



Too Much Metal

Non-ferrous metal giant's financial losses linked to overcapacity

By Lan Xinzheng

Aluminum Corp. of China Ltd. (CHALCO), the country's largest alumina producer, shocked investors again by posting losses of 1.85 billion yuan (\$301.3 million), according to the company's third-quarter financial report released on October 30. This is the second year CHALCO has suffered a loss.

Wang Yong, an analyst with CITIC Securities Co. Ltd., said overcapacity and low prices were CHALCO's biggest enemies. The company recorded losses of 8.23 billion yuan (\$1.34 billion) in 2012.

After the global financial crisis, China's non-ferrous metals industry saw impressive growth plummet to rock bottom, with no sign of recovery over the past five years. While many companies in the industry had tried various ways to extricate themselves from the slump, few, if any, had succeeded.

Offloading assets

CHALCO had maintained stable growth since it was established in September 2001. But affected by the global financial crisis, it lost 4.65 billion yuan (\$742.67 million) in 2009, and then earned negligible profits in 2010-11. But in 2012, the company again suffered huge losses.

To make up losses, CHALCO began selling its assets in the first half of 2013. The most important sale was with the Simandou open-pit iron ore. Located in Guinea, West Africa, the Simandou project is the biggest iron ore project in the world.

"The Simandou project involves big investment with a long construction period, creating funding pressure, so the company had to sell its interests to cut capital expenditure, and reduce interest expenses," reported CHALCO. Chalco Iron Ore—its investing entity for the Simandou project—recorded net losses of 12.5 million yuan (\$2.04 million) in 2012.

Sale of assets in the first half of 2013 has significantly improved CHALCO's financial performance. According to its semiannual report,

in the first half of 2013, it recorded losses of 670 million yuan (\$109.12 million), much less than the 8.23 billion yuan (\$1.34 billion) in the same period last year. However, its financial report for the third quarter shows that the losses have again ballooned. If the losses continue this year, the listed CHALCO will be given "special treatment" by the stock exchange.

If the Simandou deal can be concluded by

year end, it can bring CHALCO 3.7 billion yuan (\$602.61 million) in profits, enough to make up the entire year's losses.

However, the deal's pending success does not mean CHALCO can sit back. Cai Hongyu, a researcher with China International Capital Corp. (CICC), thinks CHALCO will continue to face much pressure because prices of aluminum products are set to remain low.



HEAVY METALS: A worker passes aluminum ingots at the Guangxi Branch of Aluminum Corp. of China Ltd. The company now faces harsh financial pressure

CHALCO is not alone in its financial dilemma, as the whole Chinese aluminum industry is suffering. There are 75 listed non-ferrous metal companies in the A-share market. According to their financial reports for the third quarter, two thirds of these are losing money.

Overcapacity

Figures from the National Development and Reform Commission showed that in the first three quarters of 2013, the non-ferrous metals industry earned total profits of 121.5 billion yuan (\$19.79 billion), a year-on-year decline of 6.8 percent. In the third quarter, 20.7 percent of the country's non-ferrous metal companies were losing money, up by 0.4 percentage points over a year ago. They recorded total losses of 10.64 billion yuan (\$1.73 billion), up by 3.9 percent compared with the same period last year.

A burning question that remains is that if the non-ferrous metals industry entered stag-

Performance of Non-Ferrous Metals Industry

In the first three quarters of 2013, China's non-ferrous metals industry realized profits of 121.5 billion yuan (\$19.79 billion), decreasing by 6.8 percent compared with the same period last year.

Of the total, mining and ore washing industries earned profits of 44 billion yuan (\$7.17 billion), a decline of 11.7 percent year on year; smelting and rolling industry realized profits of 77.5 billion yuan (\$12.62 billion), dropping 3.8 percent.

Output of 10 non-ferrous metals reached 29.69 million tons, up by 9.8 percent year on year, which was 2.7 percentage points higher than growth in the

same period last year.

The output of electrolytic aluminum stood at 16.21 million tons, a year-on-year increase of 8.7 percent, which was 1.9 percentage points lower than that in the same period last year; copper output grew by 13 percent, which was 5.6 percentage points higher than a year ago; lead output climbed up by 6.1 percent, which was 5 percentage points lower than a year ago; zinc output went up by 11.7 percent, 6.2 percentage points lower than in the same period last year; output of aluminum oxide rose by 13 percent, which was 3.2 percentage points higher than the growth a year ago.

(Source: National Development and Reform Commission)



nation because of the global financial crisis, why has it not recovered, given the fact that the Chinese economy has resumed growth five years after the crisis?

Chen Quansun, Chairman of the China Nonferrous Metals Industry Association (CNIA), said the answer is that non-ferrous metal companies have been expanding and caused serious surplus capacity.

During the 11th Five-Year Plan (2006-10) period, China had already become the biggest non-ferrous metals producer in the world. At the time, there was an appeal for strict control of fast-growing investment in the non-ferrous metals industry. The Chinese Government also issued policies to curb overcapacity and redundant construction in industries including non-ferrous metals, so as to guide sound industrial development.

However, these policies were not effectively implemented and surplus capacity in industries of lead, zinc, copper and electrolytic aluminum became an increasing worry. According to CNIA figures, excessive supply of aluminum alone is 773,000 tons and these excesses will restrict recovery of the non-ferrous metals industry for some time to come.

How should the non-ferrous metals industry resume its growth? Chen thinks that actions like CHALCO's selling of assets is not a permanent solution and would rather see reduction of surplus capacity. On October 15, the State Council issued a guiding recommendation on

reducing surplus capacity in the non-ferrous metals industry, with electrolytic aluminum being among the five key industries mentioned.

According to the 12th Five-Year Plan (2011-15) for the Non-Ferrous Metals Industry formulated by the Chinese Government, by 2015, China's top 10 aluminum companies should contribute 90 percent of the country's total output. But at present, concentration of the top 10 aluminum companies is less than 40 percent, well below target.

Since the electrolytic aluminum industry is a big polluter and high energy consumer, and faces the most serious instances of overcapacity, reorganization of the industry must be accelerated.

Chen said to fundamentally solve the overcapacity problem in China's non-ferrous metals industry, the government should first control total production capacity. This would mean shutting down all unapproved electrolytic aluminum, as well as lead and zinc projects under construction, or planned to be built, that go against state industrial policies.

The government should also support development of enterprises that observe the law and conform to national policies. It is expected that in the coming months there will be frequent new policies related to shutdown of outdated capacity and reorganization of the industry. ■