FINANCIAL REVIEW

SE Companies and Markets

HD **Upbeat Alcoa sees $109m closure cost**

BY Peter Ker
WC 554 words
PD 10 July 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 26
LA English

LP

The closure of several Australian operations is set to cost Alcoa as much as $109 million before the year is finished, according to the aluminium giant.

Alcoa revealed it had already spent $49 million on "initial closure activities" at the Point Henry Smelter near Geelong and a rolling mill in New South Wales, both of which had their demise confirmed in February.

TD

Speaking during the company's upbeat June quarter results in the US on Wednesday, Alcoa chief financial officer William Oplinger said another $50 million to $60 million of closure costs were expected from the Australian operations before the end of 2014.

Point Henry is due to close in August, while the rolling mills at Geelong and Yennora in New South Wales are expected to continue operating until just before Christmas.

The closure of Point Henry means a coal mine at Anglesea in Victoria is no longer required, and Alcoa has been investigating how to make money from the asset, either through a sale or by selling power into the grid. Alcoa already sells excess power into the grid in Brazil, Tennessee and North Carolina, and chief executive Klaus Kleinfeld said the company has started dealing with regulators in Australia about the future of the Anglesea mine.

The closure of unprofitable assets like Point Henry has been a key plank in Alcoa's revival, with the $US138 million ($147 million) of net income being better than the March quarter, and the June quarter in 2013.

Revenues were 7 per cent higher than the March quarter at $US5.8 billion. The company has also benefited from improving aluminium prices and its focus on the aviation and vehicle sectors. Alcoa spent $US2.85 billion buying British aerospace supplier Firth Rixson in June.

After several years in the doldrums on the back of excess production in China, aluminium producers like Alcoa and Rio Tinto have started to express renewed confidence in the sector during 2014.

Part of that renewed confidence is linked to a ban on certain raw mineral exports from Indonesia, which is blunting rival aluminium producers in China. The policy has made it harder for Chinese producers to access Indonesia's cheap bauxite, putting them at a disadvantage to producers like Alcoa and Rio who have access to their own bauxite supply.

Mr Kleinfeld said he had been "positively surprised" by how strictly Indonesia had enforced the ban since its introduction in January. Presidential elections are under way in Indonesia this week, and Mr Kleinfeld said the main candidates appeared likely to continue with the export ban unchanged.

"This is changing the supply dynamics in China," he said.

The encouraging result for Alcoa did not quite flow over to its Australian joint venture partner, **Alumina** Ltd, which owns 40 per cent of 20 assets in the global bauxite, **alumina** and aluminium sector. Its margins were weighed down by high currencies in Australia and Brazil, where important **operations** are based.

Citi expects **Alumina** Ltd to post a loss of $US80 **million** for the first half of 2014; the stock closed 3¢ lower at $1.41.

Key points Closing unprofitable assets such as Point Henry has been key in Alcoa's revival. Indonesia's ban on raw mineral exports gives Alcoa an advantage in **China**.

CO almam : ALCOA Inc

IN i22 : Primary Metals | i224 : Non-ferrous Metals | i2245 : Aluminum | ibasicm : Basic Materials/Resources

NS ccat : Corporate/Industrial News

RE austr : Australia | nswals : New South Wales | victor : Victoria (Australia) | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140709ea7a0000a

