

# China / Hong Kong Company Update

# Aluminum Corp of China

Bloomberg: 2600 HK EQUITY | 601600 CH Equity | Reuters: 2600.HK | 601600.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jan 2024

## H: BUY

Last Traded Price (23 Jan 2024): HK\$3.23 (HSI : 15,354)  
Price Target 12-mth: HK\$4.70 (45.5% upside) (Prev HK\$5.00)

## A: BUY

Last Traded Price (23 Jan 2024): RMB5.01 (CSI300 Index : 3,232)  
Price Target 12-mth: RMB6.50 (29.7% upside) (Prev RMB7.00)

### Analyst

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### What's New

- Weak 4Q sales market was behind; constructive outlook amid growing transportation and power consumption
- Revised down FY23F/FY24F earnings by 27%/25%, respectively, on a mild GP recovery in the aluminium product (FY24: 19%)
- Expect progress of overall group asset restructuring to provide room for earnings performance upgrade
- Pegged our new TP at HK\$4.7 based on 1.1x target P/B multiple (from previously 1.2x); reiterate BUY as growth trajectory intact

## Earnings trajectory intact

### Investment Thesis

**Beneficiary of normalising demand for Chinese aluminium.** CHALCO is the prime beneficiary of the expected rebound in aluminium demand. The application of aluminium in transportation and new energy investment in China is widening, driving market expansion. This draws a constructive industry outlook for CHALCO, in our view. Meanwhile, our earnings CAGR (2023-2025) of 29% is above the consensus.

### China's largest aluminium producer undergoing revitalisation.

Combining Yunnan Aluminium's capacity of >3m tonnes p.a., CHALCO's 4.4m tonnes p.a., and Huayun Phase III project's 400k tonnes p.a. that is currently under construction, the group's smelting capacity would exceed 8m tonnes p.a., the largest in China. CHALCO's financials will strengthen after the group's old assets are disposed and being replaced with new facilities.

**Striving towards energy transition.** About 40% of the group's power comes from non-thermal energy sources. The company is installing renewable captive power and targets to boost its contribution to >50% by 2025. We expect the company would benefit from a rising ESG profile, underpinned by the increased Yunnan exposure ahead.

**BUY, TP of HK\$4.7 (previously: HK\$5.0) on our revised earnings.** We peg our H-share TP of HK\$4.7 at 1.1x FY24F P/BV, which represents +1SD of its average during 2013-2023, against an expected rebound in ROE ahead. Our A-share TP of RMB6.5 is pegged to 1.8x P/BV, consistent with the historical price spread of the dual-listed counter.

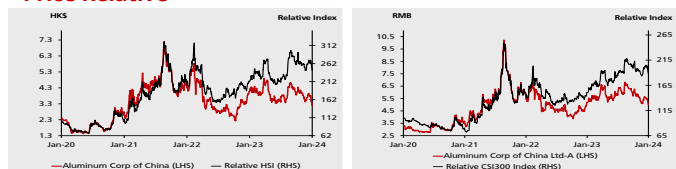
### Key Risks

Every 1% change in the aluminium and alumina price will swing earnings by 7% and c.1%, respectively. Meanwhile, an unexpected expansion in industry supply or collapse in demand may adversely impact our assumptions. Company wise, the progress of new capacity projects would affect sales performance ahead.

### At A Glance

Issued Capital - H shares (m shs)	3,944
- Non H shrs (m shs)	13,218
H shs as a % of Total	23
Total Mkt Cap (HK\$m/US\$m)	84,948 / 10,860
Major Shareholders (%)	
Aluminum Corporation of China	38.2
Major H Shareholders (As % of H shares)	
H Shares-Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	7.4
GICS Industry: Materials / Metals & Mining	

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	290,988	319,797	325,139	330,565
EBITDA	24,330	23,992	26,324	31,836
Pre-tax Profit	13,209	13,250	15,966	22,039
Net Profit	4,192	4,200	5,061	6,987
Net Profit Gth (Pre-ex) (%)	(27.2)	0.2	20.5	38.0
EPS (RMB)	0.24	0.24	0.29	0.41
EPS (HK\$)	0.27	0.27	0.32	0.44
EPS Gth (%)	(27.8)	0.2	20.5	38.0
Diluted EPS (HK\$)	0.27	0.27	0.32	0.44
DPS (HK\$)	0.04	0.04	0.05	0.07
BV Per Share (HK\$)	3.46	3.68	3.96	4.34
PE (X)	12.1	12.1	10.0	7.3
P/Cash Flow (X)	1.8	5.9	2.5	2.0
P/Free CF (X)	1.3	14.0	3.3	2.5
EV/EBITDA (X)	6.2	6.5	5.6	4.4
Net Div Yield (%)	1.2	1.2	1.5	2.0
P/Book Value (X)	0.9	0.9	0.8	0.7
Net Debt/Equity (X)	0.8	0.7	0.4	0.2
ROAE(%)	7.3	7.5	8.4	10.7
Earnings Rev (%)		(27)	(25)	New
Consensus EPS (RMB)		0.38	0.43	0.53
Other Broker Recs:		B:13	S:1	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Aluminum Corp of China

### Company Background

Aluminum Corporation of China (CHALCO) is a state-owned enterprise and the second largest aluminum producer by capacity in the world in 2022. CHALCO's total aluminum and alumina capacity were 8m tonnes and 22m tonnes as at end-2022, respectively. The company's sales volumes of aluminium and alumina were 6.85m tonnes and 5.23m tonnes, respectively. CHALCO was primary listed on the HKEx and NYSx in 2001 and has been listed on the SEx since 2007.

### Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

## Aluminum Corp of China

### Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Sales volume for alumina ('000 tonnes)	9,120.0	6,893.7	5,894.7	5,234.7	4,794.7
Sales volume for aluminum products ('000 tonnes)	3,780.0	6,737.4	6,573.3	6,873.3	7,073.3
ASP for alumina (RMB/tonne)	2,424.2	2,541.8	2,579.8	2,593.6	2,593.6
ASP for aluminum products (RMB/tonne)	14,828.9	15,622.2	16,721.3	17,006.0	17,453.5
GPM for Aluminum products (%)	23.2	21.4	16.3	18.9	22.7

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Revenues (RMB m)</b>					
Alumina	17,580	16,411	15,207	13,577	12,436
Aluminum products	78,614	86,503	109,915	116,888	123,454
Others	202,692	188,073	194,674	194,674	194,674
<b>Total</b>	<b>298,885</b>	<b>290,988</b>	<b>319,797</b>	<b>325,139</b>	<b>330,565</b>
<b>Gross profit (RMB m)</b>					
Alumina	2,039	2,757	2,239	2,061	1,887
Aluminum products	18,238	18,512	17,888	22,036	27,964
Others	14,439	10,015	4,874	4,874	4,874
<b>Total</b>	<b>34,717</b>	<b>31,284</b>	<b>25,002</b>	<b>28,971</b>	<b>34,726</b>
<b>Gross profit Margins (%)</b>					
Alumina	11.6	16.8	14.7	15.2	15.2
Aluminum products	23.2	21.4	16.3	18.9	22.7
Others	7.1	5.3	2.5	2.5	2.5
<b>Total</b>	<b>11.6</b>	<b>10.8</b>	<b>7.8</b>	<b>8.9</b>	<b>10.5</b>

Source: Company, DBS HK

## Aluminum Corp of China

### Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	298,885	290,988	319,797	325,139	330,565
Cost of Goods Sold	(264,169)	(259,704)	(294,795)	(296,168)	(295,838)
<b>Gross Profit</b>	<b>34,717</b>	<b>31,284</b>	<b>25,002</b>	<b>28,971</b>	<b>34,726</b>
Other Opng (Exp)/Inc	(6,709)	(6,427)	(7,063)	(7,181)	(7,301)
<b>Operating Profit</b>	<b>28,008</b>	<b>24,857</b>	<b>17,938</b>	<b>21,789</b>	<b>27,425</b>
Other Non Opg (Exp)/Inc	(9,341)	(8,540)	(2,579)	(3,622)	(3,582)
Associates & JV Inc	(259)	310	1,000	700	700
Net Interest (Exp)/Inc	(4,222)	(3,418)	(3,110)	(2,902)	(2,503)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>14,186</b>	<b>13,209</b>	<b>13,250</b>	<b>15,966</b>	<b>22,039</b>
Tax	(2,870)	(2,366)	(2,385)	(2,874)	(3,967)
Minority Interest	(5,557)	(6,651)	(6,665)	(8,031)	(11,086)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>5,759</b>	<b>4,192</b>	<b>4,200</b>	<b>5,061</b>	<b>6,987</b>
Net Profit before Except.	5,759	4,192	4,200	5,061	6,987
EBITDA	28,362	24,330	23,992	26,324	31,836
<b>Growth</b>					
Revenue Gth (%)	60.7	(2.6)	9.9	1.7	1.7
EBITDA Gth (%)	97.8	(14.2)	(1.4)	9.7	20.9
Opg Profit Gth (%)	257.1	(11.3)	(27.8)	21.5	25.9
Net Profit Gth (%)	653.5	(27.2)	0.2	20.5	38.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	11.6	10.8	7.8	8.9	10.5
Opg Profit Margin (%)	9.4	8.5	5.6	6.7	8.3
Net Profit Margin (%)	1.9	1.4	1.3	1.6	2.1
ROAE (%)	10.0	7.3	7.5	8.4	10.7
ROA (%)	2.7	1.9	1.9	2.2	2.9
ROCE (%)	12.5	11.1	8.0	9.2	10.8
Div Payout Ratio (%)	9.5	14.8	14.8	14.8	14.8
Net Interest Cover (x)	6.6	7.3	5.8	7.5	11.0

Source: Company, DBS HK

## Aluminum Corp of China

### Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	121,383	109,277	106,644	104,187	101,895
Invt in Associates & JVs	458	2,161	2,161	2,161	2,161
Other LT Assets	48,912	46,374	46,374	46,374	46,374
Cash & ST Invt	21,085	19,260	22,267	36,837	55,969
Inventory	21,643	24,712	28,268	28,400	28,368
Debtors	7,107	5,874	12,266	12,471	12,679
Other Current Assets	4,276	4,690	4,690	4,690	4,690
<b>Total Assets</b>	<b>224,863</b>	<b>212,348</b>	<b>222,671</b>	<b>235,120</b>	<b>252,136</b>
ST Debt	27,665	27,859	27,859	27,859	27,859
Creditors	18,588	22,536	22,614	22,720	22,694
Other Current Liab	15,662	11,971	11,971	11,971	11,971
LT Debt	69,675	58,597	58,597	58,597	58,597
Other LT Liabilities	3,575	3,628	3,628	3,628	3,628
Shareholder's Equity	60,484	54,403	57,983	62,297	68,252
Minority Interests	29,214	33,353	40,017	48,048	59,134
<b>Total Cap. &amp; Liab.</b>	<b>224,863</b>	<b>212,348</b>	<b>222,671</b>	<b>235,120</b>	<b>252,136</b>
Non-Cash Wkg. Capital	(1,225)	769	10,638	10,870	11,071
Net Cash/(Debt)	(76,256)	(67,196)	(64,189)	(49,619)	(30,487)
Debtors Turn (avg days)	10.0	8.1	10.4	13.9	13.9
Creditors Turn (avg days)	23.5	28.9	28.0	27.9	28.0
Inventory Turn (avg days)	28.7	32.6	35.0	35.0	35.0
Asset Turnover (x)	1.4	1.3	1.5	1.4	1.4
Current Ratio (x)	0.9	0.9	1.1	1.3	1.6
Quick Ratio (x)	0.5	0.4	0.6	0.8	1.1
Net Debt/Equity (X)	0.9	0.8	0.7	0.4	0.2
Net Debt/Equity ex MI (X)	1.3	1.2	1.1	0.8	0.4
Capex to Debt (%)	(11.1)	(12.5)	5.8	5.8	5.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	14,186	13,209	13,250	15,966	22,039
Dep. & Amort.	10,561	8,406	7,633	7,457	7,293
Tax Paid	(2,765)	(2,813)	(2,385)	(2,874)	(3,967)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	2,305	(5,411)	(9,870)	(231)	(202)
Other Operating CF	10,868	14,354	0	0	0
<b>Net Operating CF</b>	<b>35,156</b>	<b>27,745</b>	<b>8,628</b>	<b>20,317</b>	<b>25,163</b>
Capital Exp.(net)	10,840	10,837	(5,000)	(5,000)	(5,000)
Other Invt.(net)	(12,589)	(15,313)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	77	1,058	0	0	0
<b>Net Investing CF</b>	<b>(1,672)</b>	<b>(3,418)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
Div Paid	(579)	(2,513)	(620)	(747)	(1,032)
Chg in Gross Debt	(20,312)	(10,893)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(2,522)	(13,631)	0	0	0
<b>Net Financing CF</b>	<b>(23,413)</b>	<b>(27,038)</b>	<b>(620)</b>	<b>(747)</b>	<b>(1,032)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	10,071	(2,711)	3,007	14,570	19,132
Opg CFPS (RMB)	1.93	1.93	1.08	1.20	1.48
Free CFPS (RMB)	2.70	2.25	0.21	0.89	1.17

Source: Company, DBS HK

## Aluminum Corp of China

### H Share - Target Price & Ratings 12-mth History

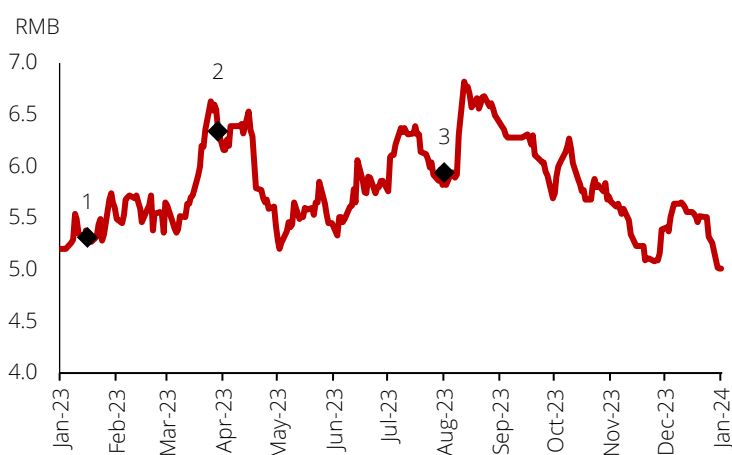


S.No.	Date	Closing Price	Target Price	Rating
1	8-Feb-23	HK\$4.21	HK\$4.60	BUY
2	21-Apr-23	HK\$4.69	HK\$6.00	BUY
3	24-Aug-23	HK\$3.50	HK\$5.00	BUY

Source: DBS HK

Analyst: Duncan Chan

### A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	8-Feb-23	RMB5.38	RMB6.00	BUY
2	21-Apr-23	RMB6.55	RMB7.50	BUY
3	24-Aug-23	RMB5.82	RMB7.00	BUY

Source: DBS HK

Analyst: Duncan Chan

## Aluminum Corp of China

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

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**Aluminum Corp of China**

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