

Century Aluminum – A Value-Oriented Trump Trade

Dear Investors

We believe Century Aluminum (NASDAQ: CENX) represents a compelling investment opportunity in the evolving trade and industrial landscape. The reimposition of aluminium tariffs under a second Trump administration is poised to dramatically alter the economics of U.S. domestic production. As one of the largest domestic primary aluminium producers, Century Aluminium stands to be a key beneficiary of these policy shifts. We believe that the market has yet to fully price in the structural improvements to Century’s earnings potential, presenting a highly favourable risk-reward profile for investors.

Company Background

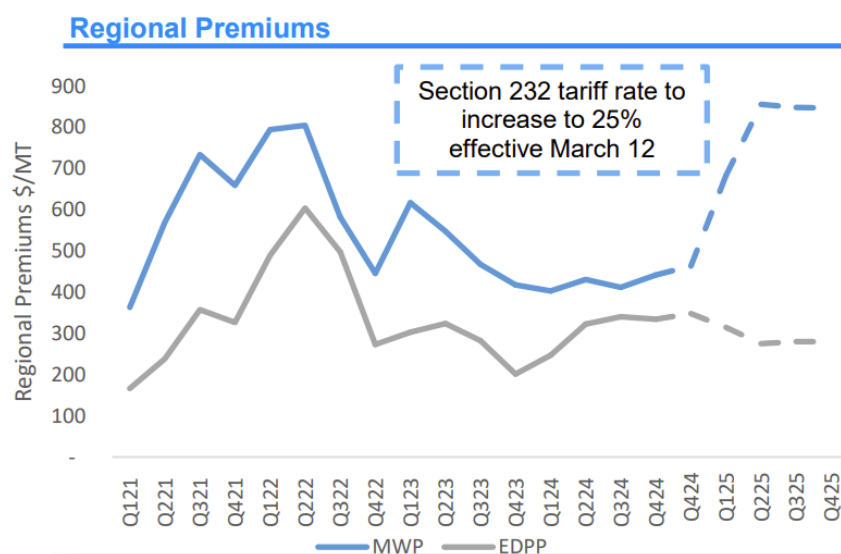
Century Aluminum is the largest producer of primary aluminium in the United States. While it operates internationally, with assets in Iceland, Jamaica, and the Netherlands, the majority of its revenue is derived from its U.S. operations. The company owns and operates three major aluminium smelters in Hawesville, Kentucky; Sebree, Kentucky; and Mt. Holly, South Carolina, with a combined annual production capacity of approximately 750,000 metric tonnes. This represents about 17% of total domestic consumption.

Over the past decade, intense foreign competition and a prolonged oversupply of aluminium led Century to scale back operations. In 2022, the Hawesville smelter was idled, and Mt. Holly has been operating at just 75% capacity. However, the company is now evaluating the construction of a new smelter – the first built in the U.S. in over 50 years. If completed, this facility would double the country’s primary aluminium production capacity over a four-year horizon.

Impact of Trump’s Tariffs on Domestic Producers

Despite being the second-largest consumer of primary aluminium globally, the US currently operates only four aluminium smelters. The country imports approximately 60% of its aluminium, with Canada supplying around 75% of these imports. This heavy reliance on imported aluminium makes it likely that Trump’s tariffs will significantly impact the economics of domestic aluminium consumption.

In anticipation of Trump’s proposed 25% tariffs, set to take effect on March 12, the mid-west premium for aluminium has already begun to increase.



According to Century Aluminum’s management, the premium has risen from around \$0.20 per pound to approximately \$0.40 per pound. They expect this trend to continue, with the premium reaching between \$0.45 and \$0.50 per pound.



Management estimates that for every cent increase in the premium per pound, the company’s EBITDA will increase by \$9 million annually. Given that this price increase directly impacts revenue without associated cost increases, the impact will flow directly to the bottom line.

Based on these figures, the current \$0.20 increase in the premium translates to an annual increase in net profit of about \$180 million. We explore the implications of this profit increase on the company’s financials in greater detail in the financials section below.

Why We Believe the Tariffs Will Be Durable

Several factors suggest that the tariffs on aluminium are likely to be long-lasting:

- **Government Commitment:** The US government has expressed a strong commitment to protecting domestic aluminium industries. Peter Navarro, a special senior trade advisor to Trump, has repeatedly emphasised the need to protect domestic aluminium production, recently stating that Australia’s aluminium exports are "killing" the U.S. industry.
- **Lessons Learned:** The new executive order on tariffs addresses the shortcomings of previous tariff policies. It acknowledges that despite the 10% tariff imposed by Proclamation 9704 (which was first implemented in 2018 to impose a 10% tariff on imported aluminium in an effort to protect U.S. national security by bolstering domestic production), aluminium imports have continued at unacceptable levels due to global excess capacity.
- **Focus on Results:** This administration has emphasized a result-oriented approach, acknowledging past loopholes in tariff exemptions that were exploited by countries like China.
- **Resistance to Lobbying Efforts:** Despite recent lobbying attempts by Australia for an exemption, the US Treasury Secretary Bessent indicated that the issue was not within the Treasury Department’s purview. Even if an exemption were granted, it would likely be highly limited.
- **No Exemptions, No Exceptions:** Trump’s recent announcement regarding potential tariffs on copper, stating “no exemptions, no exceptions,” signals a firm stance on trade policies. Given the parallels to aluminum, we see little likelihood of a reversal.

Taken together, these factors strongly indicate that the 25% aluminum tariff is likely to endure for the long term, fundamentally transforming Century Aluminum’s economics.

Financial Implications

Century Aluminum currently generates an annual net profit of approximately \$160 million. In its most recent earnings report, the company projected that Q1 2025 profitability would remain in line with the previous quarter.

We estimate the following changes to the company’s profitability as a result of the new tariff regime:

Description	Amount
Old Annualised Earnings Power	\$160m
\$0.25 increase in mid-West Premium	\$225m
Restart of old Plants Volume Increase	\$64m
New Earnings Power	\$449m
% Change from Old Earnings Power	281%

We estimate that the company’s earnings power is on track to nearly triple. This represents a historic shift in earnings potential, driven by the Trump administration’s favourable policies toward domestic US industry.



Valuation and Historical Precedents

What do these developments imply for Century Aluminum’s valuation? The company currently trades at a market capitalisation of around \$1.6 billion. Based on our projections, this translates to a price-to-future-earnings multiple of just 3.5x.

The crucial point here is that we expect the tariff changes are likely to be enduring, leading to a fundamental and positive shift in Century Aluminum’s economics. This warrants a re-evaluation of the company’s stock valuation.

To contextualize this, we can draw a comparison to BlueScope Steel, an Australian steel producer that experienced a structural earnings uplift following government-imposed import tariffs. BlueScope re-rated to a 20x earnings multiple after its profitability surged, suggesting a potential roadmap for Century Aluminum’s valuation trajectory.

Description	
Earnings Power	\$450m
Price-Earnings Multiple	20x
Market Capitalisation	\$9,000m
Shares Outstanding	98.7m
Valuation per Share	\$91.20

This analysis suggests a base case valuation of \$91 per share, significantly higher than the prevailing market price of around \$18.

Risks and Mitigants

While we believe that the stock represents compelling upside potential, investors should remain aware of the key risks:

- **Potential Tariff Rollback:** If Trump were to negotiate a broader multilateral trade deal, the aluminium tariffs could be scaled back. However, given China’s history of industrial subsidies, we view this as unlikely.
- **Operational Challenges:** Century has historically struggled with volatile energy costs and plant utilisation rates. While higher tariffs will help mitigate these risks, execution remains a critical factor.
- **Potential Expansion of Tariffs:** On the upside, if additional tariffs are imposed on imports from Canada, Mexico, or China, Century could see even greater profitability improvements.

Conclusion

We believe Century Aluminum presents a compelling investment opportunity with a highly favourable risk-reward profile. The introduction of 25% aluminium tariffs and a renewed emphasis on domestic manufacturing have created a structural shift that is poised to significantly enhance the company’s earnings power. Despite this, the market has yet to fully appreciate the transformative impact of these changes. At just 3.5x post-tariff earnings, Century remains deeply undervalued relative to its long-term potential.

Historical precedents suggest that trade protectionism can serve as a powerful catalyst for industrial re-ratings. While risks remain, including the ever-present possibility of shifting political winds, we believe investors are more than compensated. Given the durability of the tariff environment, Century Aluminum stands poised for a structural revaluation.

Kind Regards,

Fawkes Capital Management



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