Rio Tinto’s Canadian Aluminum Smelters Girding for Growth

Description

While bauxite, an aluminum-bearing ore, is not mined in Canada, it undergoes refining in Canada. Bauxite is shipped to Canada’s refineries from around the world and the refined metal is exported worldwide.

Rio Tinto (NYSE: RIO) has its Alma, Arvida, Bécancour, Grande-Baie, Kitimat, Laterrière, Sept-Îles (Alouette), and Shawinigan smelters in Canada. Its AP60 aluminum smelter (Arvida Aluminum Smelter, AP60 Technology Centre, Saguenay-Lac-St-Jean, Quebec) began production in 2013. The company also has its Vaudreuil Works alumina refinery.

Here’s what’s ahead for Rio Tinto and the industry in general.

Focus on continued Canadian production

After the Unites States, Russia, and the People’s Republic of China (PRC), Canada is the fourth largest global producer of aluminum and it is the second largest exporter.

In 2011, Rio Tinto announced it would invest C$36 million in its Laterrière smelter in the Province of Quebec. This was a two-year modernization project targeted at enhancing the electrolytic cell control system. The project is an opportunity for the Laterrière plant to modernize its electrolytic process control system. The project’s aim was also to improve plant energy efficiency, and support greenhouse gas emission reduction efforts. The company said it will, in time, lead to production increases.

For the year ended December 31, 2013, Rio Tinto experienced bauxite volumes rising from record production volumes. The company also experienced a rise in aluminum volumes following the return of its Quebec Alma smelter to full production. The Alma smelter has an annual capacity of 438,000 tonnes of aluminum.

Last year, Rio Tinto closed, curtailed, or divested six non-core aluminum assets. This included the suspension of production at the Gove alumina (synthetically produced aluminum oxide) refinery. The company is concentrating on the bauxite operations.

Increased demand from the auto industry

Produced aluminum products include doors, windows, house siding, beverage cans, and foil products, cooking utensils, and electrical wiring.

However, CIAC (Canadian International Aluminum Conference) stated this month that transport is a focus of this year's June conference: "Whether the reason is regulatory, economic or environmental, virtually all future road or aerospace vehicles will require, in the short or medium term, lighter structures. Aluminum will contribute significantly to this shift, which can already be seen with a large number of manufacturers."

Ford Motor (NYSE: F) is increasing aluminum usage in its F-150 truck. The F-150 is presently the most prevalent sold North American vehicle. Ford is using high-strength, military grade aluminum alloys in the F-150 bed and body.

General Motors (NYSE: GM) is developing a predominantly aluminum-bodied pick-up truck planned for late 2018. The company's initiative is focused on staying competitive with Ford. Furthermore, GM, Ford, and other auto manufacturers are looking to meet forthcoming United States fuel economy standards (by 2025).

Steel investors take note

Investors who own steel company stocks may want to analyze their holdings, taking into account what's happening with aluminum. Auto manufacturers account for approximately 20% of overall yearly sales for U.S. steel manufacturers. Steel companies could take a revenue hit with the increased use of aluminum in the auto sector if they don't develop competing steel products. Steel currently makes up approximately 60% of the average vehicle in North America.

At Great Designs in Steel 2013 (Steel Market Development Institute), Mr. Michael Rippey, President/CEO of **ArcelorMittal USA** said, "… the steel industry is now working to apply the same high-strength steel lightweighting technologies to other major vehicle systems, like chassis and closures. In fact, we have put a special priority on developing lightweight solutions for virtually all hang-on parts that might threaten steel."

Foolish bottom line

Aluminum should experience an increase in demand in the coming years. Companies with extensive smelter operations like Rio should benefit from this demand. Steel companies won't take this sitting down and will try to temper the optimism now burgeoning in the aluminum industry.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RIO (Rio Tinto plc)

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