Alcoa Inc.
Ticker: AA
Sector: Basic Materials
Industry: Mining

Intrinsic Value: $16.27
Current Price: $9.78
Stop/Loss: $8.31
Upside Review: $20.34
TTM P/E: 35.82
Forward P/E: 23.45
FV Imp. P/E: 12.09
Beta: 1.31
Market Cap: $10.54 B
Dividend Yield: 1.22%
52 Wk Range: 7.63 – 9.97

Industry Trends: The Base Metals Segment’s health is largely dependent on demand for metals and the strength of global manufacturing. Improving economic climate indexes in Asia, the EU, and NA bode well for metals demand. Metals prices have begun to firm, and rise, following multi-year lows reached in August.

Investment Thesis: Although 3 month aluminum spot prices are down from highs in February of this year, they have improved over the past month, but remain volatile. Historically Alcoa has operated in the middle of the cost curve in both their upstream (Alumina and Primary Metals) and downstream (Global Rolled Products and Engineered Products and Services) segments, however a current joint venture in Saudi Arabia is posed to be lowest cost fully integrated Aluminum production facility in the world. Alcoa’s strengths in downstream production insulates the business from volatile futures prices.

Business Summary: Alcoa Inc. produces and manages primary aluminum, fabricated aluminum, and alumina combined and participates in mining, refining, smelting, fabricating, and recycling. Its products are used in aircraft, automobiles, packaging & defense, among others.

Competitive Analysis:
Alcoa is the largest player in the global aluminum market, producing 10% of the world's alumina and 10% of its aluminum. The company has operations on every continent and has been actively expanding its operations in lower-cost regions such as South America and the Middle East. Major competitors include Chalco, Freeport, Rio Tinto, and Glencore.

Pros:
• Aluminum poised to recover from cyclical lows
• Low cost production via the JV should allow for material margin expansion
• Outlook should improve, as the global economy gradually recovers, as reflected by higher global GDP growth

Risk Factors:
• Surpluses in Aluminum are expected, which may cap prices
• Aluminum prices might remain depressed for the foreseeable future even if economic growth recovers.
• Metals and mining equities have lagged behind the market

Total Return Estimates:
3 Yr FV Reversion*:
5 Yr FV Reversion*:
(* - From limit order price of $9.78)

Key Valuation Assumptions:
Est. Revenue Growth
WACC
Expected Inflation
Terminal Growth Rate
10 yr. Risk Free Rate
Equity Risk Premium
Tax Rate

Key Financial Data:
Est. 2013 EPS
Est. 2014 EPS
3-5 Yr. Est. EPS Growth
PEG (TTM)
Credit Quality
ROE
ROA
Price/Book
Price/Cash Flow
Debt/Equity
Current Ratio
Quick Ratio

CSR Scores:
Human Rights
Business Ethics Policy
ESG Disclosure Score
Equal Opportunity Score
Emission Reduction
Environmental Disclosure Score

Prepared By: Robert Shedrawy on Nov 5, 2013