

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
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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

Nov 5 year stock performance:



Total Return Estimates:

3 Yr FV Reversion*: 26.78% p.a.
5 Yr FV Reversion*: 17.99% p.a.
 (* - From limit order price of \$9.78)

Key Valuation Assumptions:

Est. Revenue Growth	4.36%
WACC	7.3%
Expected Inflation	3.5%
Terminal Growth Rate	1.2%
10 yr. Risk Free Rate	2.66%
Equity Risk Premium	5.9%
Tax Rate	33.16%

Key Financial Data:

Est. 2013 EPS	.3
Est. 2014 EPS	.5
3-5 Yr. Est. EPS Growth	.9
PEG (TTM)	0.91
Credit Quality	BBB-
ROE	1.97
ROA	1.84
Price /Book	0.83
Price/Cash Flow	9.05
Debt/Equity	0.52
Current Ratio	1.30
Quick Ratio	.55

CSR Scores

Human Rights	AA/Ind. Avg. N.A./0
Business Ethics Policy	1/1
ESG Disclosure Score	53.31/29.94
Equal Opportunity Score	1/1
Emission Reduction	1/1
Environmental Disclosure Score	50.39/25.19

Prepared By: Robert Shedrawy on Nov 5, 2013

Direct Competitor Comparison

	AA	ACH	PVT1	PVT2	Ind
Market Cap:	10.51B	4.99B	N/A	N/A	608
Employees:	61,000	97,990	N/A	71,272 ¹	7
Qtrly Rev Growth (yoy):	-0.01	0.22	N/A	N/A	
Revenue (ttm):	23.34B	25.95B	N/A	10.89B ¹	1
Gross Margin (ttm):	0.16	0.00	N/A	N/A	
EBITDA (ttm):	2.59B	432.66M	N/A	N/A	62
Operating Margin (ttm):	0.05	-0.02	N/A	N/A	
Net Income (ttm):	294.00M	-916.07M	N/A	-337.00M ¹	
EPS (ttm):	0.28	-1.73	N/A	N/A	
P/E (ttm):	35.82	N/A	N/A	N/A	3
PEG (5 yr expected):	0.91	-0.06	N/A	N/A	
P/S (ttm):	0.45	0.20	N/A	N/A	