ElvalHalcor in the Face of Rising Metal Prices

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A common belief among investors is that all companies dealing with non-ferrous metals benefit greatly when their prices soar. However, this is rarely the case. To assess the effects of rising aluminium or copper prices, two factors must be considered:

– The company's position in the value chain of these metals

– Its approach to risk management.

Regarding the first factor, it is essential to distinguish three broad groups. The first group comprises miners or "primary producers," whose profitability is directly linked to metal prices—the higher, the better.

The third group includes final users who incorporate metal semi-products into their own, more complex products. For example, copper tubing in a refrigerator or a heat pump. For these manufacturers, the metal is a cost element. They often cannot pass increased prices onto their own products, causing discomfort when metal prices rise and relief when they fall. Between these groups are the semi-fabricators. These companies purchase primary raw materials from the first group or scrap from recyclers and sell their products to the third group. In most non-ferrous markets, transparent pass-through mechanisms exist, allowing rising metal prices (and costs) to be directly passed on to customers.

In most cases, the time lag between purchasing and selling is also covered by hedging. This ensures that the fabricator will not suffer any ill effects if demand decreases due to new, higher prices or if inventories temporarily increase. Ultimately, pass-through and hedging ensure that there are no profits or losses from fluctuating metal prices.

Most fabricators avoid risk by not stockpiling when "prices are low" to sell at a profit when "prices are high". The market's movements are unpredictable, and too much is at stake. Production and sales cannot be halted if a bet is placed incorrectly.

"Risk-averse and long-standing fabricators like ElvalHalcor are largely indifferent to fluctuations in metal prices concerning their actual profitability, although reported profitability may be affected.

We have been emphasizing it from 2017 to 2022, when the adjusted figures were lower than the reported. Not only in 2023, where the drop in metal prices hit our reported figures.

We will continue this practice now and, in the future, even when reported figures surpass adjusted figures, as current conditions suggest.

In a future issue, we will explain how this mechanism works and its actual effects, if any, on our profitability.

Stay tuned..

(1) Non-Ferrous Metals are those that exclude iron and its alloys. They are categorized as base (e.g., copper, aluminum, zinc, lead, tin), secondary (e.g., magnesium, titanium), and precious metals (e.g., gold, silver).

(2) The term “accounting” may also be applied to describe financial reporting practices.

This article was written for and published in the IR Newsletter, June 2024, in the section Real Focus. For more news relevant to ElvalHalcor, click here.