

China Aluminium's Inflection Point

Structural Tightness Emerging

INVESTMENT THESIS | China's aluminium sector enters 2026 at a structural inflection. The 45mt capacity ceiling collides with resilient electrification-driven demand. Unlike prior macro cycles, this tightening is policy-constrained and structurally embedded. Aluminium remains attractive within China materials sub-sector for 2026.

RMB 23,000

/t SHFE 2026E
+6.4% y-o-y

USD 2,750

/t LME 2026E
+3.8% y-o-y

45mt

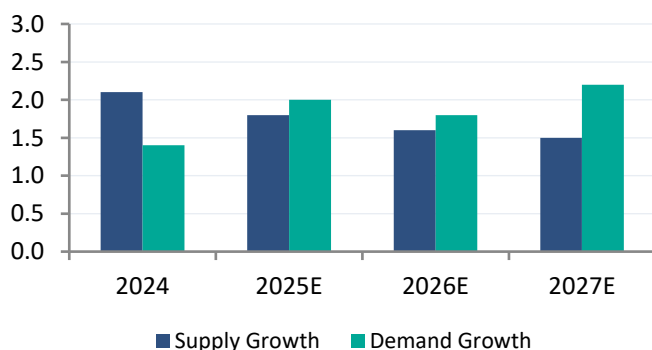
Capacity ceiling
~100% utilized

2%

China demand growth
vs 0.5% supply

MARKET BALANCE: MOVING INTO DEFICIT

Global Supply vs. Demand Growth (%)



- ▶ China production growth capped at ~0.5% (220kt) vs. 2% demand growth
- ▶ Primary aluminium deficit expected in 2026, widening in 2027
- ▶ Onshore/offshore inventories remain low — minimal buffer
- ▶ China >50% of global consumption; domestic deficit shifts global clearing price

COST ENVIRONMENT: MARGIN TAILWINDS RETURN

Bauxite

Flat to softer

Guinea supplies ~2/3 of China imports; exports stable; capacity ramping

Alumina

Flat to slightly down

Indonesia & India additions keep market in surplus through 2026

Carbon Anodes

Structurally oversupplied

Domestic capacity exceeds demand; efficiency gains reducing intensity

Power Tariffs

Broadly flat

Coal prices stabilised; green power shift incremental

PRICE OUTLOOK: GRADUAL FIRMING WITH UPSIDE RISK

| Metric | 2025 | 2026E | 2027E |
|--------------|--------|--------|--------|
| SHFE (RMB/t) | 20,679 | 23,000 | 23,500 |
| LME (USD/t) | 2,650 | 2,750 | 2,850 |

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Electric Vehicles

15M+ units

2026E EV output (+20% y-o-y)

~220 kg/EV = ~440kt incremental demand. Battery enclosures, chassis, structural parts. Substitution risk limited.

Grid Investment & UHV

Steady growth

UHV + grid reinforcement

Each UHV line requires substantial conductor volume. Distributed renewables integration supports sustained cable demand.

Copper-to-Aluminium Switch

4x ratio

vs. 3.5x historical average

Widening Cu/Al price ratio shifts substitution economics firmly towards aluminium. Structural direction supportive.

Solar & Construction

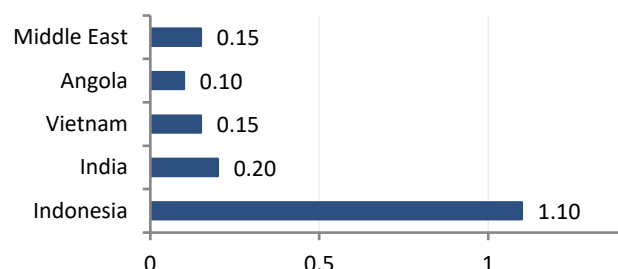
Stabilising

Net drag diminishing

Solar normalising but still contributing. Construction demand has stabilised after several weak years.

SUPPLY CONSTRAINTS: POLICY AS THE ANCHOR

2026E Overseas Capacity Additions (mt)



- ▶ 45mt cap binding; net zero new capacity in China 2026
- ▶ Curtailed capacity already restarted in 2025 — limited 2026 restarts
- ▶ Century Al Iceland (320kt): below nameplate on equipment issues
- ▶ South32 Mozal (355kt): electricity uncertainty from 2026
- ▶ Secondary aluminium +3.2% in 2026 — helpful but insufficient

Risk skew: Asymmetric to the upside. Overseas commissioning delays, energy disruptions, or further utilisation constraints could amplify tightening beyond base case. Consensus still embeds marginal-cost frameworks; upward revisions likely as deficits become visible.

EQUITY IMPLICATIONS

6-7x

2026E EV/EBITDA

Mid-High

Dividend Yield

Stable

Balance Sheets

Upside

Earnings Risk

ARANCA VIEW | China's aluminium sector has entered a new regime. The era of meaningful domestic supply growth is effectively over, while demand continues to be supported by electrification, grid investment, and material substitution. Unlike previous cycles, the tightening is driven by policy constraints rather than macro volatility, making it more durable and predictable.

With costs stabilising and inventories offering little cushion, aluminium prices and producer profitability are positioned to strengthen. Yet valuations remain undemanding, reflecting market expectations that still underestimate the implications of a structurally constrained supply backdrop. As the deficit becomes increasingly visible, we expect earnings and valuation upgrades to follow. **Aluminium remains attractive within China materials heading into 2026.**

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2500+
Global clients

500+
Strong, professional team across
multi-disciplinary domains

120+
Sectors and sub-sectors
researched by our analysis

80+
Countries where we have
delivered projects

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A photograph of a person climbing a steep, rocky mountain peak. The climber is wearing a red jacket and a backpack, and is positioned on the right side of the frame. The background shows a clear blue sky and a vast, hazy landscape below.

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