

## Equities

1 May 2012 | 7 pages

# Rio Tinto Ltd (RIO.AX)

## Alert: Meeting with Tom Albanese

We met with CEO Tom Albanese in an analyst round table discussion. Key topic of conversation was the cost pressure on projects and the need to look more closely at capex ex-iron ore. Some of the comments around coal projects being at risk are clearly politically motivated ahead of potential removal of the diesel fuel rebate and overburden tax deduction in the budget (on top of carbon tax, MRRT and royalty increase burden), but the capex and cost inflation is very real.

Just like the 2-speed Australian economy, mining is also 2 speed with iron ore v the rest. RIO remains committed to WA iron ore expansions that will take capacity to 353mtpa, but coal projects on the east coast are more questionable and the company has already pulled out of the Abbott Point coal terminal in Qld. Mount Pleasant in NSW is coming up for approval, but increased capex and opex costs (FX, labour, explosives and permitting delays) could result in this project being delayed or cancelled in favour of brownfield expansion options. The possible budget changes in next week's Australian budget would only make the project more challenging.

With capex intensity of iron ore growth to 353mt expected to be mid-\$150's/t, the next phase of projects are not at risk (current board approvals are to 283mtpa), but if capex continues to rise, the projects beyond this become more challenging.

Other themes – Shareholders are still supportive of the progressive dividend policy. Diamonds are being divested as short life assets that require ongoing capex investment and are likely to be valued more highly by someone else. Rising capex intensity could reduce production growth and be positive for medium-term commodity prices. Greenfield aluminium projects are on the backburner, but still keen to expand bauxite into traded market.

### Company Update

<b>Buy</b>	<b>1</b>
Price (01 May 12)	A\$65.79
Target price	A\$95.00
Expected share price return	44.4%
Expected dividend yield	2.6%
<b>Expected total return</b>	<b>47.0%</b>
Market Cap	A\$95,723M
	US\$99,796M

### Price Performance (RIC: RIO.AX, BB: RIO AU)



### Clarke Wilkins

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

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## Rio Tinto Ltd

### Valuation

Our RIO target price is A\$95. Our RIO valuation (NPV) of A\$105.00 is based on DCF analysis using a 7.8% real, after-tax, unlevered discount rate. Our long-term equilibrium commodity price estimates and key assumptions are available in our Metals & Mining Strategy reports.

We calculate our one-year target price using a combination of: 1) a valuation based on 0% premium to NPV; and 2) a multiple-based valuation (a combination 10x PE and 6x EV/EBITDA multiples for FY12E), with a 50/50 weighting between each methodology.

### Risks

Key risks to our projected earnings, cash flows and target price relate to weaker-than-expected commodity prices/economic growth and currency fluctuations. Country risk is a consideration with about 20% of operations by NPV in Africa, South America and Indonesia. Operating risk in RIO is lower than for smaller metals and mining companies with fewer operations. An upside risk is if bulk prices rise further than anticipated in the current round of negotiations. If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

## Appendix A-1

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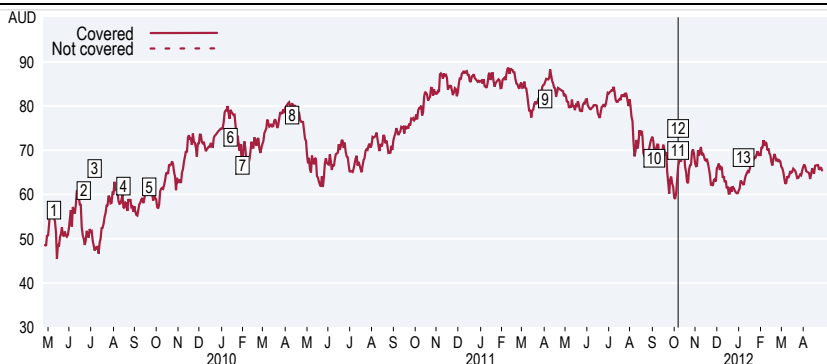
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#### Rio Tinto Ltd (RIO.AX)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Clarke Wilkins



	Date	Rating	Target Price	Closing Price
1	10-May-09	*1M	*63.89	56.47
2	22-Jun-09	1M	*64.00	50.00
3	7-Jul-09	1M	*66.00	47.35
4	16-Aug-09	1M	*68.00	59.99
5	22-Sep-09	1M	*70.00	60.36

	Date	Rating	Target Price	Closing Price
6	14-Jan-10	*2M	*83.00	79.15
7	1-Feb-10	*1M	*85.00	67.41
8	11-Apr-10	1M	*100.00	79.47
9	4-Apr-11	1M	*110.00	85.50
10	4-Sep-11	1M	*100.00	72.05

	Date	Rating	Target Price	Closing Price
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*1	100.00	66.40
13	8-Jan-12	1	*95.00	62.52

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

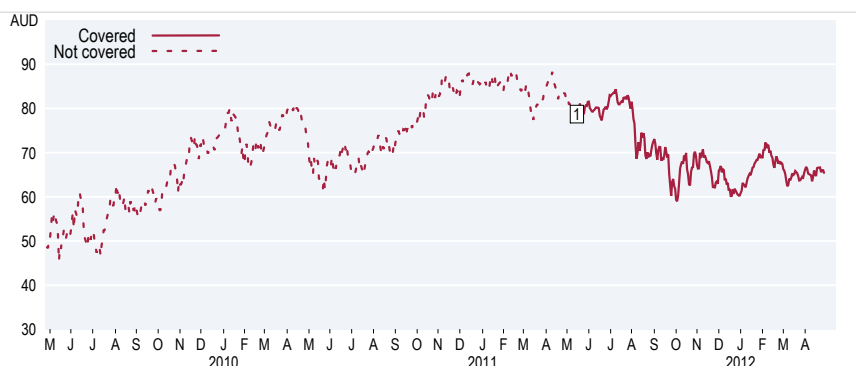
## Rio Tinto Ltd (RIO.AX)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Clarke Wilkins



Date	Rating	Target Price	Closing Price
1 15-May-11	*ADD MP	-	80.15

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#### Data current as of 31 Mar 2012

Citi Investment Research & Analysis Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
52%	37%	11%	10%	79%	10%
44%	42%	40%	47%	42%	43%

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