

**HD** **ALUMINA LIMITED**

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**TD**

Code: AWC

Shares on issue: 2.8b

Market Cap: \$3.3b

Net Assets \$2.8b

Last traded at: \$1.19

(Chart)

Interpretation:

On July 26 2012 we said:

Yesterday's low was 63 cents and it traded up to 64c in the last hour. A trade at 66 will be a breakout from yesterday's trading range (high of 65.5) and 72.5 is the top of the week's range. AWC is very well bid and we expect a short covering rally off the double bottom.

In the month of July 2007 AWC spiked to a high of \$7.225 and the low of last week of 62.5 cents was the lowest ever.

What Happened?

It more than doubled at best. August 13 2012 it hit a high of 80.5 cents, 18 trading days after our report.

What Now?

AWC has recently traded down off a double top at \$1.34. It subsequently hit a low of \$1.12 on March 12. On March 13 it recorded a high of \$1.235 (Darvas box high) and pulled back a little on the following 2 trading days. We expect it to breakout from the downtrend and retry the highs at \$1.34.

Gerald Stanley

Directors:

John Pizzey , **B** Eng (Chem), Dip Mgt, independent non exec chair

Mr Pizzey was appointed as a director of **Alumina** Limited on 8 June 2007 and was appointed Chairman on 30 November 2011.

He is a Director of Iluka Resources Ltd, Amcor Limited and St Vincent's Institute of Medical Research. Mr Pizzey is also formerly a director and chairman of the London Metal Exchange. He is a member of the Nomination and Compensation Committees and the Audit Committee.

He brings extensive knowledge gained in over 33 years in the international resources industry and participation in international joint ventures including being Chairman of Alcoa of Australia Ltd and Executive Vice President and Group President of the Alcoa World **Alumina** and Chemicals joint venture, in which **Alumina** Limited has a 40% interest.

Peter Christopher Wasow , CEO, Executive Director

Mr Wasow, formerly a non executive director of **Alumina**, succeeded John Bevan as CEO on December 31 2013. Peter Wasow has over 30 years experience in the resources and **energy** sectors including as Vice President Finance.

Cheng Zeng, director

Peter Day, Non Exec. Director

Ms Emma Rachel Stein, Non Exec. Director

Snapshot:

The origins of the Alcoa Worldwide **Alumina** and Chemicals (AWAC) partnership between Alcoa and WMC Limited (now **Alumina** Limited) began in the early 1960's following the exploration and discovery of bauxite deposits and other resources by WMC Limited and two other Australian companies. The Aluminium **Company** of America (Alcoa) was invited to join the project to provide technology, aluminium expertise and finance. The venture formed Alcoa of Australia Ltd (AofA), an integrated aluminium **company**, in 1961 with WMC Limited holding a 20% interest and Alcoa a 51% interest.

Over the following years the venture grew to include refineries and smelter interests as the partners sought to take opportunities to expand the business.

By 1990, WMC Limited's interests in Alcoa of Australia had grown to 48.25% through acquiring the minority interests of other participants, other than Alcoa.

In July 1994, WMC decided to expand this interest as a worldwide bauxite, **alumina** and **alumina**-based chemicals enterprise.

WMC Limited and Alcoa combined their respective bauxite, **alumina** and **alumina**-based chemicals businesses and investments and some selected smelting **operations** to create Alcoa World **Alumina** and Chemicals (AWAC) in January 1995.

Following the demerger of WMC into WMR and AWC, both began trading on December 4 202, closing at \$3.80 on 2.3m shares and \$4.72 on 3.5m shares respectively, together up 32c on the theoretical.

(WMR, first bid for by Xstrata whose offer lapsed in 2004, was acquired by BHP in 2005).

**Alumina** today

**Alumina**'s only business activity is as the owner of a 40% share in a joint venture with Alcoa called Alcoa World **Alumina** and Chemicals, abbreviated to AWAC. AWAC's business is the **mining** of bauxite, the extraction of **alumina** (aluminium oxide) and the smelting of pure aluminium. It has about 17% of the global **alumina** market. Alcoa owns the remaining 60% of the business and acts as day-to-day manager.

In Australia, AWAC trades as Alcoa of Australia (AoA), which owns two bauxite mines and three refineries (to extract aluminium oxide from bauxite) in Western Australia and owns a smelter (to extract pure aluminium metal) and has a controlling interest in another in Victoria.

AWAC also has **operations** or interests in Texas, Suriname, Jamaica, Brazil, Spain, Guinea, and owns Alcoa Steamship.

AWAC is the largest bauxite miner, producing approximately 40 Mtpa with long life mines and leases.

AWAC is the largest seller to the third party **alumina** market.

It is a relatively low cost produce, reflecting its bauxite sources.

It has bauxite mines in Australia, Brazil, CBG Guinea, Jamaica and Suriname.

It has **alumina** refineries in Australia, Brazil, Jamaica, Spain, Suriname and the US.

Most Recently

\*On Feb 18 2014: Alcoa and **Alumina** Ltd announced the Point Henry Aluminium smelter is being permanently closed, **Alumina** Ltd reported. The Point Henry smelter is owned by AWAC, which is owned 60% and managed by Alcoa Inc and 40% owned by **Alumina** Ltd.

Total AWAC restructuring related charges associated with the Point Henry smelter are expected to be approximately \$250 **million**.

Alcoa said the smelter, where 500 workers are employed, would cease operation in August.

Additionally, a Geelong rolling mill along with a rolling mill and recycling centre at Yennora in Sydney would close by the end of the year with the loss of a further 480 jobs.

The 50-year-old smelter had no prospect of becoming economically viable, the **company** said in a statement.

Alcoa will actively seek a buyer or the AWAC Anglesea **coal** mine and power station, which supplies approximately 40% of the power needs for the Point Henry smelter, which has the potential to operate as a standalone facility after the smelter closes.

\*Full year 2013 profit result

On February 20 2014 **Alumina** Ltd for the year ended December 31 2013 announced net profit after tax of \$US500,000 vs loss of \$US55.6 **million** in 2012. Net profit after tax includes net charges for the Alba legal matter of \$US16.5 **million**. Net debt is down \$US529 **million** to \$US135 **million** and gearing was reduced to 4.6%. No final dividend was announced.

EBITDA was up \$US280 **million** to \$US728 **million** before significant items.

Cash cost of **alumina** per tonne produced was down 5.5%.

Free cash flow \$US0 **million** vs a deficit of \$US3 **million** in 2012.

Outlook

In the outlook statement CEO Peter Wasow said market conditions remain challenging, approximately 65% of AWAC's 3rd party **alumina** shipments are on spot or index basis. The **company** will benefit in \$A terms with a stronger \$US.

AWAC's sustaining and growth capex forecast to fall to approximately \$US265 **million**. The Point Henry smelter will close in the third quarter.

So far in 2014 **Alumina** has received \$US34 **million** capital repayment from AWAC.

Analysts expectations: \$33.9 mln, div 1c/\$14.7 mln, div 1c.

From the presentation on February 26 by Andrew Wood to the Metal Bulletin Conference in Miami

Mr Wood said the AWAC j/v is the world's largest bauxite and **alumina** producer with 7+ bauxite mines and 8 refineries, with 15.8 **million** tonnes of **alumina** produced in 2013.

2 smelters had j/v production of 354,000 tonnes of aluminium in 2013 (Point Henry is to shut in 2014).

Mine and refinery 1.8m tonne project in Saudi Arabia in j/v with Ma'aden (AWAC 25.1) is under construction. He said there were some opportunities to move down the cost curve by switching to cheaper **energy** sources like natural gas or **coal**. Bauxite and **alumina** industry is a price taker on caustic soda and on freight. He did not expect major export of **alumina** from **China**, and was on the whole positive on the industry - foreseeing significantly rising demand.

Major shareholders:

Recent changes:

Allan Gray Australia Pty Ltd had 5.01% has 6.976% as of March 11.

Perpetual Trustees had 5.02% has 6.07% as of February 10. Previous notice dated November 1 2013.

(from Annual Report, April 22 2013)

National Nominees 20.90%

HSBC Custody Nominees (Australia) Ltd 16.73%

JPMorgan Nominees Australia Ltd has 15.09%

CITIC Resources Australia Pty Ltd 7.83%

Bestbuy Overseas Co Ltd 5.22%

Broker recommendations:

Actively followed by brokers

Following AWC's February 20 profit result:

\*A leading broker on February 20 lifted its price target from \$1.04 to \$1.12. The broker said there are signs of recovery in the 2013 result. Cash flow from ops of \$US68 million and net debt of \$US135 million were in line. Underlying earnings negative \$US3 million was a modest loss and there was no dividend, as expected.

At the AWAC j/v level underlying EBITDA of \$US726 million was 40% up on the broker's expectations, giving an EBITDA margin of 12% which will still be low but has steadily improved from the 6% level in 2012.

The net impact from the planned closure of the Point Henry smelter is difficult to gauge as attributable costs were never separated out. Back calculating from Alcoa alumina segment data and AWAC financials, we estimate that the two smelters were running at breakeven, so we assume Point Henry was loss making and Portland profitable. ... the closure costs are covered by debt at the AWC level, so there is no cash call on Alumina Ltd.

"After incorporating alumina production guidance of 16Mt in 2014 (plus Maaden uplift in 2015), assuming further cost out and removing point Henry volumes and costs we have eps upgrades of 10/13%. We increase our price target by 7%, but we still lag the equity, which seems to capture more alumina/aluminium price upside than we have forecast".

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