

Equities

15 February 2012 | 28 pages

Anglo American (AGLJ.J)

Enjoyed the Ride – Downgrade to Neutral

- Company Update
- Rating Change
- Target Price Change

■ **Time to take some profits** — Anglo's share price has rallied 26% since its 12-month low of R265 on October 4, due partly to widespread corporate action speculation (as reported in Bloomberg, for example), in our view. We think now may be a good opportunity for investors to take some profits, given several operational challenges and a relatively unattractive valuation. Our reduced one-year target price of R380 (-10% from R420) drives a one-year estimated total return (ETR) of 14.5% and we downgrade our rating from Buy to Neutral.

■ **Operational challenges** — We think several operational challenges could weigh on Anglo's shares in the medium term: 1) ongoing operational issues at Anglo Plat, 2) significant cost pressure at Kumba Iron Ore due to increasing mining complexity, 3) ongoing issues at Minas Rio, 4) potential for higher taxes in South Africa, 5) potentially negative news flow relating to Codelco's option to acquire 49% of Anglo Sur. Consequently, our target price falls to R380 from R420.

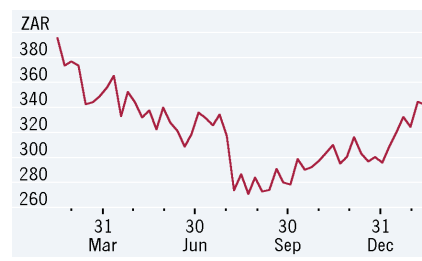
■ **Unattractive valuation** — Anglo is trading at a one-year forward P/E premium to both of its large London-listed diversified peers, BHP Billiton and Rio Tinto. Earnings forecast momentum is negative and we believe forecasts could fall another 16% if spot commodity prices and exchange rates persist. Its one-year forward dividend yield also looks less competitive than peers'.

■ **Sweating for success** — Anglo American ranked 8th in our 16 January efficiency and productivity analysis *Sweating for Success*, behind major peers. We believe management teams and asset portfolios with proven track records are better positioned to continue delivering sustainable value creation through the cycle.

■ **Catalysts lacking** — To justify further outperformance, we believe one or more of the following catalysts will be required: 1) a major restructuring at Angloplat to remove high-cost production, 2) a significant increase in dividend payout resulting in a competitive dividend yield, 3) major success at Minas Rio including positive news on phases two and three, 4) corporate action (not something we expect in the near term).

Neutral	2
<i>from Buy</i>	
Price (14 Feb 12)	R338.00
Target price	R380.00
<i>from R420.00</i>	
Expected share price return	12.4%
Expected dividend yield	2.1%
Expected total return	14.5%
Market Cap	R447,378M
	US\$58,215M

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



Anglo American (USD)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (\$M)	20,858.0	27,960.0	30,536.9	32,084.8	35,579.3
Profit Before Tax (\$M)	4,034.0	10,928.0	14,501.0	11,530.5	13,469.5
Diluted EPS (\$)	2.10	3.96	4.56	4.82	5.64
Diluted EPS (Old) (\$)	2.10	3.96	4.56	4.82	5.64
PE (x)	21.0	11.1	9.6	9.1	7.8
EV/EBITDA (x)	10.8	6.1	5.1	4.4	3.6
DPS (\$)	0.00	0.65	0.75	0.95	1.09
Net Div Yield (%)	0.0	1.5	1.7	2.2	2.5

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

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AGLJ.J: Fiscal year end 31-Dec						Price: R338.00; TP: R380.00; Market Cap: R447,378m; Recomm: Neutral					
Profit & Loss (US\$m)	2009	2010	2011E	2012E	2013E	Valuation ratios	2009	2010	2011E	2012E	2013E
Sales revenue	20,858	27,960	30,537	32,085	35,579	PE (x)	21.0	11.1	9.6	9.1	7.8
Cost of sales	-16,476	-19,452	-20,941	-21,781	-23,271	PB (x)	2.0	1.6	1.2	1.1	1.0
Gross profit	4,382	8,508	9,596	10,304	12,309	EV/EBITDA (x)	10.8	6.1	5.1	4.4	3.6
Gross Margin (%)	21.0	30.4	31.4	32.1	34.6	FCF yield (%)	0.0	9.6	15.3	7.8	11.0
EBITDA	6,102	10,427	11,614	12,502	14,835	Dividend yield (%)	0	1.5	1.7	2.2	2.5
EBITDA Margin (%)	29.3	37.3	38.0	39.0	41.7	Payout ratio (%)	0	16	16	20	19
Depreciation	-1,720	-1,919	-2,018	-2,198	-2,526	ROE (%)	10.5	21.7	24.9	13.4	14.0
Amortisation	0	0	0	0	0	Cashflow (US\$m)	2009	2010	2011E	2012E	2013E
EBIT	4,382	8,508	9,596	10,304	12,309	EBITDA	6,102	10,427	11,614	12,502	14,835
EBIT Margin (%)	21.0	30.4	31.4	32.1	34.6	Working capital	-1,375	-98	-619	-477	-287
Net interest	-407	-139	63	336	320	Other	37	61	2,025	-1,960	-2,592
Associates	84	822	1,122	890	841	Operating cashflow	4,764	10,390	13,020	10,065	11,956
Non-op/Except	-25	1,737	3,720	0	0	Capex	-4,839	-5,086	-4,477	-5,765	-5,843
Pre-tax profit	4,034	10,928	14,501	11,531	13,469	Net acq/disposals	0	0	0	0	0
Tax	-1,117	-2,809	-3,035	-3,405	-4,041	Exploration exp/Other	-244	-193	112	546	435
Extraord./Min.Int./Pref.div.	-487	-1,575	-1,847	-2,030	-2,283	Investing cashflow	-5,084	-5,279	-4,365	-5,219	-5,408
Reported net profit	2,430	6,544	9,620	6,095	7,145	Dividends paid	0	-302	-834	-958	-1,210
Net Margin (%)	11.7	23.4	31.5	19.0	20.1	Financing cashflow	818	-1,979	-4,599	-7,399	-8,113
Core NPAT	2,569	4,976	5,752	6,095	7,145	Net change in cash	498	3,132	4,057	-2,552	-1,565
Per share data	2009	2010	2011E	2012E	2013E	FCF ex acquisns & explorn	-76	5,304	8,544	4,300	6,112
Reported EPS (\$)	1.99	5.18	7.58	4.82	5.64	Segmental Revenue (US\$m)	2009	2010	2011E	2012E	2013E
Core EPS (\$)	2.10	3.96	4.56	4.82	5.64	Platinum	4,535	6,602	7,318	6,762	7,581
DPS (\$)	0	0.65	0.75	0.95	1.09	Diamonds	1,728	2,644	3,501	4,218	4,414
CFPS (\$)	3.85	8.19	10.24	7.92	9.39	Copper (previously base	3,967	4,877	4,900	5,869	7,589
FCFPS (\$)	-0.01	4.22	6.74	3.42	4.83	Nickel	348	426	604	980	968
BVPS (\$)	21.70	28.37	35.53	39.77	44.68	Iron ore and manganese	3,419	6,612	8,085	7,716	7,817
Wtd avg ord shares (m)	1,202	1,206	1,210	1,210	1,210	Metallurgical Coal (Australia)	2,239	3,377	4,424	4,673	4,980
Wtd avg diluted shares (m)	1,253	1,281	1,282	1,282	1,282	Thermal Coal (South Africa)	2,490	2,866	3,605	3,791	4,306
Growth rates	2009	2010	2011E	2012E	2013E	Other mining and industrial	3,038	3,144	1,840	1,713	1,633
Sales revenue (%)	-20.7	34.0	9.2	5.1	10.9	Industrial minerals	2,870	2,376	2,567	2,906	3,074
EBIT (%)	-45.1	94.2	12.8	7.4	19.5	Gold	0	0	0	0	0
Core NPAT (%)	-50.9	93.7	15.6	6.0	17.2	Paper and packaging	0	0	0	0	0
Core EPS (%)	-51.3	88.7	15.3	5.7	16.8	Exploration	0	0	0	0	0
Balance Sheet (US\$m)	2009	2010	2011E	2012E	2013E	Corporate activities	3	5	2	0	0
Cash & cash equiv.	3,634	6,778	10,458	7,905	6,340	Less: Equity accounted	-3,779	-4,969	-6,308	-6,544	-6,782
Accounts receivables	3,554	4,052	5,030	5,548	5,942	Sales - total segments	20,858	27,960	30,537	32,085	35,579
Inventory	3,212	3,604	3,227	2,739	2,872	Segmental EBIT (US\$m)	2009	2010	2011E	2012E	2013E
Net fixed & other tangibles	36,639	41,086	42,810	45,924	48,833	EBIT - Platinum	32	837	692	968	1,373
Goodwill & intangibles	2,776	2,316	2,364	2,412	2,460	EBIT - Diamonds	64	495	720	1,072	1,049
Financial & other assets	6,493	8,820	9,215	9,394	9,578	EBIT - Copper	2,010	2,817	2,490	3,020	4,111
Total assets	56,308	66,656	73,103	73,922	76,025	EBIT - Nickel	2	96	145	233	347
Accounts payable	4,395	4,950	5,378	4,931	5,170	EBIT - FM&I	1,489	3,681	4,597	3,966	3,647
Short-term debt	1,499	1,535	3,000	3,000	1,227	EBIT - Metallurgical Coal -	451	783	1,450	1,245	1,407
Long-term debt	12,816	11,904	8,482	4,112	1,227	EBIT - Thermal Coal	721	710	1,179	1,348	1,773
Provisions & other liab	9,529	10,296	9,426	9,912	10,407	EBIT - Other mining and	410	613	222	200	203
Total liabilities	28,239	28,685	26,285	21,954	18,032	EBIT - Industrial minerals	101	48	-23	53	205
Shareholders' equity	26,121	34,239	42,990	48,126	54,062	EBIT - Gold	0	0	0	0	0
Minority interests	1,948	3,732	3,828	3,842	3,932	EBIT - Mondi	0	0	0	0	0
Total equity	28,069	37,971	46,818	51,968	57,994	EBIT - Exploration	-172	-136	-121	-160	-160
Net debt	10,681	6,661	1,024	-793	-3,886	EBIT - Corporate	-146	-181	-131	-250	-330
Net debt to equity (%)	38.1	17.5	2.2	-1.5	-6.7	Less: Equity accounted	-580	-1,255	-1,625	-1,389	-1,315
						EBIT - total segments	4,382	8,508	9,596	10,304	12,309

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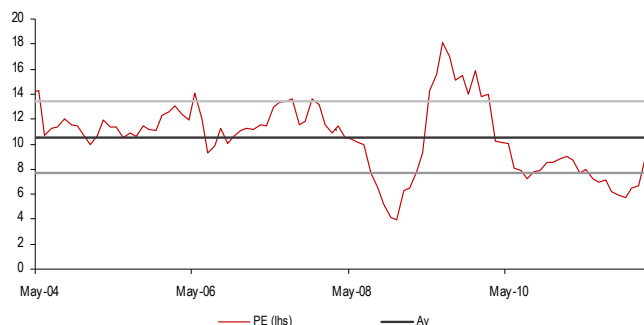
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Downgrade to Neutral

Anglo American is trading in line with its historical P/E range relative to the UK market but at a premium to UK peers. We believe now may be a good opportunity for investors to take some profits given:

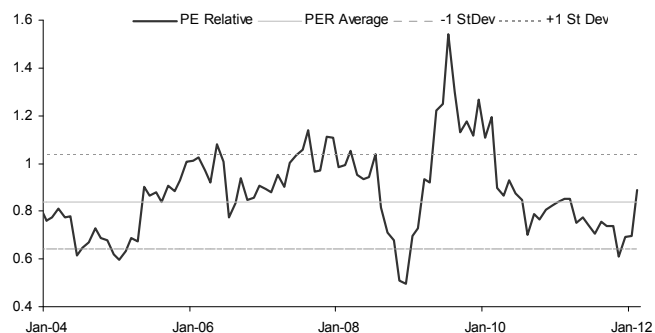
- unattractive relative valuations
- negative earnings momentum with more downside potential
- comparatively lower dividend yield,
- lag vs. major peers in terms of efficiency and productivity
- ongoing operational performance issues with Anglo Platinum
- significant cost pressure at Kumba Iron Ore due to increasing mining complexity
- ongoing issues at Minas Rio
- risk of higher taxation in South Africa

Figure 1. One-year fwd consensus P/E absolute Anglo American



Source: Datastream, CIRA

Figure 2. One-year fwd consensus P/E relative to the UK market

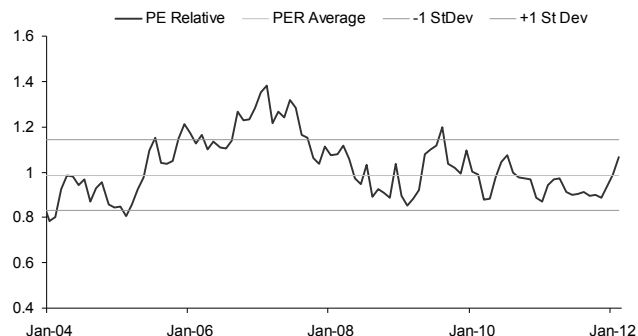


Source: Datastream, CIRA

1. Unattractive relative valuation

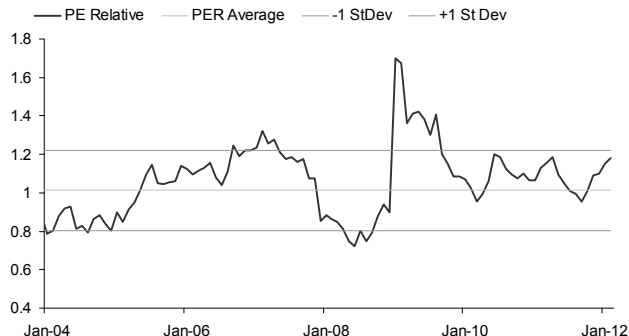
Anglo is trading at a higher one-year forward P/E multiple than both its large diversified peers (Figure 3 and Figure 4). Importantly, Anglo is trading close to one standard deviation above its historical 10-year average.

Figure 3. Anglo one-year fwd consensus PE versus BHPB



Source: Datastream, CIRA

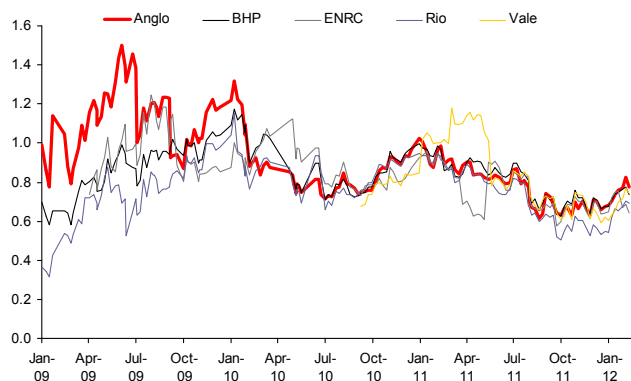
Figure 4. Anglo one-year fwd consensus PE versus Rio



Source: Datastream, CIRA

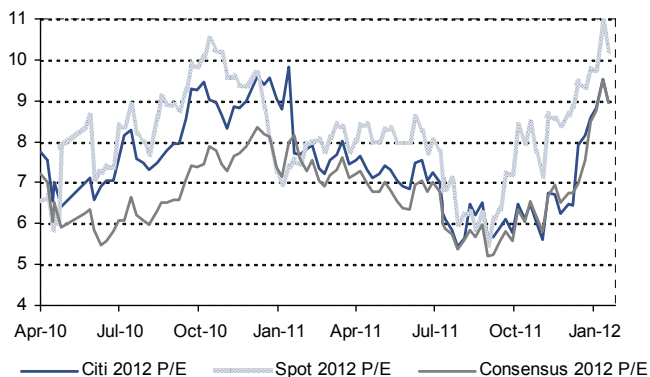
On a price to NPV basis we estimate Anglo is also trading at a slight premium to other diversified peers.

Figure 5. Anglo American price to calculated NPV



Source: CIRA estimates

Figure 6. Anglo American forward PE

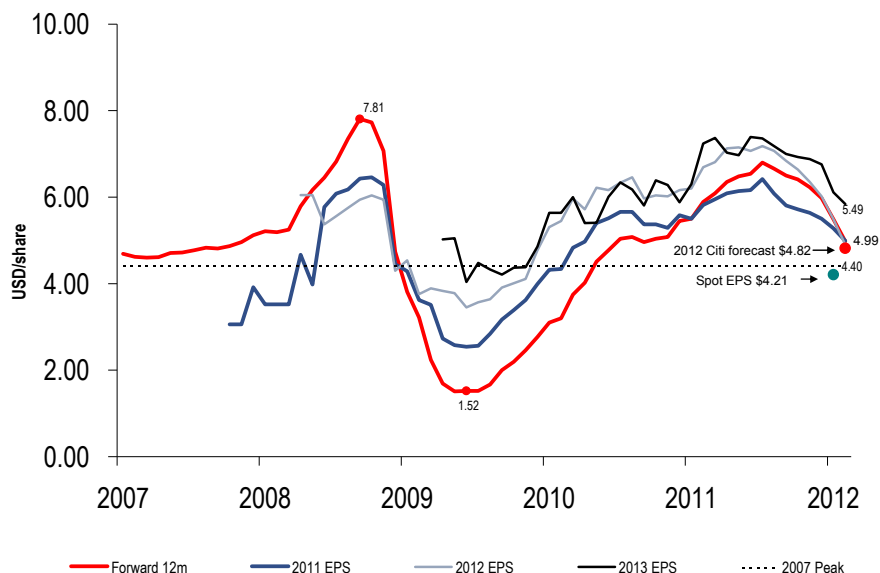


Source: Datastream, IBES, CIRA

2. Negative earnings momentum

Anglo's earnings forecast momentum has turned negative and we estimate that forecasts could fall another 16% if spot commodity prices and exchange rates persist. A stubbornly strong rand (R7.70 to the US\$ vs. our forecast of R8.35) is the biggest challenge. This could make relative valuations even less attractive.

Figure 7. Anglo American's consensus EPS over time

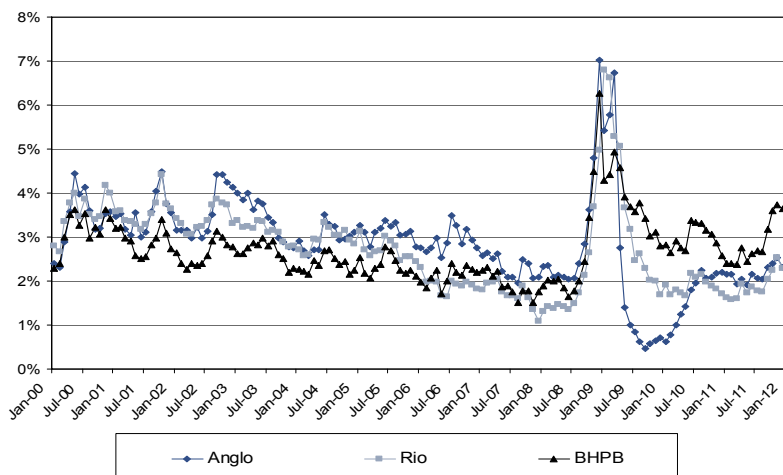


Source: Datastream, CIRA estimates

3. Uncompetitive dividend yield

Anglo's dividend yield is also less attractive than diversified peers'.

Figure 8. One-year forward consensus dividend yield – majors



Source: Datastream

4. Lagging in terms of efficiency

Anglo American ranked 8th in our 16 January efficiency and productivity analysis, *Sweating for Success*, behind major peers. We believe management teams and asset portfolios with proven track records are better positioned to continue delivering sustainable value creation through the cycle.

Figure 9. Mining company report card (1 = best, 17 = worst)

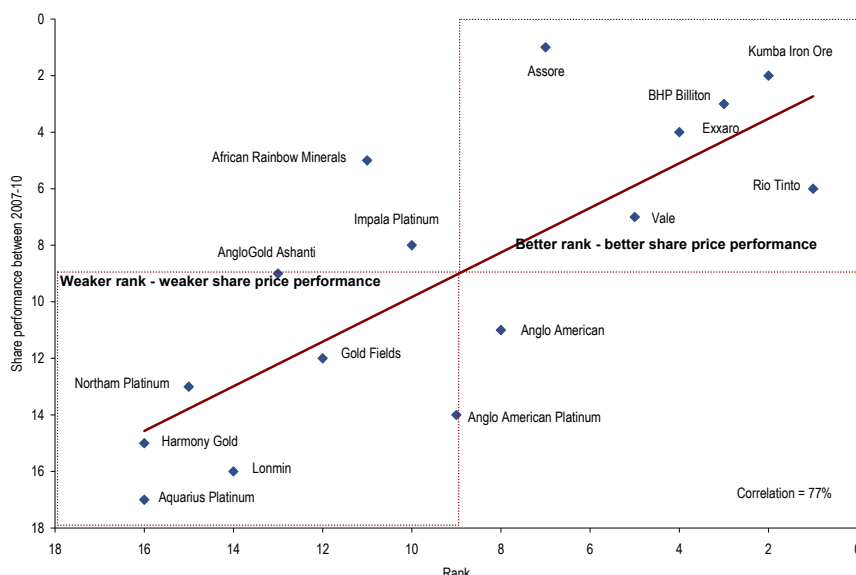
Rank Company	Production growth	Productivity	Cost control	Safety	Avg. Revenue per employee	Avg. EBITDA per employee	Asset utilization efficiency	Total score (lowest = best)
1 Rio Tinto	5	1	14	3	1	2	3	29
2 Kumba Iron Ore	1	5	15	2	4	3	2	32
3 BHP Billiton	7	2	12	7	2	1	4	35
4 Exxaro	2	3	9	6	7	8	1	36
5 Vale	6	5	3	1	5	5	15	40
6 Assore	4	9	6	10	8	6	4	47
7 Anglo American	12	3	5	4	6	7	14	51
8 Anglo American Platinum	8	5	7	14	10	12	9	65
9 Impala Platinum	11	13	1	15	11	10	9	70
10 African Rainbow Minerals	3	15	17	16	9	9	7	76
11 Gold Fields	14	13	18	4	14	14	8	85
12 AngloGold Ashanti	15	9	13	17	12	16	6	88
13 Lonmin	13	16	8	12	16	15	11	91
14 Northam Platinum	10	12	16	9	15	13	17	92
15 Aquarius Platinum	17	17	10	11	13	11	15	94
16 Harmony Gold	16	9	11	13	17	17	11	94

Source: Citi Investment Research and Analysis

Our key conclusions from *Sweating for Success* were:

- Miners that performed strongly in our analysis have generally shown good relative share price performance (Figure 10). We believe this relationship will hold into the future.
- **Success starts with strategy** — Our analysis suggests that: 1) companies should focus on industries with strong fundamentals, 2) assets should be competitively positioned to maximize margins through the cycle, 3) scale benefits drive productivity, 4) opencast trumps underground.
- **Discipline and performance culture** — Strong management is required to drive consistent productivity and efficiency improvements to offset industry challenges such as increasing mining complexity and grade decline. Revenue should be maximized for each unit of cost. Safety performance has an increasing impact on miners' productivity and bottom line.
- **And don't overpay** — Poor capital allocation is a key risk now that many miners have strong balance sheets and healthy cash generation. We analysed miners' asset turnover and return on incremental investment, which provides a track record for capital allocation.

Figure 10. Relationship between miners performance ranking* and 2007-10 share performance*



* 1 = best; 16 = worst

Source: DataStream, Citi Investment Research and Analysis

5. Issues at Anglo American Platinum

Times are tough for Anglo American Platinum (AMS). We believe its disappointing FY11 results support our cautious view on the stock. We argue the company is not well positioned to deal with current adverse market conditions, nor for when things improve. Continuing with 'business-as-usual' should not be an option. Rather, a revision of strategy is required, in our view. Citi maintains a Sell on AMS and reduced its target price by 7% to R510 on 14 February – see our report "Desperate Times Call for Desperate Measures – Sell".

Below, we provide an excerpt from our recent note "[Steering the Ship through Stormy Waters](#)".

Overview of current strategy

Focused on capital efficiency

AMS's strategy is based on managing capital spend in order to meet rising PGM demand (estimated at 4% p.a. by AMS) and improve its overall market share while spending as little capital as possible. In essence, it sequences its growth opportunities on the basis of capital efficiency. The five opportunities as described by AMS in order of capital priority are:

- **Rustenburg UG2 optimisation (near term):** AMS has historically extracted mainly Merensky reef at Rustenburg, now leaving the opportunity to go back and mine the shallow UG2 ore body. Given the shallow nature of Rustenburg's remaining UG2, it should (in theory) be beneficial from a capital and operating cost point of view to focus on this reef going forward.
- **Mogalakwena (near term):** As an open pit mine with extensive reserves and resources, Mogalakwena has the potential to become a substantial low-cost mine within AMS's stable, should market conditions allow. AMS claims that it has

improved its capacity to process the difficult Platreef ore, and that community issues are being resolved.

- **Unki (near to medium term):** Unki is a low-cost mine in Zimbabwe with significant reserves and significant ramp-up potential in the longer term. Its phase I is in ramp-up and will likely achieve steady state production of 141 ounces (4E) by 2013. Further longer-term expansion potential exists.
- **Eastern Limb (medium term):** AMS has an extensive undeveloped footprint on the Eastern Limb. Projects such as Twickenham, der Brochen and Ga-Pasha provide AMS with production flexibility in the medium to longer term.
- **Western Limb deep shafts (longer term):** AMS has multiple deep shaft opportunities on the Western Limb. Even though these projects are currently marginal to uneconomical, AMS believes that PGM prices will likely prove these projects feasible in 10-20 years' time. Opportunities 1-4 above provide AMS with the flexibility to wait for prices to move higher before committing to these higher capex and higher opex projects.

Below, we assess how this strategy compares with what we believe the optimal strategy for AMS's shareholders is.

Focus should be on margin, not size

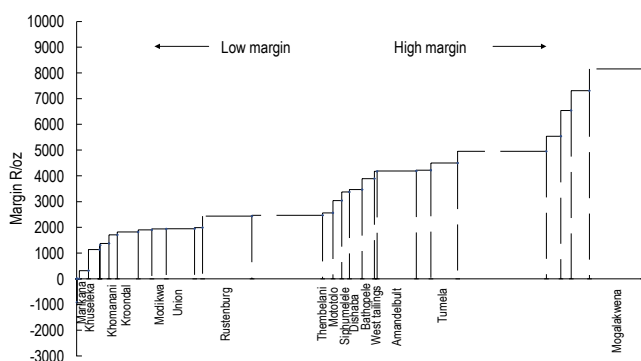
Strategy not optimal and based on overly optimistic outlook on the market

More can be done to reduce costs and improve margins.

We believe that AMS's strategy is not optimal for shareholders and is based on an overly optimistic outlook on the platinum industry (4% p.a. growth in demand). In our view, it should seek to improve margin, even at the expense of size.

It finds itself in the unique position of having good-quality, high-margin operations like Mogalakwena and Amandulbult while four of its other operations are burning cash at current rand prices (*Figure 12*). These include Thembelani, Khuseleka, Khomanani, and Marikana. This dispersion of assets, together with its relative size in the industry, puts it in a predicament. It cannot ramp-up its best asset, Mogalakwena, without pushing the currently cash-burning assets further off the cost curve.

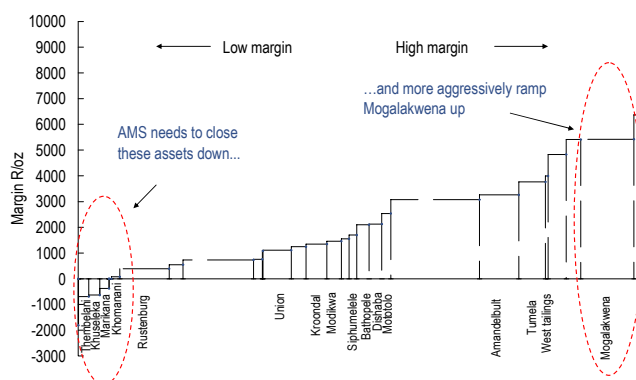
Figure 11. AMS 1HCY12E EBITDA margin chart* (R/ounce, based on 10 January 2012 spot commodity prices)



Source: Citi Investment Research and Analysis

*Including the effect of individual mine prill splits and base metal credits

Figure 12. AMS 1HCY12E FCF margin chart* (R/ounce, based on 10 January 2012 spot commodity prices)



Source: Citi Investment Research and Analysis

*Including the effect of individual mine prill splits and base metal credits

Figure 13. Assessment of AMS's strategy vs. CIRA view

Mine	Strategy							Relative to Citi	Comment
	Sell	Close	Transform	Reduce capex	Business as usual	Grow	M&A		
Bathopele			AMS/Citi	AMS/Citi				✓	
Khomanani		Citi	AMS	AMS				✗	Is cash burning with limited turnaround potential
Thembelani		Citi	AMS	AMS				✗	Is cash burning with limited turnaround potential
Khuseleka		Citi	AMS	AMS				✗	Is cash burning with limited turnaround potential
Siphumelele			AMS/Citi	AMS/Citi				✓	
Tumela					AMS/Citi			✓	
Dishaba					AMS/Citi			✓	
Union					AMS/Citi			✓	
Mogalakwena						AMS/Citi		✓	Even though correct, AMS should ramp up more aggressively
Twickenham		AMS/Citi						✓	
Unki						AMS/Citi		✓	
Modikwa					AMS/Citi			✓	
Kroondal					AMS/Citi			✓	
Marikana	Citi	Citi			AMS			✗	Currently at break even. In danger of worse.
Mototolo					AMS/Citi			✓	
WLTR					AMS/Citi			✓	

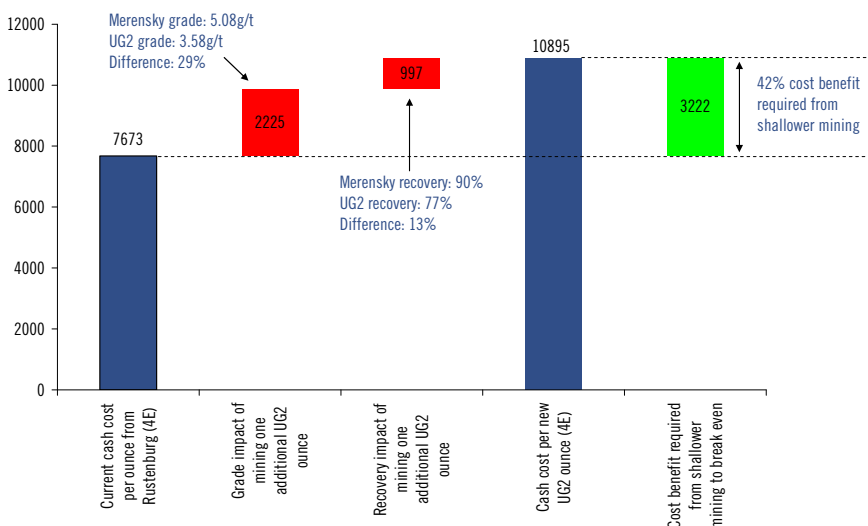
Source: Citi Investment Research and Analysis, company reports

We therefore believe the focus should be on margin rather than size. We believe AMS will benefit from closing low-margin and cash-burning assets Khomanani, Thembelani and Khuseleka.

Mining lower grade and shallower UG2 ounces not the answer, in our view

Attempting to turn around these assets (AMS's current strategy) by mining more UG2 ore is unlikely to yield results. This is as Rustenburg's UG2 ore is 29% lower in grade than its Merensky ore (Merensky 5.08g/t vs. UG2 3.58g/t, 4E) and typically achieves 13% lower recoveries (Merensky 90% recovery vs. UG2 77%). This implies that a 42% operating cost benefit is required in order to justify mining one additional ounce of shallower UG2 vs. deeper Merensky (Figure 14).

Figure 14. Estimated cost benefit required to justify mining one additional ounce of shallower UG2 at Rustenburg (R/ounce, 3PGE+Au)



Source: Citi Investment Research and Analysis

The additional benefit of closing these shafts would be that AMS could focus on replacing these ounces by more aggressively ramping up production at high-margin mines like Mogalakwena and Unki.

A potential sale of its stake in Marikana would also make sense, in our view.

6. Issues at Kumba Iron Ore

We remain cautious on Kumba Iron Ore due to: 1) the strong recent share price rally 2) lack of visibility on production growth beyond Kolomela, 3) declining iron ore prices, 4) pressure on costs due to increasing mining complexity, and 5) potential for poor capital allocation (African growth strategy). On 10 February we cut our target price for Kumba by 4% to R430.

Costs escalating rapidly

Kumba has to increase waste mining by 30Mtpa over the next three years. Management guided that product costs per tonne could increase by 10%p.a., excluding inflation, as a result. Our mining cost inflation forecasts of 11% and lower after 2011 could therefore be too light.

Figure 15. Analysis of Kumba's unit costs in rand terms

FYE December	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
Total tonnes mined (Mt)	148	207	246	267	317	304	280	270
% change year on year	22%	40%	19%	9%	19%	-4%	-8%	-4%
Mining and beneficiation costs per tonne mined (rand)	28	24	28	31	33	37	42	44
% change year on year	-6%	-14%	17%	11%	4%	14%	12%	5%
Stripping ratio - Sishen	1.77	2.00	2.63	2.80	3.20	3.70	3.60	3.50
Cash costs/tonne (rand)								
Mining and beneficiation costs	102	116	160	176	195	215	222	227
% change year on year	-7%	14%	38%	10%	11%	10%	3%	2%
Selling, rail and port costs	83	84	100	116	127	136	138	139
Mining royalties	0	40	47	53	48	46	44	45
Total FOB cash costs per tonne	185	240	307	344	370	396	404	411
% change year on year	-3%	30%	28%	12%	7%	7%	2%	2%

Source: Company Reports and CIRA Estimates

We forecast only a 2% decline in 2012 unit cash costs in US\$ terms, due mostly to our 15% weaker rand forecast. Our forecasts beyond 2012 are below 4%p.a, which likely poses upside risk given increasing mining complexity. We believe export EBITDA margins may have peaked at 74% in 2010. Note that cash costs have almost doubled since 2009, due partly to the introduction of royalties in 2010.

Figure 16. Analysis of Kumba's unit costs and margins in US\$ terms

FYE December	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
Mining and beneficiation costs	12	16	22	21	22	24	24	24
Selling, rail and port costs	10	12	14	14	15	15	15	15
Mining royalties	0	5	7	6	5	5	5	5
Total FOB cash costs per tonne (USD)	22	33	42	41	42	44	44	43
% change	-3%	49%	28%	-2%	3%	3%	0%	0%
EBITDA margin on export iron ore	66%	74%	73%	70%	65%	61%	59%	60%

Source: Company Reports and CIRA Estimates

7. Potential for higher taxes in South Africa

While damaging noises about nationalization of South African mines have faded away, miners could face higher taxes in future. The ANC has responded to calls for nationalisation with a report that considers ways for SA to use its mineral wealth to drive development. It allegedly proposes a resource rent tax. Our take is that it is far too early to come to any conclusions and that no mining tax will be implemented without industry consultation.

Figure 17 below shows total taxes that mining companies pay in different countries (including royalties). South African miners pay around 36% of EBIT in taxes (excluding STC), which is below rates in the USA (42%), Australia (43%) and Brazil (41%). Given that SA's taxes are slightly lower than other mining regions, there could be upside risk here.

Higher taxes could mean more value generation for all stakeholders.

Higher taxes are the lesser of two evils, in our view, but could also have a negative impact on our valuation and investor sentiment.

Figure 17. Comparison of total tax burdens globally

	Russia	Australia - excl MRRT	Chile	USA	Brazil	China	Peru	South Africa	Canada
Revenue (\$)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Royalty (\$)	5.5	5.2	5.0	3.2	3.1	3.1	3.0	3.5	2.0
Cost (\$)	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
EBITDA (\$)	44.5	44.8	45.0	46.8	46.9	46.9	47.0	46.5	48.0
D&A (\$)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
EBIT (\$)	40.5	40.8	41.0	42.8	42.9	42.9	43.0	42.5	44.0
Tax (\$)	8.1	12.2	8.2	15.0	14.6	10.7	12.9	11.9	13.6
Profit (\$)	32.4	28.6	34.0	27.8	28.3	32.2	31.4	30.6	35.2
Total tax (\$)	13.6	17.4	13.2	18.2	17.7	13.8	15.9	15.4	15.6
Total tax - % of EBIT	34%	43%	32%	42%	41%	32%	37%	36%	36%
Average royalty	5.5%	5.2%	5.0%	3.2%	3.1%	3.1%	3.0%	3.5%	2.0%
Corporate tax rate	20%	30%	20%	35%	34%	25%	30%	28%	18%
Provincial tax rate	0%	0%	0%	0%	0%	0%	0%	0%	13%

Source: USGS, Ernst & Young and Citi Investment Research and Analysis

Commodity price and exchange rate forecasts

The table below presents Citi's commodity price and exchange rate forecasts.

Figure 18. Commodity price and exchange rate forecasts (average per calendar year)

Average per calendar year	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	LT (Real)
Precious commodities													
Silver (US\$/oz)	14.80	20.72	36.02	29.75	27.13	24.13	21.13	18.13	17.00	17.26	17.67	18.10	15.00
Platinum (US\$/oz)	1,203	1,612	1,720	1,609	1,675	1,725	1,700	1,738	1,781	1,826	1,871	1,918	1,550
Palladium (US\$/oz)	263	526	733	775	925	900	850	695	712	730	748	767	620
Rhodium (US\$/oz)	1,594	2,455	2,014	1,650	1,850	2,500	3,000	3,475	3,562	3,651	3,742	3,836	3,100
3PGM basket (US\$/oz) (63%Pt,30%Pd,7%Rh)	948	1,345	1,444	1,362	1,462	1,532	1,536	1,546	1,585	1,625	1,665	1,707	1,380
Base metals													
Aluminium (US\$/tonne)	1,664	2,173	2,398	2,275	2,525	2,600	2,550	2,522	2,585	2,650	2,716	2,784	2,250
Aluminium (US cents/lb)	75	99	109	103	115	118	116	114	117	120	123	126	102
Copper (US\$/tonne)	5,148	7,536	8,811	7,825	8,527	8,200	8,000	6,950	7,124	7,302	7,485	7,672	6,200
Copper (US cents/lb)	234	342	400	355	387	372	363	315	323	331	339	348	281
Nickel (US\$/tonne)	14,653	21,833	22,842	19,500	22,819	24,650	24,000	22,420	22,980	23,555	24,144	24,747	20,000
Nickel (US cents/lb)	665	990	1,036	885	1,035	1,118	1,089	1,017	1,042	1,068	1,095	1,123	907
Zinc (US\$/tonne)	1,654	2,160	2,190	2,050	2,295	2,525	2,400	2,354	2,413	2,473	2,535	2,598	2,100
Zinc (US cents/lb)	75	98	99	93	104	115	109	107	109	112	115	118	95
Lead (US\$/tonne)	1,720	2,148	2,397	2,150	2,400	2,600	2,500	2,466	2,528	2,591	2,656	2,722	2,200
Lead (US cents/lb)	78	97	109	98	109	118	113	112	115	118	120	123	100
Uranium (US\$/lb)	47	46	56	50	50	50	50	56	57	59	60	62	50
Steelmaking materials													
Iron ore spot (CIF China) (US\$/t)	85	152	175	149	135	125	120	115	110	108	105	105	81
Iron ore fines (FOB) (US\$/dmu)	109	177	262	219	194	175	167	156	148	144	140	140	111
Iron ore fines (FOB) (USD/tonne)	69	112	166	139	123	111	106	99	94	91	89	89	71
Iron ore lump (FOB) (US\$/dmu)	134	196	288	241	213	192	183	171	162	158	154	154	120
Iron ore lump (FOB) (USD/tonne)	85	125	183	153	135	122	116	109	103	100	98	98	76
Hard coking coal (US\$/tonne)	172	191	289	256	248	240	230	215	222	226	231	235	200
Semi soft benchmark (US\$/tonne)	116	139	210	173	168	168	159	146	151	154	157	160	150
Manganese ore - CIF (US\$/mtu)	5.43	7.71	6.07	6.00	6.00	6.00	6.00	5.83	5.96	6.08	6.20	6.32	5.20
Ferro manganese - CIF (US\$/tonne)	1,267	1,449	1,385	1,200	1,300	1,300	1,300	1,457	1,489	1,519	1,550	1,581	1,300
Ferrochrome (US\$/lb)	0.93	1.24	1.26	1.25	1.00	1.00	1.00	1.12	1.15	1.17	1.19	1.22	1.00
Energy													
Richards Bay thermal coal (US\$/tonne)	65	92	117	120	139	153	149	144	145	148	151	154	109
Heavy minerals													
Rutile (US\$/tonne)	535	538	839	2,525	2,600	2,600	2,600	617	630	643	656	669	550
Zircon (US\$/tonne)	947	942	1,880	2,500	2,600	2,600	2,600	953	974	993	1,013	1,034	850
Synrutilite (US\$/t)	438	441	687	2,050	2,100	2,100	2,100	561	536	546	557	569	500
Titanium Slag (US\$/tonne)	307	333	574	1,502	1,538	1,538	1,538	359	367	374	382	389	320
TiO2 Pigment (US\$/tonne)	2,605	2,100	1,918	1,966	2,015	2,065	2,117	2,130	2,177	2,221	2,265	2,311	2,400
Ilmenite (US\$/tonne)	87	75	129	250	250	250	250	135	137	140	143	146	120
Currency exchange rates													
US\$/ZAR	8.40	7.30	7.25	8.35	8.72	9.08	9.47	10.00	10.22	10.58	10.96	11.35	10.00
US\$/AUD	0.79	0.92	1.03	1.03	0.96	0.92	0.89	0.90	0.89	0.87	0.85	0.84	0.90
US\$/EUR	1.39	1.33	1.39	1.38	1.37	1.37	1.36	1.30	1.30	1.29	1.29	1.28	1.30
US\$/CHP	559	502	482	524	547	570	594	613	646	680	716	754	613
US\$/BRL	2.00	1.76	1.67	1.86	1.94	2.02	2.10	2.17	2.29	2.41	2.54	2.67	2.17
US\$/COP	2,156	1,898	1,848	1,982	2,070	2,155	2,246	2,320	2,443	2,573	2,709	2,853	2,320
Inflation													
US CPI index	215	218	225	230	234	239	244	249	254	259	264	269	
US Inflation	0%	2%	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	

Source: I-Net, Bloomberg, CIRA estimates

Key recent publications

Figure 19. Key publications on diversified miners over the past year

Date	Publication	No. of Pages
13-Jan-11	Metals and Mining - The Easy Money Has Been Made*	72
08-Feb-11	Metals & Mining - Supercycle well advanced - Neutral on SA miners	34
14-Feb-11	Metals and Mining - Commodity price upgrades, but near-term peak margins pose risk	40
15-Feb-11	Anglo American (AGLJ.J) - Cyclically-Adjusted PE and Price to Book Suggest Valuation Full	10
4-Apr-11	Metals & Mining - Optimistic long-term iron ore price outlook increases valuations	42
6-Apr-11	Metals & Mining - Strike while the iron is (still) hot?	96
15-May-11	Metals & Mining; Metals & Mining; Metals & Mining - Souring Sentiment Offers Opportunities – Buy Anglo, BHP, ARM	60
20-May-11	Anglo American (AGLJ.J) - Silicosis Liabilities – a Risk to our Positive Investment Stance	10
28-Jun-11	Metals & Mining - Nationalisation – Killing The Goose That Lays The Golden Eggs	19
14-Jul-11	Metals & Mining - Coal and mineral sands boost, but costs spoil the party	26
29-Jul-11	Metals & Mining - The Unions Strike Again	14
1-Aug-11	Anglo American (AGLJ.J) - Cash Flow Kickers Coming	22
10-Aug-11	Metals & Mining - Opportunities in Uncertain Times	16
4-Sep-11	Metals & Mining - Uncertainty and Fear Create Value	52
20-Sep-11	Metals & Mining - Panic Provides	84
1-Nov-11	Metals & Mining - Efficiency Rewards: BHP Performed Best; Anglo Our Top Pick	76
5-Dec-11	Metals & Mining - Offering Value – Anglo is Our Top Pick	64
09-Jan-12	Metals & Mining - Less room for disappointment in 2012	76
16-Jan-12	Metals & Mining - Sweating for Success	120

Source: Citi Investment Research and Analysis

Financial statements and ratio analysis

Figure 20. 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	36,845	38,629	42,361	43,808	44,060	43,779
Cash costs	(21,117)	(17,707)	(20,946)	(23,328)	(24,459)	(25,933)	(26,888)	(27,099)	(28,244)
Underlying EBITDA	11,847	6,930	11,983	13,517	14,170	16,428	16,920	16,961	15,535
Depreciation and amortisation	(1,762)	(1,968)	(2,220)	(2,296)	(2,476)	(2,804)	(3,446)	(3,786)	(3,950)
Underlying EBIT	10,085	4,962	9,763	11,221	11,694	13,624	13,475	13,175	11,586
Items excluded from underlying earnings	(345)	(209)	1,715	3,737	0	0	0	0	0
Net interest	(548)	(435)	(227)	14	295	281	313	676	961
Profit before tax	9,192	4,318	11,251	14,972	11,988	13,905	13,788	13,851	12,546
Taxation	(3,057)	(1,403)	(3,124)	(3,483)	(3,809)	(4,424)	(4,392)	(4,412)	(3,998)
Profit after tax	6,135	2,915	8,127	11,489	8,179	9,481	9,396	9,439	8,548
Minority interest in profit	(920)	(485)	(1,583)	(1,869)	(2,084)	(2,335)	(2,119)	(2,064)	(1,910)
Net profit for the year	5,215	2,430	6,544	9,620	6,095	7,145	7,276	7,375	6,639
Adjustments	22	139	(1,568)	(3,868)	0	0	0	0	0
Underlying earnings	5,237	2,569	4,976	5,752	6,095	7,145	7,276	7,375	6,639
Number of shares (millions)									
Weighted average	1,202	1,202	1,206	1,210	1,210	1,210	1,210	1,210	1,210
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	1,210	1,210	1,210	1,210	1,210	1,210
Underlying EPS (US cents)	436	214	413	476	504	591	601	609	549
Underlying EPS growth (% y-o-y)	-1	-51	+93	+15	+6	+17	+2	+1	-10
Diluted underlying EPS (US cents)	431	210	396	456	482	564	573	580	522
DPS declared (US cents)	44	0	65	75	95	109	126	144	165
Dividend payout ratio	10%	0%	16%	16%	19%	18%	21%	24%	30%
Diluted underlying EPS (pence)	228	130	251	280	286	323	328	332	295
DPS declared (pence)	22	0	42	47	57	63	73	83	94
Diluted underlying EPS (ZAR)	34.66	16.99	28.28	32.76	39.00	49.00	51.00	55.00	52.00
DPS declared (ZAR)	3.36	0.00	4.72	5.53	7.90	9.50	11.40	13.60	16.50
Composition of underlying EBIT (US\$m)									
Platinum	2,169	32	837	692	968	1,373	1,857	1,934	1,994
EBIT margin	34%	1%	13%	9%	14%	18%	23%	24%	24%
Diamonds	508	64	495	720	1,072	1,049	951	808	799
EBIT margin	16%	4%	19%	21%	25%	24%	21%	18%	17%
Copper	1,892	2,010	2,817	2,490	3,020	4,111	3,885	3,487	2,264
EBIT margin	48%	51%	58%	51%	51%	54%	51%	47%	37%
Nickel	123	2	96	145	233	347	412	367	278
EBIT margin	30%	1%	23%	24%	24%	36%	39%	36%	29%
Iron ore and manganese	2,554	1,489	3,681	4,597	3,966	3,647	2,797	3,033	3,215
EBIT margin	62%	44%	56%	57%	51%	47%	37%	40%	38%
Metallurgical Coal (Australia)	1,110	451	783	1,450	1,245	1,407	1,382	1,296	1,097
EBIT margin	36%	20%	23%	33%	27%	28%	27%	25%	20%
Thermal Coal (South Africa)	1,078	721	710	1,179	1,348	1,773	2,232	2,206	1,829
EBIT margin	35%	29%	25%	33%	36%	41%	45%	44%	38%
Other mining and industrial	1,082	511	661	199	253	408	448	484	503
EBIT margin	12%	9%	12%	5%	5%	9%	9%	10%	10%
Exploration	(212)	(172)	(136)	(121)	(160)	(160)	(160)	(160)	(162)
Group and unallocated	(219)	(146)	(181)	(131)	(250)	(330)	(330)	(280)	(233)
Underlying EBIT	10,085	4,962	9,763	11,221	11,694	13,624	13,475	13,175	11,586
Group EBIT margin	31%	20%	30%	30%	30%	32%	31%	30%	26%
Group EBIT margin - core operations	37%	24%	33%	34%	34%	35%	33%	32%	29%
Key Income Statement ratios									
EBITDA margin (%)	36	28	36	37	37	39	39	38	35

Source: Company reports, I-Net, CIRA estimates

We forecast 6% growth in Anglo's 2012E diluted EPS to \$4.82, driven mainly by a 12% increase in copper-equivalent sales volumes, partly offset by lower commodity price forecasts.

Figure 21. 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	49,502	52,791	55,830	56,805	59,114	61,753
Working capital	454	1,810	1,624	2,400	2,877	3,165	3,266	3,280	3,128
Net operating assets	36,183	42,587	48,321	51,902	55,668	58,995	60,071	62,395	64,881
Investments	2,411	3,015	3,606	3,983	4,084	4,184	4,267	4,363	4,464
Cash	2,771	3,269	6,401	10,458	7,905	6,340	8,908	12,719	15,263
Total invested capital	41,365	48,871	58,328	66,343	67,657	69,519	73,245	79,477	84,609
Equity	20,221	26,121	34,239	42,990	48,126	54,062	59,946	65,724	70,536
Minority interest	1,535	1,948	3,732	3,828	3,842	3,932	4,070	4,148	4,040
Debt	13,995	14,315	13,439	11,482	7,112	2,454	0	0	0
Net deferred tax liability	4,297	4,904	5,252	5,940	6,335	6,700	6,817	7,094	7,410
Provisions	1,317	1,583	1,666	2,103	2,242	2,371	2,413	2,511	2,623
Total invested capital (Capital employed)	41,365	48,871	58,328	66,343	67,657	69,519	73,245	79,477	84,609
Key Balance Sheet ratios									
Non-current asset turnover (times)	0.9	0.6	0.7	0.7	0.7	0.8	0.8	0.7	0.7
Net debt - excluding De Beers	11,224	11,046	7,038	1,024	(793)	(3,886)	(8,908)	(12,719)	(15,263)
Net debt - including De Beers	12,822	12,486	7,831	1,546	(459)	(3,552)	(8,573)	(12,385)	(14,929)
Debt: Equity (%)	69	55	39	27	15	5	0	0	0
Gearing (%)	36	30	17	2	(2)	(8)	(17)	(24)	(28)
Gearing - including De Beers (%)	39	32	19	3	(1)	(7)	(17)	(23)	(27)
Working capital turnover (days)	5	27	18	24	27	27	27	27	26
NAV per share (US\$)	17	22	28	36	40	45	50	54	58
NAV per share (ZAR)	139	182	207	258	332	390	450	514	583
Price to book	2.3	1.7	1.5	1.2	0.9	0.8	0.7	0.6	0.5
ROCE (%)	30.6	12.6	21.5	22.4	21.7	23.8	22.6	21.5	18.2
ROIC (%)	20.3	10.5	16.3	17.1	15.8	17.1	15.7	15.3	13.0
Return on equity (%)	24.5	11.1	16.5	14.9	13.4	14.0	12.8	11.7	9.7
ROCE per division (%)									
Platinum	24	0	7	5	8	12	16	17	17
Diamonds	32	5	17	25	38	39	36	30	29
Copper	63	51	51	38	44	57	52	45	28
Nickel	9	0	5	6	9	14	16	14	10
Iron ore and manganese	38	14	33	36	28	23	18	19	21
Coal	57	27	27	42	38	41	43	39	28
Other mining and industrial	17	10	15	5	6	10	11	12	12

Source: Company reports, I-Net, CIRA estimates

Since the depths 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\$8.7 billion (including 24.5% of Sur), we think Anglo's net debt could fall to around US\$1.5bn by the end of 2011E, implying a negligible debt gearing ratio of around 3%. This would be a major improvement from 2008's net debt level (including De Beers) of US\$12.8bn (39% gearing ratio).

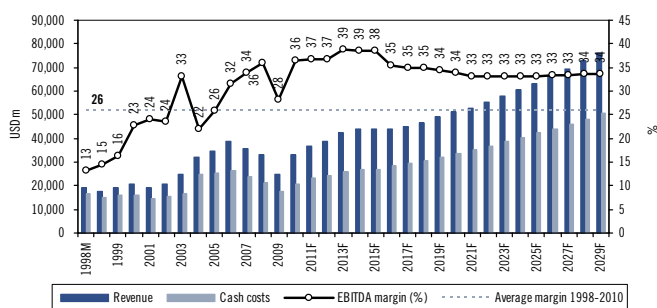
Figure 22. Anglo American's free cash flow statement – proportionately consolidated

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F
Cash Flow Statement (US\$m)									
Underlying EBITDA	11,847	6,930	11,983	13,517	14,170	16,428	16,920	16,961	15,535
Movements in provisions	235	266	83	437	140	129	41	98	112
Cash tax on EBIT	(3,630)	(1,096)	(2,450)	(3,087)	(3,326)	(3,975)	(4,181)	(3,932)	(3,393)
Movements in working capital	1,196	(1,375)	(98)	(619)	(477)	(287)	(101)	(14)	153
Operating cashflow	9,648	4,726	9,518	10,247	10,506	12,295	12,680	13,112	12,407
Capex (net of disposals)	(14,823)	(4,116)	(5,262)	(5,101)	(5,765)	(5,843)	(4,421)	(6,095)	(6,589)
Exceptional items (net of tax)	(251)	(21)	1,605	3,877	0	0	0	0	0
Free cash flow	(5,426)	588	5,861	9,023	4,741	6,451	8,259	7,017	5,818
Non-operating cash flow (net of tax)	2,982	(244)	(193)	112	546	435	386	611	806
Cash available to providers of capital	(2,444)	344	5,668	9,135	5,287	6,886	8,645	7,628	6,624
Interest paid (net of tax)	(796)	(664)	(557)	(479)	(441)	(339)	(249)	(234)	(235)
Net payments to minority shareholders	(1,254)	(72)	201	(1,773)	(2,070)	(2,245)	(1,982)	(1,985)	(2,018)
Equity shareholders' cash	(4,494)	(392)	5,312	6,883	2,776	4,303	6,413	5,408	4,372
Dividends and share buy backs	(2,106)	21	(302)	(834)	(958)	(1,210)	(1,392)	(1,597)	(1,827)
Other movements in equity	546	549	(1,002)	(35)	0	0	0	0	0
Advances (repayments) of debt	5,696	320	(876)	(1,957)	(4,370)	(4,658)	(2,454)	0	0
Increase (decrease) in cash	(358)	498	3,132	4,057	(2,552)	(1,565)	2,568	3,811	2,545
Key Cash Flow ratios									
EV/EBITDA	6	10	5	5	5	4	4	4	4
Capex/EBITDA (%)	125	59	44	38	41	36	26	36	42
Replacement cost margins (%)	(9)	11	20	23	22	25	29	25	20
Free cash flow growth rate (%)	-234	+111	+896	+54	-47	+36	+28	-15	-17
Free cash flow yield at GBP25/share	-8.2%	0.9%	8.9%	13.7%	7.2%	9.8%	12.5%	10.7%	8.8%
Equity shareholders' cash/market capitalisation		-0.8%	10.2%	13.2%	5.3%	8.3%	12.3%	10.4%	8.4%
Net debt/EBITDA (times)	1.1	1.8	0.7	0.1	0.0	-0.2	-0.5	-0.7	-1.0

Source: Company reports, I-Net, CIRA estimates

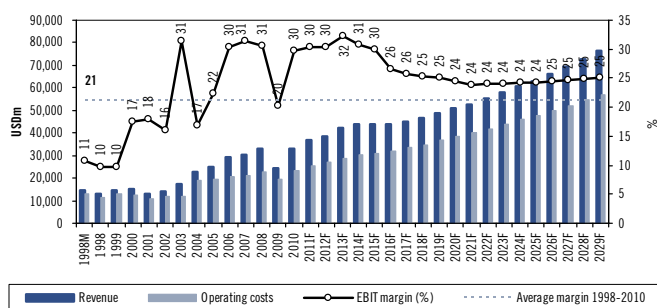
We expect Anglo American to generate US\$10.5 billion in operating cash for FY12 (US\$61 billion over 2012-16E), which underscores very comfortable cover on capital commitments and progressive dividends. Average free cash flow yield is 9.8%, on our estimates, and we expect the company to deploy 36% of its EBITDA to capex over next five years.

Figure 23. Anglo American's revenue, cash costs and EBITDA margin



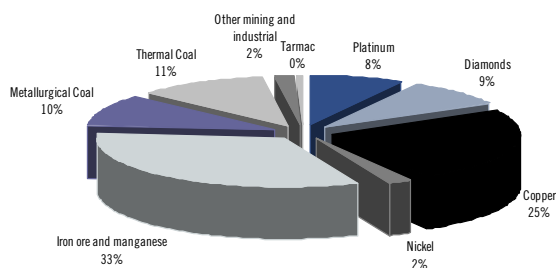
Source: Company reports, CIRA estimates

Figure 24. Revenue, operating costs and EBIT margin – core operations



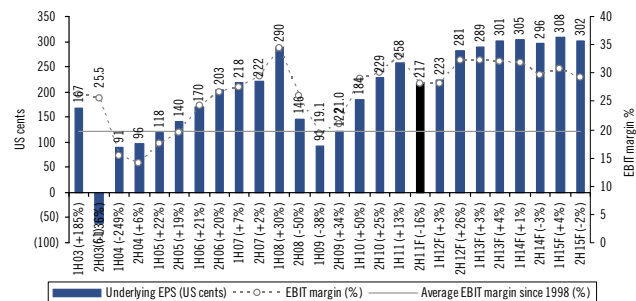
Source: Company reports, CIRA estimates

Figure 25. Contribution to AGL's FY12E EBIT



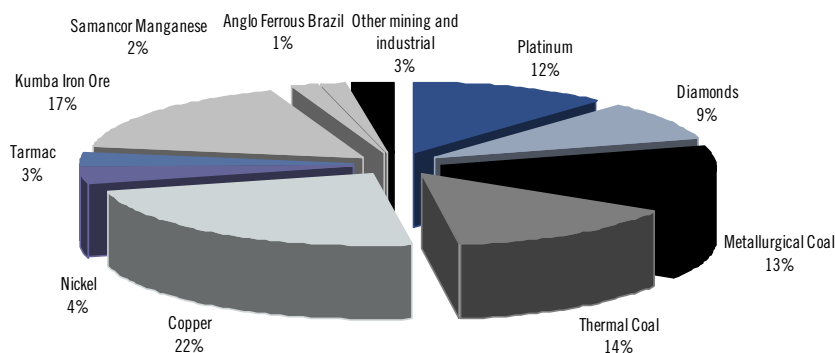
Source: Citi Investment Research and Analysis

Figure 26. Anglo American's half-yearly HEPS profile



Source: Company reports, CIRA estimates

Figure 27. Contribution to Anglo American's NPV



Source: CIRA estimates

Figure 28. AGL's DCF valuation per division

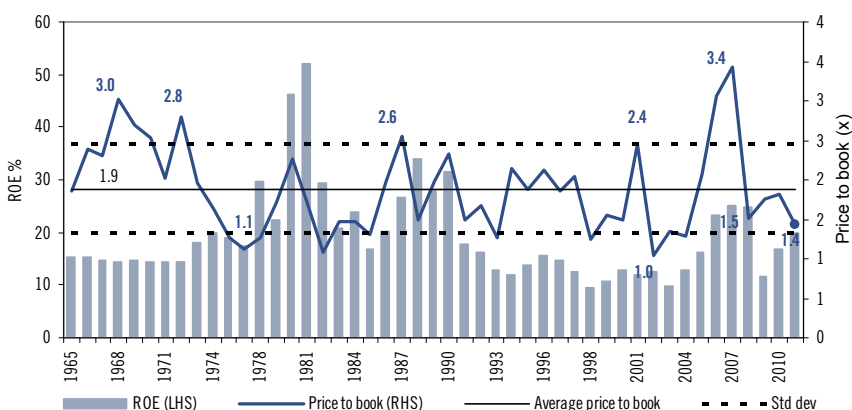
	Fair value (US\$m)	Value per sh. (ZAR)	% of value
Platinum	8,335	56	12%
Diamonds	6,258	42	9%
Metallurgical Coal	9,341	63	13%
Thermal Coal	9,857	66	14%
Copper	16,507	111	23%
Nickel	2,474	17	4%
Tarmac	2,032	14	3%
Kumba Iron Ore	11,808	79	17%
Samancor Manganese	1,284	9	2%
Anglo Ferrous Brazil	891	6	1%
Other mining and industrial	1,833	12	3%
Exploration	(1,324)	(9)	-2%
Corporate activities and exceptional items	1,172	8	2%
Total enterprise value excluding minority interests	70,467	474	100%
Net debt as at 31 December 2010	(6,892)	(46)	
Cash used in share buy-backs	0	0	
Investments as at 31 December 2010	3,606	24	
Equity value as at 14-2-2012	67,181	451	

Source: CIRA estimates

We think several operational challenges could weigh on Anglo's shares in the medium term: 1) ongoing operational issues at Anglo Plat, 2) significant cost pressure at Kumba Iron Ore due to increasing mining complexity, 3) ongoing issues at Minas Rio, 4) potential for higher taxes in South Africa, 5) potentially negative news flow from Anglo Sur relating to Codelco's option to acquire 49%. Given these risks, we now include a P/E element in our valuation to reflect what we expect to be a greater market focus on the near-term outlook. Consequently, our target price falls to R380 from R420.

Our target price for Anglo is now based on a 50/50 weighting of our DCF fair value today £35 (R451) and a P/E derived value of £26 (R315), whereby we apply a 10x PE multiple to 2012E earnings.

Figure 29. Anglo American's price to book history (RHS) and ROE (LHS)



Source: Company reports, I-Net, CIRA estimates (2011)

Production growth of 40% by 2020E

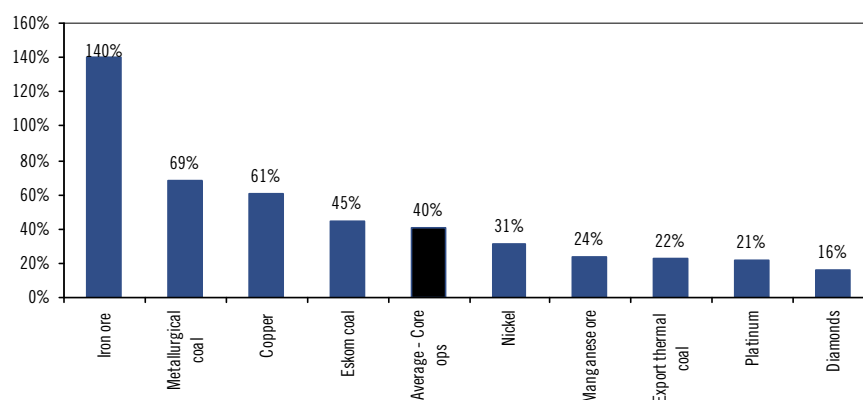
Anglo American estimates its project pipeline at US\$70bn and management believes these projects have the potential to double production over the next decade.

Anglo looks to offer attractive production growth in key commodities to 2020E, 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 estimate its copper-equivalent production growth from core operations at 40% to 2020. We forecast 2011-20 production growth of 140% for iron ore, 69% for metallurgical coal, 61% for copper and 45% for energy coal. Our estimate of overall growth is weighed down by low growth in its platinum (+21%) and diamonds (+16%) divisions.

Figure 30. Anglo's production growth per commodity, CY11-20E



Source: CIRA estimates

Figure 31. 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	2,530	2,600	2,700	2,800	2,800	2,835
% change	-5	+3	+5	-2	+3	+4	+4	+0	+1
Palladium (000 ounces)	1,319	1,361	1,449	1,431	1,497	1,553	1,610	1,611	1,631
% change	-6	+3	+6	-1	+5	+4	+4	+0	+1
Rhodium (000 ounces)	299	350	329	338	327	341	354	354	358
% change	-10	+17	-6	+3	-3	+4	+4	-0	+1
Gold ('000 ounces)	79	91	81	107	91	95	98	98	99
% change	-96	+16	-11	+32	-15	+4	+4	+0	+1
Diamonds (million carats)	48	25	33	31	36	36	36	36	36
% change	-6	-49	+34	-5	+16	+0	+0	-2	+0
Energy coal - power utilities (mt)	36	36	36	35	34	34	34	34	34
% change	+6	+0	+0	-3	-3	+0	+0	+0	-2
Energy coal - export quality (mt)	49	47	47	46	48	48	50	51	51
% change	-6	-3	-1	-2	+4	+2	+3	+2	+0
Metallurgical coal (mt)	15	14	16	14	16	17	18	19	22
% change	+32	-5	+14	-10	+14	+7	+4	+5	+16
Total coal (million tonnes)	100	97	99	95	98	100	102	104	106
% change	+3	-2	+2	-4	+3	+2	+2	+2	+2
Copper - Copper segment ('000 tonnes)	642	672	626	602	750	890	936	936	876
Copper - Angloplat ('000 tonnes)	9	11	11	13	12	12	13	13	13
Total copper (incl Angloplat) ('000 tonnes)	651	683	636	614	762	902	949	949	889
% change	-2	+5	-7	-3	+24	+18	+5	+0	-6
Nickel - Nickel segment ('000 tonnes)	20	20	20	29	50	42	42	42	42
Nickel - Angloplat ('000 tonnes)	16	20	19	20	18	19	20	20	20
Nickel (incl Angloplat) ('000 tonnes)	36	39	39	49	68	61	62	62	62
% change	-21	+11	-2	+28	+38	-10	+1	+0	+0
Zinc (000 tonnes)	341	350	350	23	0	0	0	0	0
% change	-1	+3	-0	-94	-100	-	-	-	-
Lead (000 tonnes)	63	68	71	8	0	0	0	0	0
% change	+1	+9	+4	-88	-100	-	-	-	-
Iron ore - Kumba (million tonnes)	37	42	43	41	48	53	52	52	55
% change	+13	+14	+3	-4	+15	+11	-1	+0	+5
Iron ore - Amapa and Minas Rio (million tonnes)	1	3	4	5	5	5	9	16	31
% change	-	+273	+52	+12	+4	+6	+80	+78	+91
Total iron ore (million tonnes)	37	45	47	46	52	58	61	68	85
% change	+15	+19	+6	-3	+14	+10	+6	+11	+25
Manganese ore (000 tonnes)	2,704	1,570	2,953	2,787	3,000	3,000	3,000	3,000	3,057
% change	+12	-42	+88	-6	+8	+0	+0	+0	+2
Manganese alloys (000 tonnes)	306	129	312	301	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, CIRA estimates

Prices/ratings for other stocks mentioned: Anglo American Platinum Ltd (AMSJ.J; R559.00; 3); AngloGold Ashanti Ltd (ANGJ.J; R350.50; 2); Aquarius Platinum Ltd (AQP.L; £1.43; 2); African Rainbow Minerals (ARIJ.J; R191.50; 1); Assore Limited (ASRJ.J; R248.50; 1); BHP Billiton PLC (BLT.L; £20.75; 1); Eurasian Natural Resources Corporation PLC (ENRC) (ENRC.L; £7.13; 1); Gold Fields Ltd (GFIJ.J; R128.00; 3); Harmony Gold Mining Co. Ltd (HARJ.J; R98.66; 3); Impala Platinum (IMPJ.J; R168.44; 1); Kumba Iron Ore Ltd (KIOJ.J; R554.79; 3); Exxaro Resources Limited (EXXJ.J; R203.75; 1); Lonmin PLC (LMI.L; £10.39; 2); Northam Platinum (NHMJ.J; R32.21; 1); Rio Tinto PLC (RIO.L; £37.69; 1); Vale (VALE.N; US\$26.24; 1)

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 vs. 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 Neutral. We forecast strong volume growth 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 through a defensive commodity basket and high-margin iron ore copper and coal growth.

However, we believe several operational challenges could weigh on Anglo's share price in the medium term 1) ongoing operational issues at Anglo Plat; 2) significant cost pressure at Kumba Iron Ore due to increasing mining complexity; 3) ongoing issues at Minas Rio; 4) potential for higher taxes in South Africa; 5) potentially negative news flow from Anglo Sur relating to Codelco's option to acquire 49%.

Valuation

Our target price for Anglo is based on a 50/50 weighting of our DCF fair value today £35 (R451) and a P/E derived value of £26 (R315), whereby we apply a 10x PE multiple to 2012E earnings.

We derive our DCF valuation based on: 1) a weighted average cost of capital (WACC) of 9.52%; 2) long-term (2013-23E) nominal revenue growth of 5% per annum; 3) long-term EBITDA margins of 38%; 4) a long-term capex/EBITDA ratio of 41%; 5) long-term ROE of 12%; and 6) a terminal growth rate (after 2023E) of 3.5% (implying an exit P/E multiple of 10x).

Risks

The biggest risks to our earnings forecasts and valuation relate to our commodity price 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. South African miners started paying mining royalties in March 2010, in line with global best practice and market expectations.

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 affect production and mining inflation more than we anticipate. As around 40% of Anglo's assets are in South Africa, this could erode Anglo's global competitiveness.

Over-estimation of mineral reserves could weaken our investment case. We assume long-term reserve replacement at a fixed capital cost to EBITDA. Failure to discover new reserves or expand existing reserves could therefore impact on Anglo's valuation.

Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Appendix A-1

Analyst Certification

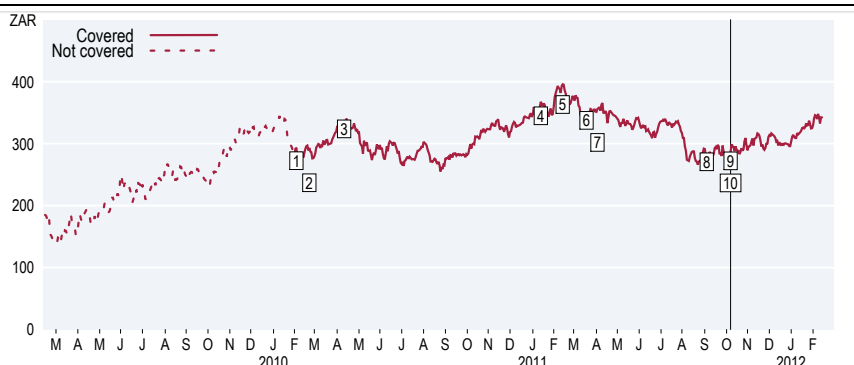
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IMPORTANT DISCLOSURES

Anglo American (AGLJ.J)

Ratings and Target Price History Fundamental Research

Analyst: Johann Pretorius
Covered since February 4 2010



	Date	Rating	Target Price	Closing Price
1	3-Feb-10	*1M	*340.00	292.50
2	22-Feb-10	1M	*360.00	293.00
3	12-Apr-10	1M	*420.00	328.50
4	13-Jan-11	1M	*430.00	367.50

* Indicates change

	Date	Rating	Target Price	Closing Price
5	14-Feb-11	*2M	*450.00	395.70
6	18-Mar-11	*1M	450.00	344.42
7	4-Apr-11	1M	*460.00	356.00
8	4-Sep-11	1M	*420.00	282.35

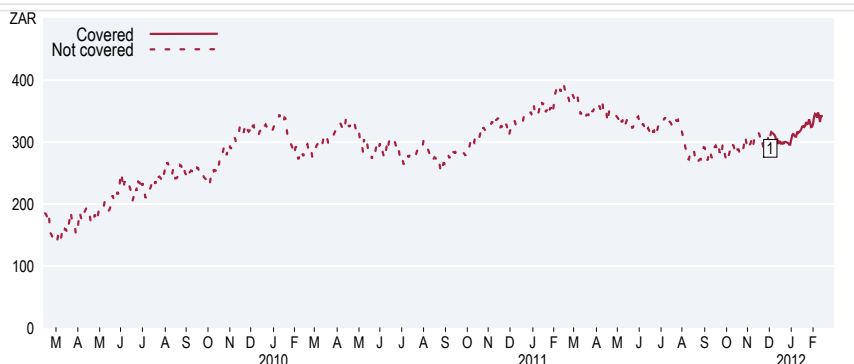
	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	420.00	286.93

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)

Analyst: Johann Pretorius
Covered since February 4 2010



	Date	Rating	Target Price	Closing Price
1	2-Dec-11	*ADD MP	-	311.28

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Johann Steyn, Analyst, holds a long position in the securities of Anglo American PLC.

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Data current as of 31 Dec 2011

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and

as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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