

Rio Tinto plc

FY23 result first take: EBITDA and dividend in line, no major surprises

Maintain Rating: BUY | PO: 8,000 GBp | Price: 5,230 GBp

FY23 results in line, Copper costs guidance a bit high

Rio Tinto (RIO) has reported its FY23 results with underlying EBITDA of \$23.9bn in line (-1%) with consensus of \$24.0bn (BofA \$23.1bn). At the segment level, Iron Ore was in line while Aluminium, Copper and Energy & Minerals were ~5% below consensus. Underlying profit of \$11.8bn was 1% above consensus of \$11.8bn (BofA \$11bn). RIO declared a final dividend of 258 UScps bringing FY23 dividends to 435 UScps (60% payout), 3% above consensus of 423 UScps (BofA 430 UScps, 60% payout). Guidance for 2024 production and capex of \$10bn per year for 2024-2026 remains unchanged although RIO has provided new unit cost guidance for 2024. RIO expects 2024 Pilbara Iron Ore unit costs of \$21.75 –\$23.5/t in line with BofAe of \$22.0/t and Copper C1 unit costs of 140 –160 USc/lb, 35% above BofAe of 111 USc/lb. Maintain Buy. Analyst conference call at 8:00 (GMT) / 19:00 (AEDT) on Wednesday 21 February 2024.

Exhibit 1: 2023 results summary

RIO has reported FY23 underlying EBITDA of \$23.9bn in line with consensus of \$24.0bn

FY23 results	Unit	2022A	2023A	% Chg	FY23 BofAe	% Dif	Cons.	% Dif
Underlying EBITDA	US\$m	26,222	23,892	-9%	23,090	3%	24,024	-1%
Iron Ore	US\$m	18,608	19,974	7%	20,297	-2%	20,035	0%
Aluminium	US\$m	3,780	2,282	-40%	2,737	-17%	2,391	-5%
Copper	US\$m	2,456	1,904	-22%	1,536	24%	2,019	-6%
Minerals	US\$m	2,444	1,414	-42%	1,631	-13%	1,480	-4%
Underlying Profit	US\$m	13,175	11,755	-11%	11,613	1%	11,638	1%
Underlying EPS	US c	816	725	-11%	716	1%	721	1%
Dividends per share	US c	492	435	-12%	430	1%	423	3%
Net Debt	US\$m	4,212	4,231	0%	3,193	33%	3,132	35%

Source: BofA Global Research estimates, company report, Visible Alpha

BofA GLOBAL RESEARCH

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted)	13.21	8.20	7.16	9.15	6.89
EPS Change (YoY)	71.6%	-38.0%	-12.6%	27.7%	-24.6%
Dividend / Share	10.4	4.92	4.30	5.03	3.79
ADR EPS (Adjusted - US\$)	13.2	8.20	7.16	9.15	6.89
ADR Dividend / Share (US\$)	10.4	4.92	4.30	5.03	3.79
Valuation (Dec)					
P/E	5.4x	7.7x	9.3x	7.2x	9.6x
Dividend Yield	15.7%	7.4%	6.5%	7.6%	5.7%
EV / EBITDA*	3.4x	5.3x	5.5x	4.3x	5.2x
Free Cash Flow Yield*	16.8%	8.7%	7.3%	8.1%	4.9%

* For full definitions of *IQmethod*SM measures, see page 4.

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Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Stock Data

Price (Common / ADR)	5,230 GBp / 65.92 USD
Price Objective	8,000 GBp / 98.00 USD
Date Established	20-Nov-2023 / 20-Nov-2023
Investment Opinion	B-1-8 / B-1-8
52-Week Range	4,510 GBp-6,277 GBp
Market Value (mn)	84,590 GBp
Shares Outstanding (mn)	1,617.4 / 1,617.4
Average Daily Value (mn)	104.78 USD
Free Float	100.0%
BofA Ticker / Exchange	RTPPF / LSE
BofA Ticker / Exchange	RIO / NYS
Bloomberg / Reuters	RIO LN / RIO.L
ROE (2023E)	21.9%
Net Dbt to Eqty (Dec-2022A)	8.1%
ESGMeter™	High

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iQprofileSM Rio Tinto plc

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	63,495	55,554	55,763	60,045	53,875
EBITDA Adjusted	37,681	23,722	23,090	29,317	24,218
Depreciation & Amortization	(4,697)	(5,010)	(5,036)	(5,071)	(5,134)
EBIT Adjusted	32,984	18,712	18,055	24,246	19,084
Net Interest & Other Income	(26.0)	(1,846)	(872)	(234)	(249)
Tax Expense / Benefit	(8,258)	(5,586)	(4,120)	(6,890)	(5,235)
Net Income (Adjusted)	21,380	13,275	11,613	14,832	11,177
Average Fully Diluted Shares Outstanding	1,618	1,620	1,621	1,621	1,621

Key Cash Flow Statement Data					
Net Income (Reported)	21,094	12,420	11,010	14,832	11,177
Depreciation & Amortization	4,697	5,010	5,036	5,071	5,134
Change in Working Capital	(1,079)	(465)	(1,064)	(204)	367
Deferred Taxation Charge	0	0	0	0	0
Other CFO	633	(831)	278	(1,473)	(1,623)
Cash Flow from Operations	25,345	16,134	15,260	18,226	15,056
Capital Expenditure	(7,323)	(6,750)	(7,473)	(9,543)	(9,829)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other CFI	164	43.0	65.0	0	0
Cash Flow from Investing	(7,159)	(6,707)	(7,408)	(9,543)	(9,829)
Share Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(15,357)	(11,727)	(6,515)	(8,197)	(6,765)
Increase (decrease) debt	154	(3,098)	1,586	0	0
Other CFF	(559)	(633)	(234)	0	0
Cash Flow from Financing	(15,762)	(15,458)	(5,163)	(8,197)	(6,765)
Total Cash Flow (CFO + CFI + CFF)	2,424	(6,031)	2,690	486	(1,539)
FX and other changes to cash	(306)	(2,544)	(1.00)	0	0
Change in Cash	2,118	(8,575)	2,689	486	(1,539)
Change in Net Debt	(1,964)	5,477	(1,103)	(486)	1,539
Net Debt	(1,181)	4,296	3,193	2,707	4,246

Key Balance Sheet Data					
Property, Plant & Equipment	64,927	64,734	66,703	71,175	75,870
Goodwill	879	826	826	826	826
Other Intangibles	2,832	3,645	3,645	3,645	3,645
Other Non-Current Assets	9,826	8,596	8,949	9,283	9,767
Trade Receivables	3,574	3,478	3,544	3,820	3,486
Cash & Equivalents	15,350	6,775	9,464	9,950	8,411
Other Current Assets	5,508	8,720	8,469	8,992	8,239
Total Assets	102,896	96,774	101,600	107,690	110,244
Long-Term Debt	12,788	10,148	11,734	11,734	11,734
Other Non-Current Liabilities	20,891	22,282	21,032	19,893	18,755
Short-Term Debt	1,381	923	923	923	923
Other Current Liabilities	11,246	10,680	10,278	10,872	10,153
Total Liabilities	46,306	44,033	43,966	43,422	41,565
Total Equity	56,590	52,741	57,633	64,268	68,680
Total Equity & Liabilities	102,896	96,774	101,600	107,690	110,244

Business Performance*					
Return On Capital Employed	27.5%	15.0%	15.3%	18.3%	13.8%
Return On Equity	43.4%	26.0%	21.9%	25.2%	17.4%
Operating Margin	48.6%	36.9%	29.1%	38.1%	32.5%
Free Cash Flow (MM)	18,022	9,384	7,788	8,683	5,226

Quality of Earnings*					
Cash Realization Ratio	1.19x	1.22x	1.31x	1.23x	1.35x
Asset Replacement Ratio	1.56x	1.35x	1.48x	1.88x	1.91x
Tax Rate	26.8%	29.9%	26.9%	30.4%	30.3%
Net Debt/Equity	-2.09%	8.15%	5.54%	4.21%	6.18%
Interest Cover	NM	NM	23.3x	47.9x	37.7x

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Non-Ferrous-Mining

Company Description

Rio Tinto is the world's second-largest mining company, with operations in Australia, Africa, the Americas, Europe and Central/SE Asia. Rio Tinto is the world's largest producer of aluminium, second largest producer of iron ore and a top 5 producer of alumina, uranium, mined copper, export thermal & coking coal, and diamonds.

Investment Rationale

RIO is positioning itself as the diversified miner with the highest ROCE and cash distributions to shareholders, pointing to its record to date and a strategy that demands limited incremental capital to drive modest production growth. We see RIO broadly as a 'Blue Chip' and steward of capital as it has solid cash flows from T1 assets and a dependable dividend yield. We are less negative iron ore on lower Brazilian supply and higher Chinese steel production, hence our Buy rating.

Stock Data

Shares / ADR	1.00
Price to Book Value	1.9x

Half-yearly Earnings Estimates

	2022	2023
H1	5.35A	3.53E
H2	2.85A	3.64E

Price objective basis & risk

Rio Tinto Plc (RTPPF / RIO)

Our price objective of GBp 8000 (ADR: US\$98) is based on c.1.0x our NPV estimate. Our NPV uses 9% WACC and 2% terminal growth rate. Diversified miners have historically traded in a range of 0.7-1.4x NPV.

Downside risks :1) commodity prices, which could be lower than our forecasts, resulting in lower-than-forecast earnings, 2) unsuccessful project execution, and 3) operational problems at mines and smelters.

Upside risks: 1) China growth is higher vs. our expectations, 2) Iron ore price surprises to the upside.

Analyst Certification

I, Jason Fairclough, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Metals & Mining, Steel, Paper Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acerinox	ANIOF	ACX SQ	Patrick Mann, CFA
	Alleima AB	SAMHF	ALLEI SS	Patrick Mann, CFA
	Anglo American	AAUKF	AAL LN	Jason Fairclough
	Anglo American plc	NGLOY	NGLOY US	Jason Fairclough
	Antofagasta	ANFGF	ANTO LN	Jason Fairclough
	Atalaya Mining Plc	XPGBF	ATYM LN	Jason Fairclough
	Befesa	BFSAF	BFSA GY	Cameron Needham
	Centamin Plc	CELTF	CEY LN	Jason Fairclough
	Centamin Plc	YCEE	CEE CN	Jason Fairclough
	Ecora Resources Plc	ECRAF	ECOR LN	Cameron Needham
	Eramet	ERMAF	ERA FP	Jason Fairclough
	Glencore	GLCNF	GLEN LN	Jason Fairclough
	Glencore Plc	GLNCY	GLNCY US	Jason Fairclough
	Hochschild Mining plc	HCHDF	HOC LN	Jason Fairclough
	Norsk Hydro	NHYDY	NHYDY US	Jason Fairclough
	Norsk Hydro	NHYKF	NHY NO	Jason Fairclough
	Rio Tinto Plc	RIO	RIO US	Jason Fairclough
	Rio Tinto Plc	RTPPF	RIO LN	Jason Fairclough
	SCA	SVCBF	SCAB SS	Patrick Mann, CFA
	SIG Group	SCBGF	SIGN SW	Patrick Mann, CFA
	Smurfit Kappa	SMFTF	SKG ID	Patrick Mann, CFA
	Smurfit Kappa	XNKFF	SKG LN	Patrick Mann, CFA
	Smurfit Kappa	SMFKY	SMFKY US	Patrick Mann, CFA
	Stora Enso	SEOJF	STERV FH	Patrick Mann, CFA
	Stora Enso	SEOAY	SEOAY US	Patrick Mann, CFA
	Thyssenkrupp	TYKFF	TKA GY	Jason Fairclough
	Verallia	VRLAF	VRLA FP	Patrick Mann, CFA
	Yellow Cake Plc	YLLXF	YCA LN	Jason Fairclough
NEUTRAL				
	ArcelorMittal	AMSYF	MT NA	Patrick Mann, CFA
	ArcelorMittal	MT	MT US	Patrick Mann, CFA
	Imerys	IMYSF	NK FP	Jason Fairclough



EMEA - Metals & Mining, Steel, Paper Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Salzgitter	SZGPF	SZG GY	Patrick Mann, CFA
	Voestalpine	VLPNF	VOE AV	Patrick Mann, CFA
UNDERPERFORM				
	Aperam	XASPF	APAM NA	Patrick Mann, CFA
	Aurubis	AIAGF	NDA GY	Jason Fairclough
	Billerud AB	BLRDF	BILL SS	Patrick Mann, CFA
	Billerud AB	BLRDY	BLRDY US	Patrick Mann, CFA
	Boliden	BOLIF	BOL SS	Jason Fairclough
	Ferrexpo plc	FEEXF	FXPO LN	Jason Fairclough
	Fresnillo plc	FNLPF	FRES LN	Jason Fairclough
	Outokumpu	OUTFF	OUT1V FH	Patrick Mann, CFA
	Sappi Limited	SPPJF	SAP SJ	Patrick Mann, CFA
	Sappi Limited	SPPJY	SPPJY US	Patrick Mann, CFA
	SSAB	SSAAF	SSABA SS	Patrick Mann, CFA
	UPM-Kymmene	UPMKF	UPM FH	Patrick Mann, CFA
RSTR				
	DS Smith plc	DITHF	SMDS LN	Patrick Mann, CFA
	Mondi plc	MONDD	MONDD US	Patrick Mann, CFA
	Mondi Plc	MONDF	MNDI LN	Patrick Mann, CFA
	Mondi Plc	XDPMF	MNP SJ	Patrick Mann, CFA
RVW				
	Horizonte Minerals	HZMMF	HZM LN	Jason Fairclough

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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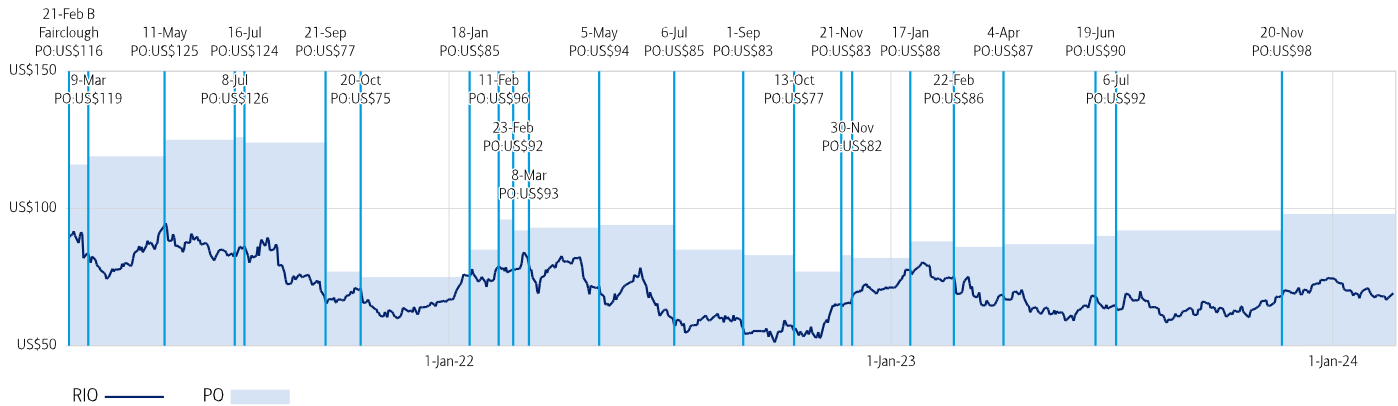
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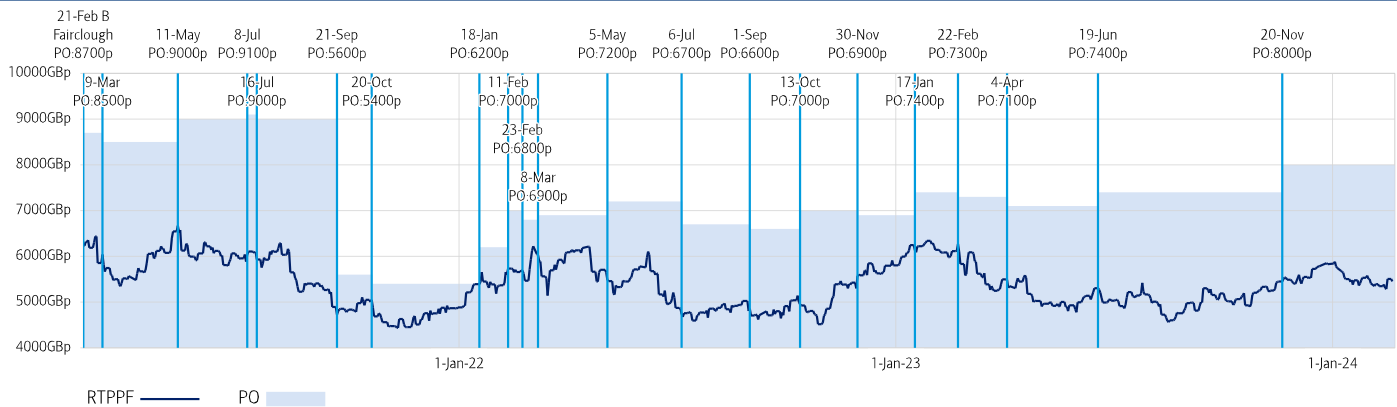
Rio Tinto Plc (RIO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Rio Tinto Plc (RTPPF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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