PL Capital
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Manthan
Metals & Mining

Aluminum: Higher for Longer??

Geopolitics is once again taking a center stage for the global aluminum market with closure of Strait of Hormuz amid ongoing middle east crisis. Supplies of LNG are getting disrupted leading to force majeure announcements from various smelters. If the situation persists, it is expected to increase the global aluminum deficit and lead to higher aluminum prices at 1HFY27 as global stocks are already at lower levels. We present the geography wise production of metal and alumina to understand the severity of the ME crisis.

The Middle East region has 11 smelters having ~6.5mtpa capacity contributing ~9% of global production (~23% ex-China) in CY25. Although alumina capacities are not significant at ~5mtpa, the excess unused alumina will put incremental pressure on prices. Energy costs have already started inching up, putting pressure on CoPs and as restarting smelters takes ~6-9 months depending upon the shutdown, metal prices are expected to remain higher.

Announcements from Qatalum and Alba: Earlier this week, Qatar Energy, a state-owned Doha-based energy company controlling all of Qatar's oil and gas operations, suspended its production of liquefied natural gas (LNG) and related products on 2nd March and it also announced that it would halt the production of several downstream products in Qatar (aluminium and other industrial materials along with urea, polymers, methanol). As a result of reduced gas availability, Qatalum, has initiated a controlled shutdown of its aluminium production. This shutdown began on 3rd March and is expected to be completed by the end of the month. The purpose of this is to minimize health, environmental and safety risks, while preparing the plant for potential future restart. If the facility is fully closed, the restart could take between six and twelve months. Aluminium Bahrain has also announced force majeure for supply contracts.

Thermal coal on the move: With Richard Bays coal prices (6000 Kcal) also rising, coal inflation will hurt the rest of the marginal cost producers globally.

Iran's capacities: Iran's alumina and aluminium capacity is ~250ktpa and 660ktpa respectively. As Iran's alumina production cannot meet the domestic demand, it usually relies on alumina imports. India is the main source accounting for 40-80% of total imports. Although the refinery and smelters are away from Tehran, closure of the key sea route is expected to result in shutting down of the smelters sooner or later. This will add to the deficit of ally supplies.

Iran's ally metal production exceeds domestic consumption, leading to exports, mainly to Türkiye, China, and other countries. Net exports account for 30-50% of production.

Our picks: With strong LME, all Indian non-ferrous ally manufacturing companies are expected to benefit over next few quarters. We expect NACL to be a significant beneficiary of the current situation as it has captive coal mines supplying ~57% of coal requirements and it is a pure play on pricing. We have LME prices of USD3,001/2,932 for FY27/28E in our assumptions. With every USD100/t increase in ally prices, NACL/HNDL EBITDA gets upgraded by ~5.5%/4% respectively unless there is any other significant cost escalation.

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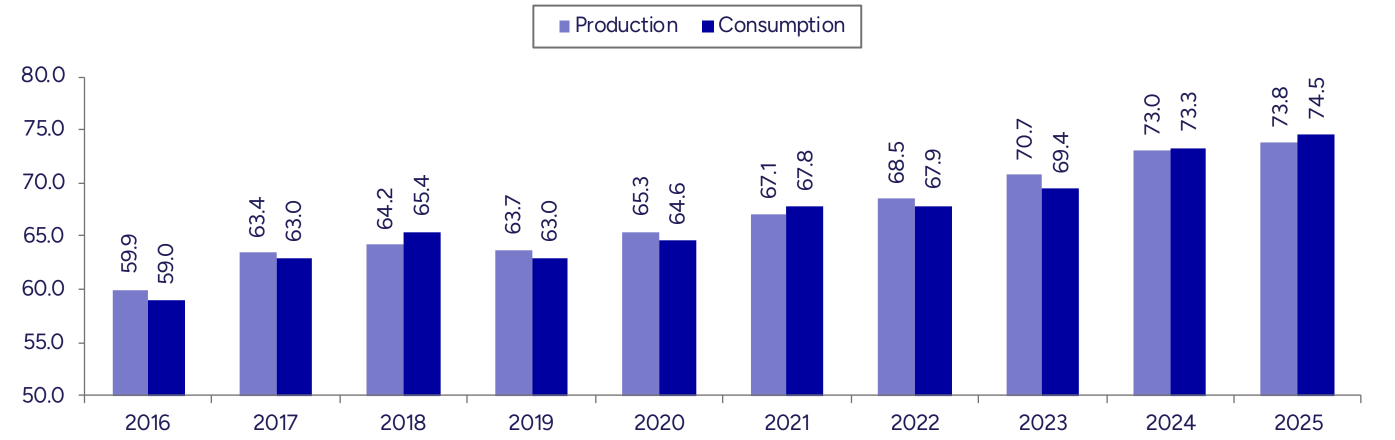
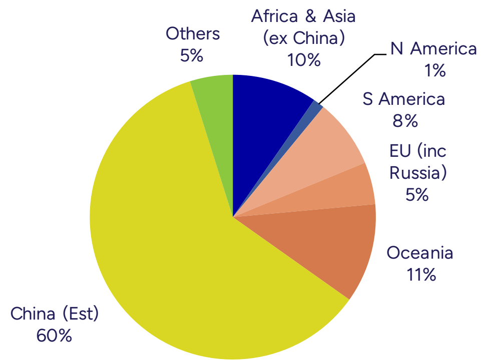
Exhibit 1: Global primary aluminium metal production (CY wise in mt)



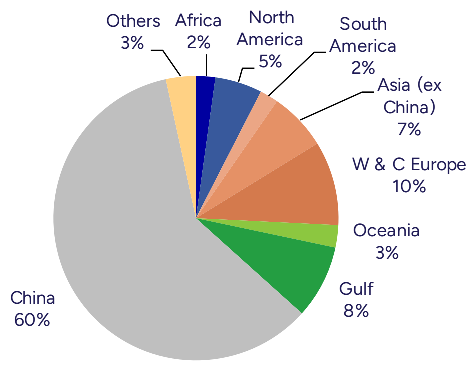
Source: Industry, PL

Exhibit 2: Geography wise alumina production in CY25



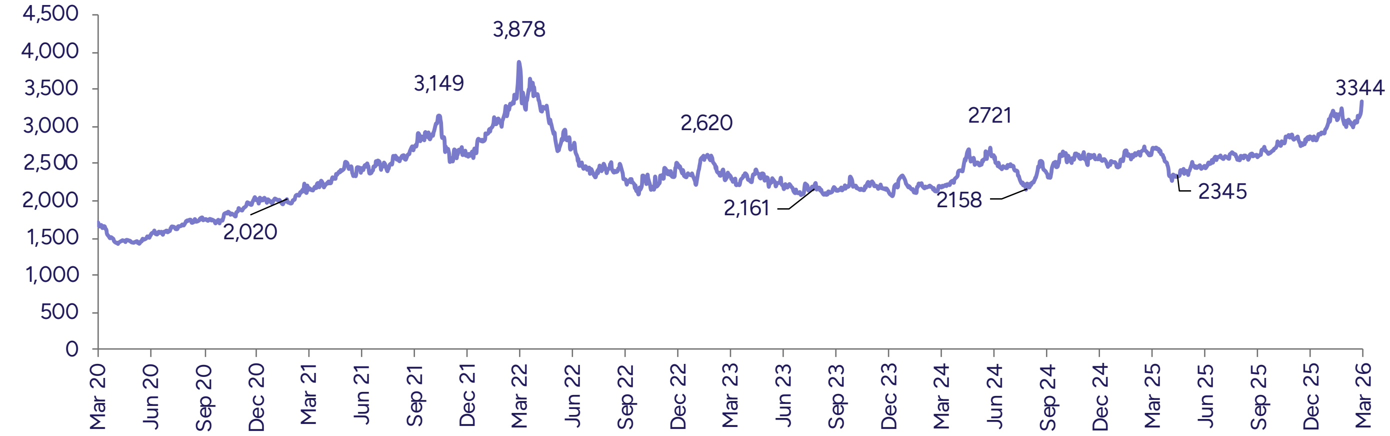
Source: PL, Industry

Exhibit 3: Geography wise aluminum production in CY25



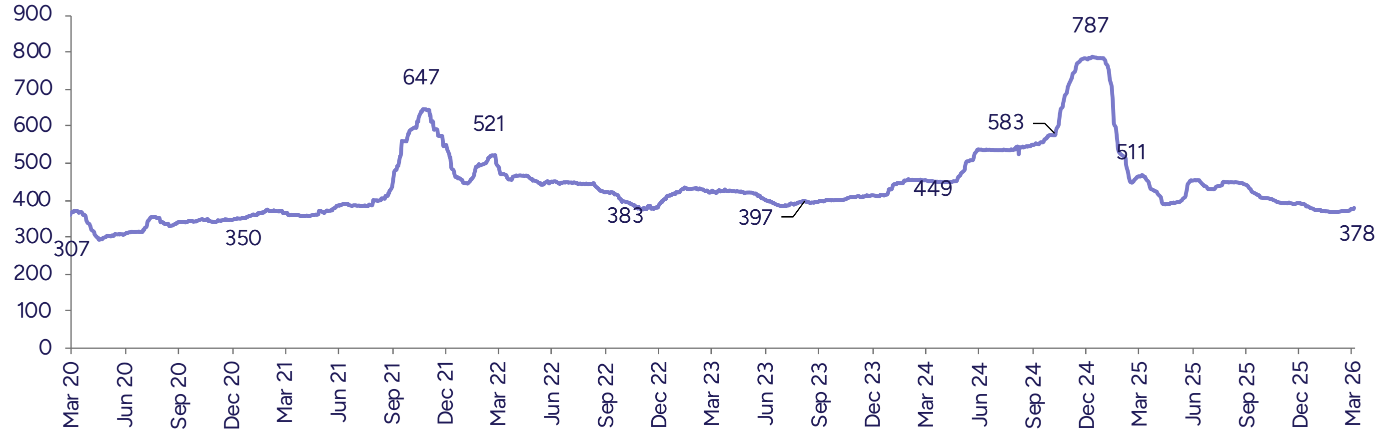
Source: PL, Industry

Exhibit 4: LME aluminium (USD/t)



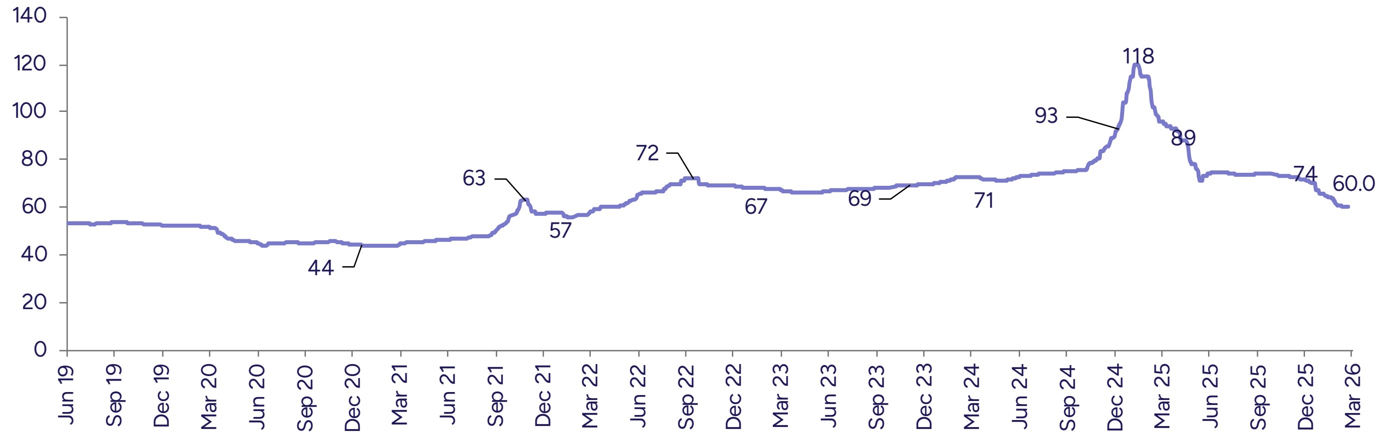
Source: PL, Bloomberg

Exhibit 5: Alumina spot 99% in East China (USD/mt)



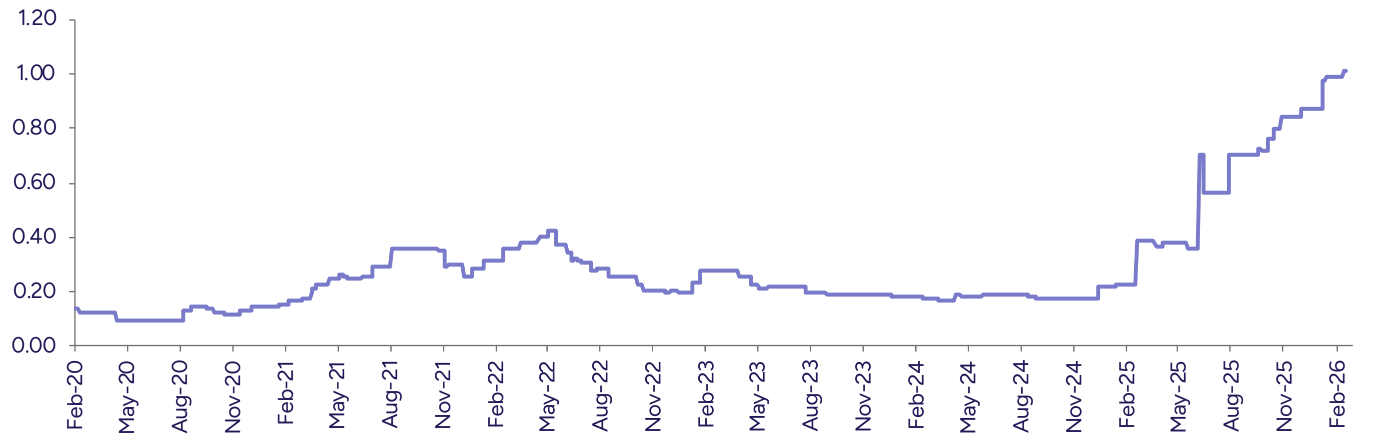
Source: PL, Bloomberg

Exhibit 6: China Bauxite Guinean 45%min CFF (USD/dt)



Source: PL, Bloomberg

Exhibit 7: US Midwest Aluminum Ingot Premium Delivered (USD/lb)



Source: PL, Bloomberg

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,163	1,755
2	Adani Port & SEZ	BUY	1,900	1,531
3	Ambuja Cement	BUY	640	510
4	Dalmia Bharat	Hold	2,302	2,232
5	Hindalco Industries	Hold	907	964
6	Jindal Stainless	Hold	784	756
7	Jindal Steel	Accumulate	1,171	1,102
8	JK Cement	Accumulate	6,199	5,790
9	JK Lakshmi Cement	BUY	881	761
10	JSW Cement	BUY	142	124
11	JSW Infrastructure	BUY	339	273
12	JSW Steel	Accumulate	1,292	1,170
13	National Aluminium Co.	Hold	356	385
14	NMDC	Hold	87	86
15	Nuvoco Vistas Corporation	BUY	443	350
16	Shree Cement	Hold	27,770	27,350
17	Steel Authority of India	Hold	151	149
18	Tata Steel	Accumulate	226	197
19	Ultratech Cement	BUY	14,168	12,369

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Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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