

# External environment, opportunities and threats

## GLOBAL PRIMARY INDUSTRY

### SITUATION AND TRENDS

- Global supply, driven by capacity in China, will continue to outstrip demand and temper increases in the LME aluminium price over the next five years
- Growing environmental concerns in China are however likely to result in closures of smelting capacity which will provide a level of support for LME aluminium pricing
- Low metal premiums have persisted since mid 2015 and have placed additional pressure on marginal smelters
- Global shift towards recycling scrap as an alternative input to primary aluminium continues to gain momentum

### IMPACT, OPPORTUNITIES AND THREATS

- 1 Steadily increasing LME aluminium price and stable, relatively low, metal premiums provide stability in input costs and margins for rolled products producers
- 2 Shifting global trade dynamics increase uncertainty. Potential increase in tariffs on US imports of Chinese aluminium could result in increased exports from China into other regions, while opening opportunities for other players in the US market

## SOUTH AFRICAN PRIMARY ALUMINIUM INDUSTRY

### SITUATION AND TRENDS

- Stronger LME aluminium pricing provides support to local South 32 aluminium smelter in Richards Bay
- With electricity supply constraints in the country easing, local aluminium smelter has received significantly less negative media and public attention in the past year over its preferential electricity deal
- Local smelter exports the majority of primary aluminium in an unbeneficiated form, while the Bayside value-added products (VAP) casthouse is underutilised, leading to large-scale importation of aluminium VAPs by the local downstream industry at high costs
- Proposed carbon tax legislation may have a significant negative impact on the aluminium smelters which could potentially render them unviable; however, the local downstream industry, which is reliant on these smelters, is not carbon intensive

### IMPACT, OPPORTUNITIES AND THREATS

- 3 Outlook for local aluminium smelter improving, but uncertainty still exists until new electricity deal finalised with Eskom
- 4 Developing an aluminium hub in Richards Bay to produce a range of value added products at the Bayside cast house would drive local beneficiation of aluminium in the country

## SOUTH AFRICAN ECONOMIC AND POLITICAL ENVIRONMENT

### SITUATION AND TRENDS

- Industrialisation remains a national priority. Government policy is seeking to restructure the economy toward more value-adding, labour intensive and inclusive growth
- Localisation (import substitution) and growth in beneficiated exports are key national objectives
- National focus on energy efficiency and recycling initiatives
- Aluminium consumption growth in the country driven by beverage can and automotive industries
- Automotive industry remains a key strategic industry in the country and one that will continue to receive government support
- South African government is becoming increasingly aware of the role for trade agreements and regulatory frameworks to protect and support the economy
- Labour costs escalating above inflation, combined with significant volatility and unrest in labour relations
- Availability and supply shortages of local LPG gas and increasing pricing. Opportunities to unlock lower cost, natural gas options (methane rich pipeline gas, LNG)

### IMPACT, OPPORTUNITIES AND THREATS

- 5 Local cost base increasing above inflation (labour, electricity, LPG)
- 6 Scrap export legislation will continue to promote local processing of scrap for the benefit of local industry
- 7 Proposed carbon tax legislation will have a significant negative impact on smelters and could, in turn, severely impact downstream fabricators
- 8 Aluminium can play a significant role in supporting downstream fabrication and industrialisation, job creation, development of high-technology applications and industries and promoting reduced carbon intensity in the economy
- 9 Potential opportunity for development of local aluminium automotive body sheet supply capability in the country



### GLOBAL ALUMINIUM SEMI-FABRICATION MARKET SITUATION AND TRENDS

- Significant demand growth in packaging, transport and infrastructure applications driven largely by the growth in developing economies
- Significant growth in automotive consumption of rolled products in developed countries and ongoing development of new applications for aluminium
- Capacity expansion in low-cost regions such as China and Middle East resulting in global pricing pressure
- Trade politics continues to influence global flows of aluminium semi-fabricated products
- Global shift towards recycling scrap as an alternative input to primary aluminium gaining momentum

### IMPACT, OPPORTUNITIES AND THREATS

- 10** Conversion margins under pressure due to additional capacity roll-out in low-cost and government incentivised regions
- 11** Increased global demand for secondary metal impacts on price and availability thereof
- 12** Increased pressure from imports on domestic manufacturing
- 13** Growth in demand for new and non-traditional applications for aluminium, such as consumer electronics and military markets
- 14** Significant growth in automotive sector for aluminium body panels

### REGIONAL MARKET DEVELOPMENT SITUATION AND TRENDS

- Rapid population expansion and urbanisation in sub-Saharan Africa resulting in increased infrastructure and transport spend growth, rising income levels and increasing consumer spend, leading to growing per capita spend on aluminium
- Ongoing efforts by African states to secure regional economic development and industrial integration

### IMPACT, OPPORTUNITIES AND THREATS

- 15** Growing regional consumption of aluminium primarily in consumer applications and packaging, transport and construction/infrastructure
- 16** Opportunities for increased investment in downstream fabrication industries in South Africa to capitalise on growth in the region
- 17** Increasing availability of aluminium scrap in the region

### OPPORTUNITIES AND THREATS AFFECTING OUR VALUE DRIVERS

Availability of capital and incentives

8

Conversion margins and metal prices

1 2 10 12

Primary ingot supply and costs (gas, electricity and labour)

5

Price and availability of aluminium scrap inputs

6 11 17

Availability of rolling slab

4

Availability of primary aluminium

1 3 7

Local/regional market demand and mix

4 8 9 13 14 15 16

Export market demand and mix

2 4

Threats Opportunities