

Equities

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Metals & Mining

Optimistic long-term iron ore price outlook increases valuations

- **Iron ore surplus postponed** — The iron ore market is likely to remain in tight supply demand balance until 2014 as Chinese demand remains strong and producers struggle to keep up. With the market moving into a surplus by 2014, we see prices dipping back towards \$100/t post 2015. But with the surplus contained, we do not believe prices will dip below critical support levels during this cycle. We increase our iron ore price forecasts for 2014 by 15% to \$115/t and 2015 by 38% to \$110/t (CIF China). We also upgrade our LT price by 17% to \$70/t (FOB Australia, real 2010) after re-evaluating the cost structure of the industry.
- **Anglo American (BUY)** — Target price +2% to R460. Offers strong volume growth of 35% by 2015. Growth is dominated by iron ore, copper and metallurgical coal, which should enhance its mix in favour of high margin industries. Its commodity basket, which includes PGMs, diamonds and thermal coal, is more defensive than peers', in our view. Restructuring benefits could drive cost competitiveness and the disposal of low-margin, low-return, non-core assets could structurally increase average margins and returns, while focusing management time on fewer, larger, more profitable assets.
- **BHP Billiton (BUY)** — Target price unchanged at £30 (converts to R360 at our one-year projected exchange rate of 12). Premium value creator in mining sector.
- **African Rainbow Minerals (HOLD)** — Target price +9% to R250. ARM offers strong volume growth of 35% by 2015, but highly elevated near-term margins pose downside risk to earnings forecasts.
- **Exxaro (HOLD)** — Target price +12% to R180. We forecast 31% growth in Exxaro's FY2011 diluted HEPS to R18.76, driven mainly by higher commodity price expectations, which increases its EBITDA margin to 41% (2010: 37%). Concerns are 1) downside risk to optimistic margins, 2) significant capex spend (R16bn) over next two years, 3) Infrastructure constraints, limited domestic coal demand growth and a lack of visibility on new coal fired power stations are limiting Exxaro's coal volume growth beyond GMEP.
- **Kumba Iron Ore (SELL)** — Target price +11% to R420. Downside risk to optimistic near-term margins. We calculate Kumba's 2015E earnings, which incorporates 26% volume growth and 56% export EBITDA margins at R34/share, which implies an expensive 14x PE multiple.

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Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
AGLJ.J	1M	1M	R450.00	R460.00	US\$5.51	US\$5.51	US\$6.83	US\$6.83
ARIJ.J	2M	2M	R230.00	R250.00	R17.36	R17.25	R23.08	R21.99
BLT.L	1M	1M	£30.00	£30.00	US\$401.2	US\$402.2	US\$457.7	US\$440.2
EXXJ.J	2M	2M	R160.00	R180.00	R17.94	R18.76	R19.17	R20.01
KIOJ.J	3M	3M	R380.00	R420.00	R52.91	R52.91	R56.87	R56.87

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Iron Ore Upgrades – 2014 and Beyond

- **Market Tight to 2014** — We expect the market to remain in tight supply demand balance until 2014 as Chinese demand remains strong and producers struggle to keep up.
- **Project pipeline bulges post 2014** — We have put together a project pipeline with over 1,500Mtpy of potential capacity. But the challenges, including logistics, country risk and ore quality remain huge. We believe barely half of these projects will make it into production by 2020.
- **Demand from developing economies to surprise** — Developing Asia (including China) and Africa will be the fastest growing regions, in our view, driven by population and income per capita growth. If steel intensity of use follows trends seen in developed economies, iron ore demand from these regions would hit 1,300Mt by 2020, representing a CAGR of 8%.
- **Long term price upgrade** — With our newly expanded 10 year outlook, comes new longer term price forecasts. With the market moving into a surplus, we see prices dipping back towards \$100/t post 2015. But with the surplus contained, we don't believe prices will dip below critical support levels during this cycle. We increase iron ore price forecasts for 2014 by 15% to \$115/t and 2015 by 38% to \$110/t (CIF China). We also upgrade our LT price to \$70/t (FOB Australia, real 2010), previously US\$60/t, after re-evaluating the cost structure of the industry.

Figure 1. Citi's iron ore price forecasts

Average per calendar year	2011F	2012F	2013F	2014F	2015F	LT (Real)
Iron ore spot (CIF China) (US\$/t)						
CIRA New	164	148	130	115	110	81
CIRA Old	164	148	130	100	80	71
% Change in forecast	+0	+0	+0	+15	+38	+14
Iron ore fines (FOB) (US\$/dmu)						
CIRA New	247	224	192	165	153	111
CIRA Old	247	224	192	148	111	95
% Change in forecast	+0	+0	+0	+12	+38	+17

Source: Citi Investment Research and Analysis

Figure 2. New supply, demand and price forecasts

Mt	2010	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Total Seaborne Imports (incl. minor markets)	949	1,015	1,063	1,120	1,179	1,251	1,385	1,526	1,616	1,700	1,797
Total Seaborne Exports	987	1,002	1,025	1,106	1,216	1,352	1,465	1,580	1,668	1,739	1,782
Surplus/Deficit	38	-13	-38	-14	37	101	80	55	52	40	-15
Fines Price US\$/t (@68% Fe)	147	164	148	130	115	110	105	105	103	100	100

Source: Citi Investment Research and Analysis

For further details please refer to the report by Daniel Hynes, "Commodity Update, Iron Ore - 2014 and Beyond", 5 April 2011.

Longer-term earnings benefit up to 34%

Higher iron ore prices increase earnings forecasts for miners beyond 2014 by up to 34%.

We also include some company specific earnings revisions:

- We reduce Anglo's FY2011 copper production slightly to reflect production challenges at Collahuasi (high rainfall and an accident at its key sea terminal in December).
- We increase Exxaro's domestic coal prices (and margins) and reduce costs in its Mineral Sands division. Near term earnings benefit up to 5%.
- We raise cash cost forecasts in ARM's Ferrous division, cutting near-term earnings by up to 5%.
- For BHP Billiton, we downgrade FY12/13 estimates by 2-4% driven by higher project capex and allowance for operating cost pressures. We also reduce oil production forecasts in FY12 and FY13 due to drilling delays in the GoM.

Figure 3 and Figure 4 summarises earnings forecasts revisions for the miners.

Figure 3. Earnings revisions for miners with December year-ends

FYE December	2011F	2012F	2013F	2014F	2015F
Anglo American diluted EPS (USD)					
CIRA New	5.51	6.83	6.17	5.36	4.93
CIRA Previous	5.59	6.83	6.17	5.18	4.54
% change	-1	-0	-0	+3	+9
Bloomberg consensus - 4 April 2011	6.07	6.99			
Exxaro diluted HEPS (ZAR)					
CIRA New	18.76	20.01	19.30	16.89	16.06
CIRA Previous	17.94	19.17	18.89	14.26	12.78
% change	+5	+4	+2	+18	+26
I-Net consensus - 4 April 2011	20.93	24.80	24.13		
Kumba Iron Ore diluted HEPS (ZAR)					
CIRA New	52.91	56.87	52.42	39.80	34.22
CIRA Previous	52.91	56.87	52.20	32.39	25.57
% change	-0	+0	+0	+23	+34
I-Net consensus - 4 April 2011	56.93	66.99	62.85		
Source: I-Net, Bloomberg, CIRA					

Figure 4. Earnings revisions for miners with June year-ends

FYE June	2011F	2012F	2013F	2014F	2015F
ARM diluted HEPS (ZAR)					
CIRA New	17.25	21.99	28.23	22.88	22.68
CIRA Previous	17.36	23.08	28.25	22.51	18.65
% change	-1	-5	-0	+2	+22
I-Net consensus - 4 April 2011	19.52	27.08	30.59		
BHP Billiton diluted HEPS (USD)					
CIRA New	4.02	4.40	4.32	4.02	4.18
CIRA Previous	4.01	4.58	4.41	4.46	3.96
% change	+0	-4	-2	-10	+5
Bloomberg consensus - 4 April 2011	4.11	4.87			

Source: I-Net, Bloomberg, CIRA

Higher cash flows improve valuations for the miners. We raise our target prices as follows:

- African Rainbow Minerals: +9% to R250
- Anglo American: +2% to R460 (+3% to £38)
- BHP Billiton: Unchanged at £30 (R360)
- Exxaro: +12% to R180
- Kumba Iron Ore: +11% to R420

Commodity price and exchange rate forecasts

The commodity price and exchange rate forecasts below are Citi's house forecasts.

Figure 5. Commodity price and exchange rate forecasts (average per calendar year)

Average per calendar year	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	LT (Real)
Precious commodities										
Gold (US\$/oz)	697	872	973	1,225	1,416	1,380	1,242	1,105	968	800
Silver (US\$/oz)	13.59	15.06	14.80	20.72	28.75	28.22	24.72	21.22	17.72	12.00
Platinum (US\$/oz)	1,302	1,572	1,203	1,612	1,731	1,775	1,675	1,600	1,500	1,500
Palladium (US\$/oz)	355	352	263	526	775	925	850	700	450	450
Rhodium (US\$/oz)	6,198	6,551	1,594	2,455	2,500	3,000	3,000	3,500	3,000	3,000
3PGM basket (US\$/oz) (63%Pt,30%Pd,7%Rh)	1,360	1,555	948	1,345	1,498	1,606	1,520	1,463	1,290	1,290
Base metals										
Aluminium (US\$/tonne)	2,639	2,573	1,664	2,173	2,576	2,631	2,593	2,556	2,518	2,205
Aluminium (US cents/lb)	120	117	75	99	117	119	118	116	114	100
Copper (US\$/tonne)	7,121	6,961	5,148	7,536	9,920	10,000	9,026	8,051	7,077	4,850
Copper (US cents/lb)	323	316	234	342	450	454	409	365	321	220
Nickel (US\$/tonne)	37,229	21,115	14,653	21,833	28,154	28,237	24,802	21,367	17,932	14,330
Nickel (US cents/lb)	1,689	958	665	990	1,277	1,281	1,125	969	813	650
Zinc (US\$/tonne)	3,243	1,876	1,654	2,160	2,460	2,436	2,311	2,186	2,061	1,764
Zinc (US cents/lb)	147	85	75	98	112	110	105	99	93	80
Lead (US\$/tonne)	2,581	2,093	1,720	2,148	2,569	2,504	2,316	2,129	1,942	1,653
Lead (US cents/lb)	117	95	78	97	117	114	105	97	88	75
Uranium (US\$/lb)	98	64	47	46	50	50	50	50	50	50
Steelmaking materials										
Iron ore spot (CIF China) (US\$/t)	122	152	85	152	164	148	130	115	110	81
Iron ore fines (FOB) (US\$/dmu)	79	129	109	177	247	224	192	165	153	111
Iron ore fines (FOB) (USD/tonne)	50	82	69	112	157	142	122	105	97	71
Iron ore lump (FOB) (US\$/dmu)	100	177	134	196	272	246	212	182	168	120
Iron ore lump (FOB) (USD/tonne)	64	112	85	124	173	156	134	116	107	76
Hard coking coal (US\$/tonne)	103	253	172	191	293	256	170	200	200	170
April coking coal settlement	-16%	211%	-58%							
Semi soft benchmark (US\$/tonne)	63	196	116	139	196	179	103	100	100	110
April coking coal settlement	12%	271%	-69%							
Manganese ore (US\$/mtu)	3.53	14.09	5.43	7.71	7.75	8.50	6.00	6.00	6.00	4.50
Ferro manganese - CIF (US\$/tonne)	1,235	2,646	1,267	1,449	1,450	1,600	1,300	1,300	1,300	1,125
Ferrochrome (US\$/lb)	0.92	1.81	0.93	1.24	1.25	1.20	0.90	0.90	0.90	0.90
Energy										
Brent crude oil (US\$/bbl)	73	98	62	80	90	90	90	87	89	80
Richard's Bay thermal coal (US\$/tonne)	63	120	65	92	122	108	93	90	90	94
Heavy minerals										
Rutile (US\$/tonne)	476	509	535	538	650	700	700	700	700	550
Zircon (US\$/tonne)	797	804	947	942	1,163	1,200	1,200	1,200	1,200	850
Ilmenite (US\$/tonne)	80	103	87	75	110	120	120	120	120	120
Currency exchange rates										
US\$/ZAR	7.04	8.25	8.40	7.30	7.04	7.79	8.36	8.36	8.36	10.00
US\$/AUD	0.84	0.85	0.79	0.92	1.00	0.94	0.85	0.84	0.80	0.80
US\$/EUR	1.37	1.47	1.39	1.33	1.34	1.39	1.38	1.38	1.10	1.10

Source: I-Net, Bloomberg, dataCentral, CIRA.

dataCentral is CIRA's proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters, Datastream, First Call, IBES and Toyo Keizai

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Hold/Medium Risk	2M
Price (04 Apr 11)	R224.89
Target price	R250.00
from R230.00	
Expected share price return	11.2%
Expected dividend yield	3.5%
Expected total return	14.7%
Market Cap	R47,892M
	US\$7,150M

Price Performance (RIC: ARIJ.J, BB: ARI SJ)



African Rainbow Minerals (ARIJ.J) Best in class volume growth, but some downside risks

- **Target price +9% to R250** — We raise cash cost forecasts in ARM's Ferrous division, cutting near-term earnings by up to 5%. Higher long-term iron ore prices increase earnings forecasts for FY2014 by 2% and FY2015 by 22%. Our R250 target price offers a total expected one-year return of 15% and we maintain our HOLD recommendation.
- **Best-in-class volume growth** — We believe ARM offers strong production growth as it completes Nkomati Large Scale Project (10Ktpa-20Ktpa), expands Khumani iron ore mine from 10Mt to 16Mt, expands manganese ore production from 3.2Mtpa to 5Mtpa (rail permitting), ramps up Goedgevonden coal and completes Konkola North Copper by 2013E. We forecast volume growth of 35% by 2015. It also benefits from large reserves, favourable cost positioning of its assets and a strong balance sheet, in our view.
- **Positive outlook** — We forecast 116% growth in ARM's FY2011 diluted headline earnings per share to R17.25, driven mainly by higher commodity prices. We see a further 28% growth in FY12 to R21.99. This implies what we see as a reasonable FY12E P/E multiple of 8.7x (excluding Harmony).
- **But elevated commodity prices pose risk to margins** — We forecast ARM's average commodity prices falling 21% over the next four years, which could offset the positive impact of volumes. We expect its EBITDA margins to peak at 48% in FY13 and normalize to 38% by 2015. We forecast ARM's FY15 EPS (inclusive of 35% volume growth) at R22.68, which implies a P/E of 10x at today's share price.
- **Other concerns** — We believe ARM could face the following potential headwinds: 1) Infrastructure and electricity constraints could limit production growth, 2) geographical concentration in South Africa increases risk (high inflation, fiscal and political), 3) our view of ARM's investment in Harmony Gold as a value destroyer, which could pose downside risk to our valuation – particularly after Harmony's recent rally, 4) the retirement of Andre Wilkins as CEO beginning 2012 could weigh on investor sentiment.

African Rainbow Minerals (ZAR)

Year to 30 Jun	2009A	2010A	2011E	2012E	2013E
Sales (RM)	10,094.0	11,028.0	15,154.2	17,661.6	21,331.2
Net Income (RM)	2,317.0	1,714.0	3,710.8	4,737.1	6,082.7
Diluted EPS (R)	10.79	7.98	17.25	21.99	28.23
Diluted EPS (Old) (R)	10.79	7.98	17.36	23.08	28.25
PE (x)	20.8	28.2	13.0	10.2	8.0
EV/EBITDA (x)	9.5	10.7	6.0	4.9	3.7
DPS (R)	1.75	2.00	6.10	8.40	12.40
Net Div Yield (%)	0.8	0.9	2.7	3.7	5.5

Financial statements and ratio analysis

Figure 1. African Rainbow Minerals' income statement (Associates proportionately consolidated)

FYE June	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Income Statement (ZARm)								
Revenue	14,076	11,657	12,281	16,420	19,451	23,054	22,966	24,635
Revenue growth	96%	-17%	5%	34%	18%	19%	0%	7%
Cash costs	-6,314	-6,591	-8,039	-9,089	-10,398	-11,911	-13,116	-14,903
Underlying EBITDA	7,762	5,065	4,242	7,331	9,053	11,142	9,850	9,732
EBITDA margin	55%	43%	35%	45%	47%	48%	43%	40%
Depreciation and amortisation	-756	-1,140	-1,238	-1,476	-1,613	-1,860	-2,117	-2,240
Underlying EBIT	7,007	3,925	3,004	5,855	7,440	9,282	7,733	7,492
Exceptional items	479	541	97	-4	0	0	0	0
Investment income	168	414	209	170	229	266	381	328
Interest paid	-550	-487	-293	-368	-369	-124	0	0
Profit before tax	7,104	4,393	3,017	5,653	7,299	9,425	8,114	7,820
Taxation	-2,157	-1,795	-989	-1,787	-2,320	-3,006	-2,909	-2,746
Tax rate (proportionately consolidated)	30%	41%	33%	32%	32%	32%	36%	35%
Profit after tax	4,947	2,598	2,028	3,866	4,980	6,419	5,205	5,074
Minority interest in profit	-460	198	-162	-159	-243	-336	-277	-188
Net profit for the year	4,487	2,796	1,866	3,707	4,737	6,083	4,928	4,886
Adjustments	-474	-479	-152	4	0	0	0	0
Headline earnings	4,013	2,317	1,714	3,711	4,737	6,083	4,928	4,886
Number of shares (millions):								
Weighted average	211	212	212	213	213	213	213	213
Diluted weighted average	214	215	215	215	215	215	215	215
Closing number	212	212	212	213	213	213	213	213
EPS (cents)	2,131	1,355	854	1,741	2,225	2,857	2,315	2,295
HEPS (cents)	1,906	1,094	807	1,743	2,225	2,857	2,315	2,295
Diluted HEPS (cents)	1,872	1,079	798	1,725	2,199	2,823	2,288	2,268
Diluted HEPS growth	228%	-42%	-26%	116%	28%	28%	-19%	-1%
PE multiple at R223/share	11.9	20.7	27.9	12.9	10.1	7.9	9.7	9.8
- excluding Harmony	10.2	17.7	24.0	11.1	8.7	6.8	8.3	8.4
DPS declared (cents)	400	175	200	610	840	1,240	1,860	1,830
Dividend yield at R223/share	1.8%	0.8%	0.9%	2.7%	3.8%	5.6%	8.3%	8.2%
Dividend payout ratio	19%	13%	23%	35%	38%	43%	80%	80%
Breakdown of underlying EBIT (ZARm)								
Two Rivers	1,332	-351	579	538	803	1,078	914	615
EBIT margin	56%	-34%	28%	25%	33%	38%	33%	24%
Modikwa	801	-206	215	276	443	635	497	182
EBIT margin	51%	-28%	20%	22%	28%	33%	27%	11%
Nkomati	602	26	287	441	835	1,054	812	387
EBIT margin	61%	5%	23%	25%	33%	35%	28%	15%
Iron ore	540	1,535	1,027	2,984	3,103	3,824	3,626	3,264
EBIT margin	39%	61%	41%	63%	60%	57%	50%	44%
Manganese	3,080	3,085	1,147	1,580	1,917	2,268	1,193	2,339
EBIT margin	64%	73%	36%	44%	43%	46%	30%	39%
Chrome	473	149	-120	-87	-69	-87	-199	-223
EBIT margin	38%	16%	-17%	-9%	-8%	-11%	-28%	-31%
XCSA	329	218	30	-41	269	211	112	115
EBIT margin	22%	14%	2%	-3%	15%	12%	7%	7%
Goedgevonden	45	37	54	179	319	267	198	196
EBIT margin	47%	31%	25%	30%	42%	36%	27%	26%
TEAL and exploration	-196	-642	-119	-146	-160	51	601	638
EBIT margin	N/A	N/A	N/A	N/A	N/A	16%	48%	45%
Corporate and other	1	75	-96	130	-20	-20	-20	-20
Underlying EBIT	7,007	3,925	3,004	5,855	7,440	9,282	7,733	7,492
Group EBIT margin	50%	34%	24%	36%	38%	40%	34%	30%

Source: Company Reports, I-Net, CIRA Estimates

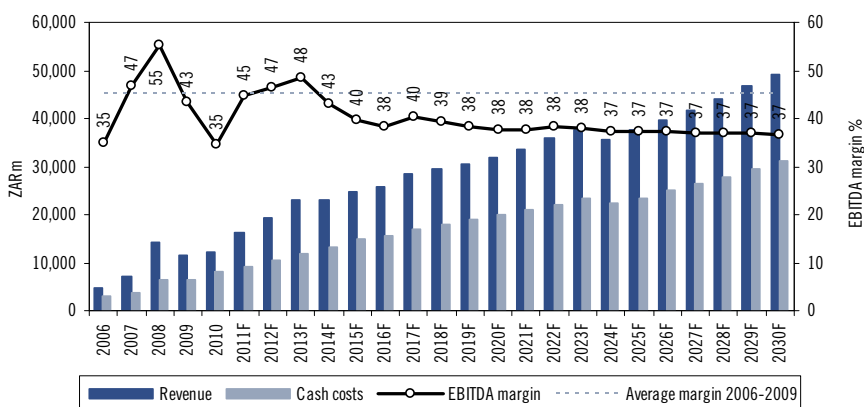
We forecast 116% growth in ARM's FY2011 diluted headline earnings per share to R17.25, driven mainly by higher commodity prices. We see a further 28% growth in FY12 to R21.99. This implies what we see as a reasonable FY12E P/E multiple of 8.7x (excluding Harmony).

Figure 2. African Rainbow Minerals' balance sheet (Associates proportionately consolidated)

FYE June	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Balance Sheet (ZARm)								
Non-current operating assets	10,558	13,040	14,760	16,800	18,793	20,306	21,738	21,953
Working capital	4,044	2,085	2,744	4,417	4,275	4,769	4,758	5,059
Net tax payable	-1,033	-530	-270	-495	-572	-659	-672	-636
Net operating assets	13,569	14,595	17,234	20,721	22,496	24,416	25,824	26,376
Investments	6,067	5,191	5,287	5,488	5,491	5,494	5,498	5,502
Cash	2,594	3,325	2,791	4,399	3,984	4,528	3,632	4,013
Total invested capital	22,230	23,111	25,312	30,608	31,971	34,439	34,954	35,891
Equity	14,876	16,149	17,765	21,154	24,596	28,893	29,077	29,964
Minority interest	800	602	764	834	834	834	834	834
Deferred tax	2,134	2,245	2,917	3,226	3,608	3,899	4,174	4,215
Provisions	508	559	768	672	752	812	870	878
Debt	3,912	3,556	3,098	4,722	2,181	0	0	0
Total invested capital	22,230	23,111	25,312	30,608	31,971	34,439	34,954	35,891
Key Balance Sheet ratios								
Non-current asset turnover (times)	1.3	0.9	0.8	1.0	1.0	1.1	1.1	1.1
Net debt (ZARm)	1,318	231	307	323	-1,803	-4,528	-3,632	-4,013
Gearing (%)	8	1	2	2	-8	-19	-14	-15
Working capital turnover (days)	105	65	82	98	80	76	76	75
NAV per share (ZAR)	70	76	84	99	116	136	137	141
ROCE (excluding Harmony) (%)	60.8	27.9	18.9	30.9	34.4	39.6	30.8	28.7
ROIC (%)	56.9	12.8	16.6	23.7	26.2	28.9	21.0	18.6
Return on equity (excluding cash) (%)	39.0	19.0	11.9	22.3	24.1	25.9	18.3	17.7
ROCE per division								
Two Rivers	40.9%	-11.1%	19.6%	17.7%	26.5%	35.7%	30.2%	20.6%
Modikwa	30.1%	-7.5%	8.3%	10.1%	15.4%	20.8%	15.3%	5.5%
Nkomati	72.3%	1.8%	13.7%	17.1%	29.9%	37.6%	29.2%	14.2%
Iron ore	28.4%	56.7%	26.4%	57.6%	48.8%	53.9%	48.6%	42.8%
Manganese	100.5%	69.4%	26.1%	34.5%	41.5%	46.4%	22.2%	39.9%
Chrome	51.2%	14.7%	-12.0%	-9.5%	-8.2%	-10.5%	-24.9%	-28.8%
XCSA	30.5%	16.6%	2.3%	-3.1%	18.8%	13.9%	7.0%	7.0%
Goedgevonden	5.1%	2.7%	3.0%	8.7%	15.0%	12.6%	9.5%	9.6%

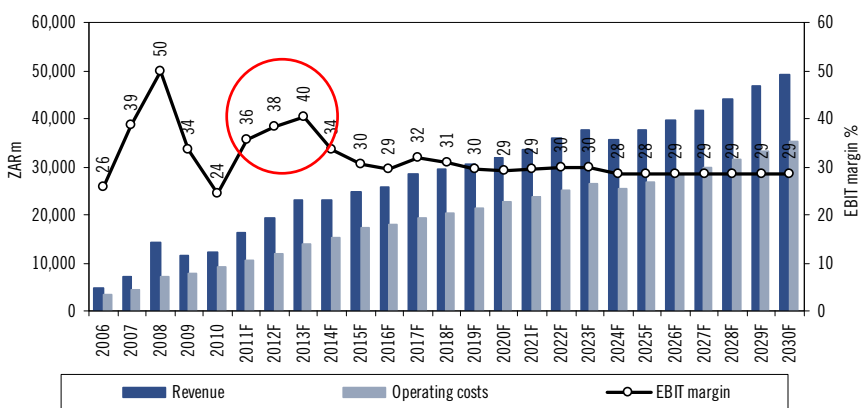
Source: Company Reports, I-Net, CIRA Estimates

Figure 3. ARM's revenue, cash costs and EBITDA margin



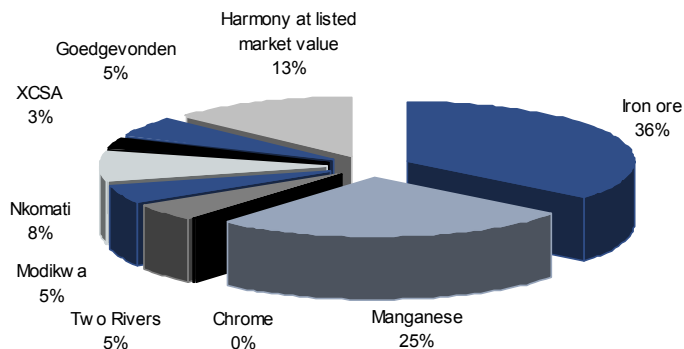
Source: Company Reports and CIRA Estimates

Figure 4. ARM's revenue, operating costs and EBIT margin



Source: Citi Investment Research and Analysis

Figure 5. Contribution to ARM's NPV



Source: Citi Investment Research and Analysis

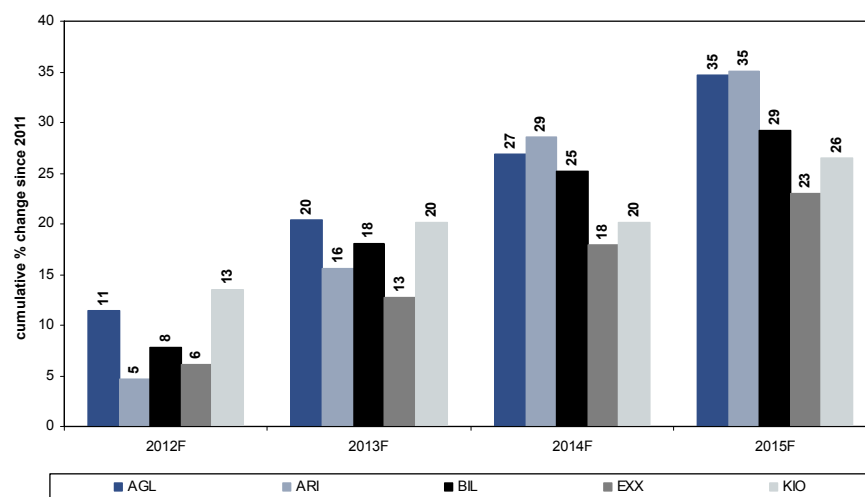
Best-in-class volume growth

We believe ARM will benefit from a second wave of growth as it:

- Completes and ramps up Nkomati Large Scale Project (10Ktpa-20Ktpa).
- Expands Khumani iron ore mine from 10Mt to 16Mt and increases Beeshoek's iron ore capacity by around 4Mtpa to historical levels (rail permitting).
- Expands manganese ore production from 3.2Mtpa to 5Mtpa (rail permitting).
- Ramps up Goedgevonden coal.
- Completes Konkola North Copper by 2013E.

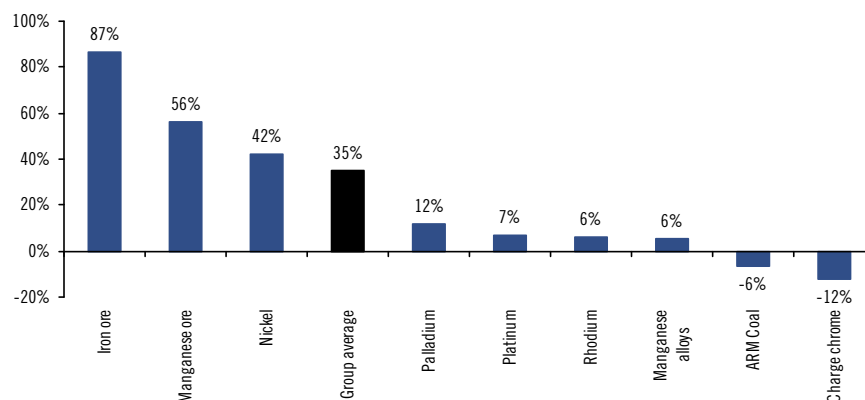
We forecast ARM's copper equivalent volume growth at 35% by calendar year 2015, which compares well with the sector average of 30%.

Figure 6. Miners' copper equivalent volumes based to 100 in 2010



Source: Citi Investment Research and Analysis

Figure 7. ARM's volume growth by division



Source: Citi Investment Research and Analysis

African Rainbow Minerals

Company description

ARM is a South African diversified mining company with long-life, low-cost assets in platinum, nickel, iron ore, manganese and coal through partnerships with major players in the global resource sector. Its strong BEE credentials, solid track record and healthy balance sheet give ARM access to attractive mining deals.

Investment strategy

We rate ARM Hold/Medium Risk (2M). ARM is a quality mining company with long-life, low-cost operations and strong growth opportunities, in our view. Partnerships with mining majors lead to knowledge transfer and the ability to participate in mega projects. ARM's large reserves support long asset lives and expandability and it operates low-cost mines with strong growth prospects.

However, ARM's share price is well off its lows and we believe positive news is largely priced in. We also see potential headwinds: 1) Infrastructure and electricity constraints could limit production growth, 2) geographical concentration in South Africa increases risk (high inflation, fiscal and political), 3) our view that ARM's investment in Harmony Gold as a value destroyer, which could pose downside risk to our valuation, 4) retirement of Andre Wilkins (CEO) in February 2012, and 5) near-term peak margins pose downside risk to earnings forecasts.

Valuation

We use a discounted cash flow approach to derive our one-year target price of R250, based on:

A WACC of 13.34%; long-term (2015-2028) nominal revenue growth of 5% per annum; long-term EBITDA margins of 38%; long-term capex/EBITDA ratio of 33%; long-term ROE (excluding Harmony) of 20%; and nominal terminal growth rate (after 2028) of 6.5%, implying an exit PE multiple of 12x.

We include ARM's investment in Harmony Gold in our valuation at listed market value.

Risks

We rate ARM as Medium Risk. Our risk rating is derived after considering several factors, including an assessment of the macro economic environment, industry-specific risks, company-specific operational risks as well as financial risk.

Upside risks to our valuation and target price include: 1) Commodity prices remain higher than we forecast; 2) a significantly weaker rand; 3) an unexpected significantly value-accretive acquisition or the sale of Harmony Gold.

Downside risks include: potential execution risk, given significant new projects; South African infrastructure constraints; skills, electricity and water shortages and onerous regulation in South Africa; higher-than-forecast mining inflation; over-estimation of mineral reserves and government actions.

Company Focus

- Company Update
- Target Price Change

Buy/Medium Risk	1M
Price (04 Apr 11)	R356.00
Target price	R460.00
	from R450.00
Expected share price return	29.2%
Expected dividend yield	2.0%
Expected total return	31.2%
Market Cap	R470,566M
	US\$70,257M

Price Performance (RIC: AGLJ.J, BB: AGL SJ)



Anglo American (AGLJ.J) Improving mix through iron ore growth

- **Target price +3% to £38** — Higher iron ore prices increase Anglo's 2014 earnings by 3% and 2015 earnings by 9%. Cash flows also benefit from higher long term iron ore prices (up 14% to \$81/t). We raise Anglo's pound target price 3% to £38 and its rand target price by 2% to R460 and maintain our BUY rating.
- **Healthy volume growth, especially iron ore** — Anglo offers attractive production growth to 2015E, with the expected commissioning and ramp-up of its Kolomela and Minas Rio iron ore projects, Los Bronces, Quellaveco and Collahuasi copper expansions, Barro Alto nickel project, Cerrejon and New Largo thermal coal projects, and Grosvenor metallurgical coal project. We forecast its copper-equivalent production growth at 35% to 2015, driven by 87% growth in iron ore, 76% in nickel, 73% in metallurgical coal, 51% in copper and 44% in energy coal.
- **More iron ore and copper improves margin** — We believe Anglo could offset the negative impact of falling commodity prices on margins over the next five years to some extent. First, Anglo's volume growth is dominated by iron ore, copper and metallurgical coal, which should enhance its mix in favour of high margin industries. Secondly, its commodity basket, which includes PGMs, diamonds and thermal coal, is more defensive than peers', in our view. Thirdly, restructuring benefits could drive cost competitiveness. Lastly, the disposal of low-margin, low-return, non-core assets could structurally increase average margins and returns, while focusing management time on fewer, larger, more profitable assets.
- **Cheap ramp** — The market value of Anglo's listed subsidiaries has crept up to 53% of Anglo's market capitalization (from 47% on 14 February). Anglo's ramp, excluding Angloplat and Kumba is now trading on attractive looking forward PE multiples of 7.5x for 2011E and 5.9x for 2012E (sector average 8.2x).
- **Positive outlook** — We forecast 40% growth in Anglo's 2011 diluted EPS to \$5.51, driven mainly by higher commodity price expectations, which increases Anglo's EBITDA margin to 41% (2010: 36%). Its attractive valuation, strong growth profile, progress on its major expansion projects, continued non-core asset disposals and improved sentiment towards Minas Rio could provide positive catalysts for Anglo's share price.

Anglo American (USD)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (\$M)	20,858.0	27,960.0	32,340.6	35,513.2	34,850.6
Profit Before Tax (\$M)	4,034.0	10,928.0	13,077.2	15,379.8	13,852.5
Diluted EPS (\$)	2.10	3.96	5.51	6.83	6.17
Diluted EPS (Old) (\$)	2.10	3.96	5.59	6.83	6.17
PE (x)	25.3	13.4	9.6	7.8	8.6
EV/EBITDA (x)	12.7	7.3	5.3	4.3	4.4
DPS (\$)	0.00	0.65	0.95	1.15	1.27
Net Div Yield (%)	0.0	1.2	1.8	2.2	2.4

Financial statements and ratio analysis

Figure 1. Anglo American financial statements and ratio analysis - associates proportionately consolidated

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F
Income Statement (US\$m)									
Revenue	32,964	24,637	32,929	37,984	41,517	40,397	40,156	40,046	40,838
Cash costs	-21,117	-17,707	-20,946	-22,335	-23,109	-23,534	-24,829	-25,820	-25,852
Underlying EBITDA	11,847	6,930	11,983	15,649	18,408	16,863	15,328	14,227	14,986
Depreciation and amortisation	-1,762	-1,968	-2,220	-2,367	-2,453	-2,829	-3,509	-3,780	-3,909
Underlying EBIT	10,085	4,962	9,763	13,281	15,955	14,034	11,818	10,447	11,077
Items excluded from underlying earnings	-345	-209	1,715	390	0	0	0	0	0
Net interest	-548	-435	-227	-54	5	222	317	503	673
Profit before tax	9,192	4,318	11,251	13,618	15,960	14,255	12,136	10,950	11,751
Taxation	-3,057	-1,403	-3,124	-4,277	-5,154	-4,593	-3,911	-3,538	-3,797
Profit after tax	6,135	2,915	8,127	9,340	10,806	9,662	8,225	7,411	7,954
Minority interest in profit	-920	-485	-1,583	-1,977	-2,136	-1,834	-1,427	-1,155	-1,710
Net profit for the year	5,215	2,430	6,544	7,363	8,669	7,828	6,798	6,257	6,244
Adjustments	22	139	-1,568	-390	0	0	0	0	0
Underlying earnings	5,237	2,569	4,976	6,973	8,669	7,828	6,798	6,257	6,244
Number of shares (millions)									
Weighted average	1,202	1,202	1,206	1,207	1,207	1,207	1,207	1,207	1,207
Diluted weighted average	1,215	1,253	1,281	1,282	1,282	1,282	1,282	1,282	1,282
Closing	1,204	1,204	1,207	1,207	1,207	1,207	1,207	1,207	1,207
Underlying EPS (US cents)	435	213	412	578	718	649	563	518	517
Underlying EPS growth (% y-o-y)	-1	-51	+93	+40	+24	-10	-13	-8	-0
Diluted underlying EPS (US cents)	431	210	396	551	683	617	536	493	491
DPS declared (US cents)	44	0	65	95	115	127	140	154	310
Dividend payout ratio	10%	0%	16%	16%	16%	20%	25%	30%	60%
Diluted underlying EPS (pence)	228	130	251	328	386	349	303	278	278
PE multiple at 3256 pence/share	14x	25x	13x	10x	8x	9x	11x	12x	12x
DPS declared (pence)	22	0	42	57	66	73	80	88	177
Dividend yield at 3256 pence/share	0.7%	0.0%	1.3%	1.8%	2.0%	2.2%	2.5%	2.7%	5.4%
Diluted underlying EPS (ZAR)	34.66	16.99	28.28	39.00	52.00	51.00	44.00	41.00	49.00
DPS declared (ZAR)	3.36	0.00	4.72	6.70	8.90	10.60	11.70	12.90	31.10
Composition of underlying EBIT (US\$m)									
Platinum	2,169	32	837	898	1,538	1,406	1,150	268	1,786
EBIT margin	34%	1%	13%	12%	20%	18%	15%	4%	24%
Diamonds	508	64	495	452	636	702	599	585	635
EBIT margin	16%	4%	19%	14%	18%	20%	16%	15%	16%
Copper	1,892	2,010	2,817	4,090	5,060	5,491	4,441	3,597	1,977
EBIT margin	48%	51%	58%	64%	66%	65%	59%	50%	34%
Nickel	123	2	96	357	821	718	485	242	113
EBIT margin	30%	1%	23%	48%	56%	50%	39%	23%	12%
Iron ore and manganese	2,554	1,489	3,681	5,129	5,108	4,166	3,287	3,707	3,939
EBIT margin	62%	44%	56%	61%	59%	51%	41%	42%	42%
Metallurgical Coal (Australia)	1,110	451	783	1,052	1,242	398	755	1,010	1,025
EBIT margin	36%	20%	23%	30%	31%	13%	20%	25%	24%
Thermal Coal (South Africa)	1,078	721	710	1,243	1,411	1,008	952	873	1,423
EBIT margin	35%	29%	25%	33%	37%	29%	26%	23%	34%
Other mining and industrial	1,082	511	661	375	454	460	462	479	499
EBIT margin	12%	9%	12%	8%	10%	10%	10%	10%	10%
Exploration	-212	-172	-136	-150	-150	-150	-150	-151	-154
Group and unallocated	-219	-146	-181	-164	-164	-164	-164	-164	-166
Underlying EBIT	10,085	4,962	9,763	13,281	15,955	14,034	11,818	10,447	11,077
Group EBIT margin	31%	20%	30%	35%	38%	35%	29%	26%	27%
Key Income Statement ratios									
EBITDA margin (%)	36	28	36	41	44	42	38	36	37
Interest cover (times)	18	11	51	n/a	n/a	n/a	n/a	n/a	n/a

Source: Company Reports, I-Net, CIRA Estimates

We forecast 40% growth in Anglo's 2011 diluted EPS to \$5.51, driven mainly by higher commodity price expectations, which increases Anglo's EBITDA margin to 41% (2010: 36%). This implies a reasonable PE multiple of 10x at the current share price.

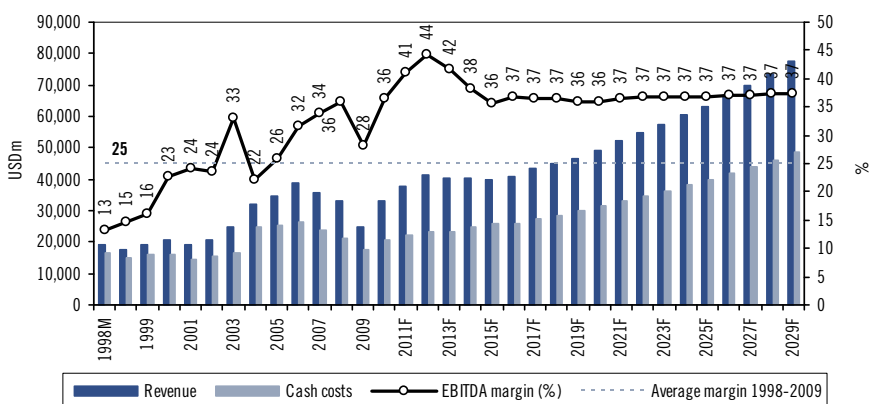
Figure 2. Anglo American's balance sheet – proportionately consolidated

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F
Balance Sheet (US\$m)									
Non-current operating assets	35,729	40,777	46,697	50,352	54,642	58,458	60,787	64,001	66,580
Working capital	454	1,810	1,624	2,860	3,134	2,913	2,733	2,575	2,776
Net operating assets	36,183	42,587	48,321	53,212	57,776	61,371	63,520	66,577	69,356
Investments	2,411	3,015	3,606	3,699	3,803	3,906	3,995	4,094	4,189
Cash	2,771	3,269	6,401	5,040	4,502	8,230	7,443	9,798	11,416
Total invested capital	41,365	48,871	58,328	61,951	66,082	73,507	74,959	80,469	84,961
Equity	20,221	26,121	34,239	40,576	47,978	54,346	59,538	64,021	67,479
Minority interest	1,535	1,948	3,732	4,262	4,858	5,394	5,957	6,485	7,116
Debt	13,995	14,315	13,439	9,274	4,740	4,668	0	0	0
Net deferred tax liability	4,297	4,904	5,252	6,042	6,557	7,015	7,294	7,680	7,990
Provisions	1,317	1,583	1,666	1,796	1,949	2,086	2,169	2,283	2,375
Total invested capital (Capital employed)	41,365	48,871	58,328	61,951	66,082	73,507	74,959	80,469	84,961
Key Balance Sheet ratios									
Non-current asset turnover (times)	0.9	0.6	0.7	0.8	0.8	0.7	0.7	0.6	0.6
Net debt - excluding De Beers	11,224	11,046	7,038	4,234	238	-3,563	-7,443	-9,798	-11,416
Net debt - including De Beers	12,822	12,486	7,831	5,027	1,031	-2,770	-6,650	-9,005	-10,623
Debt: Equity (%)	69	55	39	23	10	9	0	0	0
Gearing (%)	36	30	17	9	0	-7	-14	-18	-20
Gearing - including De Beers (%)	39	32	19	11	2	-5	-13	-16	-19
Working capital turnover (days)	5	27	18	27	28	26	25	23	25
NAV per share (US\$)	17	22	28	34	40	45	49	53	56
NAV per share (ZAR)	139	182	207	237	309	376	412	443	559
Price to book	2.5	1.9	1.7	1.5	1.1	0.9	0.9	0.8	0.6
ROCE (%)	30.6	12.6	21.5	26.2	28.8	23.6	18.9	16.1	16.3
ROIC (%)	20.3	10.5	16.3	19.5	20.7	17.0	13.4	11.6	11.6
Return on equity (%)	24.5	11.1	16.5	18.6	19.6	15.3	11.9	10.1	9.5
ROCE per division (%)									
Platinum	24	0	7	7	12	11	9	2	15
Diamonds	32	5	17	15	22	24	20	18	20
Copper	63	51	51	60	68	70	51	35	18
Nickel	9	0	5	15	31	24	14	6	2
Iron ore and manganese	38	14	33	41	36	26	20	22	22
Coal	57	27	27	37	39	19	23	25	31
Other mining and industrial	17	10	15	10	13	13	13	13	13

Source: Company Reports, I-Net, CIRA Estimates

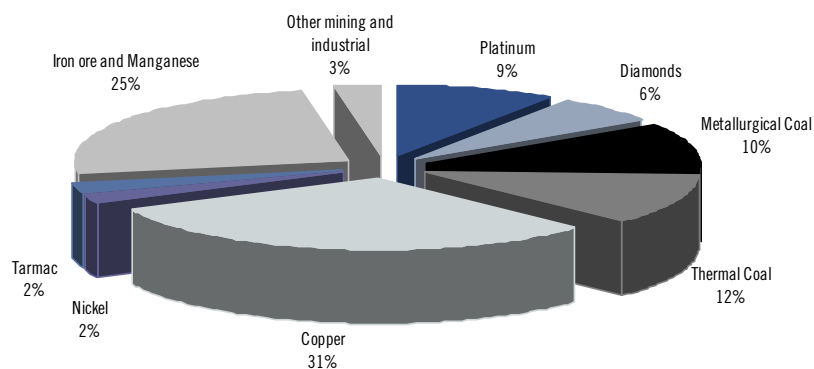
Since the depth of the financial crisis in 2009, Anglo American has strengthened its balance sheet through operating cash flows, asset sales, rights issues in subsidiaries, and replacing near-term debt with longer-term debt. Following its recent asset sales worth around US\$3.3 billion, we think Anglo's net debt could fall to around US\$5bn by the end of 2011E, implying comfortable debt gearing ratio around 11%. This is a major improvement from 2008's net debt level (including De Beers) of US\$12.8bn (39% gearing ratio).

Figure 3. Anglo American's revenue, cash costs and EBITDA margin



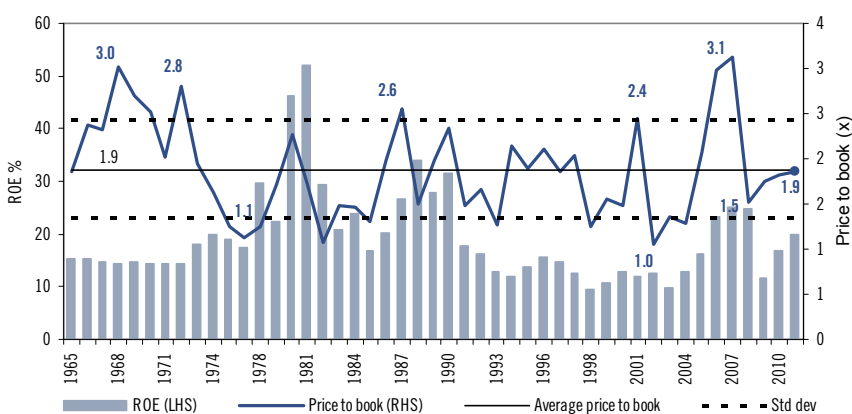
Source: Company Reports and CIRA Estimates

Figure 4. Contribution to Anglo American's NPV



Source: Citi Investment Research and Analysis

Figure 5. Anglo American's price to book history (RHS) and ROE (LHS)



Source: Company Reports, I-Net, CIRA Estimates

Production growth of 35% by 2015E

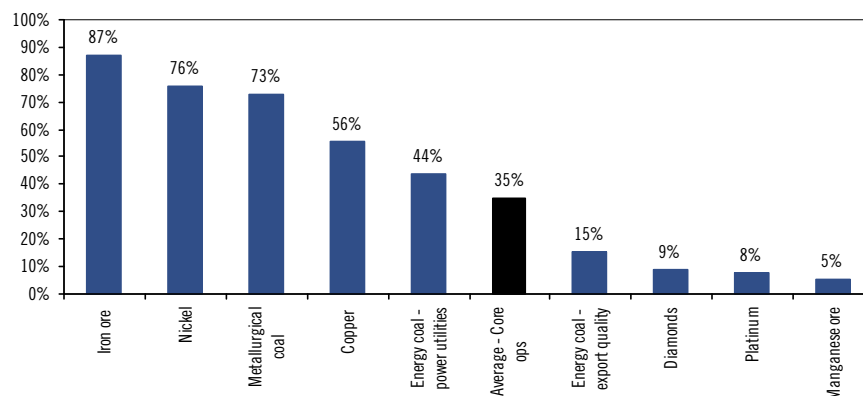
Anglo American estimates its project pipeline at US\$70bn and management believes these projects have the potential to double production over the next decade.

Anglo looks to offer attractive production growth in key commodities to 2015, with the expected commissioning and ramp-up of its:

- Kolomela and Minas Rio iron ore projects.
- Los Bronces, Quellaveco and Collahuasi copper expansions.
- Barro Alto nickel project.
- Cerrejon and New Largo thermal coal projects.
- Grosvenor metallurgical coal project.

We calculate its copper-equivalent production growth from core operations at 35% to 2015 (management believes it could be 50%). We forecast 2010-15 production growth of 87% for iron ore, 76% for nickel, 73% for metallurgical coal, 56% for copper and 44% for energy coal. Our estimate of growth is weighed down by low growth in its export energy coal (+15%) and platinum (+8%) divisions.

Figure 6. Anglo's production growth per commodity 2011E-15E



Source: Citi Investment Research and Analysis

Figure 7. Anglo American's share of production*

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F
Platinum (000 ounces)	2,387	2,452	2,570	2,600	2,600	2,700	2,800	2,800	2,835
% change	-5	+3	+5	+1	+0	+4	+4	+0	+1
Palladium (000 ounces)	1,319	1,361	1,449	1,453	1,454	1,510	1,566	1,566	1,585
% change	-6	+3	+6	+0	+0	+4	+4	-0	+1
Rhodium (000 ounces)	299	350	329	330	331	343	356	356	360
% change	-10	+17	-6	+0	+0	+4	+4	+0	+1
Gold ('000 ounces)	79	91	81	91	91	95	98	98	99
% change	-96	+16	-11	+12	+0	+4	+4	+0	+1
Diamonds (million carats)	48	25	33	44	46	47	47	48	49
% change	-6	-49	+34	+34	+4	+1	+1	+2	+2
Energy coal - power utilities (mt)	36	36	36	36	36	43	49	51	51
% change	+6	+0	+0	-2	+2	+19	+14	+4	-1
Energy coal - export quality (mt)	49	47	47	45	48	49	51	52	52
% change	-6	-3	-1	-4	+8	+1	+5	+1	+1
Metallurgical coal (mt)	15	14	16	12	16	18	20	22	22
% change	+32	-5	+14	-22	+32	+7	+12	+9	+1
Total coal (million tonnes)	100	97	99	93	101	110	120	124	124
% change	+3	-2	+2	-6	+9	+9	+10	+3	-0
Copper (incl Angloplat) (000 tonnes)	651	683	636	656	774	950	951	1,021	1,063
% change	-2	+5	-7	+3	+18	+23	+0	+7	+4
Nickel (incl Angloplat) (000 tonnes)	36	39	39	44	70	77	78	78	79
% change	-21	+11	-2	+14	+59	+10	+1	+0	+2
Zinc (000 tonnes)	341	350	350	16	0	0	0	0	0
% change	-1	+3	-0	-95	-100	-	-	-	-
Lead (000 tonnes)	63	68	71	4	0	0	0	0	0
% change	+1	+9	+4	-95	-100	-	-	-	-
Iron ore - Kumba (million tonnes)	37	42	43	45	51	54	54	56	68
% change	+13	+14	+3	+3	+13	+6	+0	+5	+20
Iron ore - Amapa and Minas Rio (million tonnes)	1	3	4	4	4	7	16	31	31
% change	-	+273	+52	-6	+8	+80	+122	+86	+0
Total iron ore (million tonnes)	37	45	47	48	55	61	70	87	3,057
% change	+15	+19	+6	+2	+13	+12	+15	+24	+3422
Manganese ore (000 tonnes)	2,704	1,570	2,953	2,850	3,000	3,000	3,000	3,000	3,057
% change	+12	-42	+88	-3	+5	+0	+0	+0	+2
Manganese alloys (000 tonnes)	306	129	312	300	300	300	300	300	282
% change	+5	-58	+142	-4	+0	+0	+0	+0	-6

* 100% of consolidated subsidiaries and De Beers, but Anglo American's share of Joint Ventures and Associates

Source: Company Reports and CIRA Estimates

Anglo American

Company description

Anglo American is a diversified mining company, with key operations in base metals, coal, iron ore and PGMs. While its head office is in the UK, its operations are spread across the globe, with exposure to South Africa, Australia and South America. Its biggest differentiator to its peer group is its globally dominant position in platinum and diamond production. The group has a larger proportion of assets in Africa (40%) than its peers, which could be perceived as higher risk given political uncertainty and electricity shortages.

Investment strategy

Our recommendation on Anglo American is Buy/Medium Risk (1M) for the UK and South Africa listings. We estimate strong volume growth of 33% over the next four years. We believe Anglo could offset the negative impact of falling commodity prices on its margins over the next five years to some extent. First, its commodity basket, which includes PGMs, diamonds and thermal coal, is more defensive than peers', in our view. Second, potentially lower commodity prices could be offset by restructuring benefits and growth into high-margin iron ore copper and coal markets. Last, the disposal of low-margin, low-return, non-core assets could structurally increase average margins and returns.

Valuation

We calculate Anglo American's discounted cash flow target price of R460 based on: 1) a weighted average cost of capital (WACC) of 9.52%; 2) long-term (2013E-23E) nominal revenue growth of 5% per annum; 3) long-term EBITDA margins of 38%; 4) long-term capex/EBITDA ratio of 43%; 5) long-term ROE of 12%; and 6) a terminal growth rate (after 2023) of 3.5% (implying an exit P/E multiple of 10x).

Risks

We rate Anglo American as Medium Risk. Its risk rating is derived after considering several factors, including an assessment of the macroeconomic environment, industry-specific risks, company-specific operational risks as well as financial risk.

The biggest risks to our earnings forecasts and valuation relate to commodity prices and currency forecasts.

Industry-specific risks include government actions, such as controls on imports, exports and prices, new forms or rates of taxation and royalties, and increased government regulation. We do not believe there is a material risk that SA mining assets will be nationalised, despite pressure from various groups.

40% of Anglo's assets are based in South Africa where skills, electricity and water shortages may affect production and mining inflation more than we anticipate.

Over-estimation of mineral reserves or failure to discover new reserves or expand existing reserves could weaken our investment case.

Company Focus

■ Company Update

Buy/Medium Risk	1M
Price (04 Apr 11)	£25.30
Target price	£30.00
Expected share price return	18.6%
Expected dividend yield	2.4%
Expected total return	21.0%
Market Cap	£156,303M
	US\$251,859M

Price Performance (RIC: BLT.L, BB: BLT LN)

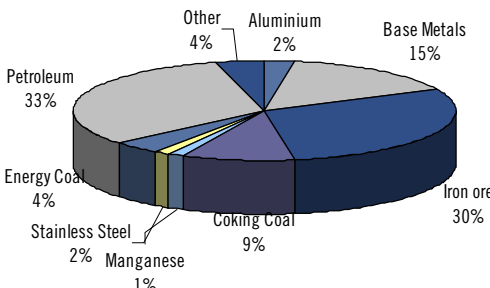


BHP Billiton PLC (BLT.L) Capital Intensity Going Up

- **Buy Rated** — BHPB is Buy rated with a £30/share target price.
- **Earnings Downgrades** — FY11 earnings estimates largely unchanged, but we have downgraded FY12/13 estimates by 2-4% driven by higher project capex and allowance for operating cost pressures. We have also reduced our oil production forecasts in FY12 and FY13 driven by the drilling delays in the GoM. The higher iron ore prices have increased our FY14+ earnings estimates.
- **Capex Increased** — Approval of iron ore, coking coal, coal and copper expansions, and additional details on capital intensity, have driven significant increases in our capex for FY12-16. We now forecast project capex of US\$71b, but expect this to rise towards BHPB's US\$80b guidance as additional projects are approved and built into our estimates.
- **Iron Ore Capex US\$183/t** — The biggest surprise of the recently approved projects was an increase in iron ore capex to US\$183/t for the expansion from 155mtpa to 240mtpa (all but ~US\$1b for a further expansion of Jimblebar now approved). We expected this level of intensity for the outer harbour (240mt to 350+mtpa), but had assumed only US\$150/t for the inner harbour expansions. RIO's capex is running at ~US\$130/t and FMG at US\$84/t (we use US\$100/t or US\$115/t including mining equipment), hence our surprise at the BHPB capex.
- **Coking Coal Capex** — Coking coal capex is also escalating, now running at US\$350-400/t for mine expansions only. Port capex is an additional US\$200-250/t with rail capex being borne by QR and repaid through operating costs.
- **NPV A\$55/share** — NPV increased A\$1 to A\$55/share with iron ore price upgrades being largely offset by increased capex. BHP is trading at a significant discount to NPV, unlike most of the pure leverage plays, meaning quality is certainly cheap at the moment.
- **Woodside** — We do not believe that BHPB is an on-market bidder for the entirety of Woodside as we cannot see how they could justify bidding a 30% premium to the current share price (implies ~A\$60/share) when our un-risked WPL valuation is only ~A\$50/share (using US\$80/bbl oil) – for further details please refer to - Woodside Petroleum Ltd (WPL.AX): "Takeover unlikely, risk to Pluto-2 expectations", 30 March 2011.

BHP Billiton PLC (USD)

Year to 30 Jun	2009A	2010A	2011E	2012E	2013E
Sales (\$M)	50,211.0	52,798.0	72,764.3	83,763.5	81,034.1
Profit Before Tax (\$M)	10,408.0	19,631.0	31,880.0	36,714.4	35,558.2
Diluted EPS (¢)	192.1	223.7	402.2	440.2	432.4
Diluted EPS (Old) (¢)	192.1	223.4	401.2	457.7	441.2
PE (x)	21.2	18.2	10.1	9.3	9.4
EV/EBITDA (x)	12.1	10.2	6.5	5.5	5.3
DPS (¢)	82.0	87.0	96.0	106.0	116.0
Net Div Yield (%)	2.0	2.1	2.4	2.6	2.8

BHP Billiton							Rating:	Buy	Risk:	Medium	Share Price	UK£	25.12	A\$	46.88	Rand	271.90							
All figures stated in USD																								
Years ending June	2008A	2009A	2010A	2011E	2012E	2013E																		
Financial Highlights							2008A 2009A 2010A 2011E 2012E 2013E																	
Reported Earnings (US\$m)	15,390	5,877	12,722	22,555	24,539	24,104	Commodity price & exchange rate assumptions																	
Earnings growth (%)		-62%	116%	77%	9%	-2%	A\$/US\$	0.90	0.74	0.88	0.96	1.01	0.88											
							Rand-US\$	7.42	9.03	7.59	7.04	7.31	8.21											
EPS (US¢/share)		192.1	223.7	402.2	440.2	432.4	Iron ore lump (US\$/t)	80	113	83	164	164	144											
DPS (US¢/share)	70.0	82.0	87.0	96.0	106.0	116.0	Iron ore fines (US\$/t)	58	80	70	142	142	125											
PE (UK)		25.4	21.8	12.1	11.1	11.3	Copper (US¢/lb)	354	225	311	399	463	432											
Dividend Yield (UK)	1.2%	1.7%	1.8%	2.0%	2.2%	2.4%	Aluminium (US¢/lb)	121	86	94	108	119	118											
PE (Aus)	15.2	17.9	18.5	11.4	11.1	11.3	Seaborne thermal coal (US\$/t)	73	111	77	106	123	98											
Dividend Yield (Aus)	1.7%	2.4%	2.1%	2.1%	2.2%	2.4%	SA Eskom thermal coal (R/t)	75	78	82	86	89	93											
PCF	15.1	14.7	15.4	9.7	8.2	8.3	Coking coal (US\$/t)	149	261	146	246	289	208											
Free cash flow	8,351	9,610	7,720	7,049	11,914	17,163	TiO2 slag (US\$/t)	413	401	408	418	420	420											
Free cash flow yield	4.0%	4.1%	4.0%	3.1%	4.8%	6.6%	Gem diamonds (US\$/ct average)	181	266	296	317	350	354											
							Gold (US\$/oz)	820	873	1,094	1,348	1,424	1,311											
							Oil (US\$/bbl)	96	70	78	86	92	91											
NPV							Earnings sensitivities																	
	(£/sh)		(A\$/sh)				2011						2012											
							US\$m	US¢/sh	%	US\$m	US¢/sh	%												
NPV (translated at long term Citi FX rate)	28.20		55.00		304.30		92	0.23	0.4%	108	0.24	0.4%												
Premium/(discount)	-11%		-15%		-11%		27	0.07	0.1%	27	0.06	0.1%												
US\$ NPV translated at spot	28.20		45.40		304.30		12	0.03	0.1%	12	0.03	0.0%												
Premium/(discount)	-11%		3%		-11%		24	0.06	0.1%	25	0.06	0.1%												
Financial ratios							2008A	2009A	2010A	2011E	2012E	2013E												
Market & Shareholder							Commodity price & exchange rate assumptions																	
EV/EBITDA		8.5	8.6	6.1	5.5	5.3	A\$/US\$ (1¢)	92	0.23	0.4%	108	0.24	0.4%											
P/Sales	3.9	3.8	4.4	3.5	3.2	3.4	Rand-US\$ (0.1rand)	27	0.07	0.1%	27	0.06	0.1%											
Payout ratio		43%	39%	24%	24%	27%	Copper (1¢/lb)	12	0.03	0.1%	12	0.03	0.0%											
Franking (imputation credits)	100%	100%	100%	100%	100%	100%	Aluminium (1¢/lb)	24	0.06	0.1%	25	0.06	0.1%											
Margins and returns							Seaborne thermal coal (1US\$/t)	19	0.05	0.1%	20	0.04	0.1%											
EBITDA margin	47%	42%	46%	52%	51%	52%	Iron ore (1US\$/t)	165	0.41	0.7%	174	0.40	0.7%											
EBIT margin	41%	34%	37%	45%	45%	44%	Coking coal (US\$/t)	22	0.06	0.1%	20	0.05	0.1%											
Capital productivity	1.23	0.96	0.77	1.05	1.01	0.80	TiO2 slag (US\$/t)	0	0.00	0.0%	0	0.00	0.0%											
ROCE (EBIT/CE)		27%	20%	33%	35%	29%	Gem diamonds (US\$/ct)	10	0.02	0.0%	11	0.03	0.0%											
ROE (EAT/NA)		18%	27%	40%	36%	27%	Oil (US\$/BBL)	68	0.17	0.3%	62	0.14	0.3%											
ROA		9%	14%	23%	23%	20%	Production data							2008A	2009A	2010A	2011E	2012E	2013E					
Credit							Iron ore (mt)	114	115	125	135	147	168											
Current ratio (CA/CL)	1.3	1.9	1.9	1.9	1.8	2.2	Copper (kt)	1,372	1,208	1,066	1,228	1,317	1,401											
Total Debt/Equity	33%	40%	32%	23%	3%	1%	Aluminium (kt)	1,298	1,233	1,241	1,250	1,245	1,251											
Net Debt/Equity	16%	12%	6%	-5%	-18%	-21%	Coking coal (mt)	34	33	37	34	38	41											
Net Debt/(Debt + Equity)							TiO2 feedstock (kt)	505	467	395	442	505	505											
Total Debt/EBITDA	0.4	0.7	0.7	0.3	0.1	0.0	Gem diamonds (mcts)	3	2	3	3	3	4											
EBITDA/interest Expense	42	38	53	55	71	140	Gold (koz)	80	68	76	89	86	92											
Target Price							Oil (mmbue)	137	148	171	173	168	180											
Price/NPV		Premium/(discount)				Implied target price	Nickel (kt)	93	74	101	108	108	121											
Peak-cycle	40%					\$39.50	Segmental information (US\$m)							1,465	192	351	255	458	598					
Mid-cycle	10%					\$31.00	Aluminium							7,943	1,289	4,626	7,259	8,906	8,630					
Trough-cycle	-20%					\$22.60	Base Metals							7,212	12,289	8,766	17,380	19,349	17,345					
NPV based target price	0%					\$28.20	Carbon Steel							1,276	(853)	672	698	966	890					
							Stainless Steel							1,057	1,639	804	901	1,525	1,571					
							Energy Coal							5,485	4,002	4,573	6,064	6,359	6,879					
							Petroleum							0	0	0	0	0	0					
							Steel							(358)	(464)	17	62	356	549					
							Other							24,079	18,095	19,808	32,619	37,918	36,463					
							Total																	
Multiples							Income statement (US\$m)																	
	£/sh	2011		2012			Revenue	59,473	50,211	52,798	72,764	83,764	81,034											
PE based target price	418	12	A\$50.20	438	12	A\$52.60	EBITDA	28,009	20,876	24,537	37,604	42,940	42,260											
Cash flow based target price	525	5	A\$26.20	588	5	A\$29.40	Depreciation	(3,886)	(3,871)	(4,759)	(5,039)	(5,623)	(6,400)											
EV/EBITDA based target price	711	7	A\$53.30	779	7	A\$58.40	EBIT	24,123	17,005	19,778	32,565	37,317	35,860											
Multiple based target price	A\$56.80						Net interest	(662)	(543)	(459)	(685)	(603)	(302)											
							Tax	(7,362)	(4,070)	(6,622)	(8,792)	(11,239)	(10,901)											
							Reported earnings	15,390	5,877	12,722	22,555	24,539	24,104											
							Adjustments (NML etc)	(1,715)	9,491	(2,000)	(10,086)	(2,122)	436											
							Core earnings	13,675	15,368	10,722	12,469	22,417	24,539											
TARGET PRICE							Cash flow statement (US\$m)																	
Capital return	19%	19%					Cash flow from operations	18,044	18,457	17,643	28,110	32,949	32,522											
Dividend yield	2%	2%					Capex	(7,622)	(9,555)	(9,698)	(10,184)	(14,488)	(17,958)											
Total return	22%	22%					Net acquisitions	(156)	(316)	(359)	(4,788)	0	0											
Company overview (by NPV)							Dividends paid	(3,250)	(4,969)	(4,895)	(5,111)	(5,630)	(6,187)											
							Net cash flow	1,009	5,912	900	(6,810)	(14,591)	(12,066)											
							Free cash flow	8,980	7,406	6,628	1,467	2,572	(4,794)											
							Balance sheet (US\$m)																	
							Fixed assets (PPE)	47,332	49,032	55,576	62,101	71,347	83,185											
							Total assets	75,889	78,770	88,852	101,599	111,645	129,977											
							Total liabilities	36,846	38,059	39,523	42,149	31,203	29,833											
							Shareholder equity (Net assets)	39,043	40,711	49,329	59,450	80,442	100,144											
							Total debt	12,695	16,419	15,764	13,713	2,283	1,000											
							Cash	6,291	11,596	12,748	16,597	16,597	22,291											
							Net debt	6,404	4,823	3,016	(2,884)	(14,314)	(21,291)											
Working capital	7,998	3,287	4,899	6,146	6,146	6,146																		
Liquidity																								
Market capitalisation	234,818	177,948	195,239	241,778																				
Shares outstanding	5,581	5,581	5,574	5,574																				

BHP Billiton PLC

Company description

BHP Billiton is the world's largest mining company, formed by the merger of BHP Ltd and Billiton plc in 2001. The group comprises six major business units, Petroleum, Aluminium, Base Metals, Carbon Steel Materials, Energy Coal and Stainless Steel Materials. The company retains a dual listed corporate structure between the UK and Australian markets.

Investment strategy

We rate BHP Billiton Buy/Medium Risk (1M). Key positive drivers include the following. 1) Production growth - we forecast strong organic production growth across the group's petroleum, coal and iron ore assets as projects are delivered, subject to market conditions. 2) Strong balance sheet - BHP has a strong balance sheet that could be used to acquire assets at the bottom of the cycle, or return it to shareholders through the reactivation of the buyback programme.

Valuation

Our target price is £30 (which converts to R360 at a one-year forward forecast ZAR/GBP FX rate of 12). Our BHP valuation (NPV) of £28.20 per share is partly based on DCF analysis, using a 7.8% real, after-tax, unlevered discount rate and a beta of 1.1. Our long-term equilibrium commodity prices and other key assumptions are available in our Metals & Mining Strategy reports. We calculate a one-year target price using a combination of: 1) a target price based on a 0% premium to NPV; 2) a multiple-based target price using FY11E (12x P/E and 7.5x EV/EBITDA); and 3) a 50% weighting for each method.

Risks

We rate BHP as Medium Risk, referencing a number of quantitative and fundamental screens. BHP is a Medium Risk company utilising an Australian quantitative risk model based on, among other criteria, earnings and dividend stability measured in A\$ and ranked against an Australian universe. But, BHP is managed in US\$ (e.g., progressive US\$ dividends) and there is a natural US\$ hedge in its earnings stream which would work to make this more stable in an international context. If a US\$ perspective were taken on these issues a lower risk rating could be warranted.

Key risks to our projected earnings, cash flows and valuation relate to weaker than expected commodity prices/economic growth and currency fluctuations.

Country risk is a significant consideration with about 40% by NPV of operations in Africa, South America and Asia. Operating risk is lower than in smaller metals and mining companies with fewer operations.

The ongoing global economic slowdown could deteriorate further, providing further downside risk to commodity prices.

If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could fail to reach or exceed our target price.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Hold/Medium Risk	2M
Price (04 Apr 11)	R168.47
Target price	R180.00
from R160.00	
Expected share price return	6.8%
Expected dividend yield	4.2%
Expected total return	11.0%
Market Cap	R60,380M
	US\$9,015M

Price Performance (RIC: EXXJ.J, BB: EXX SJ)



Exxaro Resources Limited (EXXJ.J) Medium-term growth constrained by infrastructure

- **Target price +12.5% to R180** — We increase Exxaro's domestic coal prices (and margins) and reduce costs in its Mineral Sands division. Near term earnings benefit up to 5%. Higher long-term iron ore prices increase Exxaro's 2014 earnings by 18% and 2015 earnings by 26%.
- **Decent earnings growth, but high margins pose risk** — We forecast 31% growth in Exxaro's FY2011 diluted HEPS to R18.76, driven mainly by higher commodity price expectations, which increases its EBITDA margin to 41% (2010: 37%). This implies a reasonable PE multiple of 9x at the current share price.
- **Big jump in capex** — Exxaro plans to spend around R16bn in capex over the next two years. This is a significant jump from capex of R2.7bn in FY2010. GMEP (Grooteegeluk Medupi Expansion Project) alone will require around R8.4bn over the next two years. Fairbreeze mineral sands project has been approved and will require investment of R2.4bn. Construction is expected to start in 2Q11 and cold commissioning in 3Q13. We forecast net debt peaking at R5.9bn in 2012, implying a gearing ratio of 16%.
- **Growth constraints** — Infrastructure constraints, limited domestic coal demand growth and a lack of visibility on new coal fired power stations are limiting Exxaro's coal volume growth beyond GMEP. As a result, we see a risk that the company could allocate capital to sub-optimal mineral sands, alternative energy, or iron ore projects.
- **HOLD rated** — Exxaro's share price has rallied 67% since its 12-month low as iron ore, coal and mineral sands prices recovered and due to the company's strong operational performance. Although we still believe Exxaro's large reserves support strong volume growth potential in margin-enhancing businesses, we believe its earnings growth potential is now reflected in the share price. We see a lack of near-term catalysts for further outperformance. Highly elevated iron ore margin expectations pose downside risk to earnings. Furthermore, infrastructure constraints are likely to dampen near-term growth. Our target price of R180 offers an expected total return of 12%. We maintain our Hold/Medium Risk (2M) rating.

Exxaro Resources Limited (ZAR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (RM)	15,009.0	17,155.0	19,579.9	21,500.8	23,343.7
Net Income (RM)	2,516.0	5,186.0	6,753.4	7,204.5	6,948.0
Diluted EPS (R)	7.03	14.37	18.76	20.01	19.30
Diluted EPS (Old) (R)	7.03	14.37	17.94	19.17	18.89
PE (x)	24.0	11.7	9.0	8.4	8.7
EV/EBITDA (x)	40.6	15.3	11.8	10.9	10.2
DPS (R)	2.00	5.00	6.80	8.30	8.00
Net Div Yield (%)	1.2	3.0	4.0	4.9	4.7

Financial statements and ratio analysis

We forecast 31% growth in Exxaro's FY2011 diluted HEPS to R18.76, driven mainly by higher commodity price expectations, which increases its EBITDA margin to 41% (2010: 37%). This implies a reasonable PE multiple of 8.5x at the current share price.

Figure 1. Exxaro income statement and ratio analysis - Sishen Iron Ore Company proportionately consolidated

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Income Statement (ZARm)								
Revenue	18,160	19,830	24,957	28,908	32,051	33,955	34,480	36,147
Cash costs	-11,783	-13,904	-15,677	-17,186	-19,094	-20,936	-22,352	-24,301
Underlying EBITDA	6,378	5,926	9,280	11,722	12,957	13,019	12,128	11,846
Depreciation and amortisation	-1,030	-1,330	-1,512	-1,703	-1,992	-2,239	-2,768	-3,030
Underlying EBIT	5,348	4,596	7,768	10,019	10,965	10,780	9,360	8,816
Special items	-330	-1,576	-44	-69	-73	-77	-82	-87
Interest received	153	145	135	108	53	253	394	370
Interest paid	-444	-586	-596	-500	-809	-1,072	-955	-825
Profit before tax	4,727	2,579	7,263	9,558	10,135	9,884	8,716	8,274
Taxation	-1,346	-1,556	-2,028	-2,805	-2,931	-2,936	-2,635	-2,491
Profit after tax	3,381	1,023	5,235	6,753	7,204	6,948	6,081	5,783
Minority interest in profit	24	0	-27	0	0	0	0	0
Net profit for the year	3,405	1,023	5,208	6,753	7,204	6,948	6,081	5,783
Adjustments	225	1,493	-22	0	0	0	0	0
Headline earnings	3,630	2,516	5,186	6,753	7,204	6,948	6,081	5,783
Number of shares (millions)								
Weighted average	343	345	347	347	347	347	347	347
Diluted weighted average	361	358	361	360	360	360	360	360
Closing	344	346	347	347	347	347	347	347
EPS (ZAR)	9.93	2.97	15.01	19.46	20.76	20.02	17.52	16.67
HEPS (ZAR)	10.58	7.29	14.95	19.46	20.76	20.02	17.52	16.67
Diluted HEPS (ZAR)	10.06	7.03	14.37	18.76	20.01	19.30	16.89	16.06
Growth (%)	+147	-30	+105	+31	+7	-4	-12	-5
PE multiple at R170/share	16.9	24.2	11.8	9.1	8.5	8.8	10.1	10.6
DPS declared (ZAR)	3.75	2.00	5.00	6.80	8.30	8.00	8.70	8.40
Dividend yield at R170/share	2.2%	1.2%	2.9%	4.0%	4.9%	4.7%	5.1%	4.9%
Dividend payout ratio	38%	67%	33%	35%	40%	40%	50%	50%
Underlying EBIT per division (ZARm)								
Coal	2,654	1,905	2,690	3,228	3,195	3,287	3,464	3,759
EBIT margin Coal	29%	20%	26%	26%	23%	22%	21%	20%
Mineral Sands	104	-124	179	586	973	1,107	868	659
EBIT margin Mineral Sands	4%	-4%	4%	11%	16%	17%	13%	10%
Base metals	-172	-8	-113	-101	-40	-64	-58	-52
EBIT margin Base metals	-9%	-1%	-6%	-6%	-3%	-4%	-4%	-4%
Iron ore	2,718	2,568	5,028	6,317	6,843	6,452	5,125	4,487
EBIT margin Iron Ore	64%	55%	65%	68%	65%	61%	53%	47%
Other	44	255	-16	-11	-7	-3	-40	-37
Underlying EBIT	5,348	4,596	7,768	10,019	10,965	10,780	9,360	8,816
Group EBIT margin	30%	23%	31%	35%	34%	32%	27%	24%
Key Income Statement ratios								
Revenue growth	46%	9%	26%	16%	11%	6%	2%	5%
EBITDA margin	35%	30%	37%	41%	40%	38%	35%	33%
Depreciation rate	9%	10%	10%	8%	7%	7%	8%	9%
Interest cover (times)	12	5	13	20	14	10	10	11
Tax rate	28%	60%	28%	29%	29%	30%	30%	30%

Source: Company Reports, I-Net, CIRA Estimates

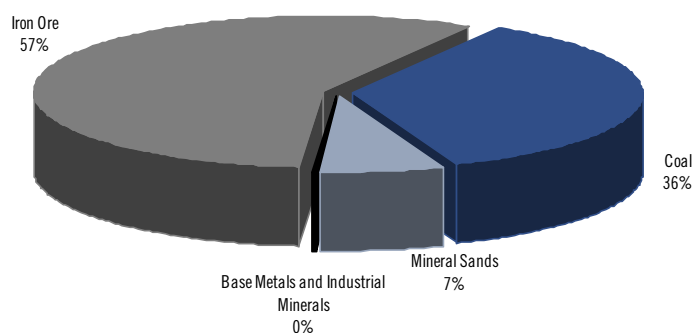
We forecast proportionately consolidated net debt peaking at R5.9bn in 2012, implying a gearing ratio of 16%.

Figure 2. Exxaro's balance sheet and ratio analysis - Sishen Iron Ore Company proportionately consolidated

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Balance Sheet (ZARm)								
Non-current operating assets	13,299	14,000	17,339	25,169	32,453	33,963	34,300	36,350
Working capital	3,039	3,744	3,815	4,727	4,892	4,981	4,765	5,068
Net tax payable	-438	0	-42	-697	-764	-707	-636	-612
Net operating assets	15,900	17,744	21,112	29,199	36,580	38,237	38,429	40,806
Investments	1,546	1,142	1,375	1,375	1,375	1,375	1,375	1,375
Cash	1,769	1,023	2,140	306	1,812	4,883	5,305	3,402
Total invested capital	19,215	19,909	24,627	30,880	39,767	44,495	45,109	45,582
Equity	14,937	15,154	20,290	26,005	31,794	35,948	39,113	42,190
Minority interest	128	1	-23	-23	-23	-23	-23	-23
Debt	4,150	4,754	4,360	4,898	7,995	8,570	6,020	3,415
Total invested capital	19,215	19,909	24,627	30,880	39,767	44,495	45,109	45,582
Key Balance Sheet ratios								
Non-current asset turnover (times)	1.4	1.4	1.4	1.1	1.0	1.0	1.0	1.0
Net debt (Excluding SIOC)	2,381	3,731	2,220	4,592	6,183	3,688	714	14
Gearing - excluding SIOC debt (%)	14	20	10	15	16	9	2	0
Net debt (Including SIOC)	2,391	4,336	1,886	4,435	5,951	3,753	1,386	1,893
Gearing - including SIOC debt (%)	14	22	9	15	16	9	3	4
Net debt/Enterprise value (%)	4	7	3	7	9	6	2	3
Working capital turnover (days)	61	69	56	60	56	54	50	51
ROCE (%)	40	27	40	40	33	29	24	22
RONA (After tax) (%)	33	17	32	36	28	21	17	16
NAV per share (Rand)	41	42	56	72	88	100	109	117
Price to book at R170/share	4.1	4.0	3.0	2.4	1.9	1.7	1.6	1.5
Return on equity (%)	26	7	29	29	25	21	16	14

Source: Company Reports, I-Net, CIRA Estimates

Figure 3. Contribution to Exxaro's NPV

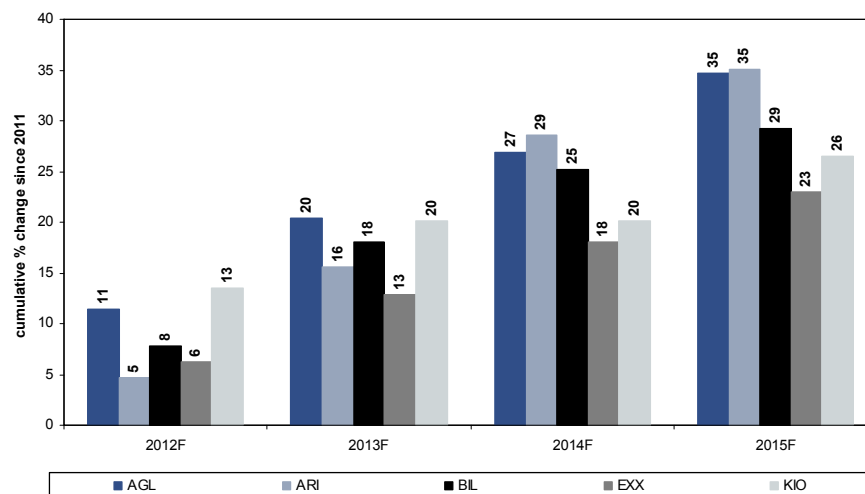


Source: Citi Investment Research and Analysis

Sales volume forecasts

We forecast Exxaro's copper equivalent volume growth at 23% over the next four years, which is lower than its peers' average of 30%.

Figure 4. Mining companies' Cu equivalent volume growth 2011-2015



Source: Citi Investment Research and Analysis

Medium-term coal exports may be affected by the availability of rail and port allocation at RBCT. Management guided to coal exports of around 4Mt in 2011, which is flat on 2010.

Grooteeluk mine's capacity will be doubled at a capital cost of R9.5 billion to supply Eskom's Medupi power station with an additional 14.6Mtpa of power station coal for 40 years. Production from the new section of Grooteeluk is planned for April 2012, with ramp-up to full production by 2015. Selling prices for coal have been negotiated on commercial terms with Eskom, which will likely result in higher margins and returns for the group than legacy Eskom contracts.

Management sees limited demand growth for Exxaro's domestic export-quality steam and metallurgical coal volumes in the period to FY15.

Sishen Iron Ore Company intends to grow iron ore production with the commissioning and ramp-up of Kolomela (9Mtpa by 2012).

Figure 5. Exxaro's sales volumes

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	CAGR 11-15
Exxaro's share of volumes (000 tonnes)									
Eskom coal	36,255	36,299	36,428	37,000	38,825	43,083	47,850	51,804	9%
% change	6%	0%	0%	2%	5%	11%	11%	8%	
Other domestic coal	5,481	4,617	5,191	5,590	5,684	5,142	5,464	5,199	-2%
% change	5%	-16%	12%	8%	2%	-10%	6%	-5%	
Export steam coal/Metallurgical	3,276	4,716	4,106	4,000	4,400	5,500	5,500	6,000	11%
% change	80%	44%	-13%	-3%	10%	25%	0%	9%	
Total coal	45,012	45,632	45,725	46,590	48,909	53,726	58,814	63,003	8%
% change	9%	1%	0%	2%	5%	10%	9%	7%	
Zircon	169	146	243	215	220	221	231	231	2%
% change	201%	-13%	66%	-11%	2%	0%	5%	0%	
Rutile	49	51	79	73	75	76	77	79	2%
% change	43%	5%	55%	-7%	3%	0%	1%	3%	
Pig iron	150	144	197	168	178	186	187	190	3%
% change	51%	-4%	37%	-15%	6%	4%	1%	2%	
Chloride Slag	214	144	264	200	220	220	220	220	2%
% change	31%	-33%	83%	-24%	10%	0%	0%	0%	
Sulphate Slag	29	44	39	48	56	56	54	51	2%
% change	-	54%	-11%	23%	17%	0%	-4%	-4%	
Pigment	43	54	55	80	80	80	80	80	0%
% change	-20%	26%	2%	45%	0%	0%	0%	0%	
Zinc - Rosh Pinah	54	53	52	42	0	0	0	0	-100%
% change	-3%	-2%	-2%	-18%	-100%	-	-	-	
Zinc - third party purchases	72	69	67	80	127	132	132	132	13%
% change	8%	-4%	-3%	19%	60%	4%	0%	0%	
Iron ore	6,425	8,228	8,637	9,100	10,300	10,900	10,900	11,460	6%
% change	-2%	28%	5%	5%	13%	6%	0%	5%	

Source: Company Reports and CIRA Estimates

Exxaro Resources Limited

Company description

Exxaro is a black-controlled (56%), diversified mining company producing coal, mineral sands, zinc and iron ore (20% holding in Sishen Iron Ore Company, subsidiary of Kumba Iron Ore). Its operations are predominantly in southern Africa.

Investment strategy

We rate Exxaro Hold/Medium Risk (2M). Exxaro has a healthy growth pipeline in its core iron ore and coal divisions. Growth will likely mostly be into high-margin export business or lucrative commercial contracts, rather than into the low-margin "cost-plus" contracts of the past. This should result in higher long-term margins than historic averages.

Its empowerment credentials allow it preferential access to mining deals and new port capacity and make it a supplier of choice for Eskom.

However, Exxaro's share price has rallied strongly over the last 12 months. We believe its earnings growth potential is now largely reflected in the share price.

Valuation

We calculate Exxaro's discounted cash flow (DCF) target price at R180 based on: 1) a WACC of 13.2%; 2) long-term (2013E-23E) nominal revenue growth of 5% per annum; 3) long-term EBITDA margins of 36%; 4) long-term capex/EBITDA ratio of 37%, long-term ROE of 18%; and 5) terminal growth rate (after 2023) of 6.9% in rand terms (implying an exit P/E multiple of 11x).

Risks

We rate Exxaro as Medium Risk. The risk rating is derived after considering a number of factors, including an assessment of the macroeconomic environment, industry-specific risks, company-specific operational risks as well as financial risk.

The biggest risk for miners in general is that economic growth in highly-populated emerging market countries slows materially and developed market economies take longer to recover than we anticipate. This would imply downside risk to our commodity price and sales volume forecasts. Near-term margin forecasts are still only slightly below mid-cycle levels for most commodities and in the case of iron ore margins are still at highly-elevated levels. A stronger-than-forecast rand or Australian dollar would negatively affect Exxaro's earnings and valuation.

Industry-specific risks include government actions, such as controls on imports, exports and prices, new forms or rates of taxation and royalties, and increased government regulation. South African miners will start paying mining royalties in 2010, in line with market expectations. We do not believe there is a material risk that SA mining assets will be nationalised, despite pressure from some groups.

Higher-than-forecast inflation in the mining sector could lead to near-term margin compression, but should support higher commodity prices in the long term.

Skills, electricity and water shortages in South Africa may impact production and mining inflation more than we anticipate and could erode Exxaro's global competitiveness.

Over-estimation of mineral reserves, particularly in the Waterberg area could weaken our investment case. Failure to discover new reserves or expand existing reserves could also impact on Exxaro's valuation.

If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Sell/Medium Risk	3M
Price (04 Apr 11)	R481.78
Target price	R420.00
from R380.00	
Expected share price return	-12.8%
Expected dividend yield	8.9%
Expected total return	-3.9%
Market Cap	R155,091M
	US\$23,155M

Price Performance (RIC: KIOJ.J, BB: KIO SJ)



Kumba Iron Ore Ltd (KIOJ.J) Only for Optimists

- **Target price +11% to R420** — Higher long-term iron ore prices increase Kumba's 2014 earnings by 23% and 2015 earnings by 34%. Improved long term cash flows improve Kumba's valuation by 11%.
- **Forecasts based on elevated margins** — Although Kumba is trading on a reasonable looking forward PE multiple of 9.1x and attractive dividend yield of almost 9%, its near-term earnings forecasts are driven by highly elevated iron ore prices, resulting in 70%+ EBITDA margins on export iron ore. This compares to its 2001-2005 average of only 38%. Our DCF valuation is largely based on long term normalized margins of 53% post 2020.
- **Bullish expectations** — Kumba's 12-month forward consensus earnings per share forecast is currently R53, which is 18% higher than its 2010 peak of R23.02. Consensus earnings estimates have never been more bullish. A 211% increase in earnings forecasts since 2009's low of R17/share was almost exclusively driven by higher iron ore prices which boosted margin expectations in our view.
- **Looming oversupply** — Iron ore is an abundant commodity and at current iron ore prices miners are incentivised to invest heavily in new iron ore capacity. Citi forecast a base case supply response of 365Mt over the next five years, which could result in an iron ore surplus of 101Mt by 2015. However, if we assume companies will deliver all projects on time, the supply response could be a massive 660Mt (+73%) by 2015.
- **Less attractive on normalised margins** — We calculate Kumba's 2015E earnings, which incorporates 26% volume growth and 56% export EBITDA margins at R34/share, which implies an expensive 14x PE multiple.
- **Sell maintained** — Our one-year target price of R420 implies a negative one-year return of 4%.

Kumba Iron Ore Ltd (ZAR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (RM)	23,408.0	38,704.0	46,639.0	52,750.7	53,058.3
Net Income (RM)	6,972.0	14,328.0	17,065.7	18,343.7	16,907.4
Diluted EPS (R)	21.76	44.54	52.91	56.87	52.42
Diluted EPS (Old) (R)	21.76	44.54	52.91	56.87	52.20
PE (x)	22.1	10.8	9.1	8.5	9.2
EV/EBITDA (x)	11.9	6.1	4.9	4.5	4.8
DPS (R)	14.60	34.50	43.00	47.00	45.00
Net Div Yield (%)	3.0	7.2	8.9	9.8	9.3

Financial statements and ratio analysis

We forecast 19% growth in Kumba's FY11 diluted HEPS to R52.91 and further 7% growth to R56.87 in FY12.

Figure 1. Kumba Iron Ore income statement and ratio analysis

FYE December	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Income Statement (ZARm)										
Revenue	8,654	11,497	21,360	23,408	38,704	46,639	52,751	53,058	47,930	47,239
Cash operating costs	-4,448	-5,339	-7,384	-10,033	-12,801	-14,184	-17,228	-19,146	-20,025	-21,849
Underlying EBITDA	4,206	6,158	13,976	13,375	25,903	32,455	35,522	33,913	27,905	25,390
Depreciation	-269	-228	-332	-530	-765	-876	-1,305	-1,649	-2,281	-2,953
Impairments	0	0	-50	0	0	0	0	0	0	0
Underlying EBIT	3,937	5,930	13,594	12,845	25,138	31,579	34,218	32,263	25,624	22,438
Exceptional items	1,416	48	-81	35	-7	0	0	0	0	0
Net interest	-64	-168	-251	-127	-29	102	-55	-4	-173	-633
Profit before tax	5,289	5,810	13,262	12,753	25,102	31,681	34,162	32,260	25,451	21,804
Taxation	-1,014	-1,807	-4,179	-3,949	-6,813	-9,517	-10,026	-9,874	-8,103	-6,887
Profit after tax	4,275	4,003	9,083	8,804	18,289	22,163	24,136	22,386	17,348	14,918
Minority interest	-894	-822	-1,875	-1,812	-3,966	-5,098	-5,793	-5,478	-4,511	-3,879
Net profit for the year	3,381	3,181	7,208	6,992	14,323	17,066	18,344	16,907	12,838	11,039
Adjustments	-1,256	-38	68	-20	5	0	0	0	0	0
Headline earnings	2,125	3,143	7,276	6,972	14,328	17,066	18,344	16,907	12,838	11,039
Number of shares (millions)										
Weighted average	314	315	316	319	321	322	322	322	322	322
Diluted weighted average	319	320	320	320	322	323	323	323	323	323
Closing	314	317	319	320	322	322	322	322	322	322
EPS (ZAR)	10.78	10.11	22.81	21.94	44.66	53.01	56.98	52.52	39.88	34.29
Headline EPS (ZAR)	6.77	10.00	23.02	21.87	44.67	53.01	56.98	52.52	39.88	34.29
Diluted HEPS (ZAR)	6.66	9.83	22.75	21.76	44.54	52.91	56.87	52.42	39.80	34.22
Growth (%)		+48	+131	-4	+105	+19	+7	-8	-24	-14
PE multiple at R480/share	72.1	48.8	21.1	22.1	10.8	9.1	8.4	9.2	12.1	14.0
DPS declared (ZAR)	0.80	7.50	21.00	14.60	34.50	43.00	47.00	45.00	35.00	33.00
Dividend yield at R480/share (%)	0.2	1.6	4.4	3.0	7.2	9.0	9.8	9.4	7.3	6.9
Dividend payout ratio (%)		74	92	67	77	81	82	86	88	96
Key Income Statement ratios										
Revenue growth (% y-o-y)		33	86	10	65	21	13	1	-10	-1
Underlying EBITDA margin (%)	49	54	65	57	67	70	67	64	58	54
Underlying EBIT margin (%)	45	52	64	55	65	68	65	61	53	47
Interest cover (times)	84	36	54	101	867	-	621	-	148	35
Tax rate (%)	19	31	32	31	27	30	29	31	32	32

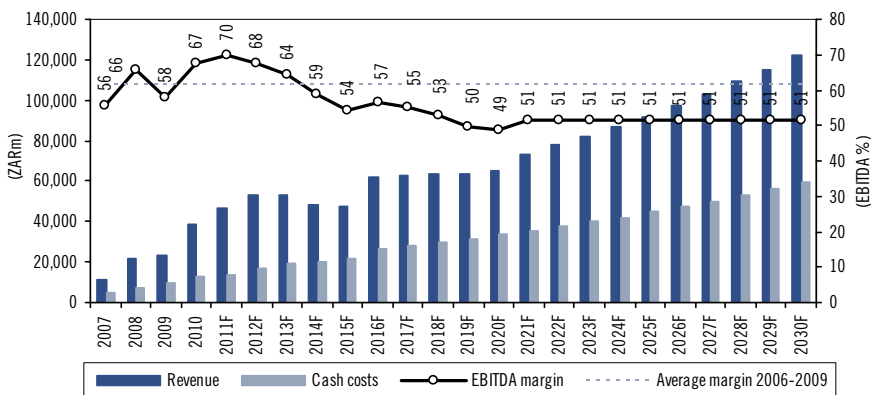
Source: Company Reports, I-Net, CIRA Estimates

Figure 2. Kumba Iron Ore's balance sheet

FYE December	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Balance Sheet (ZARm)										
Non-current operating assets	3,871	5,897	7,925	11,595	15,901	19,625	24,920	29,521	34,473	42,420
Working capital	1,199	1,783	2,486	2,593	2,924	4,529	5,666	5,225	4,715	4,849
Net tax payable	-603	-64	547	109	-61	0	0	0	0	0
Net operating assets	4,467	7,616	10,958	14,297	18,764	24,154	30,587	34,746	39,188	47,269
Investments	150	179	269	307	425	425	425	425	425	425
Cash	1,094	952	3,810	891	4,855	1,660	6,374	5,875	3,929	4,689
Total invested capital	5,711	8,747	15,037	15,495	24,044	26,239	37,386	41,045	43,542	52,383
Equity	1,476	4,556	9,532	9,931	16,821	20,304	25,955	27,807	28,541	30,198
Minority interest	216	661	1,647	1,650	4,038	5,058	6,216	7,038	7,714	8,102
Debt	4,019	3,530	3,858	3,914	3,185	877	5,215	6,201	7,287	14,083
Total invested capital	5,711	8,747	15,037	15,495	24,044	26,239	37,386	41,045	43,542	52,383
Key Balance Sheet ratios										
Non-current asset turnover (times)	2.2	1.9	2.7	2.0	2.4	2.4	2.1	1.8	1.4	1.1
Net debt (ZARm)	2,925	2,578	48	3,023	-1,670	-783	-1,159	326	3,358	9,394
Gearing (Net debt:(Net debt + equity)) (%)	66.5	36.1	0.5	23.3	(11.0)	(4.0)	(4.7)	1.2	10.5	23.7
Working capital turnover (days)	51	57	42	40	28	35	39	36	36	37
NAV per share (rand)	5	14	30	31	52	63	81	86	89	94
Price to book at R480/share		33	16	15	9	8	6	6	5	5
ROCE (%)		98.2	146.4	101.7	152.1	147.2	125.0	98.8	69.3	51.9
Return on net operating assets (%)		78.1	103.2	73.2	111.0	105.4	91.3	70.7	49.4	38.4
Return on equity (%)		105.5	102.3	71.8	107.1	91.9	79.3	62.9	45.6	37.6

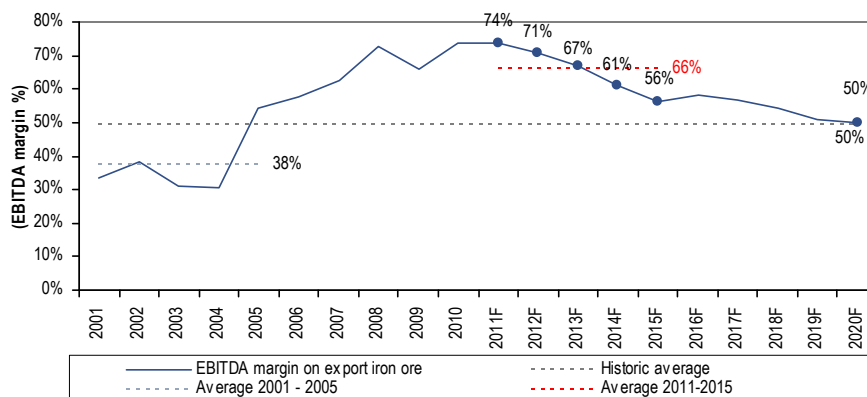
Source: Company Reports, I-Net, CIRA Estimates

Figure 3. Kumba's revenue, cash costs (LHS) and EBITDA margins (RHS)



Source: Company Reports and CIRA Estimates

Figure 4. Kumba's EBITDA margin on export iron ore



Source: Company Reports and CIRA Estimates

Production and sales volume forecasts

We forecast 5% sales volume growth for FY11 as we forecast inventory sales of around 1Mt.

Sishen Iron Ore Company could grow volumes at 7% CAGR with the commissioning and ramp-up of Kolomela (9Mtpa by 2012), SEP2 (10Mt by 2017), Sishen Pellets (1.5Mt by 2017) and Sishen South Medium Grade (3Mt by 2017).

Figure 5. Total Sishen Iron Ore Company sales (000 tonnes)

FYE December	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	2017F	CAGR '11-'17	Reserves (mt)	Life
Sishen main pit	28,692	29,555	29,292	28,958	28,053	29,000	29,000	29,000	29,000	29,000	29,656	30,552		684.7	24
Sishen jig plant	0	173	4,747	10,430	13,284	13,000	13,000	13,000	13,000	13,000	13,294	13,696			
Thabazimbi	2,418	2,673	2,660	2,555	2,047	2,500	2,500	2,500	2,500	2,500	2,500	0		12.3	6
Kolomela	0	0	0	0	0	0	6,000	9,000	9,000	9,000	9,340	9,813		213.6	24
SEP II	0	0	0	0	0	0	0	0	0	2,800	10,000	10,226			
Sishen Pellets	0	0	0	0	0	0	0	0	0	0	1,500	1,534			
Sishen C-Grade	0	0	0	0	0	0	0	0	0	0	0	0			
Sishen South Medium Grade	0	0	0	0	0	0	0	0	0	0	1,500	3,068			
Stock movement	-1,308	499	-4,574	-800	-200	1,000	1,000	1,000	1,000	1,000	1,100	0			
Total	29,802	32,900	32,125	41,143	43,184	45,500	51,500	54,500	54,500	57,300	68,890	68,889	7.16%	1,300	24
Growth (% year-on-year)		+10	-2	+28	+5	+5	+13	+6	+0	+5	+20	-0			

Source: Company Reports and CIRA Estimates

Figure 6. Sishen Iron Ore Company sales split by domestic and export (000 tonnes)

FYE December	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	2017F
Export iron ore	21,495	24,000	24,900	34,219	36,086	38,008	44,008	47,008	47,008	49,808	61,398	63,897
Growth		12%	4%	37%	5%	5%	16%	7%	0%	6%	23%	4%
Domestic iron ore	8,307	8,900	8,100	5,856	7,021	7,492	7,492	7,492	7,492	7,492	7,492	4,992
Total	29,802	32,900	33,000	40,075	43,107	45,500	51,500	54,500	54,500	57,300	68,890	68,889
Growth		10%	0%	21%	8%	6%	13%	6%	0%	5%	20%	0%

Source: Company Reports and CIRA Estimates

Kumba Iron Ore Ltd

Company description

Kumba Iron Ore is a focused producer of high grade iron ore and the fourth largest supplier of seaborne iron ore. It operates the Sishen and Thabazimbi iron ore mines in South Africa with current production of 42Mtpa. Its most attractive aspects are its strong production growth prospects and healthy cash generation.

Investment strategy

We rate Kumba Iron Ore Sell/Medium Risk (3M). Although we believe it offers strong volume growth and an attractive dividend yield of 8%+ over the next three years, it seems priced in. Current margins are highly elevated due to near-record high iron ore prices. Longer term, we are concerned about significant downside risk to earnings as iron ore prices fall to marginal cost of production.

Valuation

Our Kumba target price of R420 is calculated using a discounted cash flow valuation, which takes into account optimistic long-term export EBITDA margins of 52%, as well as Kumba's considerable volume growth. Our DCF assumes a 13.1% nominal weighted average cost of capital; long-term (2013-23) nominal revenue growth of 5% per annum; long-term capex/EBITDA ratio of 30%; long-term ROE of 29%; and a terminal growth rate (after 2024) of 7.6% in rand terms.

Risks

We rate Kumba Medium Risk based on our assessment of industry and company-specific risk factors. Key risks to our projected earnings, cash flows and valuation relate to weaker-than-expected commodity prices/economic growth and US\$. Country risk is a consideration with the producing assets in South Africa and the growth projects in other regions of Africa. Operating risk in Kumba is principally from higher inflation concerns in South Africa. The company is highly sensitive to commodity prices and the Rand/US\$ exchange rate, as such this provides the greatest risk to earnings and the share price reaching our target price. Kumba is also involved in a legal dispute with ArcelorMittal SA and ICT, which may negatively impact our earnings forecasts and valuation.

Four major upside risks to our target price are: 1) China's demand for iron ore outpaces new low cost supply and long-term margins stay at elevated levels; 2) A collapse in the rand, which would boost Kumba's earnings forecasts and valuation; 3) Corporate action - Anglo American already holds around 64% of Kumba and we believe it will have to offer a premium to market prices if it wants to buy out minorities; and 4) Kumba's attractive dividend yield.

Appendix A-1

Analyst Certification

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African Rainbow Minerals (ARIJ.J)

Ratings and Target Price History

Fundamental Research

Analyst: Johann Pretorius

Covered since May 14 2010

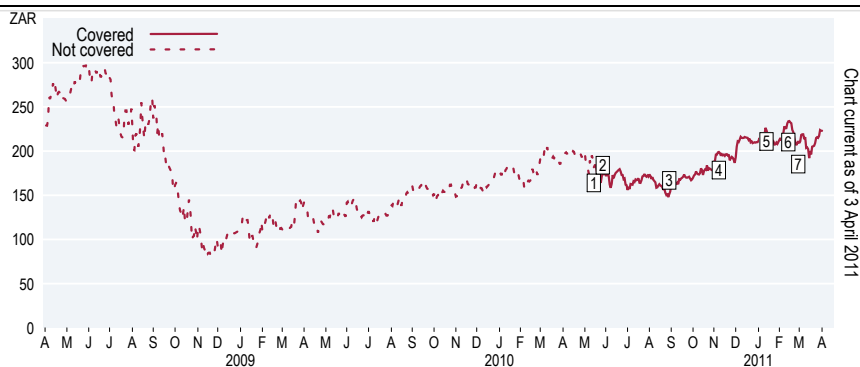


Chart current as of 3 April 2011

	Date	Rating	Target Price	Closing Price
1	14-May-10	*3M	*200.00	181.69
2	27-May-10	*1M	200.00	175.00
3	30-Aug-10	1M	*205.00	151.14

* Indicates change

	Date	Rating	Target Price	Closing Price
4	7-Nov-10	*2M	205.00	198.50
5	13-Jan-11	*3M	*215.00	223.50
6	14-Feb-11	3M	*230.00	233.71

	Date	Rating	Target Price	Closing Price
7	28-Feb-11	*2M	230.00	211.20

Rating/target price changes above reflect Eastern Standard Time

African Rainbow Minerals (ARIJ.J)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Johann Pretorius

Covered since May 14 2010

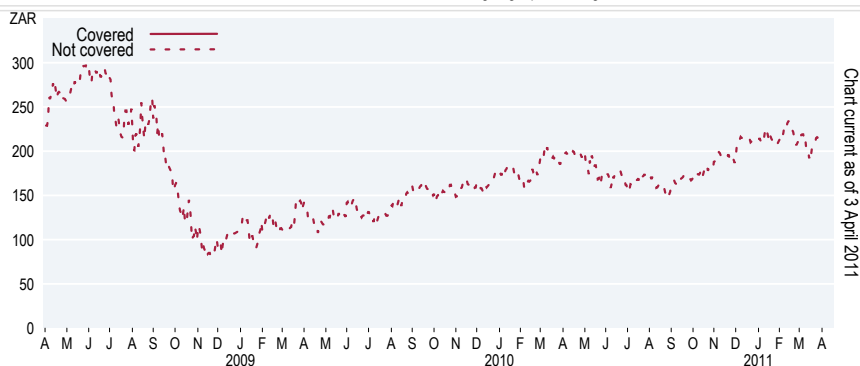


Chart current as of 3 April 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Anglo American (AGLJ.J)

Ratings and Target Price History

Fundamental Research

Analyst: Johann Pretorius

Covered since February 4 2010

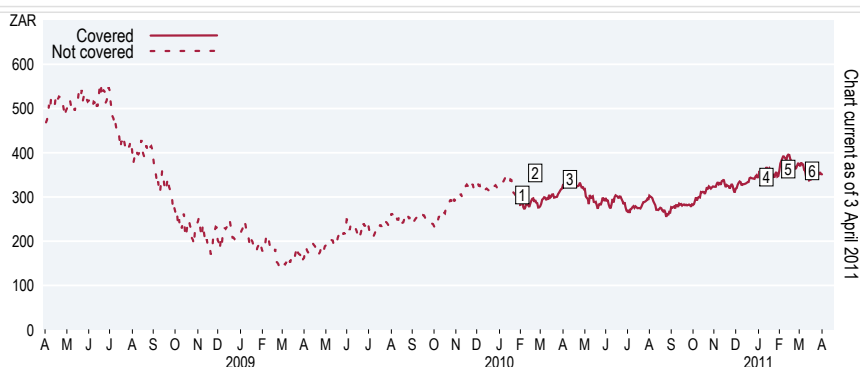


Chart current as of 3 April 2011

	Date	Rating	Target Price	Closing Price
1	3-Feb-10	*1M	*340.00	292.50
2	22-Feb-10	1M	*360.00	293.00

* Indicates change

	Date	Rating	Target Price	Closing Price
3	12-Apr-10	1M	*420.00	328.50
4	13-Jan-11	1M	*430.00	367.50

	Date	Rating	Target Price	Closing Price
5	14-Feb-11	*2M	*450.00	395.70
6	18-Mar-11	*1M	450.00	344.42

Rating/target price changes above reflect Eastern Standard Time

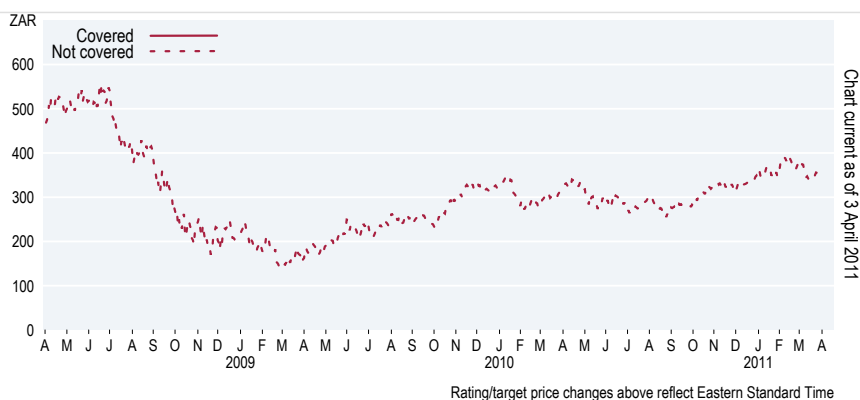
Anglo American (AGLJ.J)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

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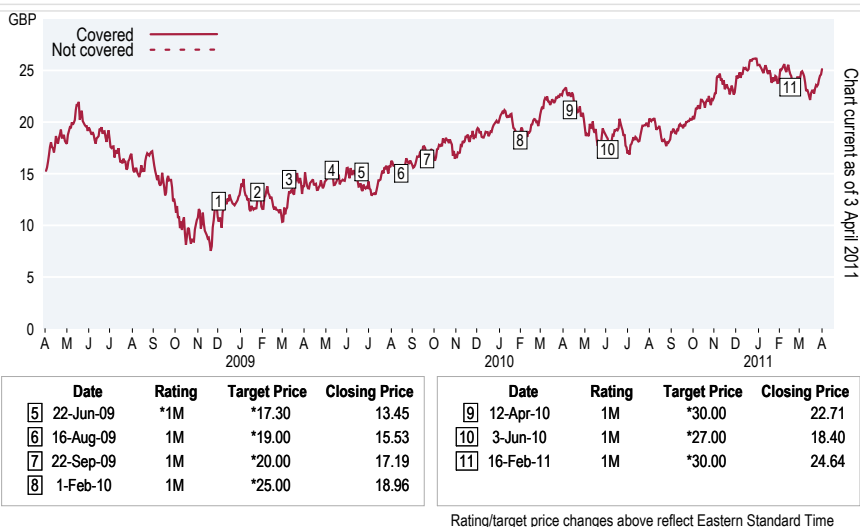
* Indicates change

BHP Billiton PLC (BLT.L)

Ratings and Target Price History

Fundamental Research

Analyst: Heath R Jansen
Covered since May 24 2010



	Date	Rating	Target Price	Closing Price
1	2-Dec-08	*1M	*15.30	10.36
2	25-Jan-09	*2M	*12.60	11.65
3	11-Mar-09	2M	*11.60	13.30
4	11-May-09	2M	*16.00	15.15

	Date	Rating	Target Price	Closing Price
5	22-Jun-09	*1M	*17.30	13.45
6	16-Aug-09	1M	*19.00	15.53
7	22-Sep-09	1M	*20.00	17.19
8	1-Feb-10	1M	*25.00	18.96

	Date	Rating	Target Price	Closing Price
9	12-Apr-10	1M	*30.00	22.71
10	3-Jun-10	1M	*27.00	18.40
11	16-Feb-11	1M	*30.00	24.64

* Indicates change

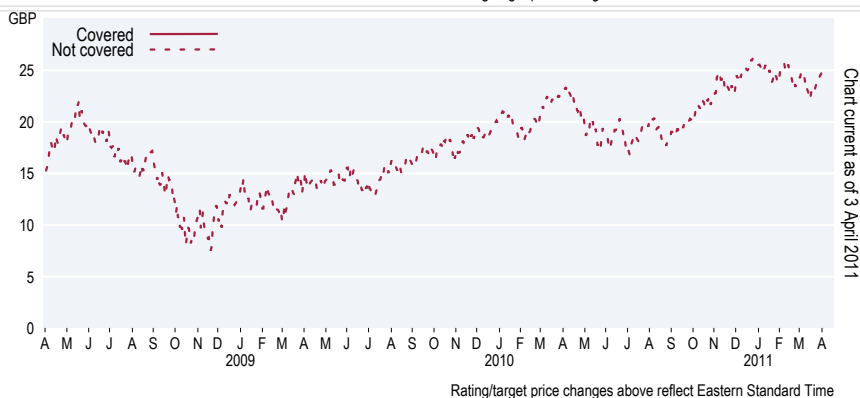
BHP Billiton PLC (BLT.L)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Heath R Jansen
Covered since May 24 2010



* Indicates change

Exxaro Resources Limited (EXXJ.J)

Ratings and Target Price History Fundamental Research

Analyst: Johann Pretorius
Covered since December 9 2009

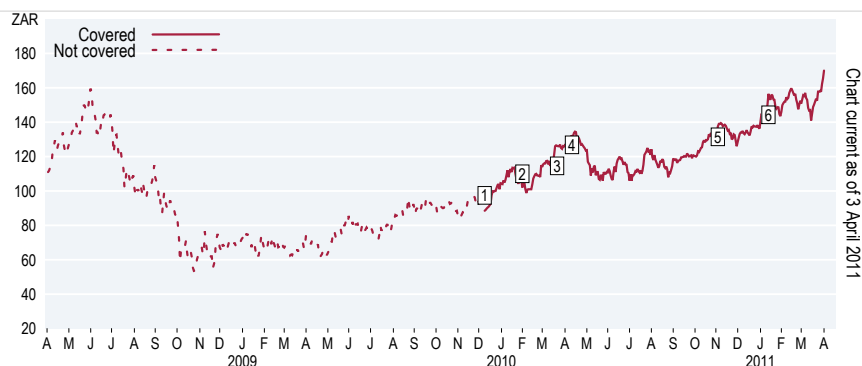


Chart current as of 3 April 2011

	Date	Rating	Target Price	Closing Price
1	9-Dec-09	*1M	*120.00	88.50
2	1-Feb-10	1M	*130.00	102.00

* Indicates change

	Date	Rating	Target Price	Closing Price
3	21-Mar-10	1M	*140.00	126.51
4	12-Apr-10	1M	*150.00	132.00

	Date	Rating	Target Price	Closing Price
5	3-Nov-10	*2M	150.00	137.50
6	13-Jan-11	2M	*160.00	156.50

Rating/target price changes above reflect Eastern Standard Time

Exxaro Resources Limited (EXXJ.J)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Johann Pretorius
Covered since December 9 2009

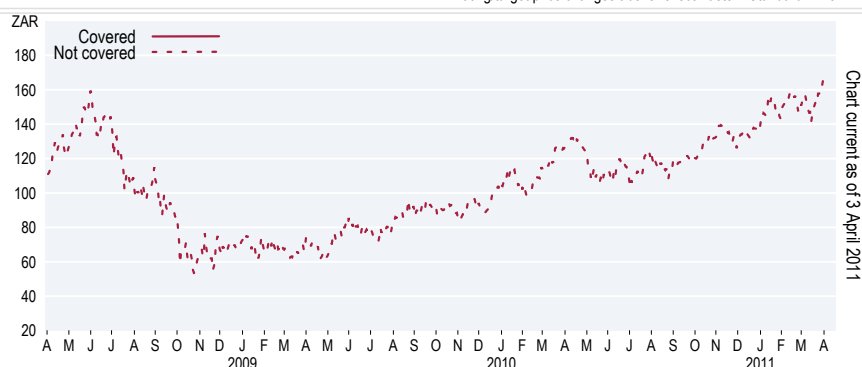


Chart current as of 3 April 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kumba Iron Ore Ltd (KIOJ.J)

Ratings and Target Price History Fundamental Research

Analyst: Johann Pretorius
Covered since December 9 2009

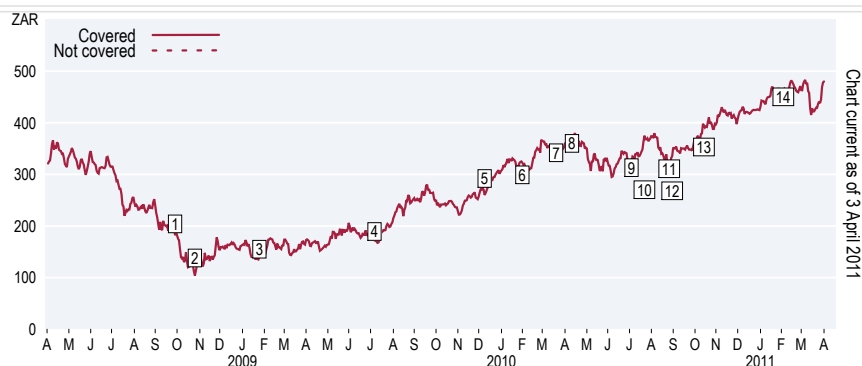


Chart current as of 3 April 2011

	Date	Rating	Target Price	Closing Price
1	29-Sep-08	1M	*386.00	182.00
2	27-Oct-08	1M	*254.00	104.00
3	25-Jan-09	1M	*218.00	135.00
4	7-Jul-09	*2M	*190.00	172.00
5	9-Dec-09	*3M	*250.00	260.00

* Indicates change

	Date	Rating	Target Price	Closing Price
6	1-Feb-10	3M	*300.00	322.50
7	19-Mar-10	3M	*330.00	344.50
8	12-Apr-10	3M	*360.00	366.50
9	4-Jul-10	*2M	*340.00	317.60
10	22-Jul-10	*3M	*360.00	375.00

	Date	Rating	Target Price	Closing Price
11	26-Aug-10	*1M	360.00	320.50
12	31-Aug-10	1M	*370.00	335.27
13	14-Oct-10	*3M	370.00	394.87
14	3-Feb-11	3M	*380.00	464.00

Rating/target price changes above reflect Eastern Standard Time

Kumba Iron Ore Ltd (KIOJ.J)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Johann Pretorius

Covered since December 9 2009



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12 Month Rating			Relative Rating		
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52%	37%	11%	9%	82%	9%
43%	41%	41%	51%	41%	45%

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