreement to acquire AWC. The all-share deal (0.02854 AA share for each AWC share), valued AWC's equity at ~\$2.2 billion (bn). This was a 13% premium to AWC's market value at announcement, and a 5% premium to our estimated AWC net asset value. For more details, please see our [AA/AWC report: 29-Feb-24](#).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.93	(2.27)	1.27	4.09	5.47
GAAP EPS	(0.56)	(3.65)	1.27	4.09	5.47
EPS Change (YoY)	-28.2%	NM	NM	222.0%	33.7%
Consensus EPS (Bloomberg)			0.19	2.20	3.05
DPS	0.40	0.40	0.40	0.40	0.40
Valuation (Dec)					
P/E	6.2x	NM	24.0x	7.4x	5.6x
GAAP P/E	NM	NM	24.0x	7.4x	5.6x
Dividend Yield	1.3%	1.3%	1.3%	1.3%	1.3%
EV / EBITDA*	3.3x	13.9x	5.4x	3.1x	2.6x
Free Cash Flow Yield*	6.3%	-8.1%	-0.4%	14.9%	22.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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**Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	31.00	32.00
2024E Rev (m)	11,246.0	11,277.4
2025E Rev (m)	12,232.3	12,233.5
2024E EPS	1.16	1.27

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### Stock Data

Price	30.44 USD
Price Objective	32.00 USD
Date Established	15-Mar-2024
Investment Opinion	C-2-7
52-Week Range	23.07 USD - 42.95 USD
Mrkt Val (mn) / Shares Out (mn)	5,466 USD / 179.6
Free Float	98.8%
Average Daily Value (mn)	180.90 USD
BofA Ticker / Exchange	AA / NYS
Bloomberg / Reuters	AA US / AAN
ROE (2024E)	4.1%
Net Dbt to Eqty (Dec-2023A)	14.8%

QoQ = quarter over quarter

VA = Visible Alpha

# iQprofile<sup>SM</sup> Alcoa Corporation

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	2.9%	-2.7%	3.2%	8.5%	10.2%
Return on Equity	18.4%	-8.7%	4.1%	12.3%	14.6%
Operating Margin	5.5%	-3.3%	6.0%	14.2%	17.6%
Free Cash Flow	342	(440)	(20)	815	1,228

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	NM	2.1x	1.3x	1.3x
Asset Replacement Ratio	0.8x	0.8x	0.8x	0.9x	1.0x
Tax Rate	91.8%	NM	41.1%	30.0%	30.0%
Net Debt-to-Equity Ratio	6.8%	14.8%	14.3%	5.2%	-6.1%
Interest Cover	6.5x	-3.2x	5.8x	13.8x	17.9x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,451	10,551	11,277	12,234	12,829
% Change	2.5%	-15.3%	6.9%	8.5%	4.9%
Gross Profit	2,239	738	1,621	2,648	3,105
% Change	-25.3%	-67.0%	119.6%	63.4%	17.3%
EBITDA	2,224	536	1,382	2,414	2,886
% Change	-20.0%	-75.9%	157.9%	74.6%	19.6%
Net Interest & Other Income	33	(241)	(203)	(191)	(191)
<b>Net Income (Adjusted)</b>	<b>890</b>	<b>(405)</b>	<b>256</b>	<b>1,079</b>	<b>1,443</b>
<b>% Change</b>	<b>-31.4%</b>	<b>NM</b>	<b>NM</b>	<b>321.4%</b>	<b>33.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	59	(773)	277	1,081	1,445
Depreciation & Amortization	617	632	662	638	601
Change in Working Capital	(903)	(262)	(48)	(69)	(117)
Deferred Taxation Charge	257	(54)	0	0	0
Other Adjustments, Net	792	548	(360)	(235)	(100)
Capital Expenditure	(480)	(531)	(550)	(600)	(600)
<b>Free Cash Flow</b>	<b>342</b>	<b>-440</b>	<b>-20</b>	<b>815</b>	<b>1,228</b>
<b>% Change</b>	<b>-35.5%</b>	<b>NM</b>	<b>95.5%</b>	<b>NM</b>	<b>50.6%</b>
Share / Issue Repurchase	(478)	1	2,200	0	0
Cost of Dividends Paid	(72)	(72)	(80)	(104)	(104)
Change in Debt	3	55	291	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,363	944	912	1,623	2,747
Trade Receivables	778	656	640	670	703
Other Current Assets	3,109	2,805	2,645	2,640	2,701
Property, Plant & Equipment	6,493	6,785	9,164	9,126	9,125
Other Non-Current Assets	3,040	2,968	3,328	3,563	3,663
<b>Total Assets</b>	<b>14,783</b>	<b>14,158</b>	<b>16,689</b>	<b>17,623</b>	<b>18,939</b>
Short-Term Debt	1	79	79	79	79
Other Current Liabilities	3,003	2,951	2,796	2,819	2,859
Long-Term Debt	1,806	1,732	2,023	2,023	2,023
Other Non-Current Liabilities	3,401	3,550	3,480	3,414	3,350
<b>Total Liabilities</b>	<b>8,211</b>	<b>8,312</b>	<b>8,378</b>	<b>8,335</b>	<b>8,311</b>
<b>Total Equity</b>	<b>6,572</b>	<b>5,846</b>	<b>8,306</b>	<b>9,282</b>	<b>10,622</b>
<b>Total Equity &amp; Liabilities</b>	<b>14,783</b>	<b>14,158</b>	<b>16,684</b>	<b>17,617</b>	<b>18,933</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Non-Ferrous-Mining

## Company Description

Alcoa (AA) is a vertically integrated aluminum company, involved in bauxite mining, alumina refining, and aluminum smelting, in addition to cast aluminum products and some energy assets. Revenue in 2023 was \$10.6bn.

## Investment Rationale

We rate AA at Neutral. We are bullish aluminum, but cautious in the more immediate term. Further, AA is in a period of transition (cost reductions) that we think will take longer than previously expected. We like AA's first quartile costs in bauxite/alumina. But its aim to move to first quartile in aluminum is challenged, in our view. AA also aims to be the lowest carbon emitter. It is well positioned given its proprietary technology Elysis, set to begin commercialization in early 2030s.

## Key Drivers

2024E 2025E 2026E

## Stock Data

Average Daily Volume 6,076,147

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.23A	-0.83E
Q2	-0.35A	0.34E
Q3	-1.13A	0.85E
Q4	-0.56A	0.72E

# AA Q1'24 estimate changes

## Exhibit 1: AA Q1'24 key estimate changes and BofA estimates vs. consensus

Our Q1'24E adjusted EBITDA increases to \$121m from \$97m prior, mainly on higher aluminum pricing (+\$20 /ton vs. -\$25/ton prior). We now expect Q1'24E adjusted loss per share of \$0.83 versus \$0.92 as benefit of higher EBITDA is partly offset by higher taxes.

(US\$m, US\$/sh)	Q1'24E	Q1'23A	YoY	Q4'23A	QoQ	Q1'24E	Var.	Bloomberg Cons.	Var.	V.A. Cons.	Var.
<b>Net sales</b>	<b>2,610</b>	<b>2,585</b>	<b>1%</b>	<b>2,524</b>	<b>3%</b>	<b>2,582</b>	<b>1%</b>	<b>2,542</b>	<b>3%</b>	<b>2,590</b>	<b>1%</b>
SG&A	76	54	41%	64	19%	78	-2%	52	46%	59	30%
DD&A	166	153	8%	163	2%	171	-3%	164	1%	164	1%
<b>Adj EBITDA</b>	<b>121</b>	<b>240</b>	<b>-50%</b>	<b>89</b>	<b>36%</b>	<b>97</b>	<b>24%</b>	<b>119</b>	<b>2%</b>	<b>140</b>	<b>-13%</b>
<b>Diluted EPS, Adjusted</b>	<b>(0.83)</b>	<b>(0.23)</b>	<b>nm</b>	<b>(0.56)</b>	<b>nm</b>	<b>(0.92)</b>	<b>nm</b>	<b>(0.35)</b>	<b>nm</b>	<b>(0.45)</b>	<b>nm</b>
Operating Cash Flow	(293)	(163)	80%	198	nm	(242)	nm	(213)	nm	(179)	64%
FCF	(406)	(246)	nm	10	nm	(380)	nm	(377)	nm	(320)	nm
Capex	113	83	36%	188	-40%	138	-18%	100	13%	141	-20%
Net Debt (cash)	1,214	669	81%	867	40%	1,189	2%	1,286	-6%	1,177	3%
Cash & equivalents	597	1,138	-48%	944	-37%	622	-4%	710	-16%	634	-6%
<b>Bauxite</b>											
Production (M dmt)	10.2	9.9	3%	10.4	-2%	10.2	0%	10.1	1%	10.3	-1%
<b>Alumina</b>											
Production (kmt)	2,700	2,755	-2%	2,789	-3%	2,700	0%	2,805	-4%	2,563	5%
3rd party shipments (kmt)	2,310	1,929	20%	2,259	2%	2,310	0%			2,165	7%
Intersegment shipments (kmt)	990	1,039	-5%	1,176	-16%	990	0%			1,068	-7%
<b>Total shipments</b>	<b>3,300</b>	<b>2,968</b>	<b>11%</b>	<b>3,435</b>	<b>-4%</b>	<b>3,300</b>	<b>0%</b>			<b>3,233</b>	<b>2%</b>
External realized price (\$/mt)	360	371	-3%	344	5%	359	0%	356	1%	355	1%
<b>Aluminum</b>											
Primary aluminum production (kmt)	550	518	6%	541	2%	550	0%	545	1%	550	0%
<b>Total shipments (kmt)</b>	<b>625</b>	<b>600</b>	<b>4%</b>	<b>623</b>	<b>0%</b>	<b>625</b>	<b>0%</b>			<b>650</b>	<b>-4%</b>
Avg price realization (\$/mt)	2,752	3,079	-11%	2,678	3%	2,712	1%			2,677	3%

Source: BofA Global Research estimates, company reports, Bloomberg, Visible Alpha

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Alcoa Corporation (AA)

Our price objective of \$32 for AA is based on 4.5x 2024E EV/EBITDA, 3.5x 2025E EV/EBITDA and 1.0x net asset value (NAV), with each value equally weighted. The 4.5x 2024E EV/EBITDA target multiple is below the global aluminum producer peer average around 5x to reflect our view for an extended turnaround to return to higher-grade bauxite in Western Australia. The 4.5x is also below AA's historical trading average (since 2016 separation) of 5x. The 3.5x 2025E EV/EBITDA multiple is lower than the 2024E multiple to account for time value and significantly higher aluminum price forecast versus spot. The 1.0x price to NAV (P/NAV) target multiple is in line with our broad North American metals and mining coverage.

Downside risks to our price objective are 1) aluminum price weakness, 2) extended delays in getting its bauxite mine approvals in Western Australia, 3) remaining pension liabilities, 4) rising costs for raw materials including electricity, oil, caustic soda, coke, and pitch, 5) power contract negotiation risk (electricity is a large cost component), 6) power disruption risk and other unforeseen weather-related risks, 7) political, regulatory and country risks, 8) unfavorably currencies changes including in the BRL, CAD, EUR, ISK and NOK, and 9) the removal of protective tariffs in key markets.

Upside risks to our price objective are 1) higher aluminum prices, 2) better-than-expected cost containment, and 3) global demand growth.

## Analyst Certification

I, Lawson Winder, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as Financial Adviser to Alumina Ltd in connection with the proposed transaction for Alcoa Corp to acquire 100% of the ordinary shares on issue in Alumina Ltd via a scheme of arrangement, which was announced on 26 Feb 2024. The proposed transaction is amongst other things subject to approval by shareholders of Alumina Ltd and Alcoa Corp. This research report is not intended to provide voting advice, serve as an endorsement of the proposed transaction, or result in the procurement, withholding or revocation of a proxy.

### North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Agnico Eagle Mines	AEM	AEM US	Lawson Winder, CFA
	B2Gold Corp	YBTO	BTO CN	Harmen Puri
	B2Gold Corp	BTG	BTG US	Harmen Puri
	Barrick Gold	GOLD	GOLD US	Lawson Winder, CFA
	Cameco Corporation	YCCO	CCO CN	Lawson Winder, CFA
	Cameco Corporation	CCJ	CCJ US	Lawson Winder, CFA
	CMC	CMC	CMC US	Lawson Winder, CFA
	Endeavour Mining	YEDV	EDV CN	Harmen Puri
	Endeavour Mining	EDVMF	EDVMF US	Harmen Puri
	Endeavour Mining PLC	XEDVF	EDV LN	Harmen Puri
	Franco-Nevada	YFNV	FNV CN	Lawson Winder, CFA
	Franco-Nevada	FNV	FNV US	Lawson Winder, CFA
	IAMGOLD	YIMG	IMG CN	Lawson Winder, CFA
	IAMGOLD Corp.	IAG	IAG US	Lawson Winder, CFA
	Ivanhoe Mines	YIVN	IVN CN	Lawson Winder, CFA

## North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Ivanhoe Mines	IVPAF	IVPAF US	Lawson Winder, CFA
	Lundin Mining	XLPRF	LUMI SS	Lawson Winder, CFA
	Lundin Mining Corp	YLUN	LUN CN	Lawson Winder, CFA
	Lundin Mining Corp	LUNMF	LUNMF US	Lawson Winder, CFA
	MP Materials	MP	MP US	Lawson Winder, CFA
	Newmont Corporation	NEM	NEM US	Lawson Winder, CFA
	Newmont Corporation	XNCRF	NEM AU	Lawson Winder, CFA
	Nucor	NUE	NUE US	Lawson Winder, CFA
	Pan American Silver	PAAS	PAAS US	Lawson Winder, CFA
	Teck Resources	YTECK	TECK/B CN	Lawson Winder, CFA
	Teck Resources Ltd	TECK	TECK US	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	YTFPM	TFPM CN	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	TFPM	TFPM US	Lawson Winder, CFA
	Wheaton Precious Metals	WPM	WPM US	Lawson Winder, CFA

## NEUTRAL

	Alamos Gold	YAGI	AGI CN	Harmen Puri
	Alamos Gold	AGI	AGI US	Harmen Puri
	Alcoa Corporation	AA	AA US	Lawson Winder, CFA
	Cleveland-Cliffs	CLF	CLF US	Lawson Winder, CFA
	First Quantum	FQVLF	FQVLF US	Lawson Winder, CFA
	First Quantum Minerals	YFM	FM CN	Lawson Winder, CFA
	Freeport-McMoRan	FCX	FCX US	Lawson Winder, CFA
	Hudbay Minerals	YHBM	HBM CN	Lawson Winder, CFA
	HudBay Minerals	HBM	HBM US	Lawson Winder, CFA
	Reliance Inc.	RS	RS US	Lawson Winder, CFA
	Steel Dynamics	STLD	STLD US	Lawson Winder, CFA

## UNDERPERFORM

	Centerra Gold	YCG	CG CN	Lawson Winder, CFA
	Centerra Gold	CGAU	CGAU US	Lawson Winder, CFA
	Eldorado Gold	EGO	EGO US	Harmen Puri
	Eldorado Gold	YELD	ELD CN	Harmen Puri
	Kinross Gold	KGC	KGC US	Lawson Winder, CFA
	New Gold Inc.	YNGD	NGD CN	Harmen Puri
	New Gold Inc.	NGD	NGD US	Harmen Puri
	Nexa Resources	NEXA	NEXA US	Lawson Winder, CFA
	Royal Gold	RGLD	RGLD US	Lawson Winder, CFA
	SSR Mining Inc.	SSRM	SSRM US	Lawson Winder, CFA
	SSR Mining Inc.	YSSRM	SSRM CN	Lawson Winder, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

### Alcoa (AA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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