

Equities

14 February 2011 | 40 pages

Metals and Mining

Commodity price upgrades, but near-term peak margins pose risk

- **Higher commodity prices** — We raise various commodity price forecasts due to an improved economic outlook (IP from 4.5% to 5.4%), short-term supply disruptions and longer-term supply constraints. Most notable increases for 2011 are: copper +9% to \$4.50/lb, nickel +13% to \$12.77/lb, thermal coal +14% to \$122/t, iron ore +13% to \$164/t, and coking coal +23% to \$293/t.
- **Near-term earnings benefit** — Higher commodity prices are offset by stronger producer currencies and higher cost inflation expectations to some extent. However, we increase miners' earnings forecasts by up to 30% over the next five years. Anglo American and African Rainbow Minerals' valuations benefit from improved near-term cash flow. We increase its target prices as follows: Anglo American: +5% to R450 (+3% to £37) & African Rainbow Minerals: +7% to R230. However, increased cost inflation expectations weighs on BHP Billiton, Kumba and Exxaro's long-term margins and offsets the positive impact of higher near-term cash flows; target prices for these miners remain unchanged.
- **Adopting a cautious stance** — Given strong share price performances since 2009 lows, we have a neutral stance on the sector. Commodity price forecasts have risen to historically high levels, which allow elevated margins and pose downside risk. Earnings momentum has peaked and is now turning negative in some cases. 2011 earnings forecasts are back to bullish levels; in fact the market expects record earnings in 2011, followed by another peak in 2012. Strong balance sheets and high margins mean that miners have less leverage to further commodity price rises.
- **Anglo American downgrade to HOLD** — Anglo's fortunes seem to have turned around at last: 1) Its non-core asset disposals have been above our fair values and resulted in a more focused miner 2) news on its stumbling block, Minas Rio, has turned more favourable and 3) Kumba and De Beers have reported solid 2010 earnings, ahead of market expectations. Given strong share price performance following these catalysts, we believe its share price finally reflects improved prospects. Anglo's rump, excluding Angloplat and Kumba, now trades on a 2011E PE multiple of 7.3x, well above its 5.3x valuation in July 2010.

Johann Pretorius

+27-11-944-0820
johann.pretorius@citi.com

Heath R Jansen

+44-20-7986-3921
heath.jansen@citi.com

Clarke Wilkins

+61-2-8225-4858
clarke.wilkins@citi.com

Alan Heap

+61-2-8225-4853
alan.heap@citi.com

Harsh Bardia

+91-22-4032-7831
harsh.bardia@citi.com

Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
AGLJ.J	1M	2M	R430.00	R450.00	US\$4.07	US\$4.07	US\$6.04	US\$6.04
ARIJ.J	3M	3M	R215.00	R230.00	R17.11	R19.22	R19.98	R24.30
BLT.L	1M	1M	£27.00	£27.00	US¢400.7	US¢400.7	US¢481.1	US¢481.1
EXXJ.J	2M	2M	R160.00	R160.00	R13.62	R13.91	R13.55	R17.05
KIOJ.J	3M	3M	R380.00	R380.00	R42.01	R52.91	R47.97	R56.87

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

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Commodity price upgrades

We have increased our forecast of 2011 global economic growth to 5.4% from 4.5% (industrial production). Increases are in developed economies, as well as China. Against this background of healthy demand, commodity prices are further supported by supply disruptions (Queensland floods) and longer-term supply constraints (infrastructure constraints, falling grades, delays in new projects).

- **Copper** — Chinese fabricators are short, so we expect restocking later in the year. In developed markets, demand is robust. Ongoing supply constraints will keep the market in supply deficit. We increase our forecast to around USD4.5/lb (+9%) in 2011.
- **Coking coal** — The Queensland floods will result in the loss of around 18Mt of supply in an already tight market. We expect the effects to be seen in sustained high prices for months to come as mines struggle to dewater. Stocks at mines, ports and mills have been drawn down. For the medium and longer term, our view is unchanged: supply constraints (mostly rail) at existing producers and limited new supply will keep the market chronically tight. We have raised our 2Q11 price to \$325/t, while our 2011 forecast increases to \$293/t (+23%).
- **Thermal coal** — Queensland rains will result in the loss of 5Mt of thermal coal exports, and Australian shippers will divert production into higher priced metallurgical coal. From a medium-term perspective, Chinese demand will grow strongly, and domestic production will lose competitive advantage to imports. As a result, Chinese imports are expected to remain high. We raise our 2011 forecast to \$122/t (+14%).
- **Iron ore** — Chinese demand is increasing. For the medium and longer term, we expect the market to remain tight until around 2014, when increasing supply and slowing Chinese steel production should push the market into over supply. We raise our 2011 forecast by 13% to USD164/t.
- **Nickel** — We have sharply increased our price forecasts and nickel is now our preferred metal when measured in terms of price appreciation. We forecast prices to average around USD13/lb (28000/t) in 2011-12. The new laterite leaching projects are expected to fall short of production targets. The lack of news from the projects commissioning now is especially concerning. Chinese NIP production will be unable to fill the supply shortfall, in our view.
- **Palladium** — We continue to view a rising deficit market in palladium as likely in the medium term. This is due mainly to our view of strong growth in light vehicle (LV) production in gasoline-based markets (US and China), with additional upside to our already-bullish view if Russian stock sales decrease — a consensus view at this stage. As a result, we upgrade our medium-term dollar-palladium price outlook by 35-55% on average.
- **Platinum** — We maintain our medium-term (2011-15) surplus outlook for platinum. The fact that Johnson Matthey (JM) recently reported a likely 295k ounce surplus for platinum already in 2010 (a year that should have been supportive of a deficit given EU incentive schemes and low mine supply) only supports our view. This is mainly as we expect a decrease in Western European LV production in 2011, while mine supply and recycling is likely to increase. We view a range-bound platinum price as likely in 2011.

Figure 1. Changes to CIRA's commodity price forecasts

Average per calendar year	2011F	2012F	2013F	2014F	2015F	LT (Real)
Platinum (US\$/oz)						
CIRA New	1,731	1,775	1,675	1,600	1,500	1,500
CIRA Old	1,625	1,600	1,500	1,500	1,700	1,500
% Change in forecast	+7	+11	+12	+7	-12	+0
Palladium (US\$/oz)						
CIRA New	775	925	850	700	450	450
CIRA Old	575	650	550	500	500	450
% Change in forecast	+35	+42	+55	+40	-10	+0
3PGM basket (US\$/oz) (63%Pt,30%Pd,7%Rh)						
CIRA New	1,498	1,606	1,520	1,463	1,290	1,290
CIRA Old	1,371	1,413	1,320	1,340	1,459	1,290
% Change in forecast	+9	+14	+15	+9	-12	+0
Copper (US cents/lb)						
CIRA New	450	454	409	365	321	220
CIRA Old	414	400	360	320	272	220
% Change in forecast	+9	+14	+14	+14	+18	+0
Nickel (US cents/lb)						
CIRA New	1,277	1,281	1,125	969	813	650
CIRA Old	1,129	1,074	969	864	737	650
% Change in forecast	+13	+19	+16	+12	+10	+0
Richard's Bay thermal coal (US\$/tonne)						
CIRA New	122	108	93	90	90	94
CIRA Old	107	103	93	90	90	94
% Change in forecast	+14	+5	+0	+0	+0	+0
Iron ore spot (CIF China) (US\$/t)						
CIRA New	164	148	130	100	80	71
CIRA Old	145	145	130	100	80	71
% Change in forecast	+13	+2	+0	+0	+0	+0
Iron ore fines (FOB) (US\$/dmu)						
CIRA New	247	224	192	148	111	95
CIRA Old	217	206	185	144	108	95
% Change in forecast	+14	+9	+4	+3	+3	+0
Hard coking coal (US\$/tonne)						
CIRA New	293	256	170	200	200	170
CIRA Old	238	200	170	170	170	170
% Change in forecast	+23	+28	+0	+18	+18	+0
Semi soft benchmark (US\$/tonne)						
CIRA New	196	179	103	100	100	110
CIRA Old	188	160	113	100	100	110
% Change in forecast	+4	+12	-9	+0	+0	+0
Manganese ore (US\$/mtu)						
CIRA New	7.75	8.50	6.00	6.00	6.00	4.50
CIRA Old	7.75	7.00	5.00	5.00	5.00	4.50
% Change in forecast	+0	+21	+20	+20	+20	+0
Brent crude oil (US\$/bbl)						
CIRA New	90	90	90	87	89	80
CIRA Old	88	87	85	82	89	80
% Change in forecast	+3	+3	+6	+6	+0	+0

Source: Citi Investment Research and Analysis

Refer to our comprehensive report **Short-term supply disruptions – Long-term implications**, February 14, 2011 for further details on the drivers behind Citi's commodity price revisions.

Stronger producer currencies

Stronger producer currencies offset the benefit of higher commodity prices on miners' earnings to some extent. We incorporate an up to 16% stronger rand and 7% Australian dollar into miners' earnings forecasts.

Figure 2. Changes to CIRA's exchange rate forecasts

Average per calendar year	2011F	2012F	2013F	2014F	2015F	LT (Real)
ZAR/USD						
CIRA New	7.04	7.79	8.36	8.36	8.36	10.00
CIRA Old	7.16	8.03	8.71	9.28	10.00	10.00
% Change in forecast	-2	-3	-4	-10	-16	+0
USD/AUD						
CIRA New	1.00	0.94	0.85	0.84	0.80	0.80
CIRA Old	0.96	0.88	0.85	0.84	0.80	0.80
% Change in forecast	+4	+7	+0	+0	+0	+0

Source: Citi Investment Research and Analysis

Earnings revisions

Higher commodity prices are offset by stronger producer currencies and higher cost inflation expectations to some extent. However, we increase miners' earnings forecasts by up to 30% over the next five years.

Figure 3 summarises changes to our earnings forecasts for miners with December year-ends.

Figure 3. Revisions to CIRA's earnings forecasts for miners with December year-ends

FYE December	2010F	2011F	2012F	2013F	2014F
Anglo American diluted EPS (USD)					
CIRA New	4.07	6.04	7.09	6.37	5.57
CIRA Previous	4.02	4.85	5.47	5.16	4.71
% change	+1	+25	+30	+23	+18
Bloomberg consensus - 11 February 2011	3.91	5.78			
Exxaro diluted HEPS (ZAR)					
CIRA New	13.91	17.05	18.85	18.83	13.96
CIRA Previous	13.62	13.55	16.33	17.46	14.35
% change	+2	+26	+15	+8	-3
I-Net consensus - 11 February 2011	14.90	20.93	24.85		
Kumba Iron Ore diluted HEPS (ZAR)					
CIRA New	44.54	52.91	56.87	52.20	32.39
CIRA Previous	44.09	42.01	47.97	46.67	30.59
% change	+1	+26	+19	+12	+6
I-Net consensus - 11 February 2011		53.46	68.74		

Source: Citi Investment Research and Analysis, Bloomberg and I-Net

Figure 4 summarises changes to our earnings forecasts for miners with June year-ends.

Figure 4. Revisions to CIRA's earnings forecasts for miners with June year-ends

FYE June	2011F	2012F	2013F	2014F	2015F
ARM diluted HEPS (ZAR)					
CIRA New	19.22	24.30	28.16	22.52	18.68
CIRA Previous	17.11	19.98	23.07	20.63	20.50
% change	+12	+22	+22	+9	-9
I-Net consensus - 11 February 2011	20.22	27.79	31.48		
BHP Billiton diluted HEPS (USD)					
CIRA New	4.01	4.81	4.55		
CIRA Previous	4.01	4.46	4.43		
% change	+0	+8	+3		
Bloomberg consensus - 11 February 2011	3.88	4.55			

Source: Citi Investment Research and Analysis, I-Net and Bloomberg.

Impact on valuations

Anglo American and African Rainbow Minerals' valuations benefit from improved near-term cash flow. We increase its target prices as follows:

- Anglo American: +5% to R450 (+3% to £37)
- African Rainbow Minerals: +7% to R230

Increased cost inflation expectations weigh on BHP Billiton, Kumba and Exxaro's long-term margins and offset the positive impact of higher near-term cash flows on our valuations. Target prices for these miners remain unchanged.

Mining peer comparison

Figure 5. Mining peer comparison

	Rating & risk	Price (US\$)	Historic P/E		Forward P/E		EV/ EBITDA		FCF yield		Div Yld		P/B		ROE		Perf % (USD)	
			2008	2009	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	Weekly	YTD
FTSE ALL SHARE (GBP)			11	16	12.4	11.9	8.8	7.2	4%	6%	3%	3%	2.7	2.5	21%	26%	0%	5%
FTSE/JSE ALL SHARE (ZAR)			18	21	15.8	12.3	8.6	7.2	4%	8%	2%	3%	3.4	2.9	24%	28%	0%	-7%
Major diversified miners																		
BHP Billiton	1M	40.4	17	19	12.9	9.2	7.5	5.3	7%	11%	2%	3%	4.0	3.0	35%	38%	0%	2%
Rio Tinto	1M	74.0	12	21	10.4	7.6	5.6	3.5	9%	12%	1%	2%	2.5	1.8	28%	27%	2%	6%
Anglo American	2M	54.8	13	26	13.4	9.1	7.7	5.5	5%	11%	1%	2%	2.2	1.7	19%	25%	2%	5%
Xstrata	1M	23.6	5	23	13.8	9.1	8.1	5.7	3%	5%	1%	2%	1.9	1.6	15%	20%	4%	1%
Comp Vale Do Rio	1M	34.4	17	34	11.5	8.6	7.6	5.6	4%	4%	2%	3%	2.4	1.9	24%	25%	0%	-1%
Average			13	25	12.4	8.7	7.3	5.1	5%	9%	2%	2%	2.6	2.0	24%	27%	1%	2%
South African mid-cap miners																		
Kumba - Attributable (74%)	3M	65.1	21	22	10.6	9.0	8.2	6.5	7%	8%	7%	9%	10.6	8.8	132%	108%	0%	1%
Exxaro - proportionately consolidated	2M	21.5	16	22	11.2	9.2	6.5	5.4	6%	0%	3%	4%	3.2	2.5	34%	32%	3%	5%
ARM	3M	32.1	16	25	17.1	10.7	7.4	4.9	2%	6%	1%	2%	2.5	2.1	16%	22%	7%	0%
Average			17	23	13.0	9.6	7.3	5.6	5%	5%	4%	5%	5.4	4.5	61%	54%	3%	2%
Copper																		
Freeport McMoran	2H	53.5	20	18	11.5	9.3	5.7	4.3	10%	11%	1%	2%	4.0	3.0	46%	37%	-6%	-11%
Equinox Minerals	2H	6.6	22	95	18.1	15.1	12.2	8.3	7%	3%	0%	0%	2.4	2.5	20%	18%	-3%	6%
Southern Copper Corp	1H	44.4	28	40	23.4	13.4	13.2	7.8	4%	5%	3%	2%	11.4	6.9	45%	64%	-4%	-9%
Antofagasta	3M	23.4	27	34	18.8	10.5	7.9	4.5	3%	14%	2%	3%	3.6	2.8	21%	31%	-3%	-7%
Kazakhmys	1M	24.9	11	22	9.0	7.6	7.1	5.5	3%	-2%	1%	4%	1.7	1.4	19%	20%	-4%	-1%
KGHM	3H	61.5	12	14	8.1	6.8	5.0	3.9	8%	11%	2%	5%	2.5	2.0	36%	33%	0%	5%
Jiangxi Copper	1M	3.2	28	29	14.3	11.5	9.8	6.7	3%	6%	1%	2%	2.2	1.9	16%	18%	-5%	-5%
FST Quantum Minerals	1M	136.9	30	18	19.4	12.6	9.9	7.1	3%	3%	0%	1%	4.8	3.6	-17%	32%	3%	27%
Grupo Mexico	1H	3.9	28	34	18.6	10.9	8.4	4.9	9%	10%	2%	5%	6.4	4.4	33%	48%	-5%	-5%
Average			23	34	15.7	10.8	8.8	5.9	6%	7%	1%	3%	4.3	3.2	24%	33%	-3%	0%
Ferrous																		
Siderurgica Naci	1H	16.2	7	16	13.1	11.2	7.3	6.8	0%	3%	2%	3%	6.3	4.2	51%	45%	-3%	1%
Mt Gibson Iron	2H	2.3	26	30	11.6	6.4	6.6	3.3	10%	17%	0%	0%	2.3	1.7	23%	30%	-6%	0%
Atlas Iron	2H	3.8	-	-	33.0	9.3	17.7	5.9	3%	10%	0%	0%	4.3	2.8	16%	38%	-4%	25%
ENRC	2M	16.2	8	20	10.0	8.5	6.3	5.4	4%	5%	2%	1%	2.2	1.8	24%	23%	-4%	-1%
Fortescue Metals	2H	6.9	-	46	15.1	9.6	9.4	5.8	6%	2%	0%	0%	10.1	5.4	81%	74%	0%	1%
Cliffs Natural	1H	87.5	13	-	12.9	6.6	7.6	3.9	5%	12%	1%	1%	3.2	2.2	30%	39%	-3%	12%
Ferrexpo	1H	6.9	14	-	7.3	8.1	5.5	5.4	14%	12%	1%	1%	3.7	2.6	72%	38%	-2%	7%
Average			14	28	14.7	8.5	8.6	5.2	6%	9%	1%	1%	4.6	3.0	43%	41%	-4%	4%
Coal																		
Macarthur	3M	12.6	21	20	20.0	15.5	11.8	8.6	5%	6%	2%	3%	1.9	1.7	14%	17%	-5%	-5%
Coal Allied Inds	3M	120.3	13	18	28.3	15.9	16.1	9.7	2%	4%	5%	3%	6.9	4.7	47%	35%	-5%	-1%
New Hope	2M	4.8	24	17	22.7	19.8	21.5	20.3	-11%	0%	4%	3%	1.6	1.4	12%	14%	-4%	-4%
Whitehaven Coal	2M	7.3	43	48	51.4	26.7	27.0	15.6	-5%	1%	1%	2%	3.0	2.4	10%	10%	-2%	4%
Adaro Energy	1M	0.3	87	18	28.3	10.8	10.5	5.6	-5%	7%	2%	1%	4.1	3.1	15%	32%	-2%	-6%
China Coal	2M	1.5	18	16	12.8	9.8	7.8	6.4	-8%	-2%	2%	3%	1.8	1.5	15%	17%	-4%	-10%
China Shenhua	1M	3.9	19	16	13.5	11.5	7.8	6.5	3%	7%	2%	3%	2.6	2.2	21%	21%	-7%	-9%
Arch Coal Inc	2H	32.9	19	88	33.6	12.9	10.7	6.9	7%	6%	1%	1%	2.4	2.1	7%	17%	-2%	-6%
Peabody Energy	1H	62.8	18	33	20.4	12.6	10.0	6.7	3%	5%	0%	1%	3.6	2.8	18%	25%	-1%	-2%
Average			29	30	25.7	15.1	13.7	9.6	-1%	4%	2%	2%	3.1	2.4	18%	21%	-4%	-5%
Nickel & Zinc																		
Sterlite Industries	1M	3.6	12	14	11.7	7.5	5.4	3.6	-3%	-3%	1%	1%	1.4	1.2	13%	17%	-5%	-16%
Norilsk	1H	235.0	-99	17	8.6	7.6	5.7	4.7	12%	12%	3%	3%	2.4	1.8	32%	27%	-9%	1%
Average			-43	16	10.1	7.5	5.6	4.1	5%	5%	2%	2%	1.9	1.5	22%	22%	-7%	-7%
Average excl. precious			9	26	15.3	10.0	8.5	5.9	4%	6%	2%	2%	3.7	2.8	32%	33%	-2%	-1%
PGM																		
Aquarius Platinum	2H	6.7	22	323	37.2	22.0	15.4	11.2	2%	6%	1%	2%	3.3	2.8	14%	19%	6%	21%
Anglo Plat	3M	101.5	13	247	39.9	24.3	17.6	11.9	0%	2%	0%	2%	3.8	3.7	13%	16%	0%	-4%
Impala Platinum	2M	30.3	14	25	21.2	15.8	11.4	8.7	2%	3%	2%	4%	2.9	2.7	14%	18%	3%	-14%
Northam Platinum	1M	6.2	13	26	26.5	21.6	17.0	13.4	0%	-4%	1%	0%	1.7	1.5	7%	7%	1%	-9%
Average			15	155	31.2	20.9	15.3	11.3	1%	2%	1%	2%	3.0	2.7	12%	15%	2%	-2%
Gold/Precious																		
AngloGold Ashanti	2M	44.8	-18	-317	-10.7	10.8	-17.0	6.2	-14%	8%	0%	2%	6.0	4.1	-70%	53%	-1%	-9%
Gold fields	3M	15.9	25	36	28.9	17.8	8.1	6.3	4%	5%	1%	2%	1.9	1.7	9%	7%	-2%	-12%
Harmony Gold Mng	3M	10.7	62	44	54.5	20.3	11.8	6.6	-2%	4%	0%	0%	1.1	1.0	2%	5%	-2%	-13%
Barrick Gold	1M	47.5	25	7	15.4	14.2	9.2	8.3	2%	3%	1%	1%	2.4	2.1	18%	16%	-1%	-11%
Newmont Mining	2M	56.9	31	22	13.9	11.8	6.3	5.5	7%	8%	1%	1%	2.4	2.2	18%	19%	0%	-7%
Newcrest Mining	2M	37.6	28	25	22.5	22.1	15.8	11.8	1%	1%	1%	1%	2.4	2.0	14%	11%	-3%	-10%
Average			26	-31	20.8	16.2	5.7	7.5	0%	5%	1%	1%	2.7	2.2	-2%	19%	-1%	-10%
Average - all miners			17	50	22.4	15.7	9.9	8.2	2%	4%	1%	2%	3.1	2.5	14%	22%	0%	-4%

Source: Powered by dataCentral

Commodity price and exchange rate forecasts

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

Figure 6. Commodity price and exchange rate forecasts (average per calendar year)

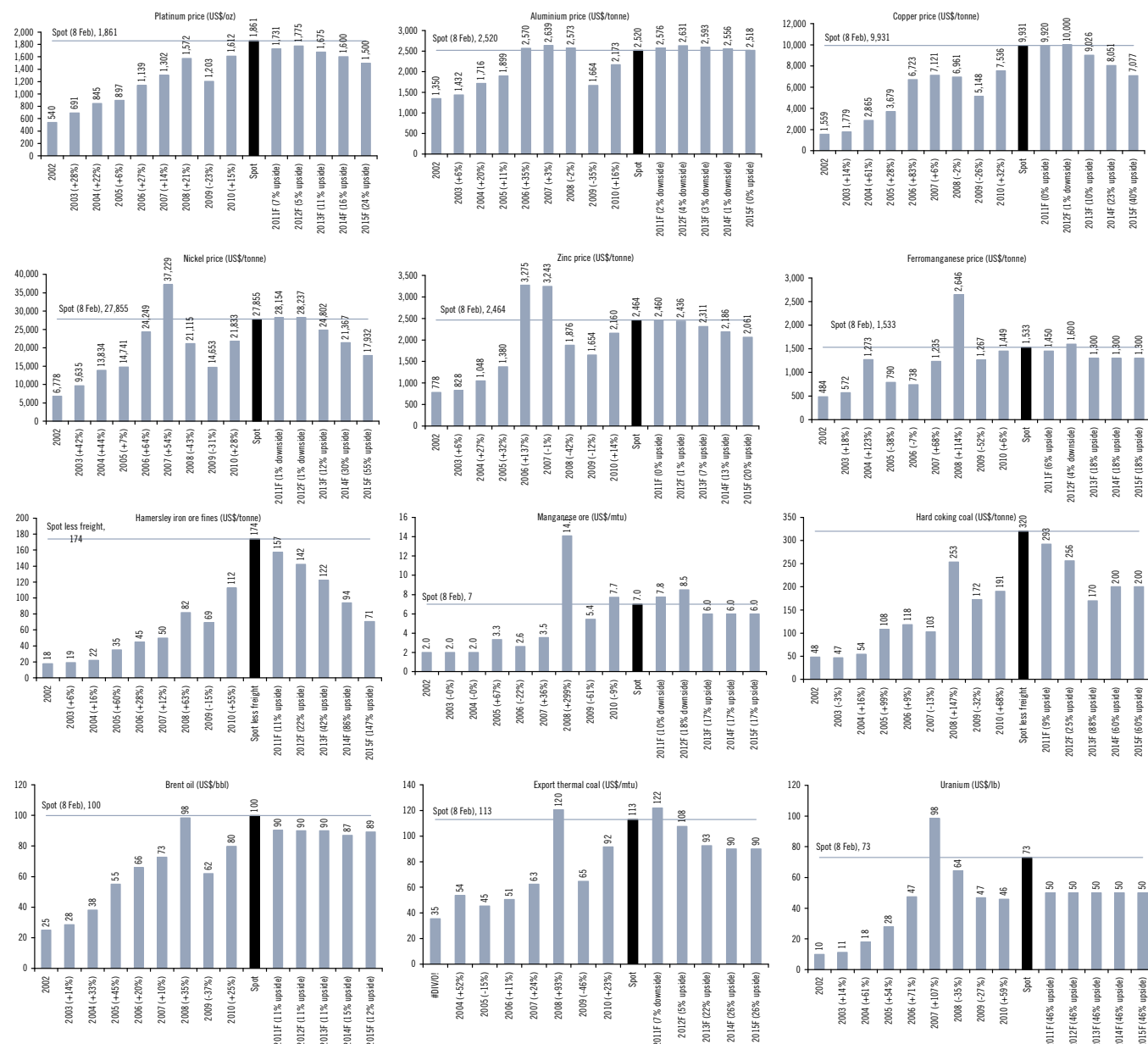
Average per calendar year	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	LT (Real)
Precious commodities										
Gold (US\$/oz)	697	872	973	1,225	1,444	1,342	1,204	1,067	900	800
Silver (US\$/oz)	13.59	15.06	14.80	20.72	24.90	23.03	20.53	18.03	15.00	12.00
Platinum (US\$/oz)	1,302	1,572	1,203	1,612	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	100	80	71
Iron ore fines (FOB) (US\$/dmu)	79	129	109	177	247	224	192	148	111	95
Iron ore fines (FOB) (USD/tonne)	50	82	69	112	157	142	122	94	71	60
Iron ore lump (FOB) (US\$/dmu)	100	177	134	196	272	246	212	162	122	120
Iron ore lump (FOB) (USD/tonne)	64	112	85	124	173	156	134	103	78	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: Bloomberg, I-Net, DataCentral, CIRA

Commodity price forecasts relative to spot

The graphs below illustrate how Citi's commodity price forecasts compare to spot prices, indicating upside risks to our forecasts where spot is higher and downside risks where spot is lower.

Figure 7. Citi commodity price forecasts relative to spot



Source: Bloomberg, I-Net, CIRA estimates

Earnings and dividend snapshot – US dollar

We forecast around 38% earnings growth for South African listed general miners (below) in calendar year 2011 in USD terms, which implies a 9.3x 2011E PE multiple at current share prices. Earnings growth is expected to slow to 7% in 2012, after which we see negative earnings growth to 2015 as commodity prices decline. Note that we forecast peak margins in 2011 and 2012.

Figure 8. Earnings and dividend snapshot per calendar year for South African listed miners – US dollar

Calendar year	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
Anglo American									
EBITDA margin	34%	36%	28%	38%	43%	45%	43%	38%	33%
EBIT margin	28%	31%	20%	31%	37%	40%	36%	30%	24%
Earnings per share (USD)	4.34	4.31	2.10	4.07	6.04	7.09	6.37	5.57	4.54
Earnings growth	19%	-1%	-51%	94%	48%	17%	-10%	-12%	-19%
PE multiple at USD55	12.63	12.73	26.13	13.47	9.09	7.74	8.62	9.84	12.10
Dividend per share (USD)	1.24	0.44	0.00	0.65	0.95	1.15	1.27	1.40	1.54
Dividend growth	-29%	-65%	-100%	-	46%	21%	10%	10%	10%
Dividend yield at USD55	2.3%	0.8%	0.0%	1.2%	1.7%	2.1%	2.3%	2.6%	2.8%
BHP Billiton									
EBITDA margin	50%	45%	44%	51%	54%	54%	53%	51%	52%
EBIT margin	43%	37%	36%	43%	48%	48%	46%	43%	43%
Earnings per share (USD)	2.60	2.34	2.08	3.13	4.41	4.68	4.32	3.87	3.58
Earnings growth	25%	-10%	-11%	50%	41%	6%	-8%	-10%	-7%
PE multiple at USD41	15.76	17.57	19.74	13.12	9.30	8.77	9.51	10.60	11.45
Dividend per share (USD)	0.59	0.76	0.85	0.97	1.11	1.20	1.65	1.94	1.79
Dividend growth	41%	30%	11%	15%	14%	8%	38%	17%	-7%
Dividend yield at USD41	1.4%	1.9%	2.1%	2.4%	2.7%	2.9%	4.0%	4.7%	4.4%
African Rainbow Minerals									
EBITDA margin	42%	59%	25%	42%	47%	49%	46%	39%	30%
EBIT margin	35%	54%	12%	34%	40%	42%	38%	30%	21%
Earnings per share (USD)	0.93	3.16	0.32	2.05	3.07	3.57	3.08	2.50	1.68
Earnings growth	52%	238%	-90%	538%	50%	16%	-14%	-19%	-33%
PE multiple at USD32	34.35	10.15	99.88	15.65	10.45	8.98	10.42	12.85	19.09
Dividend per share (USD)	0.21	0.52	0.19	0.27	0.59	2.19	2.49	2.02	1.35
Dividend growth	-	149%	-64%	40%	121%	273%	13%	-19%	-33%
Dividend yield at USD32	0.7%	1.6%	0.6%	0.8%	1.8%	6.8%	7.8%	6.3%	4.2%
Exxaro									
EBITDA margin	29%	35%	30%	37%	40%	39%	38%	32%	28%
EBIT margin	22%	29%	23%	31%	34%	34%	31%	24%	20%
Earnings per share (USD)	0.58	1.20	0.83	1.91	2.42	2.42	2.25	1.67	1.49
Earnings growth	38%	108%	-31%	129%	27%	0%	-7%	-26%	-11%
PE multiple at USD21	37.09	17.87	25.72	11.24	8.85	8.87	9.53	12.85	14.36
Dividend per share (USD)	0.23	0.45	0.24	0.59	0.90	1.01	0.94	0.87	0.78
Dividend growth	-58%	99%	-47%	146%	52%	13%	-7%	-8%	-11%
Dividend yield at USD21	1.1%	2.1%	1.1%	2.8%	4.2%	4.7%	4.4%	4.1%	3.6%
Kumba Iron Ore									
EBITDA margin	54%	65%	57%	67%	70%	67%	64%	54%	48%
EBIT margin	52%	64%	55%	65%	68%	65%	61%	49%	41%
Earnings per share (USD)	1.40	2.73	2.62	6.12	7.52	7.30	6.24	3.87	3.06
Earnings growth	40%	95%	-4%	134%	23%	-3%	-14%	-38%	-21%
PE multiple at USD65	46.63	23.90	24.91	10.65	8.66	8.93	10.43	16.81	21.30
Dividend per share (USD)	1.07	2.51	1.75	4.76	6.11	6.03	5.38	3.47	2.87
Dividend growth	862%	136%	-30%	171%	29%	-1%	-11%	-36%	-17%
Dividend yield at USD65	1.6%	3.9%	2.7%	7.3%	9.4%	9.3%	8.3%	5.3%	4.4%
Average earnings growth	35%	86%	-37%	189%	38%	7%	-11%	-21%	-18%
Average PE multiple	29.3	16.4	39.3	12.8	9.3	8.7	9.7	12.6	15.7
Average dividend yield	1.4%	2.1%	1.3%	2.9%	4.0%	5.2%	5.4%	4.6%	3.9%

Source: Company Reports, CIRA Estimates, dataCentral

Earnings and dividend snapshot – rand

We forecast around 34% earnings growth for South African-listed general miners (below) in calendar year 2011 in rand terms, which implies a 9.6x 2011E PE multiple at current share prices. Note that we forecast peak margins in 2011 and 2012.

Figure 9. Earnings and dividend snapshot per calendar year for South African listed miners – rand

Calendar year	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
Anglo American									
EBITDA margin	34%	36%	28%	38%	43%	45%	43%	38%	33%
EBIT margin	28%	31%	20%	31%	37%	40%	36%	30%	24%
Earnings per share (ZAR)	30.56	34.66	16.99	28.98	42.00	55.00	53.00	46.00	37.00
Earnings growth	24%	13%	-51%	71%	45%	31%	-4%	-13%	-20%
PE multiple at R399	13.05	11.51	23.49	13.77	9.50	7.25	7.53	8.67	10.78
Dividend per share (ZAR)	8.67	3.36	0.00	4.68	6.70	8.90	10.60	11.70	12.90
Dividend growth	-26%	-61%	-100%	-	43%	33%	19%	10%	10%
Dividend yield at R399	2.2%	0.8%	0.0%	1.2%	1.7%	2.2%	2.7%	2.9%	3.2%
BHP Billiton									
EBITDA margin	50%	45%	44%	51%	54%	54%	53%	51%	52%
EBIT margin	43%	37%	36%	43%	48%	48%	46%	43%	43%
Earnings per share (ZAR)	18.32	19.26	17.47	22.84	31.05	36.41	36.09	32.38	29.95
Earnings growth	31%	5%	-9%	31%	36%	17%	-1%	-10%	-7%
PE multiple at R298	16.29	15.49	17.08	13.07	9.61	8.20	8.27	9.22	9.96
Dividend per share (ZAR)	4.12	6.27	7.10	7.09	7.81	9.34	13.81	16.19	14.98
Dividend growth	47%	52%	13%	0%	10%	20%	48%	17%	-7%
Dividend yield at R298	1.4%	2.1%	2.4%	2.4%	2.6%	3.1%	4.6%	5.4%	5.0%
African Rainbow Minerals									
EBITDA margin	42%	59%	25%	42%	47%	49%	46%	39%	30%
EBIT margin	35%	54%	12%	34%	40%	42%	38%	30%	21%
Earnings per share (ZAR)	6.56	25.57	2.52	14.86	21.61	27.84	25.74	20.87	14.04
Earnings growth	56%	290%	-90%	490%	45%	29%	-8%	-19%	-33%
PE multiple at R233	35.54	9.12	92.63	15.69	10.79	8.38	9.06	11.18	16.60
Dividend per share (ZAR)	1.50	4.00	1.75	2.00	4.10	17.30	20.80	16.90	11.30
Dividend growth	-	167%	-56%	14%	105%	322%	20%	-19%	-33%
Dividend yield at R233	0.6%	1.7%	0.8%	0.9%	1.8%	7.4%	8.9%	7.2%	4.8%
Exxaro									
EBITDA margin	29%	35%	30%	37%	40%	39%	38%	32%	28%
EBIT margin	22%	29%	23%	31%	34%	34%	31%	24%	20%
Earnings per share (ZAR)	4.08	10.06	7.02	13.91	17.05	18.85	18.83	13.96	12.49
Earnings growth	45%	147%	-30%	98%	23%	11%	0%	-26%	-11%
PE multiple at R156	38.24	15.51	22.23	11.22	9.15	8.28	8.29	11.18	12.50
Dividend per share (ZAR)	1.60	3.75	2.00	4.30	6.30	7.90	7.90	7.30	6.50
Dividend growth	-56%	134%	-47%	115%	47%	25%	0%	-8%	-11%
Dividend yield at R156	1.0%	2.4%	1.3%	2.8%	4.0%	5.1%	5.1%	4.7%	4.2%
Kumba Iron Ore									
EBITDA margin	54%	65%	57%	67%	70%	67%	64%	54%	48%
EBIT margin	52%	64%	55%	65%	68%	65%	61%	49%	41%
Earnings per share (ZAR)	9.83	22.75	21.76	44.54	52.91	56.87	52.20	32.39	25.57
Earnings growth	48%	131%	-4%	105%	19%	7%	-8%	-38%	-21%
PE multiple at R474	48.18	20.82	21.77	10.64	8.95	8.33	9.07	14.63	18.53
Dividend per share (ZAR)	7.50	21.00	14.60	34.50	43.00	47.00	45.00	29.00	24.00
Dividend growth	838%	180%	-30%	136%	25%	9%	-4%	-36%	-17%
Dividend yield at R474	1.6%	4.4%	3.1%	7.3%	9.1%	9.9%	9.5%	6.1%	5.1%
Average earnings growth	41%	117%	-37%	159%	34%	19%	-4%	-21%	-18%
Average PE multiple	30.3	14.5	35.4	12.9	9.6	8.1	8.4	11.0	13.7
Average dividend yield	1.4%	2.3%	1.5%	2.9%	3.8%	5.6%	6.2%	5.3%	4.5%

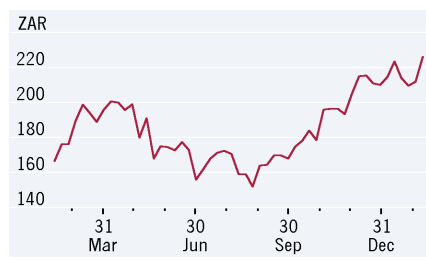
Source: Company Reports, CIRA Estimates, dataCentral

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Sell/Medium Risk	3M
Price (11 Feb 11)	R224.50
Target price	R230.00
from R215.00	
Expected share price return	2.4%
Expected dividend yield	2.2%
Expected total return	4.7%
Market Cap	R47,803M
	US\$6,572M

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



African Rainbow Minerals (ARIJ.J)

Best-in-class Volume Growth, But Downside Risk to Margins

- **Target price + 7% to R230** — We increase 2011 price forecasts for platinum (+7%), nickel (+13%), iron ore (+14%) and coal (14%). African Rainbow Minerals' earnings forecasts benefit by up to 22% from higher commodity prices. Its target price increases to R230 due to improved near-term cash flow.
- **Earnings momentum slowing** — African Rainbow Minerals's consensus earnings forecast for FY2011 is currently R19.06/share, which is in line with its peak reported earnings in 2008. The increase in FY11 earnings forecasts since 2009's low of R11.99/share was mainly driven by higher margins (increased commodity price forecasts).
- **Volume growth could be offset by lower prices** — ARM offers strong production growth. We forecast copper-equivalent volume growth of 49% by 2015. It also benefits from large reserves, favourable cost positioning of its assets and a strong balance sheet. However, we forecast ARM's average commodity prices falling 18% over the next five years, which could offset the positive impact of volumes. We forecast ARM's FY15 earnings (inclusive of volume growth) at R18.68, which implies an 12x PE multiple at today's share price.
- **Full valuation** — ARM's share price recovered 58% from 12-month lows and now reflects ARM's earnings growth potential, in our view. We maintain our SELL (3M) recommendation.
- **Potential headwinds** — In our 14 May 2010 initiation on ARM, we highlighted 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) the retirement of Andre Wilkins (CEO) at end-2011, and 5) near-term peak margins pose downside risk to earnings forecasts.

African Rainbow Minerals (ZAR)

Year to 30 Jun	2009A	2010A	2011E	2012E	2013E
Sales (RM)	10,094.0	11,028.0	17,022.1	19,542.4	22,328.0
Net Income (RM)	2,317.0	1,714.0	4,138.4	5,229.8	6,061.1
Diluted EPS (R)	10.79	7.98	19.22	24.30	28.16
Diluted EPS (Old) (R)	10.79	7.98	17.11	19.98	23.07
PE (x)	20.8	28.1	11.7	9.2	8.0
EV/EBITDA (x)	9.5	10.7	5.3	4.3	3.5
DPS (R)	1.75	2.00	4.10	5.20	22.80
Net Div Yield (%)	0.8	0.9	1.8	2.3	10.2

Financial Statements and ratio analysis

Figure 1. African Rainbow Minerals' income statement – proportionately consolidated

FYE June	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Income Statement (ZARm)								
Revenue	14,076	11,657	12,282	18,389	21,280	24,002	23,806	24,888
Revenue growth	96%	-17%	5%	50%	16%	13%	-1%	5%
Cash costs	(6,314)	(6,591)	(8,040)	(9,958)	(10,979)	(12,347)	(13,788)	(16,142)
Underlying EBITDA	7,762	5,065	4,242	8,431	10,301	11,656	10,019	8,746
EBITDA margin	55%	43%	35%	46%	48%	49%	42%	35%
Depreciation and amortisation	(756)	(1,140)	(1,238)	(1,492)	(1,581)	(1,785)	(2,061)	(2,193)
Underlying EBIT	7,007	3,925	3,004	6,940	8,720	9,870	7,957	6,554
Exceptional items	479	541	97	0	0	0	0	0
Investment income	168	414	209	130	224	296	323	336
Interest paid	(550)	(487)	(293)	(321)	(248)	(19)	0	(84)
Profit before tax	7,104	4,393	3,017	6,749	8,696	10,147	8,281	6,806
Taxation	(2,157)	(1,795)	(989)	(2,067)	(2,696)	(3,411)	(2,926)	(2,400)
Tax rate (proportionately consolidated)	30%	41%	33%	31%	31%	34%	35%	35%
Profit after tax	4,947	2,598	2,028	4,682	6,000	6,736	5,355	4,405
Minority interest in profit	(460)	198	(162)	(543)	(770)	(675)	(508)	(384)
Net profit for the year	4,487	2,796	1,866	4,138	5,230	6,061	4,847	4,021
Adjustments	(474)	(479)	(152)	0	0	0	0	0
Headline earnings	4,013	2,317	1,714	4,138	5,230	6,061	4,847	4,021
Number of shares (millions):								
Weighted average	211	212	212	212	212	212	212	212
Diluted weighted average	214	215	215	215	215	215	215	215
Closing number	212	212	212	212	212	212	212	212
EPS (cents)	2,131	1,355	854	1,950	2,464	2,856	2,284	1,894
HEPS (cents)	1,906	1,094	807	1,950	2,464	2,856	2,284	1,894
Diluted HEPS (cents)	1,872	1,079	798	1,922	2,430	2,816	2,252	1,868
Diluted HEPS growth	228%	-42%	-26%	141%	26%	16%	-20%	-17%
PE multiple at R226/share	12.1	21.0	28.4	11.8	9.3	8.0	10.1	12.1
- excluding Harmony	10.6	18.4	24.8	10.3	8.1	7.0	8.8	10.6
DPS declared (cents)	400	175	200	410	520	2,280	1,820	1,510
Dividend yield at R226/share	1.8%	0.8%	0.9%	1.8%	2.3%	10.1%	8.0%	6.7%
Dividend payout ratio	19%	13%	23%	21%	21%	80%	80%	80%
Breakdown of underlying EBIT (ZARm)								
Two Rivers	1,332	(351)	579	648	756	1,024	862	569
EBIT margin	56%	-34%	28%	29%	32%	37%	32%	23%
Modikwa	801	(206)	215	322	441	643	513	193
EBIT margin	51%	-28%	20%	24%	28%	34%	28%	12%
Nkomati	602	26	287	390	795	973	718	284
EBIT margin	61%	5%	23%	21%	31%	32%	25%	11%
Iron ore	540	1,535	1,027	2,905	3,054	3,493	3,401	1,960
EBIT margin	39%	61%	41%	65%	64%	60%	52%	34%
Manganese	3,080	3,085	1,147	1,848	2,201	2,653	1,530	2,480
EBIT margin	64%	73%	36%	48%	49%	52%	37%	40%
Chrome	473	149	(120)	144	74	46	(52)	(68)
EBIT margin	38%	16%	-17%	15%	9%	6%	-7%	-9%
XCSA	329	218	30	114	479	336	126	35
EBIT margin	22%	14%	2%	8%	28%	20%	8%	2%
Goedgedvonden	45	37	54	694	1,054	713	496	426
EBIT margin	47%	31%	25%	31%	36%	26%	19%	16%
TEAL and exploration	(196)	(642)	(119)	(106)	(116)	8	384	695
EBIT margin	N/A	N/A	N/A	N/A	N/A	4%	43%	49%
Corporate and other	1	75	(96)	(20)	(20)	(20)	(20)	(20)
Underlying EBIT	7,007	3,925	3,004	6,940	8,720	9,870	7,957	6,554
Group EBIT margin	50%	34%	24%	38%	41%	41%	33%	26%

Source: Company Reports, I-Net, CIRA Estimates

We think strong production growth (Figure 3) and a sharp recovery in commodity prices should underpin earnings growth. We forecast 141% growth in diluted FY11 HEPS to R19.22. We see a further 26% growth in FY12 HEPS to R24.30. This implies what we see as a reasonable FY12E P/E multiple of 8.1x (excluding Harmony).

Figure 2. African Rainbow Minerals' balance sheet

FYE June	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Balance Sheet (ZARm)								
Non-current operating assets	10,558	13,040	14,760	16,831	18,809	20,481	21,984	22,124
Working capital	4,044	2,085	2,744	4,191	4,564	5,074	4,908	5,056
Net tax payable	(1,033)	(530)	(270)	(539)	(654)	(847)	(669)	(536)
Net operating assets	13,569	14,595	17,234	20,483	22,719	24,708	26,224	26,644
Investments	6,067	5,191	5,287	5,288	5,289	5,289	5,290	5,291
Cash	2,594	3,325	2,791	3,542	3,476	3,748	3,013	3,164
Total invested capital	22,230	23,111	25,312	29,313	31,483	33,745	34,527	35,099
Equity	14,876	16,149	17,765	21,480	25,840	28,230	28,663	29,098
Minority interest	800	602	764	764	764	764	764	764
Deferred tax	2,134	2,245	2,917	3,232	3,611	3,932	4,221	4,248
Provisions	508	559	768	673	752	819	879	885
Debt	3,912	3,556	3,098	3,164	516	0	0	105
Total invested capital	22,230	23,111	25,312	29,313	31,483	33,745	34,527	35,099
Key Balance Sheet ratios								
Non-current asset turnover (times)	1.3	0.9	0.8	1.1	1.1	1.2	1.1	1.1
Net debt (ZARm)	1,318	231	307	(378)	(2,960)	(3,748)	(3,013)	(3,059)
Gearing (%)	8	1	2	(2)	(13)	(15)	(12)	(12)
Working capital turnover (days)	105	65	82	83	78	77	75	74
NAV per share (ZAR)	70	76	84	101	122	133	135	137
ROCE (excluding Harmony) (%)	52.5	23.0	15.8	31.5	34.7	36.1	27.6	22.2
ROIC (%)	56.9	12.8	16.6	28.4	30.7	30.0	20.8	15.6
Return on equity (excluding cash) (%)	39.0	19.0	11.9	24.4	24.8	24.6	18.0	14.3
ROCE per division								
Two Rivers	40.9%	-11.1%	19.6%	21.4%	25.4%	34.6%	29.1%	19.6%
Modikwa	30.1%	-7.5%	8.3%	11.8%	15.3%	20.8%	15.3%	5.6%
Nkomati	72.3%	1.8%	13.7%	15.0%	28.4%	35.2%	25.9%	10.4%
Iron ore	28.4%	56.7%	26.4%	58.6%	51.7%	52.7%	48.6%	27.5%
Manganese	100.5%	69.4%	26.1%	39.8%	46.3%	52.9%	27.8%	41.5%
Chrome	51.2%	14.7%	-12.0%	14.7%	7.7%	4.9%	-5.8%	-8.1%
XCSA	30.5%	16.6%	2.3%	8.7%	34.2%	21.6%	7.5%	2.0%
Goedgevonden	5.1%	2.7%	3.0%	34.5%	50.5%	33.6%	23.5%	20.6%

Source: Company Reports, I-Net, CIRA Estimates

Sales 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 increase 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 2013.

Figure 3. African Rainbow Minerals' production forecasts and mine life

FYE June	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	CAGR 10-15	Reserve life (yrs)	Resource life (yrs)
100% of volumes for joint operations											
ARM Platinum											
PGM's in concentrate - Modikwa (000 oz)	343	349	340	373	395	418	418	418	4%	24	100
Growth (%)	25	2	(3)	10	6	6	0	0			
PGM's in concentrate - Two Rivers (000 oz)	206	246	297	278	276	276	276	276	-1%	19	28
Growth (%)	12	19	20	(6)	(1)	0	0	0			
Nickel (t)	5,136	4,495	9,666	12,764	15,378	18,507	20,000	20,000	16%	33	58
Growth (%)	16	(12)	115	32	20	20	8	0			
ARM Ferrous											
Iron ore (000 t)	6,581	7,409	9,799	10,100	10,400	12,800	16,800	20,000	15%	36	44
Growth (%)	(4)	13	32	3	3	23	31	19			
Manganese ore (000 t)	3,711	2,152	3,095	3,200	3,200	3,200	3,200	5,000	10%	47	123
Growth (%)	59	(42)	44	3	0	0	0	56			
Manganese alloys (000 t)	247	117	238	245	280	280	280	280	3%		
Growth (%)	(2)	(53)	103	3	14	0	0	0			
Charge chrome (000 t)	275	144	189	205	180	180	180	180	-1%		
Growth (%)	19	(48)	31	8	(12)	0	0	0			
Chrome ore (000 t)	304	256	272	240	236	232	232	241	-2%	171	229
Growth (%)	77	(16)	6	(12)	(2)	(2)	0	4			
ARM Coal											
XCSA Export thermal coal - 20.2% (mt)	2.80	2.17	2.15	2.06	2.06	2.06	2.06	2.06	-1%	6-26	6-26
Growth (%)	2	(23)	(1)	(4)	0	0	0	0			
XCSA Domestic thermal coal - 20.2% (mt)	2.80	1.55	1.42	1.31	1.35	1.39	1.45	1.53	1%	6-26	6-26
Growth (%)	54	(45)	(8)	(8)	3	3	4	5			
Goedgevonden export - 100% (mt)	0.00	0.00	0.31	2.90	3.20	3.20	3.20	3.32		30	30
Growth (%)	-	-	-	835	10	0	0	4			
Goedgevonden domestic - 100% (mt)	0.00	0.00	0.30	3.00	3.40	3.40	3.40	3.53		30	30
Growth (%)	-	-	-	900	13	0	0	4			
Total coal	5.60	3.72	4.18	9.27	10.01	10.05	10.11	10.44	20%		
Growth (%)	23	(34)	12	122	8	0	1	3			
TEAL											
Copper (000 t)	8.5	5.3	0.0	0.0	0.0	5.0	25.0	45.0		28	
Growth (%)	-	(37)	(100)	-	-	-	400	80			

Source: Company reports and Citi Investment Research and Analysis

African Rainbow Minerals

Valuation

We calculate African Rainbow Minerals' discounted cash flow one-year target price at R230, 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. Its 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.

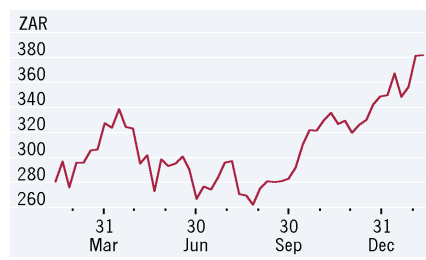
Downside risks include: potential execution risk, given significant new projects; South African infrastructure constraints; skills, electricity and water shortages and onerous regulation in South Africa; higher-than-forecast mining inflation; over-estimation of mineral reserves and government actions.

Company Focus

- Company Update
- Rating Change
- Target Price Change

Hold/Medium Risk	2M
<i>from Buy/Medium Risk</i>	
Price (11 Feb 11)	R383.50
Target price	R450.00
<i>from R430.00</i>	
Expected share price return	17.3%
Expected dividend yield	1.8%
Expected total return	19.2%
Market Cap	R506,301M
	US\$69,606M

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



Anglo American (AGLJ.J) Running Out of Reasons – Downgrade to Hold

- **Downgrade to HOLD** — Anglo's share price has rallied 55% from its 12-month low of R254 (25 August) and now reflects its strong volume growth profile and restructuring benefits, in our view. Due to the lack of near term catalysts, we downgrade Anglo to a Hold despite the positive earnings revision (up to +30%) over the next five years on our new commodity price forecasts. Earnings forecast improvements result in slightly higher NPV and our new target price is up 5% to R450.
- **Rump rerated** — We highlighted Anglo's attractive rump valuation as one of the reasons to buy it in our report "Four Reasons to BUY Anglo Today", dated 14 July 2010. Since then the value of its listed subsidiaries has fallen from around 60% of Anglo's market capitalisation back to its long-term average of 47%. Anglo's rump, excluding Angloplat and Kumba, is now trading on a 2011E PE multiple of 7.3x, well above its 5.3x valuation in July 2010.
- **Expensive subsidiaries** — We have Sell recommendations on Anglo's listed South African subsidiaries Kumba and Angloplat given stretched valuations. Angloplat also suffers limited volume growth potential and downside risk to cost expectations, in our view.
- **Peak margins a concern** — We forecast Anglo's peak earnings at \$7.47/share, based on 45% EBITDA margins. This implies a "reasonable" 2012 PE multiple of 7.4x. However, there could be downside risk to our bullish earnings, given that its 2007 peak was only \$4.40 and EBITDA margins were much lower at 37%.
- **Market finally believing** — Anglo's fortunes seem to have turned around at last. 1) Its non-core asset disposals have been above our fair values and left the group more focused on high returning mining assets; 2) News on Anglo's major Minas Rio iron ore project has turned more favourable recently; and 3) Kumba and De Beers have reported solid 2010 earnings, ahead of market expectations. Given strong share price performance following these catalysts, we believe Anglo's share price is finally reflecting improved prospects.

Anglo American (USD)

Year to 31 Dec	2008A	2009A	2010E	2011E	2012E
Sales (\$M)	26,311.0	20,858.0	27,185.1	31,964.0	34,520.4
Profit Before Tax (\$M)	8,571.0	4,029.0	9,441.5	14,271.7	15,586.2
Diluted EPS (\$)	4.31	2.10	4.07	6.04	7.09
Diluted EPS (Old) (\$)	4.31	2.10	4.02	4.85	5.47
PE (x)	12.2	25.1	12.9	8.7	7.4
EV/EBITDA (x)	7.7	12.6	7.4	5.3	4.3
DPS (\$)	0.44	0.00	0.65	0.95	1.15
Net Div Yield (%)	0.8	0.0	1.2	1.8	2.2

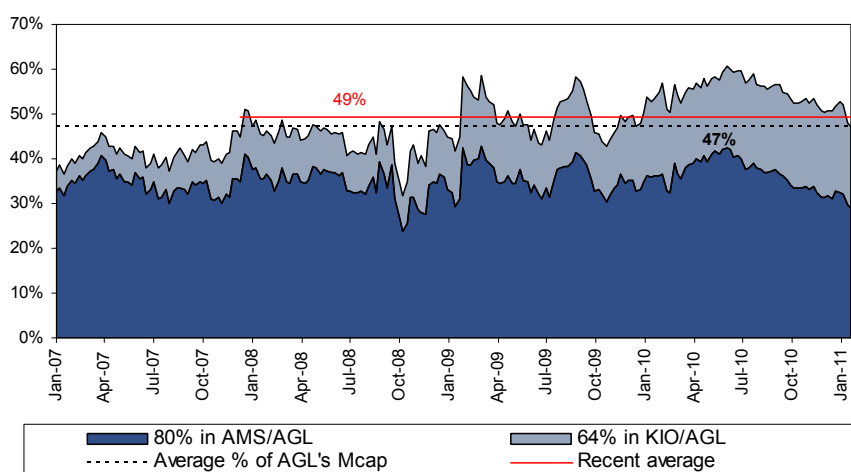
Discount to subsidiaries has narrowed

We highlighted Anglo's attractive rump valuation as one of the reasons to BUY the stock in our report ***Four Reasons to BUY Anglo Today***, dated 14 July 2010.

However, since then its rump has eroded significantly. Anglo American's interest in listed South African subsidiaries is worth around US\$35bn today, which is roughly 47% of its market capitalisation. This has reduced from 61% on 27 June 2010 as Anglo American has effectively eroded relative to these subsidiaries.

Anglo's rump, excluding Angloplat and Kumba, is now trading on a 2011E PE multiple of 7.3x, well above its 5.3x valuation in July 2010.

Figure 1. Anglo's interests in Angloplat and Kumba as a % of its market capitalisation



Source: I-Net, CIRA

Financial statements and ratio analysis

Figure 2. Anglo American income statement – associates proportionately consolidated

FYE December	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
Income Statement (US\$m)								
Revenue	35,674	32,964	24,637	32,500	38,507	41,216	40,025	39,627
Cash costs	-23,542	-21,117	-17,707	-20,131	-21,836	-22,504	-22,904	-24,369
Underlying EBITDA	12,132	11,847	6,930	12,369	16,671	18,712	17,121	15,258
Depreciation and amortisation	-2,016	-1,762	-1,973	-2,198	-2,374	-2,427	-2,822	-3,328
Underlying EBIT	10,116	10,085	4,957	10,171	14,297	16,285	14,299	11,929
Items excluded from underlying earnings	1,624	-345	-209	65	940	0	0	0
Net interest	-184	-548	-435	-259	-112	149	376	393
Profit before tax	11,556	9,192	4,313	9,977	15,125	16,433	14,674	12,322
Taxation	-3,310	-3,057	-1,403	-3,296	-4,610	-5,329	-4,749	-3,984
Profit after tax	8,246	6,135	2,910	6,681	10,514	11,105	9,926	8,338
Minority interest in profit	-952	-920	-485	-1,399	-1,922	-2,097	-1,835	-1,257
Net profit for the year	7,294	5,215	2,425	5,283	8,593	9,008	8,091	7,081
Adjustments	-1,533	22	144	-158	-940	0	0	0
Underlying earnings	5,761	5,237	2,569	5,125	7,653	9,008	8,091	7,081
Number of shares (millions)								
Weighted average	1,309	1,202	1,202	1,206	1,206	1,206	1,206	1,206
Diluted weighted average	1,327	1,215	1,253	1,281	1,281	1,281	1,281	1,281
Closing	1,195	1,204	1,204	1,206	1,206	1,206	1,206	1,206
Underlying EPS (US cents)	440	436	214	425	635	747	671	587
Underlying EPS growth (% y-o-y)	+18	-1	-51	+99	+49	+18	-10	-12
Diluted underlying EPS (US cents)	434	431	210	407	604	709	637	557
DPS declared (US cents)	124	44	0	65	95	115	127	140
Dividend payout ratio	28%	10%	0%	15%	15%	15%	19%	24%
Diluted underlying EPS (pence)	217	228	130	259	360	402	361	316
PE multiple at 3422 pence/share	16x	15x	26x	13x	9x	9x	9x	11x
DPS declared (pence)	62	22	0	42	57	66	73	80
Dividend yield at 3422 pence/share	1.8%	0.7%	0.0%	1.2%	1.7%	1.9%	2.1%	2.3%
Diluted underlying EPS (ZAR)	30.56	34.66	16.99	28.98	42.00	55.00	53.00	46.00
DPS declared (ZAR)	8.67	3.36	0.00	4.68	6.70	8.90	10.60	11.70
Composition of underlying EBIT (US\$m)								
Platinum	2,697	2,169	32	733	876	1,536	1,532	1,283
EBIT margin	40%	34%	1%	11%	12%	20%	20%	17%
Diamonds	484	508	64	445	424	636	702	599
EBIT margin	16%	16%	4%	17%	13%	18%	20%	16%
Copper	2,898	1,892	2,010	3,034	4,257	5,089	5,411	4,773
EBIT margin	64%	48%	51%	61%	65%	67%	65%	58%
Nickel	604	123	2	154	363	825	691	459
EBIT margin	69%	30%	1%	34%	49%	56%	48%	37%
Iron ore and manganese	1,050	2,554	1,489	4,008	5,295	5,273	4,323	2,906
EBIT margin	46%	62%	44%	58%	63%	61%	52%	39%
Metallurgical Coal (Australia)	9	1,110	451	791	1,582	1,318	514	764
EBIT margin	1%	36%	20%	25%	40%	34%	17%	24%
Thermal Coal (South Africa)	605	1,078	721	823	1,460	1,555	1,054	1,053
EBIT margin	28%	35%	29%	29%	37%	39%	30%	28%
Other mining and industrial	2,218	1,082	506	528	334	347	366	386
EBIT margin	15%	12%	9%	11%	7%	8%	8%	9%
Exploration	-157	-212	-172	-187	-150	-150	-150	-150
Group and unallocated	-292	-219	-146	-158	-144	-144	-144	-144
Underlying EBIT	10,116	10,085	4,957	10,171	14,297	16,285	14,299	11,929
Group EBIT margin	28%	31%	20%	31%	37%	40%	36%	30%
Key Income Statement ratios								
EBITDA margin (%)	34	36	28	38	43	45	43	39
Interest cover (times)	64	18	11	39	n/a	n/a	n/a	n/a

Source: Company Reports, I-Net, CIRA Estimates

Figure 3. Anglo American's balance sheet

FYE December	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
Balance Sheet (US\$m)								
Non-current operating assets	28,563	35,729	40,777	42,977	45,556	49,400	52,825	55,067
Working capital	1,214	454	1,810	3,202	3,057	3,270	3,087	2,856
Net operating assets	29,777	36,183	42,587	46,179	48,612	52,671	55,913	57,923
Investments	4,981	2,411	3,015	3,272	3,352	3,444	3,534	3,615
Cash	3,129	2,771	3,269	5,964	8,180	8,819	8,782	10,422
Total invested capital	37,887	41,365	48,871	55,415	60,144	64,933	68,228	71,961
Equity	22,461	20,221	26,121	30,271	37,838	45,580	52,211	57,689
Minority interest	1,869	1,535	1,948	3,164	3,729	4,292	4,810	5,385
Debt	8,299	13,995	14,315	15,044	11,225	7,089	2,682	0
Net deferred tax liability	4,176	4,297	4,904	5,157	5,467	5,928	6,339	6,608
Provisions	1,082	1,317	1,583	1,779	1,885	2,044	2,186	2,279
Total invested capital (Capital employed)	37,887	41,365	48,871	55,415	60,144	64,933	68,228	71,961
Key Balance Sheet ratios								
Non-current asset turnover (times)	1.2	0.9	0.6	0.8	0.8	0.8	0.8	0.7
Net debt - excluding De Beers	5,170	11,224	11,046	9,080	3,045	(1,730)	(6,099)	(10,422)
Net debt - including De Beers	6,996	12,822	12,486	9,873	3,838	(937)	(5,307)	(9,630)
Debt: Equity (%)	37	69	55	50	30	16	5	0
Gearing (%)	19	36	30	23	7	(4)	(13)	(22)
Gearing - including De Beers (%)	24	39	32	25	9	(2)	(11)	(20)
Working capital turnover (days)	12	5	27	36	29	29	28	26
NAV per share (US\$)	19	17	22	25	31	38	43	48
NAV per share (ZAR)	132	139	182	183	221	294	362	400
Price to book	2.9	2.8	2.1	2.1	1.7	1.3	1.1	1.0
ROCE (%)	26.8	25.5	11.0	19.5	24.7	26.0	21.5	17.0
ROIC (%)	23.6	20.3	10.5	16.5	21.2	22.9	18.8	14.8
Return on equity (%)	31.2	24.4	10.5	18.7	25.2	21.6	16.5	12.9
ROCE per division (%)								
Platinum	33	24	0	6	6	12	12	10
Diamonds	21	32	5	15	14	22	24	20
Copper	109	63	51	56	64	69	67	52
Nickel	45	9	0	8	15	32	24	13
Iron ore and manganese	49	38	14	37	43	38	28	18
Coal	18	57	27	32	60	55	29	35
Other mining and industrial	19	17	10	13	12	17	18	19

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\$3.2 billion, we think Anglo's net debt could fall to around US\$3bn by the end of 2011E, implying comfortable debt gearing ratio below 10%. This is a major improvement from 2008's net debt level (including De Beers) of US\$12.8bn (39% gearing ratio).

Production growth forecasts

Anglo American looks to offer attractive production growth in key commodities up to 2015, with the expected commissioning and ramp-up of its Kolomela iron ore, Minas Rio iron ore, Los Bronces and Collahuasi copper expansions, and Barro Alto nickel projects. We calculate its copper-equivalent production growth from core operations at 35% up to 2015. We expect 2009-15 production CAGRs of 12% for iron ore, 7% for copper and 12% for nickel.

Figure 4. Anglo American's share of production*

FYE December	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	CAGR (09-15)	Reserves	Life
Platinum (000 ounces)	2,509	2,387	2,452	2,450	2,600	2,600	2,700	2,800	2,800	2.2%	171,300	42
% change	-12	-5	+3	-0	+6	+0	+4	+4	+0			
Palladium (000 ounces)	1,406	1,319	1,361	1,363	1,453	1,454	1,510	1,566	1,566	2.4%		
% change	-10	-6	+3	+0	+7	+0	+4	+4	-0			
Rhodium (000 ounces)	333	299	350	315	330	331	343	356	356	0.3%		
% change	+0	-10	+17	-10	+5	+0	+4	+4	+0			
Gold ('000 ounces)	1,815	79	91	90	91	91	95	98	98	1.3%		
% change	-47	-96	+16	-1	+2	+0	+4	+4	+0			
Diamonds (million carats)	51	48	25	33	44	46	47	47	48	11.8%		
% change	-0	-6	-49	+34	+34	+4	+1	+1	+2			
Energy coal - power utilities (mt)	34	36	36	35	36	36	43	49	51	5.9%	1,076	31
% change	-2	+6	+0	-4	+3	+1	+19	+14	+4			
Energy coal - export quality (mt)	52	49	47	46	47	49	50	52	52	1.8%	603	13
% change	+0	-6	-3	-3	+3	+3	+1	+5	+1			
Metallurgical coal (mt)	11	15	14	16	14	17	18	18	18	3.9%	287	18
% change	+2	+32	-5	+12	-9	+18	+4	+0	+1			
Total coal (million tonnes)	97	100	97	96	97	102	110	119	121	3.7%		
% change	-0	+3	-2	-1	+1	+5	+8	+8	+2			
Copper (incl Angloplat) (000 tonnes)	667	651	683	627	676	776	940	1,031	1,032	7.1%	28,740	46
% change	+2	-2	+5	-8	+8	+15	+21	+10	+0			
Nickel (incl Angloplat) (000 tonnes)	45	36	39	40	44	70	77	78	78	12.0%	1,184	30
% change	-6	-21	+11	+1	+11	+59	+10	+1	+0			
Zinc (000 tonnes)	343	341	350	325	31	0	0	0	0	-100.0%		
% change	+3	-1	+3	-7	-90	-100	-	-	-			
Lead (000 tonnes)	62	63	68	61	42	0	0	0	0	-100.0%		
% change	-13	+1	+9	-11	-31	-100	-	-	-			
Iron ore - Kumba (million tonnes)	32	37	42	43	45	51	54	54	56	5.0%	942	22
% change	+4	+13	+14	+3	+3	+13	+6	+0	+5			
Iron ore - Amapa and Minas Rio (million tonnes)	0	1	3	4	4	4	7	16	31	50.2%		
% change	-	-	+273	+42	+1	+8	+80	+122	+86			
Total iron ore (million tonnes)	32	37	45	47	48	55	61	70	87	11.7%		
% change	+4	+15	+19	+6	+2	+13	+12	+15	+24			
Manganese ore (000 tonnes)	2,412	2,704	1,570	3,007	2,850	3,000	3,000	3,000	3,000	11.4%	105,040	35
% change	+7	+12	-42	+92	-5	+5	+0	+0	+0			
Manganese alloys (000 tonnes)	293	306	129	310	300	300	300	300	300	15.1%		
% change	+13	+5	-58	+140	-3	+0	+0	+0	+0			

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

Source: Company Reports, I-Net, CIRA Estimates

Anglo American

Investment strategy

Our recommendation on Anglo American is HOLD/Medium Risk (2M) for the UK and South Africa listings. Anglo's fortunes seem to have turned around at last.

1) Its non-core asset disposals have been above our fair values and left the group more focused on high returning mining assets. 2) News on Anglo's major Minas Rio iron ore project has turned more favourable recently. 3) Kumba and De Beers has reported solid 2010 earnings, ahead of market expectations.

Given strong share price performance following these catalysts, we believe Anglo's share price is finally reflecting improved prospects. We forecast Anglo's peak earnings at \$7.47/share, based on 45% EBITDA margins. This implies "reasonable" multiples at current levels. However, there could be downside risk to our bullish earnings, given that its 2007 peak was only \$4.40 and EBITDA margins were much lower at 37%.

Valuation

We calculate Anglo American's discounted cash flow target price of R450 based on: 1) A weighted average cost of capital (WACC) of 9.52%; 2) Long-term (2013-23) 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 macro-economic 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 (11 Feb 11)	£24.80
Target price	£27.00
Expected share price return	8.9%
Expected dividend yield	2.4%
Expected total return	11.3%
Market Cap	£151,373M
	US\$243,627M

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



BHP Billiton PLC (BLT.L) Earnings Upgrades & Result Preview

- **Buy Rated** — We have updated our estimates for commodity price upgrades, impact of Queensland floods and other model changes. Our FY11 estimate remains largely unchanged, but FY12 estimates have been upgraded 8%. We forecast an interim result of US\$10bn, dividend of US52c and US\$5+bn top-up to the buyback. BHPB is Buy rated with a £27/share target.
- **Earnings Upgrades** — FY11 estimate largely unchanged at US\$22.4bn, but FY12E upgraded 8% to US\$26.8bn and FY13 by 3% to US\$25.4bn on higher iron ore, coal and copper price assumptions. Upgrades are partially offset by higher FX, and lower Queensland coal (weather) and oil production (ongoing GoM drilling delays). We have also allowed for increased costs across the business, but particularly in iron ore and coal.
- **Interim Result Preview** — Key forecasts are EBITDA of US\$17.4bn, EBIT of US\$15bn and NPAT of US\$10bn. Higher commodity prices key driver of earnings, with FX and cost pressures the major offset. We have increased our interim dividend to US52c/share, previously US46c, given the very strong cash flow generation and conservative balance sheet. Interim result on 16 Feb, with call at 10am AEDT — 1800 558 698 (Aust), 0800 376 8339 (UK) or +617 3107 0210.
- **Capital Management** — BHPB's on-market UK buyback has consumed ~US\$1bn of the announced US\$4.2bn in the last 3 months. We expect at least a US\$5bn top-up at the interim result. With the DLC spread >18%, continuing, the on-market UK buyback is more attractive than an off-market Ltd one.
- **Big v Small** — Diversifieds have lagged the pure plays again in the recent rally and to us represent the best value in the sector, especially if any heat comes out of the commodity market from China continuing to tighten liquidity.

BHP Billiton PLC (USD)

Year to 30 Jun	2009A	2010A	2011E	2012E	2013E
Sales (\$M)	50,211.0	52,798.0	73,087.2	86,067.7	81,446.0
Profit Before Tax (\$M)	10,408.0	19,631.0	33,627.9	41,421.2	38,554.6
Diluted EPS (¢)	192.1	223.4	400.7	481.1	454.5
Diluted EPS (Old) (¢)	192.1	223.4	400.8	446.4	443.0
PE (x)	20.8	17.9	10.0	8.3	8.8
EV/EBITDA (x)	11.7	9.8	5.9	4.6	4.4
DPS (¢)	82.0	87.0	107.0	115.0	125.0
Net Div Yield (%)	2.1	2.2	2.7	2.9	3.1

BHP Billiton PLC

Valuation

Our target price is £27. Our BHP valuation (NPV) of £26.20 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.

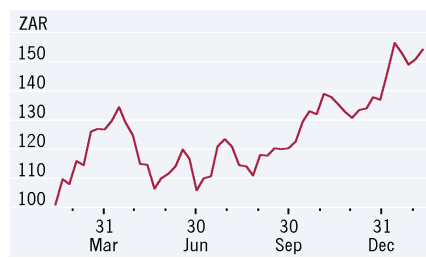
If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could fail to reach or exceed our target price.

Company Focus

- Company Update
- Estimate Change

Hold/Medium Risk	2M
Price (11 Feb 11)	R154.21
Target price	R160.00
Expected share price return	3.8%
Expected dividend yield	3.9%
Expected total return	7.6%
Market Cap	R55,225M US\$7,592M

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



Exxaro Resources Limited (EXXJ.J)

Infrastructure constraints limiting volume growth

- **Earnings up to 26% higher** — Exxaro's near-term earnings benefit up to 26% from higher iron ore and coal prices. Its target price remains unchanged at R160 as cost pressures and stronger currencies offset the benefit of commodity price increases. We have raised our cash cost inflation expectations over the next five years, reducing long-term EBITDA margins on export iron ore from 54% to 50%.
- **FY2010 guidance** — Management guided that first-half profits can at least be repeated in 2H10, despite the strong rand. This implies FY10 HEPS of at least R13.66 (Citi estimate R14.51).
- **Rand hedge helping** — Exxaro has hedged around US\$280m of export revenue at R7.80 in 2H10 (total export revenue of \$550m, on our estimates). This is around 8% more favourable than our forecast of R7.22 and 13% better than spot.
- **Mediocre near-term volume growth** — We forecast Exxaro's copper equivalent volume growth at 26% over the next five years, which is lower than its peers' average of 34%, despite the group's very large long-term growth potential in reserves. 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 2010 (in line with our forecast of 3.95Mt). Management sees limited demand growth for Exxaro's domestic export-quality steam and metallurgical coal volumes in the period to FY15F.
- **Hold maintained** — Exxaro's share price has rallied 56% since its 12 month low. Although we still believe Exxaro's large reserves will support strong volume growth into high-margin businesses, we believe its earnings growth potential is now reflected in the share price. Our target price of R160 offers an expected total return of 7.6%. We maintain our Hold/Medium Risk (2M) rating.

Exxaro Resources Limited (ZAR)

Year to 31 Dec	2008A	2009A	2010E	2011E	2012E
Sales (RM)	13,843.0	15,009.0	16,124.4	17,751.3	20,130.8
Net Income (RM)	3,630.0	2,516.0	5,026.8	6,173.1	6,823.9
Diluted EPS (R)	10.06	7.03	13.91	17.05	18.85
Diluted EPS (Old) (R)	10.06	7.03	13.62	13.55	16.33
PE (x)	15.3	21.9	11.1	9.0	8.2
EV/EBITDA (x)	16.3	37.2	15.3	13.5	11.6
DPS (R)	3.75	2.00	4.30	6.30	7.90
Net Div Yield (%)	2.4	1.3	2.8	4.1	5.1

Financial statements and ratio analysis

Figure 1. Exxaro's income statement

FYE December	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
Income Statement (ZARm)								
Revenue	12,460	18,160	19,830	23,873	27,079	30,681	32,683	31,707
Cash costs	-8,917	-11,783	-13,904	-14,986	-16,367	-18,663	-20,344	-21,622
Underlying EBITDA	3,543	6,378	5,926	8,887	10,712	12,018	12,339	10,085
Depreciation and amortisation	-845	-1,030	-1,330	-1,373	-1,519	-1,664	-2,137	-2,572
Underlying EBIT	2,698	5,348	4,596	7,514	9,193	10,354	10,202	7,513
Special items	-129	-330	-1,576	-18	-69	-73	-77	-82
Interest received	96	153	145	113	203	100	395	496
Interest paid	-345	-444	-586	-583	-567	-781	-828	-652
Profit before tax	2,320	4,727	2,579	7,026	8,760	9,600	9,692	7,275
Taxation	-873	-1,346	-1,556	-1,994	-2,581	-2,781	-2,883	-2,242
Profit after tax	1,447	3,381	1,023	5,032	6,179	6,819	6,809	5,033
Minority interest in profit	-20	24	0	39	-6	5	7	19
Net profit for the year	1,427	3,405	1,023	5,071	6,173	6,824	6,816	5,052
Adjustments	21	225	1,493	-44	0	0	0	0
Headline earnings	1,448	3,630	2,516	5,027	6,173	6,824	6,816	5,052
Number of shares (millions)								
Weighted average	341	343	345	347	347	347	347	347
Diluted weighted average	355	361	358	362	362	362	362	362
Closing	342	344	346	347	347	347	347	347
EPS (ZAR)	4.18	9.93	2.97	14.63	17.79	19.67	19.64	14.56
HEPS (ZAR)	4.25	10.58	7.29	14.51	17.79	19.67	19.64	14.56
Diluted HEPS (ZAR)	4.08	10.06	7.02	13.91	17.05	18.85	18.83	13.96
Growth (%)	+45	+147	-30	+98	+23	+11	-0	-26
PE multiple at R157/share	38.5	15.6	22.4	11.3	9.2	8.3	8.3	11.2
DPS declared (ZAR)	1.60	3.75	2.00	4.30	6.30	7.90	7.90	7.30
Dividend yield at R157/share	1.0%	2.4%	1.3%	2.7%	4.0%	5.0%	5.0%	4.6%
Dividend payout ratio	38%	38%	67%	29%	35%	40%	40%	50%
Underlying EBIT per division (ZARm)								
Coal	885	2,654	1,905	2,353	2,672	3,016	3,180	3,010
EBIT margin Coal	17%	29%	20%	24%	24%	25%	23%	20%
Mineral Sands	-97	104	-124	152	159	537	642	422
EBIT margin Mineral Sands	-4%	4%	-4%	3%	3%	10%	11%	7%
Base metals	688	-172	-8	-18	37	-35	-46	-124
EBIT margin Base metals	25%	-9%	-1%	-1%	2%	-2%	-2%	-6%
Iron ore	1,186	2,718	2,568	5,028	6,317	6,843	6,429	4,245
EBIT margin Iron Ore	52%	64%	55%	65%	68%	65%	61%	49%
Other	36	44	255	-1	9	-7	-3	-40
Underlying EBIT	2,698	5,348	4,596	7,514	9,193	10,354	10,202	7,513
Group EBIT margin	22%	30%	23%	31%	34%	34%	31%	24%
Key Income Statement ratios								
Revenue growth	17%	46%	9%	20%	13%	13%	7%	-3%
EBITDA margin	28%	35%	30%	37%	40%	39%	38%	32%
Depreciation rate	10%	9%	10%	9%	7%	6%	8%	9%
Interest cover (times)	8	12	5	13	16	13	13	12
Tax rate	38%	28%	60%	28%	29%	29%	30%	31%

Source: Company Reports, I-Net, CIRA Estimates

Figure 2. Exxaro's balance sheet

FYE December	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
Balance Sheet (ZARm)								
Non-current operating assets	9,100	13,299	14,000	17,052	24,492	28,018	28,529	28,281
Working capital	2,013	3,039	3,744	4,066	4,323	4,616	4,719	4,388
Net tax payable	(137)	(438)	0	(503)	(644)	(739)	(676)	(506)
Net operating assets	10,976	15,900	17,744	20,614	28,170	31,895	32,572	32,163
Investments	1,031	1,546	1,142	1,339	1,339	1,339	1,339	1,339
Cash	850	1,769	1,023	3,775	186	4,355	5,429	5,935
Total invested capital	12,857	19,215	19,909	25,728	29,695	37,588	39,339	39,437
Equity	11,505	14,937	15,154	20,045	25,507	30,492	34,388	36,641
Minority interest	19	128	1	0	0	0	0	0
Debt	1,333	4,150	4,754	5,683	4,188	7,096	4,952	2,796
Total invested capital	12,857	19,215	19,909	25,728	29,695	37,588	39,339	39,437
Key Balance Sheet ratios								
Non-current asset turnover (times)	1.4	1.4	1.4	1.4	1.1	1.1	1.1	1.1
Net debt (Excluding SIOC)	483	2,381	3,731	1,908	4,003	2,741	(477)	(3,139)
Gearing - excluding SIOC debt (%)	4	14	20	9	14	8	(1)	(9)
Net debt (Including SIOC)	999	2,391	4,336	1,574	3,846	2,509	(396)	(2,191)
Gearing - including SIOC debt (%)	8	14	22	7	13	8	(1)	(6)
Net debt/Enterprise value (%)	2	4	7	3	7	4	(1)	(4)
Working capital turnover (days)	59	61	69	62	58	55	53	51
ROCE (%)	22	33	23	33	33	31	27	19
RONA (After tax) (%)	21	33	17	34	32	27	22	15
NAV per share (Rand)	32	41	42	55	70	84	95	101
Price to book at R154/share	4.8	3.7	3.6	2.8	2.2	1.8	1.6	1.5
Return on equity (%)	14	26	7	29	27	24	21	14

Source: Company Reports, I-Net, CIRA Estimates

Sales volume growth forecasts

We forecast Exxaro's copper equivalent volume growth at 26% over the next five years, which is lower than its peers' average of 34%.

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 2010 (in line with our forecast of 3.95Mt).

Grooteegeluk 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 Grooteegeluk 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 Sishen jig plant (13Mtpa by 2010), and Sishen South (9Mtpa by 2012). We forecast a FY09-15 production CAGR of 6% for Exxaro's iron interests.

Figure 3. Exxaro's sales volumes

FYE December	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	CAGR 09-15
Exxaro's share of volumes (000 tonnes)										
Eskom coal	34,226	36,255	36,299	36,979	37,000	38,825	43,083	47,850	51,804	6%
% change	-1%	6%	0%	2%	0%	5%	11%	11%	8%	
Other domestic coal	5,237	5,481	4,617	5,061	5,590	5,684	5,142	5,464	5,199	2%
% change	7%	5%	-16%	10%	10%	2%	-10%	6%	-5%	
Export steam coal/Metallurgical	1,821	3,276	4,716	3,950	4,000	4,400	5,500	5,500	6,000	4%
% change	-25%	80%	44%	-16%	1%	10%	25%	0%	9%	
Total coal	41,284	45,012	45,632	45,990	46,590	48,909	53,726	58,814	63,003	6%
% change	-2%	9%	1%	1%	1%	5%	10%	9%	7%	
Zircon	56	169	146	223	197	200	201	201	204	6%
% change	-30%	201%	-13%	53%	-12%	2%	0%	0%	2%	
Rutile	34	49	51	69	68	70	71	71	73	6%
% change	-31%	43%	5%	35%	-1%	3%	0%	1%	2%	
Pig iron	99	150	144	192	168	178	186	187	190	5%
% change	43%	51%	-4%	33%	-12%	6%	4%	1%	2%	
Chloride Slag	163	214	144	198	190	220	220	220	220	7%
% change	57%	31%	-33%	38%	-4%	16%	0%	0%	0%	
Sulphate Slag	29	29	44	32	48	56	56	54	51	3%
% change	-	-	54%	-27%	50%	17%	0%	-4%	-4%	
Pigment	54	43	54	59	76	76	76	76	76	6%
% change	0%	-20%	26%	9%	29%	0%	0%	0%	0%	
Zinc - Rosh Pinah	55	54	53	52	42	42	42	42	42	-4%
% change	1%	-3%	-2%	-2%	-18%	0%	0%	0%	0%	
Zinc - third party purchases	67	72	69	68	80	85	90	90	90	4%
% change	10%	8%	-4%	-1%	16%	6%	6%	0%	0%	
Iron ore	6,580	6,425	8,228	8,637	9,100	10,300	10,900	10,900	11,460	6%
% change	10%	-2%	28%	5%	5%	13%	6%	0%	5%	

Source: Company Reports, I-Net, CIRA Estimates

Exxaro Resources Limited

Valuation

We calculate Exxaro's discounted cash flow (DCF) target price at R160 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.

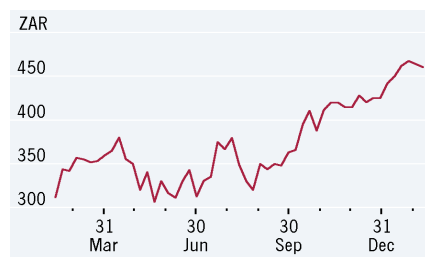
If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform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

Company Focus

- Company Update
- Estimate Change

Sell/Medium Risk	3M
Price (11 Feb 11)	R460.02
Target price	R380.00
Expected share price return	-17.4%
Expected dividend yield	9.6%
Expected total return	-7.8%
Market Cap	R148,086M
	US\$20,359M

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



Kumba Iron Ore Ltd (KIOJ.J)

Highly elevated margins pose downside risk

- **Earnings up to 26% higher** — We raise Kumba's earnings estimates by up to 26% over the next five years as we incorporate higher iron ore price forecasts. Its target price remains unchanged at R380 as cost pressure and stronger currencies offset the benefit of iron ore price increases. We raise its cash cost inflation expectations over the next five years to reflect Sishen's stripping ratio increasing to 3x (previously 2.5x) by 2015, reducing long-term EBITDA margins on export iron ore from 54% to 50%.
- **Forecasts based on elevated margins** — Although Kumba is trading on a reasonable forward PE multiple of 9x and attractive dividend yield of almost 10%, 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 normalised margins of 50% post 2015.
- **Bullish expectations** — Kumba's 12-month forward consensus earnings per share forecast is currently R54, which is more than double its 2008 peak of R23.02. Consensus earnings estimates have never been more bullish. A 217% increase in earnings forecasts since 2009's low of R17/share was almost exclusively driven by higher iron ore price, 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 335Mt over the next five years, which could result in an iron ore surplus of 143Mt by 2015. However, if we assume companies will deliver all projects on time, the supply response could be a massive 658Mt (+71%) by 2015 excluding any potential volumes from West Africa.
- **Unattractive on normalised margins** — We calculate Kumba's 2015E earnings, which incorporates 34% volume growth and 49% export EBITDA margins, at R26/share, which implies an expensive 18.5x PE multiple.
- **Maintain Sell** — Our one-year target price of R380 implies a negative one-year return of 8%. Kumba is 9% more expensive than peers based on 2012E PE multiples and 40% more expensive than peers on a 2012E EV/EBITDA basis. We maintain our Sell/Medium Risk recommendation.

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	53,077.0
Net Income (RM)	6,972.0	14,328.0	17,065.7	18,343.7	16,839.0
Diluted EPS (R)	21.76	44.54	52.91	56.87	52.20
Diluted EPS (Old) (R)	21.71	44.09	42.01	47.97	46.67
PE (x)	21.1	10.3	8.7	8.1	8.8
EV/EBITDA (x)	11.3	5.9	4.7	4.3	4.6
DPS (R)	14.60	34.50	43.00	47.00	45.00
Net Div Yield (%)	3.2	7.5	9.3	10.2	9.8

Financial statements and ratio analysis

Figure 1. Kumba Iron Ore's income statement

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Income Statement (ZARm)								
Revenue	21,360	23,408	38,704	46,639	52,751	53,077	43,538	41,931
Cash operating costs	(7,384)	(10,033)	(12,801)	(14,184)	(17,228)	(19,283)	(20,026)	(21,942)
Underlying EBITDA	13,976	13,375	25,903	32,455	35,522	33,794	23,512	19,989
Depreciation	(332)	(530)	(765)	(876)	(1,305)	(1,649)	(2,281)	(2,903)
Impairments	(50)	0	0	0	0	0	0	0
Underlying EBIT	13,594	12,845	25,138	31,579	34,218	32,145	21,231	17,086
Exceptional items	(81)	35	(7)	0	0	0	0	0
Net interest	(251)	(127)	(29)	102	(55)	(5)	(200)	(716)
Profit before tax	13,262	12,753	25,102	31,681	34,162	32,140	21,030	16,370
Taxation	(4,179)	(3,949)	(6,813)	(9,517)	(10,026)	(9,845)	(6,911)	(5,224)
Profit after tax	9,083	8,804	18,289	22,163	24,136	22,295	14,120	11,147
Minority interest	(1,875)	(1,812)	(3,966)	(5,098)	(5,793)	(5,456)	(3,671)	(2,898)
Net profit for the year	7,208	6,992	14,323	17,066	18,344	16,839	10,449	8,249
Adjustments	68	(20)	5	0	0	0	0	0
Headline earnings	7,276	6,972	14,328	17,066	18,344	16,839	10,449	8,249
Number of shares (millions)								
Weighted average	316	319	321	322	322	322	322	322
Diluted weighted average	320	320	322	323	323	323	323	323
Closing	319	320	322	322	322	322	322	322
EPS (ZAR)	22.81	21.94	44.66	53.01	56.98	52.31	32.46	25.62
Headline EPS (ZAR)	23.02	21.87	44.67	53.01	56.98	52.31	32.46	25.62
Diluted HEPS (ZAR)	22.75	21.76	44.54	52.91	56.87	52.20	32.39	25.57
Growth (%)	+131	-4	+105	+19	+7	-8	-38	-21
PE multiple at R461/share	20.2	21.2	10.3	8.7	8.1	8.8	14.2	18.0
DPS declared (ZAR)	21.00	14.60	34.50	43.00	47.00	45.00	29.00	26.00
Dividend yield at R461/share (%)	4.6	3.2	7.5	9.3	10.2	9.8	6.3	5.6
Dividend payout ratio (%)	92	67	77	81	82	86	89	101
Key Income Statement ratios								
Revenue growth (% y-o-y)	86	10	65	21	13	1	-18	-4
Underlying EBITDA margin (%)	65	57	67	70	67	64	54	48
Underlying EBIT margin (%)	64	55	65	68	65	61	49	41
Interest cover (times)	54	101	867	-	621	-	106	24
Tax rate (%)	32	31	27	30	29	31	33	32

Source: Company Reports, I-Net, CIRA Estimates

Figure 2. Kumba Iron Ore's balance sheet

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Balance Sheet (ZARm)								
Non-current operating assets	7,925	11,595	15,901	19,625	24,920	29,521	34,473	40,953
Working capital	2,486	2,593	2,924	4,529	5,666	5,229	4,152	4,222
Net tax payable	547	109	(61)	0	0	0	0	0
Net operating assets	10,958	14,297	18,764	24,154	30,587	34,751	38,625	45,175
Investments	269	307	425	425	425	425	425	425
Cash	3,810	891	4,855	1,660	6,374	5,798	2,521	3,723
Total invested capital	15,037	15,495	24,044	26,239	37,386	40,974	41,572	49,323
Equity	9,532	9,931	16,821	20,304	25,955	27,738	26,727	27,618
Minority interest	1,647	1,650	4,038	5,058	6,216	7,034	7,585	7,875
Debt	3,858	3,914	3,185	877	5,215	6,201	7,259	13,830
Total invested capital	15,037	15,495	24,044	26,239	37,386	40,974	41,572	49,323
Key Balance Sheet ratios								
Non-current asset turnover (times)	2.7	2.0	2.4	2.4	2.1	1.8	1.3	1.0
Net debt (ZARm)	48	3,023	(1,670)	(783)	(1,159)	403	4,738	10,107
Gearing (Net debt:(Net debt + equity)) (%)	0.5	23.3	(11.0)	(4.0)	(4.7)	1.4	15.1	26.8
Working capital turnover (days)	42	40	28	35	39	36	35	37
NAV per share (rand)	30	31	52	63	81	86	83	86
Price to book at R461/share	15	15	9	7	6	5	6	5
ROCE (%)	114.3	84.1	127.2	125.6	107.6	82.0	51.4	37.6
Return on net operating assets (%)	103.2	73.2	111.0	105.4	91.3	70.5	41.0	30.2
Return on equity (%)	102.3	71.8	107.1	91.9	79.3	62.7	38.4	30.4

Source: Company Reports, I-Net, CIRA Estimates

Production and sales volume forecasts

We forecast 4% sales volume growth for FY10 as Sishen's jig plant ramps up to 13Mt, offset by the negative impact of recent derailments. We think Kumba's inventories could increase by 0.9Mt due to the derailments.

Sishen Iron Ore Company (Kumba owns 74%) intends to double iron ore exports between 2008 and 2013, with the commissioning and ramp-up of Sishen Expansion Project (13Mtpa by 2010) and Kolomela (Sishen South) (9Mtpa by 2012).

Figure 3. Sishen Iron Ore Company's sales volumes ('000 tonnes)

FYE December	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	2017F	CAGR '09-'17	Reserves (mt)	Life
Sishen main pit	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	4,747	10,430	13,284	13,000	13,000	13,000	13,000	13,000	13,294	13,696			
Thabazimbi	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	6,000	9,000	9,000	9,000	9,340	9,813		213.6	24
SEP II	0	0	0	0	0	0	0	2,800	10,000	10,226			
Sishen Pellets	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			
Sishen South Medium Grade	0	0	0	0	0	0	0	0	1,500	3,068			
Stock movement	(4,574)	(800)	(200)	1,000	1,000	1,000	1,000	1,000	1,100	0			
Total	32,125	41,143	43,184	45,500	51,500	54,500	54,500	57,300	68,890	68,889	6.66%	910.6	22
Growth (% year-on-year)	-2	+28	+5	+5	+13	+6	+0	+5	+20	-0			

Source: Company Reports and CIRA Estimates

Kumba Iron Ore Ltd

Valuation

Our Kumba target price of R380 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

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

African Rainbow Minerals (ARIJ.J)

Ratings and Target Price History

Fundamental Research

Analyst: Johann Pretorius

Covered since May 14 2010

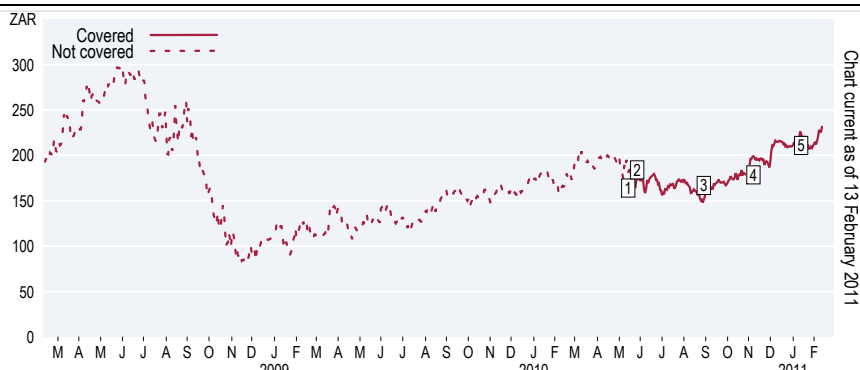


Chart current as of 13 February 2011

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

* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Aug-10	1M	*205.00	151.14
4	7-Nov-10	*2M	205.00	198.50

	Date	Rating	Target Price	Closing Price
5	13-Jan-11	*3M	*215.00	223.50

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

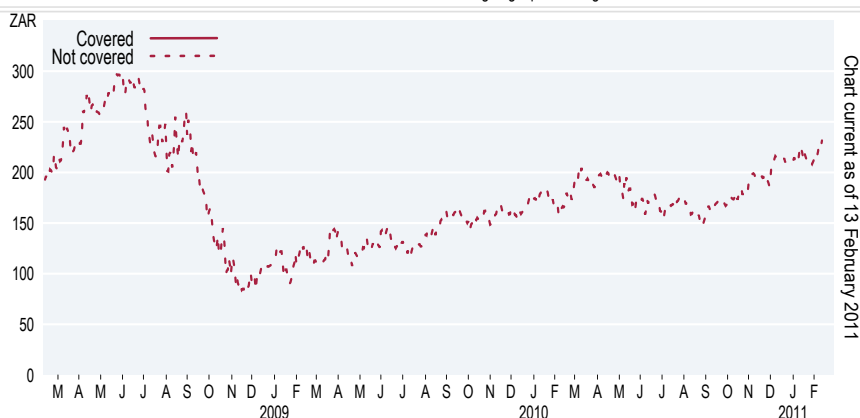


Chart current as of 13 February 2011

* Indicates change

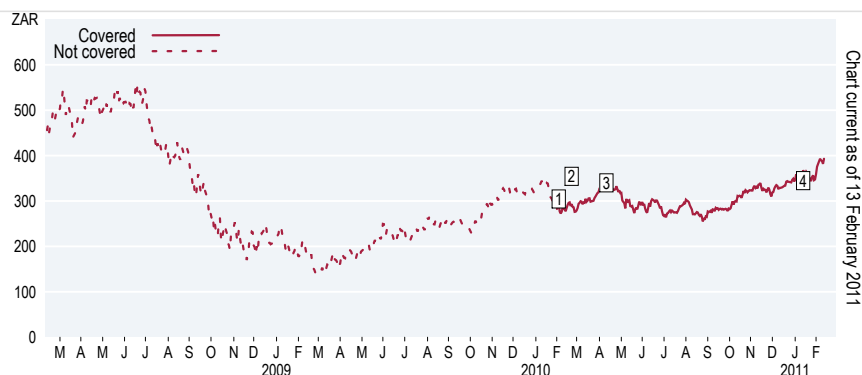
Rating/target price changes above reflect Eastern Standard Time

Anglo American (AGLJ.J)

Ratings and Target Price History

Fundamental Research

Analyst: Johann Pretorius
Covered since February 4 2010



	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

Rating/target price changes above reflect Eastern Standard Time

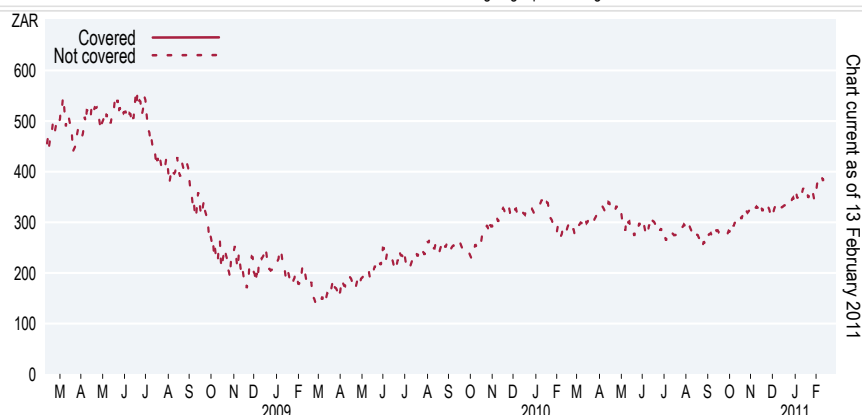
Anglo American (AGLJ.J)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Johann Pretorius
Covered since February 4 2010



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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

* Indicates change

	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

Rating/target price changes above reflect Eastern Standard Time

BHP Billiton PLC (BLT.L)

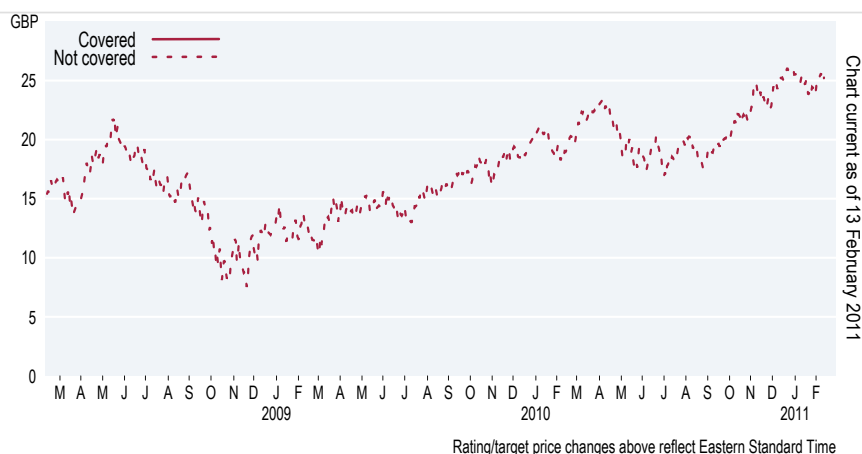
Ratings and Target Price History

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



* Indicates change

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

	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

Exxaro Resources Limited (EXXJ.J)

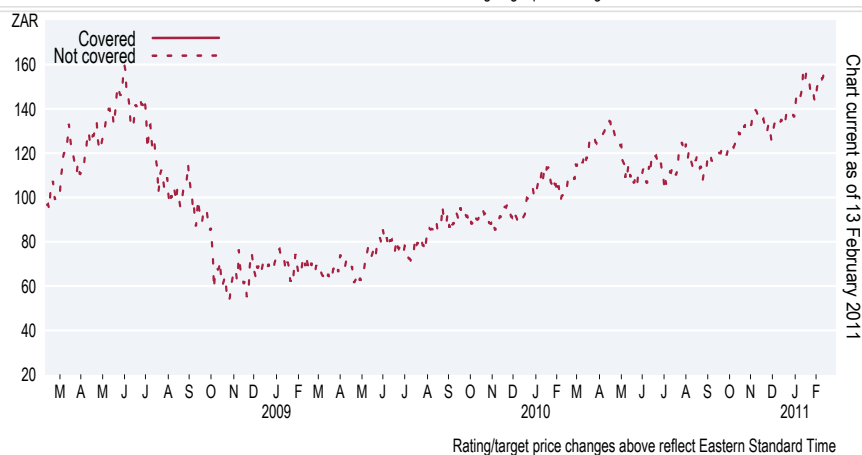
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Johann Pretorius

Covered since December 9 2009



* Indicates change

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 13 February 2011

	Date	Rating	Target Price	Closing Price
1	3-Mar-08	*1M	*424.00	338.10
2	29-Sep-08	1M	*386.00	182.00
3	27-Oct-08	1M	*254.00	104.00
4	25-Jan-09	1M	*218.00	135.00
5	7-Jul-09	*2M	*190.00	172.00

* Indicates change

	Date	Rating	Target Price	Closing Price
6	9-Dec-09	*3M	*250.00	260.00
7	1-Feb-10	3M	*300.00	322.50
8	19-Mar-10	3M	*330.00	344.50
9	12-Apr-10	3M	*360.00	366.50
10	4-Jul-10	*2M	*340.00	317.60

	Date	Rating	Target Price	Closing Price
11	22-Jul-10	*3M	*360.00	375.00
12	26-Aug-10	*1M	360.00	320.50
13	31-Aug-10	1M	*370.00	335.27
14	14-Oct-10	*3M	370.00	394.87
15	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

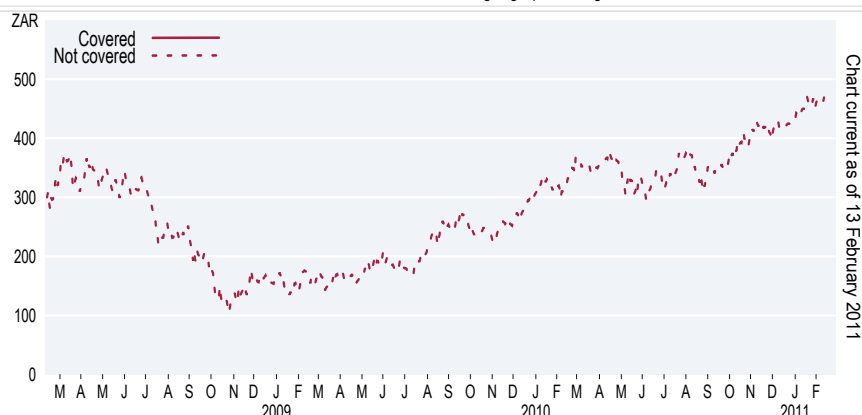


Chart current as of 13 February 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Pradeep Mahtani, Analyst, holds a long position in the securities of Sterlite Industries (India).

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Miedz SA, Kumba Iron Ore Ltd, Newcrest Mining Ltd, Newmont Mining, Rio Tinto PLC, Southern Copper Company, Sterlite Industries (India), Vale, Xstrata PLC in the past 12 months.

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Data current as of 31 Dec 2010

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	0%	100%	0%
% of companies in each rating category that are investment banking clients	45%	44%	40%	0%	44%	0%

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Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

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