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The world is changing for aluminium producers as the market sees increasing involvement from financial institutions and faces the continuing challenge of securing enough energy to meet demand, Evangelos Mytilineos, chairman and md of Mytilineos Holdings, told MB.

“There are fundamental changes in the industry brought by funds, by the financing deals, the investment banks, by the Chinese role in the market as a consumer and a producer, by consolidation and by the ongoing scarcity of energy supplies in most parts of the world. For all these reasons, the aluminium industry is changing, and changing rapidly,” Mytilineos, whose conglomerate owns Aluminium of Greece, said.

While many in the physical market have decried the influence of funds on London Metal Exchange prices and the effect of long-term financing deals on bonded warehouse stocks, Mytilineos is not perturbed, he said.

“What’s happening is healthy; it’s a new world for aluminium and there are many new parameters,” he said, giving a positive forecast for the metal in 2011.

“People seem to have forgotten about the word supercycle – it made an abrupt halt in 2008 that may prove to be just an intermission. In aluminium, the immediate fundamentals are very good, as the physical market is very tight,” he said.

His comments came as three-month aluminium traded at its highest level since the end of April on the London Metal Exchange. Prices have soared in recent weeks on renewed softness in the dollar and better risk appetite.

The three-month contract settled at $2,369.50/370 per tonne on the LME on October 6 compared with $2,258/59 per tonne at the start of the year.

“Maybe the high prices of copper will bring more production from low-grade operations to the market medium term, but the reverse is true with aluminium. The overall is positive – physically I have to be positive, as long term, we are vertical producers and therefore long aluminium,” he said.

His family’s history with the light metal means that he cannot take a short-term view of the market, he said.

“I like aluminium because I am the third generation of a family that is involved with aluminium,” he joked.

Aluminium of Greece has 775,000 tpy of alumina capacity, 165,000 tpy of primary cast aluminium and 170,000 tpy of aluminium end-products. The company also has lead and zinc operations.

Mytilineos started his career in 1978 when he joined the family business, which was founded in 1908 and represented metal and steel product manufacturers.

In 1990 he set up Mytilineos Holdings, which has interests in the energy and automotive markets as well as its metals and mining division and is one of the largest industrial groups in Greece.

He is positive on aluminium in the long-term, he said, but he cannot ignore the effects that the Greek economic meltdown will have on domestic aluminium demand over the next twelve months.

“We see local demand down 10-20% in 2011. 2010 will be the same like 2009, although this was of course much lower than 2008,” he said. “2009 saw the downturn, but 2008 was the most difficult for us with the global crisis. By the time the world was recovering [...] Greece fell into the next trap of the debt crisis, so the Greek crisis was a double one.”

Mytilineos will increase its sales elsewhere where consumption is more stable in a bid to minimise the risk of selling into the Greek market, he said.

“We see a big increase in demand for value-added products in 2011, like slabs and billets,” he said. “As we go into 2011, we will reduce our exposure to the Greek market and sell to where demand is better. Our traditional export markets are in northern and southern Europe.”

Mytilineos Holdings is already seeing the benefits of diverting some of its sales, he said, adding that 80% of the group’s sales are made outside Greece.

“The overall successful strategy of the group is to reroute internationally [...] I am glad to say that because of our international exposure, our group was one of the few [Greek] companies to come through the crisis profitable,” he told MB.

The group saw a 30% increase in turnover in the first half of 2010 and its profitability has increased, he noted. Mytilineos’ turnover this year is expected to pass the €1 billion mark ($1.4 billion), with earnings before interest, tax, depreciation and amortisation forecast at around €200 million.

Mytilineos’ aluminium division was protected from the worst of the Greek crisis by its substantial hedge book, he said.

“We were the aluminium company that did the largest hedging in the world at the end of 2007 and in 2008,” he said. “We had almost half a million tonnes hedged at $3,000. At one stage, the mark-to-market on our hedges was $500 million.”

At the start of 2008, three-month aluminium stood at $2,412 per tonne compared with $1,495 per tonne twelve months later.

The company has since become more conservative in its hedging strategy, Mytilineos said.

“We are now very cautious; our hedges are closing out at the end of the year [and] we have no outstanding LME or currency hedges further out,” he said.

With the hedge book providing essential financial support during the crisis, the group turned its attention to cost-cutting, Mytilineos said.

Cuts in the mining business helped the company to save €20-25 million per year, and the agreement of a long-term power supply contract gave the group cost stability for its aluminium production.

"We found agreement for 60% of the hours used – the balance is to be supplied by our own generating capacity," he said.

Since the start of this year, the liberalisation of the domestic natural gas market has helped diversify the company's portfolio. In May, Mytilineos was the first private company in Greece to import liquefied natural gas.

The group was insulated from the closure of the international credit markets after it tapped the bond market in early August 2008, just six weeks before the collapse of Lehman Bros.

The company saw "the clouds gathering", Mytilineos said, spurring its decision to raise €500 million through a five-year international bond.

"The company has decided to issue this bond loan in order to secure the adequate funding requirements necessary for financing its development plan and for refinancing existing short-term liabilities to banks," it said at the time the cash was raised.

The group will not need to come to the bond market for more cash for two years, Mytilineos said.

"Cash wise, we are heavily cash flow positive on top of our existing cash reserves of $150 million," he said, but warned that credit conditions in Greece remain difficult.

"Credit has become much more expensive in Greece," he said, adding that he cannot yet give an indication of when the credit market will improve.

"[An improvement in the credit situation] is the million dollar question because it will mean Greece is saved from bankruptcy," he said.