

FINANCIAL REVIEW

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HD **Rio set for \$80: analysts**
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Analysts at UBS have increased their share price target on Rio Tinto, after the group released impressive fourth-quarter production data. UBS now has a 12-month price target on the stock of between \$80 and \$90, and has substantially upgraded its forward earnings forecasts on the group.

The revised price target represents a premium of nearly 40 per cent to Rio's last closing price of \$65.58.

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Deutsche Bank has a 12-month price target of \$86 on the stock, while Morgan Stanley is more bearish, with a target of \$66.

However, Morgan Stanley also said the production gave it hope there could be "some upside" to its existing earnings projections.

UBS highlighted that production exceeded 2013 guidance in all commodities apart from **uranium** and semi-soft coking **coal**, with the former well expected following **Energy** Resources of Australia's leach tank failure. Rio Tinto has a 70 per cent **stake** in the ASX-listed **Energy** Resources of Australia.

Copper and **iron ore** provided the most significant momentum towards the end of 2013, with full-year **copper** production of 632,000 tonnes well above UBS estimates of 618,000 tonnes, and **company** guidance of 590,000 tonnes. Global **iron ore** production of 266 **million** tonnes was just ahead of **company** guidance.

Rio Tinto's future is closely aligned with the **iron ore** industry. UBS's take on the industry is that increasing supply could weigh on the long-run **iron ore** price, but as the lowest-cost producer Rio will be the most competitive player in that sector.

However, in the immediate term **iron ore** prices are expected to remain relatively robust, with UBS noting supply from Brazil had been weak. The broker also upwardly revised its near-term **copper** price assumptions after **China**'s trading activity strengthened.

On the back of the production report and after considering currency and commodity price adjustments, analysts at UBS upgraded underlying earnings per share forecasts for 2014 and 2015 by 18 per cent and 15 per cent respectively. This sees the **company** trading on forward price-earnings multiples of 8.5 and 7.6 respectively – substantially lower than long-term averages, and making the **company** appear decidedly good value in a tricky sector. \$11bn earnings expected

After the fourth-quarter production report, UBS has crunched the numbers and expects Rio to deliver underlying earnings of \$US9.8 **billion** (\$11.12 **billion**) for the 12 months to December 31, 2013. This would imply a price-earnings multiple of 10.7 relative to the **company**'s current trading range. If this multiple were applied to revised 2015 forecasts it would represent a share price in the vicinity of UBS's target price, suggesting that this may be close to the mark.

CO rtz : Rio Tinto PLC | rtzcra : Rio Tinto Group | craaus : Rio Tinto Ltd
IN i211 : Metal Ore Mining | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying
NS c21 : Output/Production | ccat : Corporate/Industrial News
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