

Materials

Aluminium: A prolonged supply deficit even assuming the end of Iran war

Based on our updated industry model, we estimate global aluminium supply deficit will widen to 2% of global demand in 2026E (versus our previous estimate of 1.1%), even after factoring in softer aluminium demand amid slower global GDP growth resulting from the Iran war. The key reason for the deficit is the significant production disruptions at smelters in the Middle East. We expect a full resumption in the Middle East could take up to 18 months, even assuming the end of war from now. We maintain our forecast that aluminium price will rise 15% YoY in 2026E, and remain elevated through 2027E as deficit will remain (though narrowed). We see the recent share price pullback of **China Hongqiao (1378 HK, BUY)** and **Chuangxin Industries (2788 HK, BUY)** as a good entry opportunity to play the supply deficit story. We also extend our coverage to **Hongqiao Holdings (002379 CH, TP: RMB29)**, the major subsidiary of China Hongqiao, with a **BUY** rating.

- **Impact of disruptions in the Middle East.** We forecast the Gulf-Cooperation Council (GCC) and Iran's aluminium production to decline by 1.7mt in 2026 (~2.3% of 2025 global output). We project the net global supply to fall 0.8% YoY in 2026. In 2027/28, we expect global supply to increase 3.0%/3.1% YoY, driven by gradual resumption of GCC's suspended capacity and the commencement of ex-China capacity, particularly in Indonesia.
- **Aluminium demand trimmed on slower global GDP growth.** In Apr, the IMF revised down its global GDP growth forecast by 0.2 ppts for 2026 as the Iran war threatens growth and disinflation. We have trimmed our global aluminium demand estimates. We now expect global demand to grow by 0.6% in 2026 (previous estimate: 1.1%), and 1.9%/2.1% in 2027/28.
- **Supply deficit to widen in 2026 but to narrow in 2027.** Even after factoring in lower aluminium demand, there will still exist a widened supply deficit in 2026, which accounts for 2% of global demand (previously estimated at 1.1%). We expect the deficit to persist in 2027 (though narrowed) which will lend firm support to the aluminium prices.
- **Initiate with BUY on Hongqiao Holdings.** We believe Hongqiao Holdings, which carries the majority of operating assets of China Hongqiao, will benefit from the elevated aluminium price. We like Hongqiao Holdings' high earnings sensitivity (3.3% for 1% change in aluminium price) and high potential dividend payout ratio (75% in our model assumption). Our TP of RMB29, based on 13.2x 2026E P/E, is equivalent to 20% premium to our target multiple (11x) for China Hongqiao. Our premium is in line with the current A/H premium of Chalco (2600 HK/601600 CH, NR) ([link](#) to Hongqiao Holdings initiation report).

OUTPERFORM
(Maintain)

China Materials Sector

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Global aluminium supply & demand at a glance

Figure 1: Global aluminium supply and demand forecast

Unit: kt	2026E	2027E	2028E
New supply:			
China	442	223	45
Outside China	1,185	1,576	1,139
Change in existing supply: (disruption)/recovery:			
Mozal Aluminium	(476)	(89)	0
Grundartangi	(60)	73	0
Subtotal	(536)	(16)	0
GCC	(1,477)	426	1,125
Iran	(210)	0	0
Subtotal	(1,687)	426	1,125
Change in supply (YoY):	(595)	2,208	2,308
Global aluminium supply	73,199	75,407	77,715
Change% YoY	-0.8%	3.0%	3.1%
Demand:			
China	46,525	47,540	48,728
Outside China	28,172	28,595	29,024
Global aluminium demand	74,697	76,135	77,751
Change% YoY	0.6%	1.9%	2.1%
Supply deficit	(1,499)	(728)	(36)

Source: International Aluminium Institute (IAI), Antaika, CMBIGM estimates

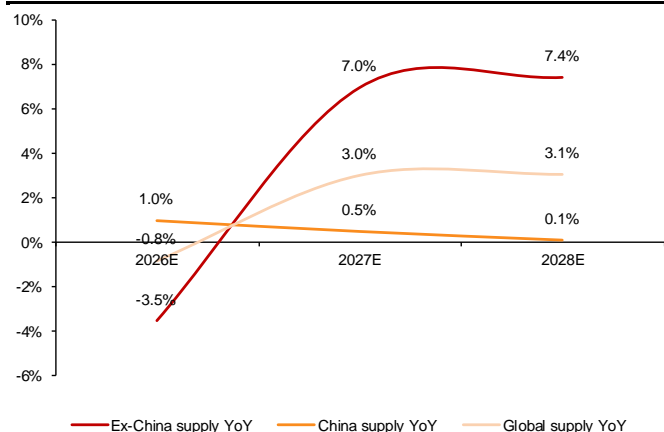
More favourable demand and supply profile

■ Global aluminium supply to decline in 2026 before recovering in 2027

We forecast the global aluminium production to decline by 0.8% in 2026E, primarily due to the production disruptions in GCC region.

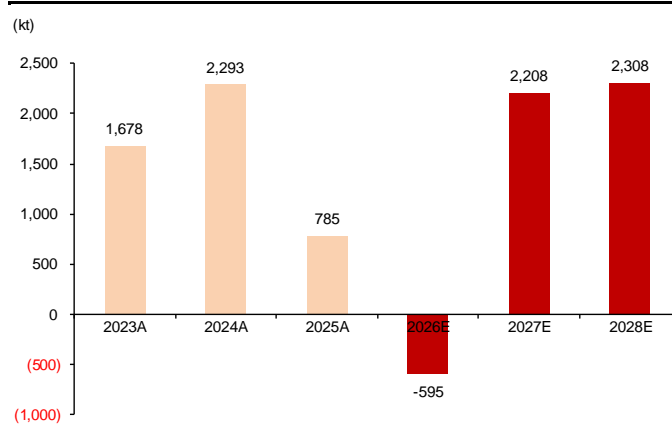
We expect the output to grow by 3.0%/3.1% in 2027E/28E due to resumption of GCC's suspended smelters and the commencement of new projects in ex-China regions.

Figure 2: Global aluminium supply growth YoY

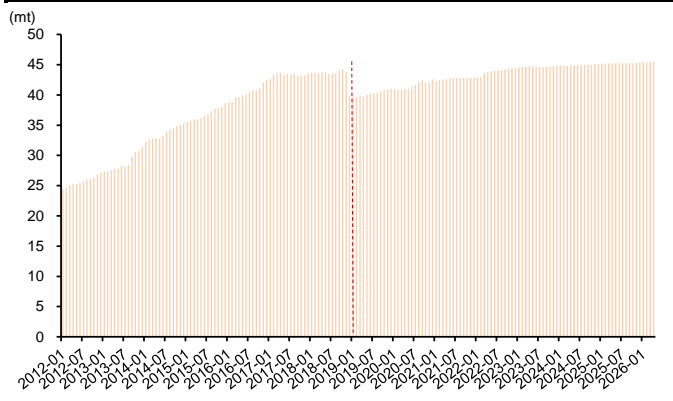


Source: IAI, CMBIGM estimates

Figure 3: Global aluminium supply change (YoY)



Source: IAI, CMBIGM estimates

Figure 4: China aluminium annual production capacity


Source: Wind, CMBIGM

Figure 5: China aluminium capacity utilisation rate


Source: Wind, CMBIGM

■ How big is the production disruptions in GCC and Iran?

1) GCC aluminium production

The Gulf-Cooperation Council (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). In 2025, GCC output reached 6.2mt, accounting for 8% of global production and 21% of ex-China supply, according to the International Aluminium Institute (IAI).

During the Iran War this year, key smelters in Bahrain, Qatar, and the UAE suffered direct strikes or supply-chain disruptions. Based on our project-based analysis, we forecast GCC production to decline 24% YoY in 2026E, reducing output by 1,477kt.

We expect that production at Alba and Qatalum to fully restore after 9 months and EGA's Al Taweelah smelter to fully restore after 18 months (assuming no resumption of the Iran War). We expect the GCC output to increase by 426kt and 1,125kt in 2027E/28E.

Figure 6: Estimates of production at GCC smelters

Company	Capacity (kt)	Production (kt)			Note
		2026E	2027E	2028E	
Emirates Global Aluminium (EGA) (UAE)	2,500	1,477	1,477	2,602	EGA reported on 3 Apr that the Al Taweelah site (including smelter, casthouse, power plant, alumina refinery and recycling plant) had been fully evacuated and remained in emergency shutdown following significant damage from Iran's strikes. The Al Taweelah has an annual capacity of ~1.5mt. EGA estimates that full restoration of primary aluminium production could take up to 12 months.
Aluminum Bahrain (Alba) (Bahrain)	1,623	1,392	1,623	1,623	On 29 Mar 2026, Aluminum Bahrain confirmed that its smelter was hit in an Iranian attack on 28 March and that the company is assessing the damage. On 15 Mar, Alba had already announced a 19% reduction in total capacity due to supply and transit disruptions in the Strait of Hormuz. Further cuts cannot be ruled out.
Qatalum (Qatar)	648	454	648	648	Qatalum stated on 12 Mar that it was maintaining production at ~60% of its overall capacity following an earlier controlled shutdown triggered by gas supply suspension. A full restart could take 6–12 months once gas supply stabilises, though no restart schedule has been confirmed.
Saudi Arabian Mining Company (Ma'aden) (Saudi Arabia)	800	985 ¹	985 ¹	985 ¹	We expect Ma'aden's smelter to face limited disruption at this stage , given its full vertical integration.

Sohar Aluminium (Oman)	395	375	375	375	We expect Sohar Aluminium to experience minimal disruption at this stage , due to Oman's neutral stance in the war and its location outside the Strait of Hormuz.
Total		4,682	5,108	6,233	
Change YoY		-1,477	426	1,125	

Source: EGA, Alba, Qatalum, Ma'aden, Sohar Aluminium, CMBIGM estimates

Note¹: Including recycling aluminium output

2) Iran aluminium production

Before the war, Iran produced ~560kt of aluminium annually, below its capacity of ~650kt, due to shortages of electricity and natural gas, according to the head of the Iranian Aluminium Industries Syndicate. The low utilization rate also stemmed from limited alumina supply. Before the war, the country only produced 250kt alumina per year, with the balance from import but sometimes constrained by foreign exchange shortages. Of the 560kt production, only 300kt was supplied to the domestic market, as the country needs to export the rest to generate currency for alumina purchases.

On 7 Apr, Iran Aluminium Company (IRALCO), the country's largest smelter with capacity of 160-200kt and located in Arak (~300km from Tehran), was struck in a US-Israel attack, according to Iranian media.

- **Base case:** Disruption is limited to IRALCO, with other smelters unaffected as they are located far from likely target areas near the capital. We then estimate total production to drop ~150kt to ~400kt p.a., assuming full suspension of IRALCO at an utilisation rate in line with the national average.
- **Bear case:** Production is reduced further due to broader supply disruptions of alumina. Domestic alumina production of 250kt can only support aluminium production of ~125kt. Under a tighter economic sanction, the disruptions of electricity and natural gas may also have a severe impact over the production.

We estimate the Iranian aluminium production at ~350kt in 2026E/27E/28E, after taking into consideration the two scenarios.

Figure 7: Aluminium smelters in Iran



Source: SMM, Tehran Times, Financial Tribune, Iran Alumina, CMBIGM

■ Projects outside the Middle East facing disruptions

We have revised our production changes estimates for Mozal Aluminium and Grundartangi to -536kt/-16kt (from -635kt/55kt) in 2026E/27E. The adjustment reflects an earlier-than-expected restart at Grundartangi.

- **Mozal Aluminium (Mozambique):** South32 placed the Mozal Aluminium on care and maintenance on 15 Mar due to insufficient power supply, consistent with its announcement in Dec 2025. The smelter (capacity: 580kt) produced 565kt in 2025. We estimate output of 89kt/0kt in 2026E/27E.
- **Grundartangi smelter (Iceland):** During its 4Q25 earnings call, Century Aluminum announced that the restart of Grundartangi would begin at the end of Apr 2026 and reach near full production by the end of Jul 2026, which would be ~6 months earlier than originally anticipated in Oct 2025. The smelter (capacity: 320kt) produced 275kt in 2025. We estimate output of 215kt/288kt in 2026E/27E.

■ New supply overseas

Besides, we have updated our estimates for additional production in ex-China regions. We now project that ex-China new supply will be 1,185kt/1,576kt/1,139kt in 2026E/27E/28E.

Indonesia remains the key source of new supply. However, we could see potentially longer-than-expected project commencement in the country. Our channel checks indicate that some projects could potentially be behind schedule, mainly due to unstable electricity supply. This could result in less new supply coming online in Indonesia, versus our base-case projection.

Figure 8: Ex-China new aluminium project pipeline (unit: kt)

Country	Company	Project	2026E	2027E	2028E
Angola	Huatong Cable	Huatong Angola Aluminium Industry Park - Barra do Dande	54	54	0
Brazil	Companhia Brasileira de Alumínio (CBA)	Furnace Room 1	0	23	23
India	Vedanta	Bharat Aluminium (BALCO)	196	196	0
India	Vedanta	Jharsuguda Smelter	0	113	113
India	Hindalco	Aditya Aluminium Smelter Ph 2	0	0	0
India	Hindalco	Aditya Aluminium Smelter Ph 1	0	0	81
Indonesia	Alamtri Minerals (formerly Adaro Minerals)	Kalimantan Aluminium Industry (KAI)'s KIP1 project in North Kalimantan	225	225	0
Indonesia	PT Dharma Inti Bersama (DIB) (subsidiary of Harita Group)	Palau Penebang Industrial Zone (KIPP) in West Kalimantan	0	0	450
Indonesia	Nanshan International	Galang Batang special economic zone (SEZ) in Bintan	0	0	113
Indonesia	Nanshan Aluminium	Galang Batang special economic zone (SEZ) in Bintan	113	113	0
Indonesia	Xinfa-Tsingshan Juwan	Weda Bay	225	225	0
Indonesia	PT Hua Chin Aluminium Indonesia (JV of Huaфон & Tsingshan)	Morowali Industrial Park (IMP) - Central Sulawesi	225	225	0
Saudi Arabic	Chuangxin	the Saudi Project	0	225	225
Spain	Alcoa Corp	San Ciprian	36	36	0
US	Century Aluminum	Mt. Holly	44	7	0
Vietnam	Tran Hong Quan Metallurgical Company	The Dak Nong Aluminium Electrolysis Plant	68	135	135
Ex-China new supply (kt)			1,185	1,576	1,139

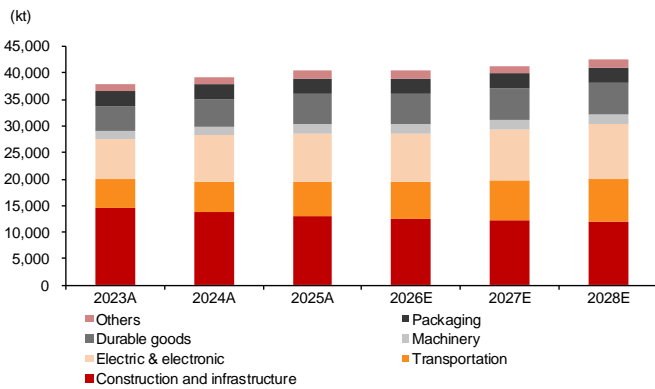
Source: Company data, CMBIGM estimates

Trim aluminium demand forecast on lower global GDP growth

In Apr, the IMF revised down its global GDP growth forecast to 3.1% (from 3.3% projected in Jan 2026) for 2026E, as the Iran War threatened to disrupt growth and disinflation. IMF expects global headline inflation to rise modestly in 2026 before resuming its decline in 2027. These forecasts assume the conflict remains limited in duration and scope.

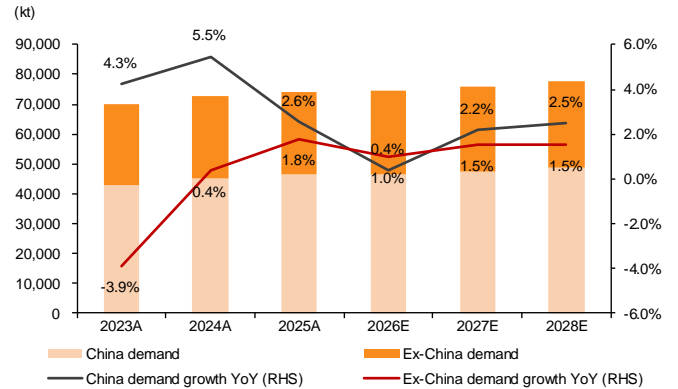
We trim our global aluminium demand estimates. We now forecast China's aluminium demand growth at 0.4% in 2026E (down from 0.9%), and ex-China demand growth at 1% in 2026E (down from 1.5%). Overall, we expect global aluminium demand to grow by 0.6%/1.9%/2.1% in 2026E/27E/28E, respectively.

Figure 9: China aluminium demand breakdown



Source: Antaike, CMBIGM estimates

Figure 10: Global aluminium demand breakdown

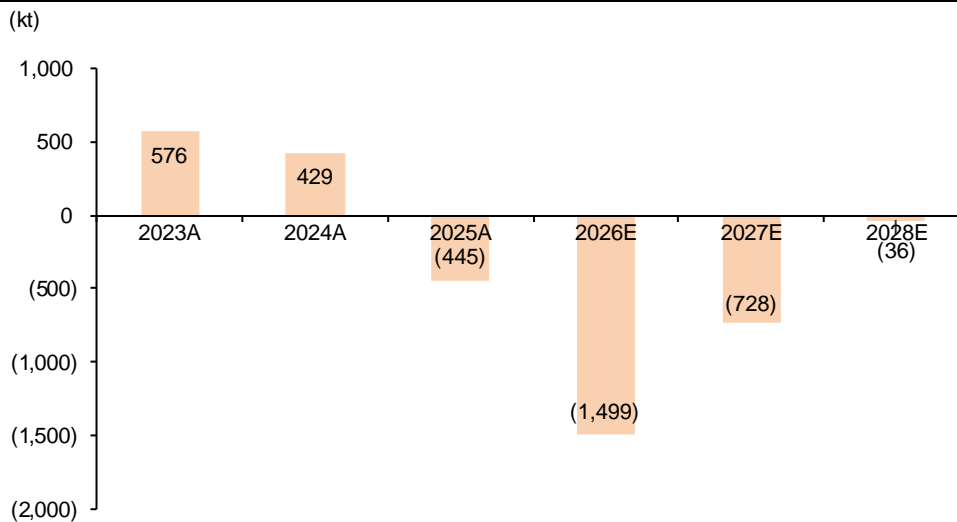


Source: Antaike, CMBIGM estimates

Global deficit to widen in 2026E but to narrow in 2027E/28E

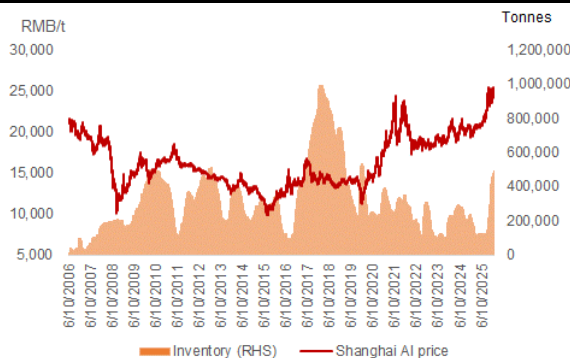
Even after factoring in lower 2026 global demand, we still expect the global aluminium supply deficit to widen to 2.0% of global demand in 2026 (from a previous estimate of 1.1%). We forecast the deficit to narrow in 2027E due to partial resumption of GCC's suspended smelters and the commencement of ex-China new capacity.

Figure 11: Global aluminium (deficit)/ surplus



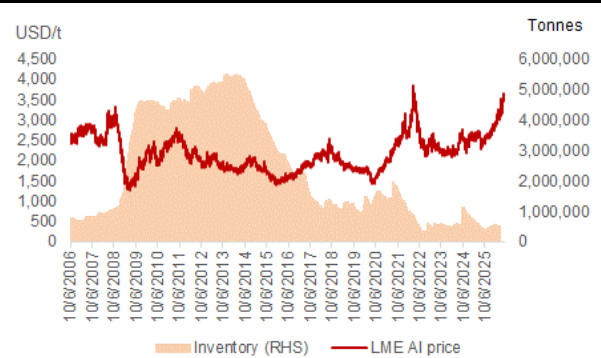
Source: IAI, Antaike, CMBIGM estimates

Figure 12: Shanghai aluminium price and inventory



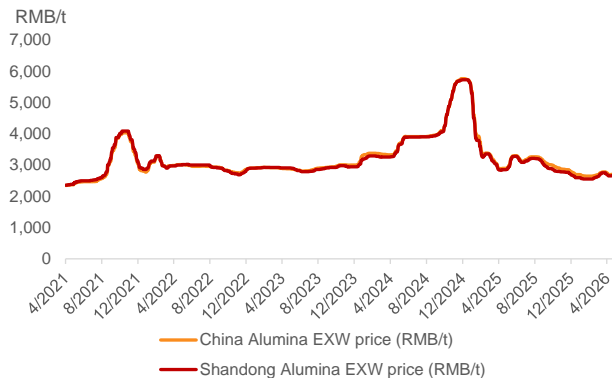
Source: Bloomberg, CMBIGM

Figure 13: LME aluminium price and inventory



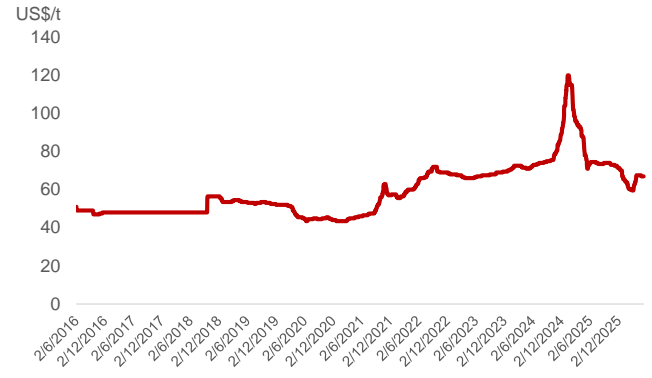
Source: Bloomberg, CMBIGM

Figure 14: Alumina EXW price in China



Source: Wind, CMBIGM

Figure 15: Import price of bauxite from Guinea to China (CIF)



Source: Bloomberg, CMBIGM

Sector valuation

Figure 16: Peer valuation table

Ticker	Company	Price (local currency)	Market cap (US\$ mn)	PE (x)		PB (x)		Yield (%) 2026E
				2026E	2027E	2026E	2027E	
A share								
601600 CH Equity	CHALCO-A	11.78	28,269	9.1	8.8	1.9	1.6	4.5
002379 CH Equity	HONGQIAO-A	23.16	44,024	10.7	11.5	4.3	4.0	7.0
000807 CH Equity	YUNNAN ALUM-A	31.28	15,824	10.1	8.6	2.3	1.9	4.1
002532 CH Equity	TIANSHAN ALUM-A	16.49	11,134	9.4	8.1	1.9	1.7	6.5
600219 CH Equity	SHANDONG NANSHAN-A	5.53	9,263	10.6	8.8	1.0	1.0	4.6
000933 CH Equity	HENAN SHENHUO-A	31.12	10,209	8.1	7.7	2.0	1.7	5.6
	Average			9.7	8.9	2.2	2.0	5.4
Hong Kong listed								
2600 HK Equity	CHALCO-H	11.15	28,538	7.6	7.5	1.8	1.5	5.5
1378 HK Equity	CHINA HONGQIAO	33.18	42,036	8.1	8.9	1.9	1.8	7.4
2788 HK Equity	CHUANGXIN IND	22.40	5,941	9.1	8.5	3.3	2.4	1.1
486 HK Equity	RUSAL	4.20	8,156	4.9	4.1	0.5	0.5	4.7
2610 HK Equity	NANSHAN ALUMINIUM INT	37.30	2,958	7.3	6.4	1.2	1.1	2.7
	Average			7.4	7.1	1.7	1.5	4.3
Overseas								
HNDL IN Equity	HINDALCO	1,023.50	25,289	14.3	11.6	1.5	1.3	0.5
VEDL IN Equity	VEDANTA	298.40	12,830	4.4	4.4	1.7	1.4	9.9
NACL IN Equity	NATIONAL ALUMINUM	393.05	7,937	11.3	11.0	2.4	2.0	2.9
AA US Equity	ALCOA CORP	65.34	17,243	9.5	9.9	1.8	1.5	0.6
CENX US Equity	CENTURY ALUMINUM	60.18	5,956	6.1	5.7	n/a	n/a	n/a
Rio AU Equity	RIO TINTO	185.34	182,279	16.3	16.0	3.9	3.6	3.6
S32 AU Equity	SOUTH32	4.32	13,795	14.5	11.4	1.7	1.6	2.7
NHY NO Equity	NORSK HYDRO	105.05	21,855	11.7	11.2	1.6	1.5	5.0
PMAH MK Equity	PRESS METAL	8.80	18,648	27.5	25.4	5.6	4.6	1.2
ALBH BI Equity	ALUMINIUM BAHRAIN	0.76	2,862	2.2	2.5	n/a	n/a	15.8
QAMC QD Equity	QATAR ALUMINUM	1.73	2,651	15.0	12.8	1.2	1.1	5.5
	Average			12.1	11.1	2.4	2.1	4.8

Source: Bloomberg, company data, CMBIGM

Note1: Data as of 11 May 2026

Note2: Year-end June for South32

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