

# FINANCIAL REVIEW

SE Market Wrap - Street Talk

HD **Alumina** spike has traders looking twice

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Hedge funds and trading desks are scurrying for reasons why perennial takeover target **Alumina**'s shares have jumped to near three-year highs this week, on much higher than normal trading volumes.

Sure, **Alumina** is pulling dividends out of its sole investment, the Alcoa World **Alumina** & Chemicals (AWAC) joint venture, again. And its net debt seems to be under control. And some analysts are hopeful that 2015 is shaping up to be a strong year.

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But the sudden spike in **Alumina**'s share price is causing them to look a bit further. And they are coming up with some interesting theories.

Its AWAC joint venture partner, US-listed Alcoa, has seen a large re-rating in its share price, with the stock up some 60 per cent in the past six months and the **company** is now capped at \$20 **billion**. That run is about double the increase in **Alumina** and would give Alcoa some leverage were it to put forward a scrip bid for the \$4.4 **billion** Australian **company**.

A mop-up of **Alumina** and the AWAC joint venture has long been talked about. But perhaps now it makes more sense.

There is also some overlap between the funds that own the two companies. They both attract the same deep-value crowd, who would likely see the benefits of putting the two together.

That probably wouldn't sit well with **Alumina**'s largest shareholder, **China**'s CITIC Group Corporation, which bought a 13 per cent **stake** in February 2013. At the time, the deal saved **Alumina** from a dilutive raising or the mercy of its banks, and came after some seven months of talks between the parties. Melbourne's Flagstaff Partners stitched up the deal.

CITIC would not like to see **Alumina** mopped up by Alcoa. CITIC markets bauxite to **Chinese** aluminium companies, and sees **Alumina** as a strategic investment. Sources said it could always team up with **China**'s Hongqiao, which is looking for bauxite and **alumina** outside of **China**. The AWAC joint venture is the world's largest bauxite and **alumina** producer.

There are plenty of dots, and the recent share price rise has some watchers wondering if there may be some action sooner rather than later.

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