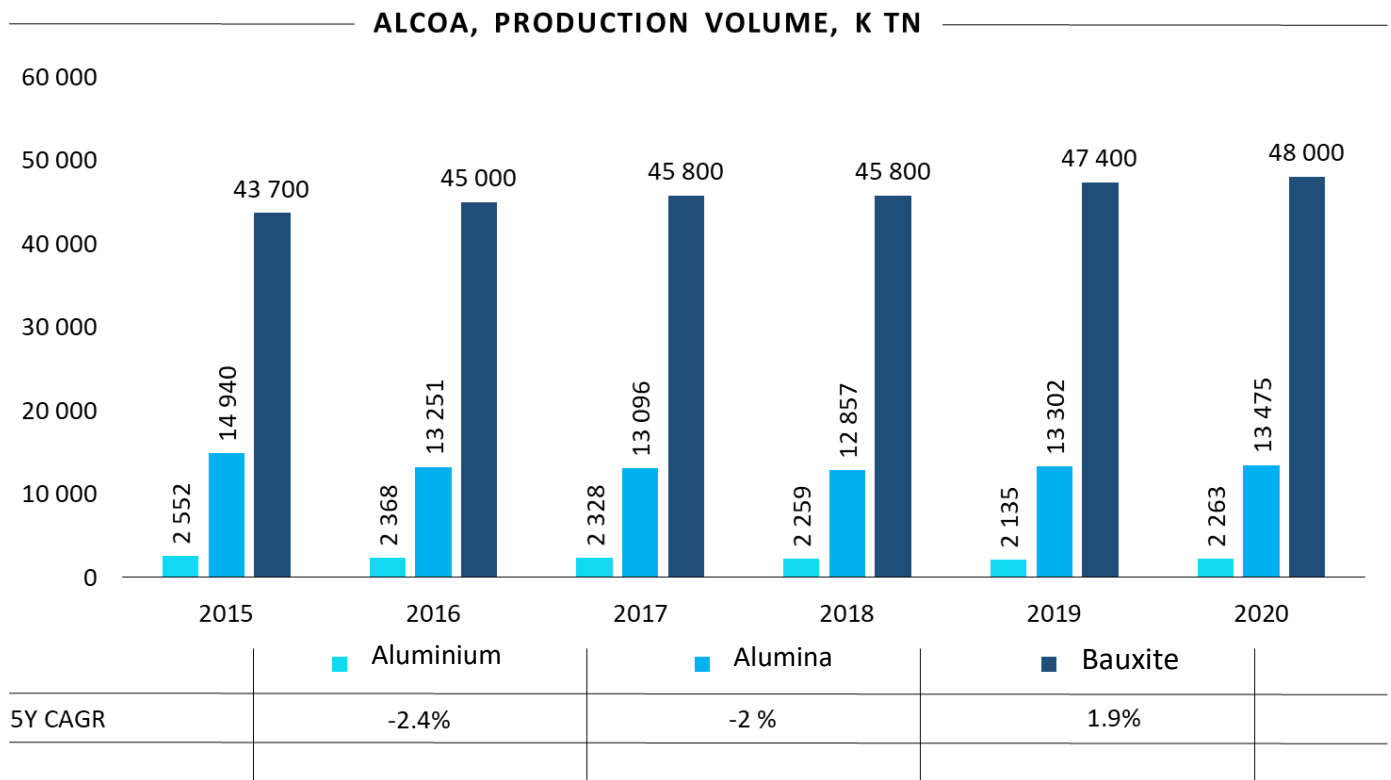


Initiated: 2021.04.19
 Last Updated: 2021.05.14

Alcoa is an American aluminum producer with mines in the Americas, Africa and Europe. Taking into account current aluminum prices, the company is undervalued in terms of EV / EBITDA. The share price is at a local maximum, but far from the historical one, reached in comparable with the current prices for aluminum.

The company's production of aluminum alumina over the past 5 years has been falling with an average annualized rate of 2.4% and 2%, respectively, and an increase of 2% is observed for alumina:



Herewith the largest part in the structure of the company's revenue is filled by aluminum (69%), followed by alumina (28%), and bauxite (3%).

In terms of the conjuncture, a rally in aluminum can be observed:

ALUMINIUM, CURRENT PRICE VS LTM, USD / TN



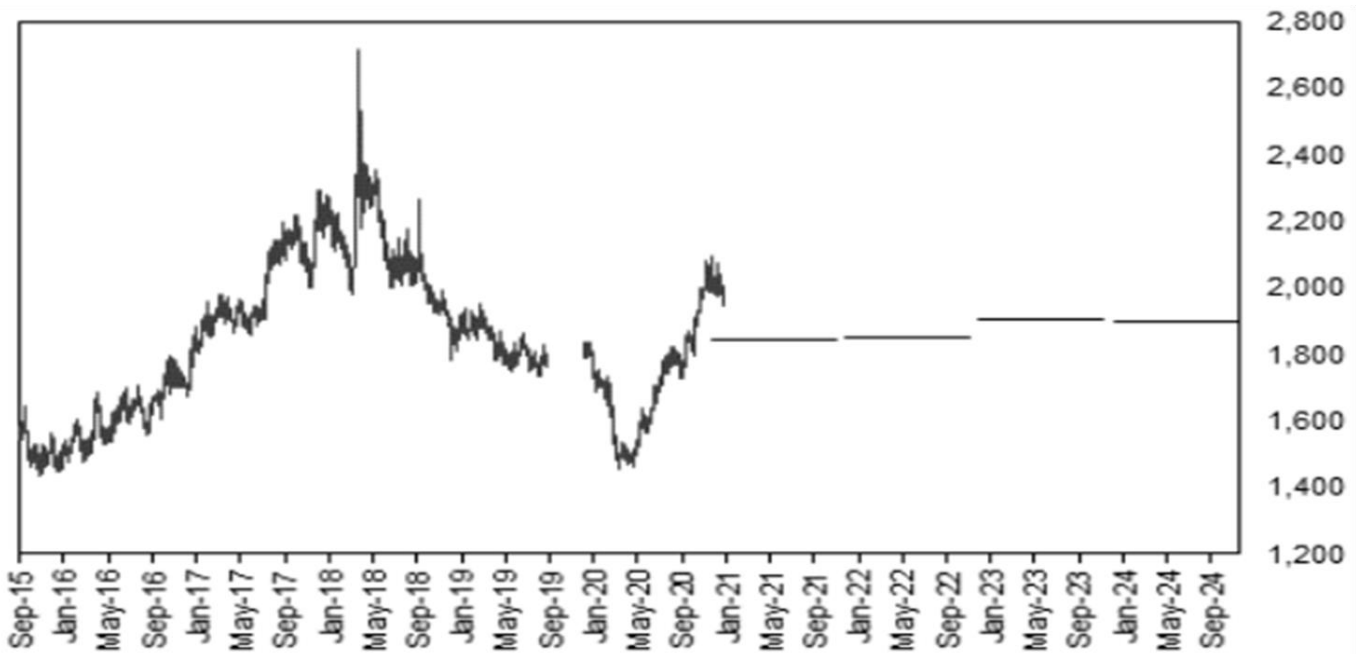
However, the price is still far from the 2008 levels:

ALUMINIUM, HISTORICAL PRICES, USD/TN



Although in the future, a return to the average is expected rather than continued rapid growth:

**ALUMINIUM, FITCH PRICE
FORECAST, USD/TN**



Note: Horizontal lines are Fitch Solutions forecasts. Source: Bloomberg, Fitch Solutions

At the same time, the price of alumina, one of the main components for the production of aluminum, is at historic lows:

**ALUMINA, CURRENT PRICE VS LTM,
USD/TN**



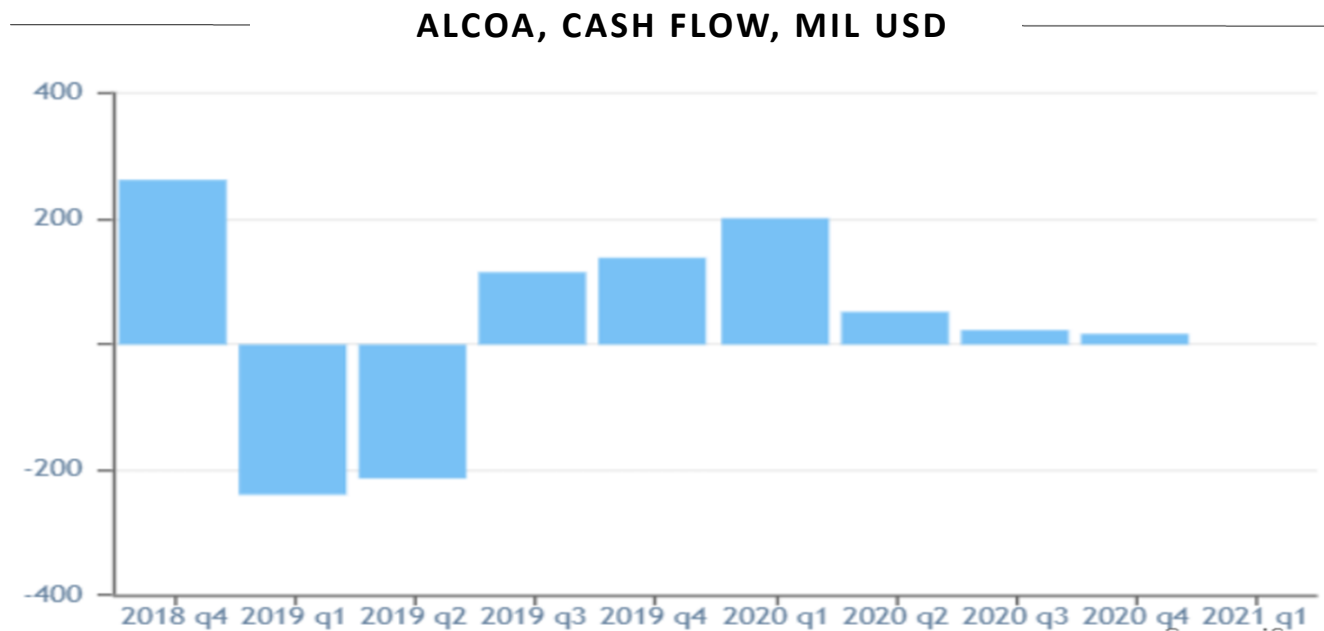
Which in its turn reduces the costs of the company.

The company gave the following production guidance for 2021:

- Bauxites: intersegment and third-party prices are expected to decline in 2021 along with additional capital costs. The company forecasts **the total volume of bauxite supplies will be from 49.0 to 50.0 million metric tons, which means an increase in production by 2 ... 4%.**
- Alumina: In 2021, a lower cross-sectional price for bauxite will benefit the alumina segment, while higher natural gas costs in Australia are expected to be offset by lower costs for both bauxite and caustic soda. The company expects **total alumina shipments to be between 13.9 and 14.0 million metric tons, unchanged from 2020..**
- Aluminum: In 2021, we expect to benefit from the Bécancour smelter when it reaches full power, reduced production at Intalco, and the adverse effect of the sale of the Warrick rolling mill. We estimate Warrick's EBITDA at 3% of total.

Total shipments (taking into account purchased from other producers) of aluminum are expected to be between 2.7 and 2.8 million metric tons, which is a 7% decrease compared to 2020, but will be offset by favorable conditions.

At current prices, Alcoa generates an average free cash flow:



However, in the 2nd half of 2019, when the price of aluminum was in the range of 1700 ... 1800, FCF was impressive. Last quarter cash flow return: 1.4%. **Taking into account the positive shift in the conjuncture, the expected value of FCF taking into account the current conjuncture is 10.4%.** Historically, the company has not paid dividends.

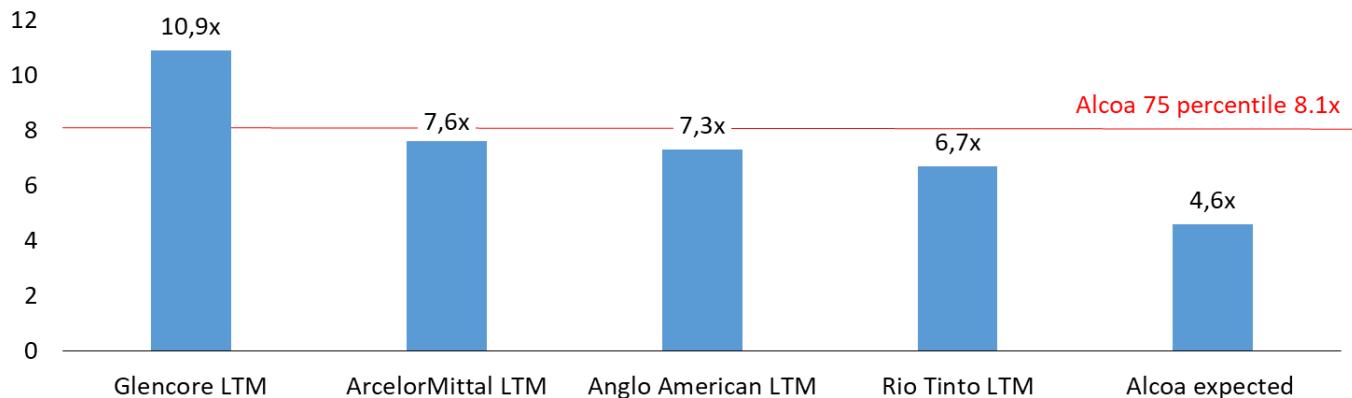
Taking into account the growth in prices for the company's products and guidance for 2021, an increase in financial indicators is expected, which the company may be significantly undervalued:

ALCOA, CAPACITY ASSESSMENT

	LTM	Change, %	Expected
Revenue, USD	\$9,775,000,000	18%	\$11,558,317,488
Total cash costs, USD	\$8,514,000,000	13%	\$9,580,141,323
EBITDA, USD	\$1,261,000,000	53%	\$1,924,814,958
EV, USD	\$9,330,000,000		\$9,330,000,000
EV/EBITDA	7.40		4.85
Net Debt D, USD	\$2,705,000,000		\$2,705,000,000
MCap, USD	\$6,625,000,000		\$12,924,497,458
Upside, %			95%

Thus, the EV / forecast EBITDA multiple is 4.6x versus the historical value at the 75th percentile of 8.1x:

ALCOA, EV / FORECAST EBITDA



Risks: the main risk is a change in the situation in aluminum prices, which, taking into account the company's average EBITDA margin (11%), may cause a decrease in business profitability and, accordingly, a negative revaluation. At the moment, there is a recovery of economies and industries, and therefore this risk seems unlikely.

At the moment, the share price is at local highs, which excludes the possibility of buying with a margin of safety:



However, the price is still far from the maximum that was reached with the same “bullish” market in aluminum:



As a result, an investment in Alcoa is now interesting, although it carries certain risks, but in the current conjuncture we are of the opinion that the chance of these risks being realized is insignificant.

ALCOA CORPORATION REPORTS FIRST QUARTER 2021 RESULTS (Last updated May 14, 2021)

Improved pricing and strong shipments drive highest quarterly results since 2018

Alcoa reported first quarter 2021 results on April 15 that reflect improvements in pricing for alumina and aluminum, strong operational performance, and continued discipline in executing the Company’s long-term strategy.

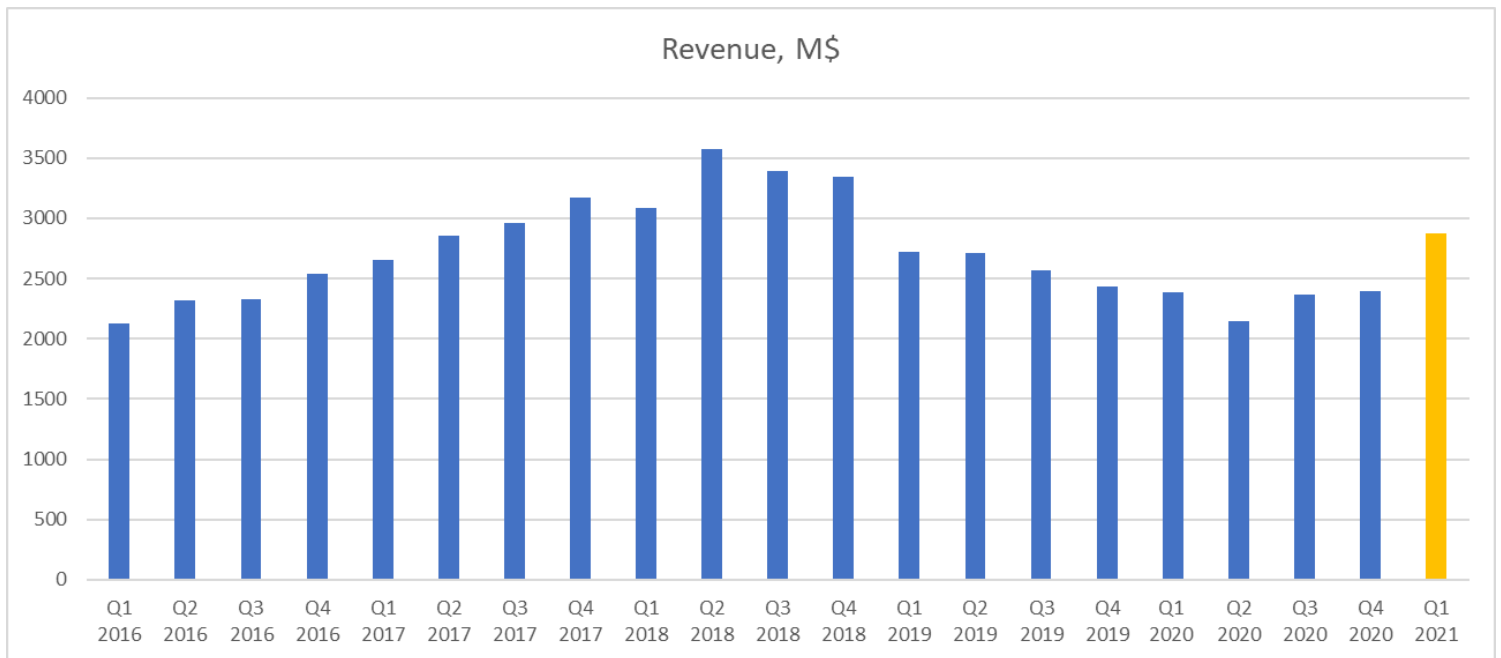
First Quarter Highlights

- Maintained reliable production and shipments while prioritizing safety, including COVID-19 protocols
- **Revenue and income highest since 2018**, which was a record-setting year
- Realized 20 percent sequential increase in revenue on higher prices and strong shipments
- Generated net income of \$175 million; sequentially, adjusted net income increased 206 percent to \$150 million
- Adjusted EBITDA excluding special items increased 44 percent to \$521 million
- Completed sale of the Warrick rolling mill for \$670 million; met target for non-core asset sales
- Strengthened the balance sheet and increased flexibility for use of excess cash: In March, issued debt with lowest-ever coupon rate; in April, debt proceeds and cash on hand used to fund U.S. pension plans and pay off higher-interest rate notes

- Signed agreements to repower Portland Aluminium smelter in the State of Victoria in Australia
- Increased shipments of aluminum value-add products by approximately 10 percent sequentially
- Cash balance \$2.5 billion as of March 31, 2021

In Alumina, third-party shipments increased approximately 7 percent sequentially, primarily due to timing of shipments as well as continued high production rates. In Aluminum, third-party shipments increased approximately 13 percent sequentially, primarily related to resuming shipments at San Ciprián in Spain.

Higher aluminum and alumina prices, combined with increased shipments, drove a 20 percent QoQ increase in revenue.

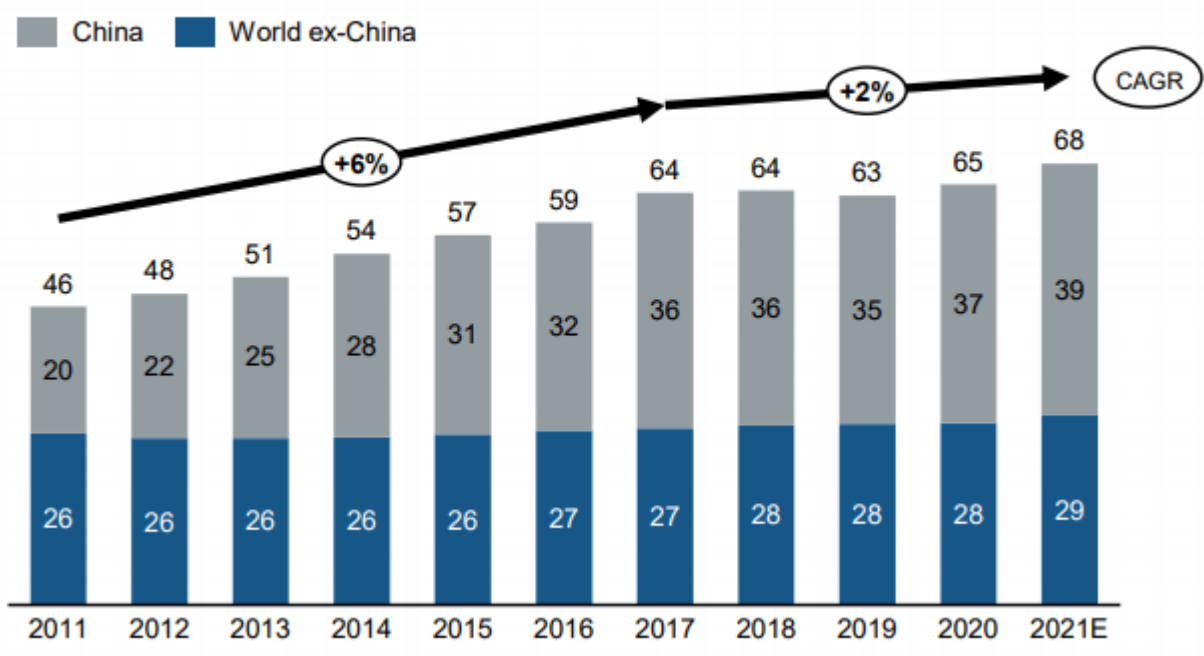


Generally, aluminum market benefiting from economic recovery. China industry reforms driving positive fundamentals.



Supply growth slower in last five years and growth in annual production over the last decade dominated by subsidized production in China. That is why the fact China acts on CO2e reduction goals pay a lot in continuing aluminum rally.

Global primary aluminum production (Mmt)



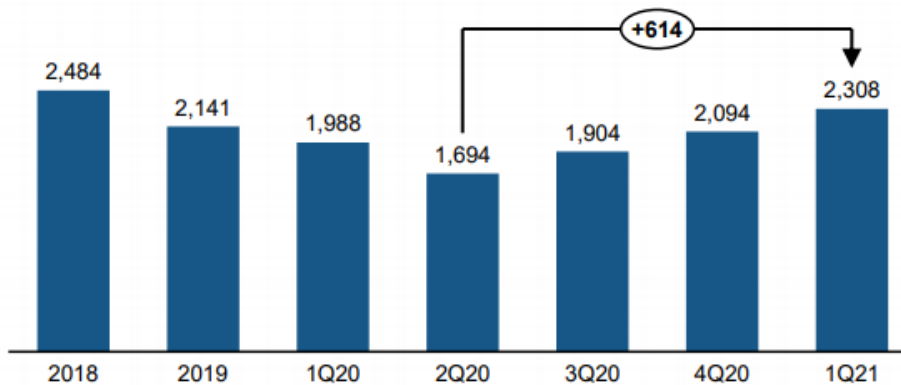
Nevertheless such conjuncture makes Alcoa commercial impacts solid
Aluminum

- Value-add product shipments improved ~10% in 1Q21 versus 4Q20

- In FY21, value-add product shipments expected to see double digit growth on strong end markets
- Alumina*
- 1Q21 pricing higher on improved sentiment versus 4Q20
 - Smelter grade alumina shipments expected to increase slightly in FY21
- Bauxite*
- Lower third-party bauxite revenues in 1Q21 compared to 4Q20 on lower shipments
 - Total third-party bauxite shipments to increase slightly in FY21 on higher production

Realized price highest since 2018

Alcoa's realized primary aluminum price (\$/mt)



2021 Outlook

Alcoa is expecting a strong 2021 based on continued economic recovery and increased demand for aluminum in all end markets.

The Company's Aluminum segment is forecasting **double digit growth on year-over-year sales of value-add products**. In the first quarter of 2021, shipments for value-add products, which includes specific shapes and alloys such as billet, slab, foundry and rod, increased 10 percent sequentially, posting three consecutive quarters of improvement.

The Company's 2021 shipment outlook for Bauxite and Aluminum remains unchanged from the prior full-year estimates. Total alumina shipments are expected to increase 100 thousand metric tons to between 14.0 and 14.1 million metric tons. Total annual bauxite shipments are expected to range between 49.0 and 50.0 million dry metric tons. The Aluminum segment is expected to ship between 2.7 and 2.8 million metric tons.

In the second quarter of 2021, Alcoa expects another strong quarter despite the absence of the Warrick rolling mill results, current energy market conditions, and seasonal maintenance typically higher in the second quarter than other quarters.

Kind Regards,
 Enhanced Investments Team
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