

Analyst: Kelvin Li
ALUMINUM CORPORATION OF CHINA LIMITED (CHALCO) (中國鋁業)

Sector	: Commodities
HKSE Code	: 2600
Market Price	: HK\$11.96 (19/03/2008)
HSI	: 21,866.94 (19/03/2008)
H-share Issued	: 3,943.965 million
H-share Mkt. Cap.	: HK\$47,169.83 million
52 weeks Hi/Lo	: HK\$26.35 / HK\$7.60

Chairman & CEO : XIAO Yaqing

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	<u>FY2007</u>	<u>FY2006</u>	<u>Change</u>
	<u>RMB million</u>	<u>RMB million</u>	
• Turnover	76,180.4	64,826.6	+17.5%
• Gross profit	18,982.9	20,895.9	-9.2%
• Operating profit	14,909.2	17,667.7	-15.6%
• Finance costs	(738.5)	(637.2)	+15.9%
• Share of profit of associates and jointly controlled entities	238.6	93.8	+154.4%
• Profit attributable to shareholders	10,244.5	11,841.7	-13.5%
	<u>RMB</u>	<u>RMB</u>	
• EPS – Basic	0.820	1.040	-21.2%
• Interim DPS	0.137	0.188	-27.1%
• Special interim DPS	0.013	-	N/A
• Final DPS	0.053	0.115	-53.9%
• Total DPS	0.203	0.303	-33.0%

- Chalco reported a 13.5% y-o-y drop in net profit to RMB10.24 billion for FY2007, down from RMB11.84 billion in FY06 and worse than consensus forecast of RMB11.27 billion. It was mainly dragged down by lower product selling price and high production costs.
- Turnover rose 17.5% y-o-y to RMB76.2 billion in FY07, thanks to increased external sales of primary aluminium as the newly acquired units started contribute. However, due to a surge in unit cost and dropping product prices, gross profit dropped 9.2% y-o-y to RMB19.0 billion in FY07, pressing gross profit margin down by 7.3 percentage points to 24.9% in FY07 from 32.2% a year earlier.
- EPS for FY07 was RMB0.82, down 21.2% y-o-y, partly due to the enlarged share capital following the A-share issue to acquire Lanzhou Aluminum, Shandong Aluminum and Baotou Aluminum. A final dividend of RMB0.053 per share was proposed. Together with the dividends declared during the interim results, the total DPS was RMB0.203 for FY07 (FY06: RMB0.303).
- As of 31/12/2007, Chalco held total debt of RMB22.5 billion (31/12/2006: RMB20.3 billion). With a cash on hands of RMB7.8 billion (31/12/2006: RMB13.0 billion), the Group's net debt-to-shareholders' equity ratio increased to 25.4% at the end of 2007 from 16.4% a year earlier.

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.

**Business highlights**Breakdown of sales revenue by products

	FY2007		FY2006		<i>Change</i>
	RMB million	%	RMB million	%	
Alumina	20,818.4	27.3%	25,602.1	39.5%	-18.7%
Primary aluminium	53,706.7	70.5%	38,393.7	59.2%	+39.9%
Corporate & other services	1,655.3	2.2%	830.8	1.3%	+99.2%
Total	76,180.4	100.0%	64,826.6	100.0%	+17.5%

- External sales of **alumina** fell 18.7% to RMB20.8 billion, accounting for 27.3% (FY06: 39.5%) of total turnover. The drop in sales revenue was mainly due to a 19.5% plunge in the average external selling price together with a 3.9% drop in external sales volume of alumina products. According to the Group's management, the unit cost of sales of alumina jumped 6.8%, mainly on higher bauxite, fuel and power costs. As a result, the segment's operating profit tumbled 41.1% y-o-y to RMB5.7 billion, while its operating margin (segment profit to segment's total turnover) tumbled nearly 12.9 percentage points to 23.2% in FY07 (FY06: 36.2%).
- External sales of **primary aluminium** jumped 39.9% y-o-y to RMB53.7 billion, mainly driven by a 44.8% y-o-y rise in external sales volume to 3.09 million tonnes. Average external selling price of primary aluminium slipped 3.1% y-o-y during FY07, slightly offsetting the strong volume growth. Unit cost of manufacture of primary aluminium fell 7.0% in FY07, thanks to a lower average alumina cost. As a result, the segment's operating profit rose 48.4% y-o-y to RMB7.4 billion, while its operating margin improved slightly to 13.8% in FY07 from 13.0% a year earlier.

Outlook & Prospects

- **Transforming into an integrated aluminium producer** Chalco has completed the merger of Lanzhou Aluminum and Shandong Aluminum in April 2007 and the Inner Mongolia-based Baotou Aluminum and Lanzhou Liancheng Aluminum in Dec 2007, further strengthening its downstream operations. The Group hopes the acquisitions lift its primary aluminium production capacity to 3.9 million tonnes by the end of 2008 from 3.2 million tonnes as at the end of last year.
- **Setting FY2008 output target** As Chalco continues its efforts in expanding its downstream business, we would see output growth in primary aluminium to keep outpacing that of alumina this year. For FY2008, the Group has set an output target of alumina and primary aluminium at 10.2 million and 3.62 million tonnes, respectively, up 6.6% and 29.3% from FY07.
- **Enhance resources self-sufficiency in FY08** Chalco plans to focus on the exploration of resources in FY08. In FY07, Chalco had been engaged in the acquisitions of downstream operations. Therefore, we expect it would expand its bauxite resources via asset injections from its parent this year.
- **Overseas expansion** In FY07, Chalco concluded two overseas projects, namely the Aurukun Project in Australia and Saudi Arabian Aluminum Project, which would boost the Group's bauxite reserve and primary aluminium output capacity, respectively. Nonetheless, both projects are at initial stage, and it may take some years before bringing solid contribution to Chalco.
- **Further asset purchase from parent** Chalco announced along with its FY07 results announcement that it would bid for equity interests in 5 aluminium fabrication plants and a primary aluminium production plant from its parent. The bid is considered as undemanding at about 14x of FY06 after-tax profit. The purchase should boost the Group's primary aluminium output capacity by more than 7%.
- **Undemanding valuation** The FY07 results was sluggish, mainly dragged by weak alumina and primary aluminium prices. Aluminium prices should stay volatile in 2008, amid a possible slowdown in the US and monetary tightening in the Mainland. Nonetheless, trading at 12x FY08E P/E, valuation of Chalco is not demanding given its efforts in boosting its downstream business. Accordingly, we recommend the counter a "HOLD" rating.

Recommendation: HOLD

Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state country or other jurisdiction, publication, availability or use would be contrary to law and regulation.