UBS

Global Research

3 September 2015

Rio Tinto Limited

What is Rio doing in iron ore?

Equities

Australia
Mining

12-month rating	Neutral
12m price target	A$61.00
Price	A$49.27

RIC: RIO.AX **BBG:** RIO AU

Trading data and key metrics

52-wk range	A$65.60-46.97
Market cap.	A$91.1bn/US$63.8bn
Shares o/s	1,850m (ORD)
Free float	62%
Avg. daily volume ('000)	2,016
Avg. daily value (m)	A$105.8
Common s/h equity (12/15E)	US$42.2bn
P/BV (12/15E)	1.5x
Net debt / EBITDA (12/15E)	1.1x

EPS (UBS, diluted) (US$)

	From	To	% ch	Cons.
12/15E	2.85	2.86	0.39	2.64
12/16E	2.59	2.53	-2.48	2.72
12/17E	3.10	2.99	-3.65	3.14

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Productivity and cost out is the focus not growth

Rio Tinto's Iron Ore group and Technology & Innovation group held a seminar in Sydney today to discuss the outlook for the iron ore market and how technology is assisting with productivity and cost out. In our view, the key takeaways from today's briefing were: 1) the focus is on growing production in a value adding manner, which suggests ramp up to 360Mtpa is likely to be slower than the market expected, 2) iron ore demand is seen growing 2% pa to the end of the decade, driven by further increases in Chinese steel production but also ASEAN, 3) technology will be a real game changer and Rio is ahead of the pack, and 4) sentiment on the ground in China is improving as evidenced by monthly steel mill surveys that show an improved outlook.

1Bt steel production in China by 2030 is a really good estimate

Vivek Tulpule (Head of Economics & Markets) provided a deep dive into Rio Tinto's outlook for the global steel markets and reinforced the company's view that Chinese steel production will hit 1Btpa by 2030, which is broadly in line with BHP Billiton's revised view of 935-985Mt by mid 2020s. Globally Rio sees steel demand growing 2.5% pa through to 2030 which in turn is expected to drive iron ore demand of 2% pa. The biggest driver of iron ore demand is expected to be non-China, namely ASEAN & India, with 50% of the growth in iron ore demand to come from seaborne.

A tighter iron ore market may be on the cards. 335Mt in 2016 (UBSe 342Mt)

Rio provided first time guidance in terms of iron ore production/shipments for 2016 of 335Mt (UBSe 342Mt) and reiterated 2017 guidance of ~350Mt (UBSe 350Mt). We believe this this is lower than market expectations and given Rio Tinto has been shipping at a 350Mtpa run rate from its Pilbara operations for the last 3 months, it represents an unexpected slow down into 2016. Although Rio is still expected to ship more tonnes in 2016 than 2015 given our estimate of 322Mt shipped in 2015. Rio is running down inventory in 2015 to make these shipments and inventory is expected to be back at normal levels by end 2015. In our view Rio, is choosing to manage production to demand, supporting a price that generates an appropriate return.

Valuation: A$64.45ps (DCF, 10% d.r)

Our price target remains $61ps, broadly in line with NPV.

Highlights (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	50,967	51,171	47,664	35,620	35,046	36,301	39,546	42,668
EBIT (UBS)	13,298	15,315	12,981	7,803	6,986	7,686	10,558	12,860
Net earnings (UBS)	9,303	10,217	9,305	5,290	4,668	5,498	7,236	9,087
EPS (UBS, diluted) (US$)	5.06	5.53	5.04	2.86	2.53	2.99	3.94	4.94
DPS (US$)	1.67	1.92	2.15	2.15	2.20	2.28	2.37	2.48
Net (debt) / cash	(19,737)	(17,625)	(12,379)	(14,211)	(14,568)	(14,258)	(11,591)	(6,806)
Profitability/valuation	**12/12**	**12/13**	**12/14**	**12/15E**	**12/16E**	**12/17E**	**12/18E**	**12/19E**
EBIT margin %	26.1	29.9	27.2	21.9	19.9	21.2	26.7	30.1
ROIC (EBIT) %	20.3	22.3	20.4	13.0	11.8	12.7	17.2	20.8
EV/EBITDA (core) x	7.7	6.7	6.9	6.6	7.0	6.6	5.3	4.7
P/E (UBS, diluted) x	12.2	10.6	11.1	12.0	13.7	11.5	8.8	7.0
Equity FCF (UBS) yield %	(7.0)	1.9	5.9	7.1	5.5	6.8	10.7	14.8
Net dividend yield %	2.7	3.3	3.8	6.2	6.4	6.6	6.9	7.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A$49.27 on 03 Sep 2015 19:41 EST

Investment Thesis

Rio Tinto Limited

12-month rating **Neutral**

12m price target **A$61.00**

Investment case

We see the major diversified miners as the most preferred in the space given their ability to manage margins and cashflow. Rio has been focused on growth and is currently undergoing an expansion of its Pilbara Iron Ore mining capacity to 360Mtpa. Rio followed through in its commitment to announce "material increase in returns to shareholders" at the February 2015 full year result. The returns are being delivered in the form of a buyback, which we believe is sensible, given that Rio's gearing levels are at the bottom end of management targets and the company has been prudent with balance sheet management (running down iron ore inventories in the Pilbara). We believe these strategies are favourable for investors and are the primary reasons why RIO remains a preferred exposure to pure plays. Our price target of $61ps is set broadly in line with NPV.

Upside scenario

Our upside case assumes a 10% increase to our UBS commodity price forecasts and a 10% decrease to the A$:US$ FX rate into perpetuity. This would likely result in a 50% increase to our NPV and a 45% increase to 2015E EPS.

Downside scenario

Our downside case assumes a 10% decrease to our UBS commodity price forecasts and a 10% increase to the A$:US$ FX rate into perpetuity. This would likely result in a 50% decrease to our NPV and 45% decrease to 2015E EPS.

Upcoming catalysts

16 Oct 2015 – SQ 15 production report

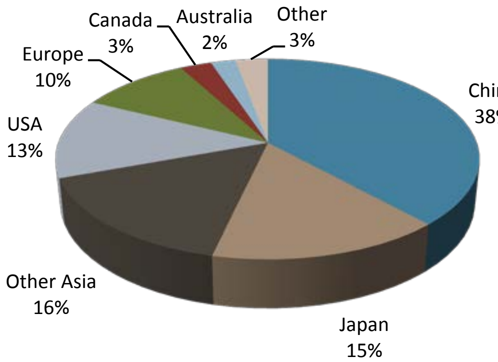
Business description

Rio Tinto is one of the world's largest mining conglomerates with major interests in copper, iron ore, coal, aluminium and mineral sands, and with lesser exposure to diamonds and gold. Major operations are world-class, mostly lowest-cost quartile and located in North and South America, Australia, Indonesia, Europe and Southern Africa. Key operations include Hamersley Iron, QIT/RBM TiO2 feedstock, 30% of Escondida copper, 40% of the Freeport/Grasberg expansion and Rio Tinto Alcan. It maintains a zero hedging policy for commodities.

Industry outlook

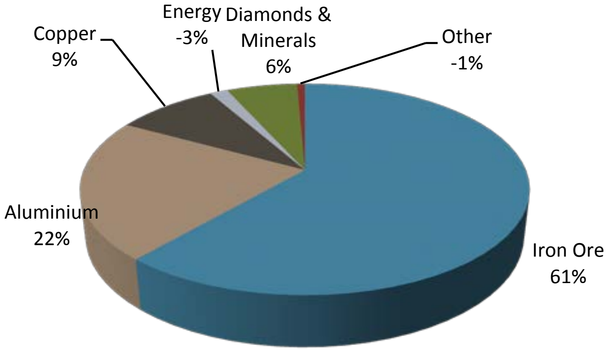
The outlook for Rio Tinto is largely dependent on the outlook for the iron ore price (given that the iron ore business contributes ~80% of group EBIT), as well as the urbanization and income growth of developing nations, in particular China given it is the largest contributor to Rio Tinto's revenue (32.3% in 2012). In our view Rio Tinto looks well placed to take advantage of growing demand in emerging markets through its expandable long life operations. Our view is that increasing iron ore supply globally will weigh on the long run iron ore price. However Rio is the lowest cost producer and in our view will continue to be the most competitive player in the iron ore space.

Revenues by region (%)



Source: Rio Tinto

EBIT by product segment



Source: UBS estimates

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Sydney Investor Presentation

Rio Tinto held an Investor Seminar today in Sydney showcasing its Iron Ore and Technology & Innovation business units. Presentations were made by Andrew Harding (Chief Executive Iron Ore), Greg Lilleyman (Chief Executive Innovation & Technology), Vivek Tulpulé (Head of Economics & Markets) and Bold Baatar (Managing Director Sales & Marketing and Marine).

Key takeaways in our view were:

#1. Value over Volume

Andrew Harding (Chief Executive Iron Ore) said the focus is on growing production in a value adding manner, which we took to mean that Rio will manage production to market demand. In our view, Rio is saying that it is fully aware of the impact that additional tonnes will have on the supply-demand of the market and as a result the price of iron ore, and that it does not want to bring on additional tonnes and spend the capital associated with these additional tonnes if it means it will have an adverse impact on the iron ore price, which in turn will dilute the returns of existing production.

It is refreshing to hear this from the likes of Rio Tinto and is totally understandable. However, our main concern with this strategy is that if Rio Tinto is wrong on the demand side or should the supply side falter, then iron ore prices could move higher to a level that may encourage further investment. Over the last 15 years of higher than historical iron ore prices, we have seen a number of new entrants to the iron ore industry (FMG, Anglo American and Roy Hill), and our biggest concern is that fragmentation of an industry generally leads to lower returns, and the iron ore industry has been a wonderful returning industry, generating a 50% EBITDA margin over the last 50+ years for Rio Tinto. Today Baosteel and Aurizon are studying the West Pilbara Iron Ore project which while an initial 40+Mtpa, could ultimately be as big as 200Mtpa should they be prepared to spend the money to develop the infrastructure.

#2. 335Mt in 2016. A downgrade to expectations

Rio Tinto provided production and shipping guidance for 2016 of 335Mt. This compares to our estimate prior to today's presentation of 342Mt and Rio's current shipping rate of 350Mtpa. We also expect this is below market expectations.

The lower than expected sales estimate for 2016 is a result of managing mine supply to meet demand in order to ramp up to 360Mtpa in a value efficient way, and the fact that inventory is expected to be back at normal levels by end 2015, meaning sales should match production in 2016 and beyond, all else being equal.

The market in our view had been expecting a continued ramp up in supply from Rio Tinto, so today's guidance could mean market expectations for iron ore pricing are too bearish over the next 6 to 12 months. Particularly if we see further supply side disappointments such as a slow ramp up from Roy Hill or positive surprises on the demand side. Rio Tinto today said that monthly surveys of Chinese steel mills had shown a turn in sentiment to the positive in the last two months.

Figure 1: Australian monthly iron ore exports in 2015

Mt	RIO	Run Rate	BHP	Run Rate	FMG	Run Rate
Jan-15	23.0	271	21.5	253	13.5	158
Feb-15	22.6	294	20.8	272	12.5	163
Mar-15	23.7	279	21.8	256	13.6	160
Apr-15	24.6	299	20.4	249	13.8	168
May-15	26.1	307	23.7	279	13.8	162
Jun-15	29.2	355	21.8	265	15.0	183
Jul-15	30.4	358	21.8	256	12.1	143
Aug-15	28.6	337	22.9	270	14.8	174
MQ 15	69.3	281	64.0	260	39.6	161
JQ 15	79.8	320	65.9	264	42.6	171
JH 15	**149.1**	**301**	**129.9**	**262**	**82.2**	**166**

Source: Company Reports, UBS estimates

#3. A 4-stage Silvergrass expansion option

As part of the managing of production and sales to market demand, Rio Tinto came clean today on its development plans for the Silvergrass mine. While no investment decision has been made on Silvergrass and is unlikely till 2016 at the earliest, Rio Tinto Iron Ore has begun a staged development of some of the Silvergrass orebodies.

Called NIT (Nammuldi Incremental Tonnage), the plan is to develop the Silvergrass orebodies in 4 stages.

Stage 1. The first stage is a 5Mtpa trucking option whereby ore from some initial mining areas will be trucked back to the Nammuldi site for processing and blending to help maintain the Pilbara Blend. Commencement is 2015/16.

Stage 2. Involves an incremental 5Mtpa expansion, which is expected to continue to utilise a trucking option. Stages 1 and 2 are seen to be delivering low phosphorous ore for maintenance of the Pilbara Blend for ~US$19/t of capital intensity.

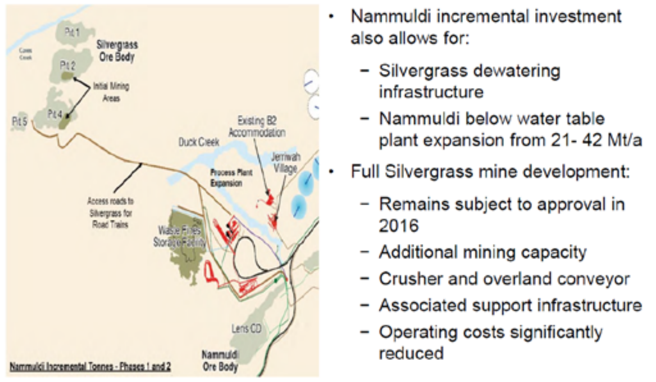
Stage 3. Expansion to 21Mtpa, but will require capital investment in a conveyor system to get the ore back to Nammuldi plus on site crushing. Approval possible in 2016.

Stage 4. A Nammuldi below water table plant expansion from 21Mtpa to 42Mtpa which is likely to require additional spend, and ultimately a decision on whether a rail load out is built at Silvergrass.

Figure 2: Brownfield expansion options

Source: Rio Tinto

Figure 3: Further high value tonnes from Silvergrass



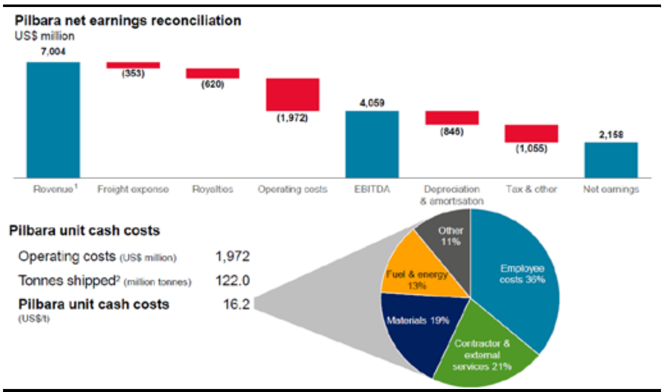
Source: Rio Tinto

#4. More to go on cost out

Unit costs for Pilbara Iron Ore were US$16.20/t in H1 15, down 13% y/y from US$18.7/t in H1 14, and down 32% from the 2012 average of US$23.9/t. While ~50% of this reduction appears to have come from the lower A$, Rio Tinto Iron Ore has done a commendable job on removing costs (~US$1bn in cost savings since 2012) and believes there is still more to come.

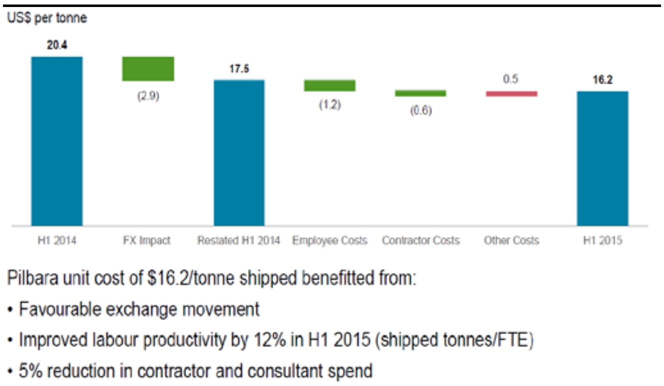
Today unit costs given the weaker A$ and lower fuel costs and further cost savings initiatives is tracking around US$15/t according to Rio. We note that 10 years ago, unit costs were ~US$11/t at a similar A$.

Figure 4: Pilbara – H1 15 financial summary



Source: Rio Tinto

Figure 5: Pilbara unit cash cost



Source: Rio Tinto

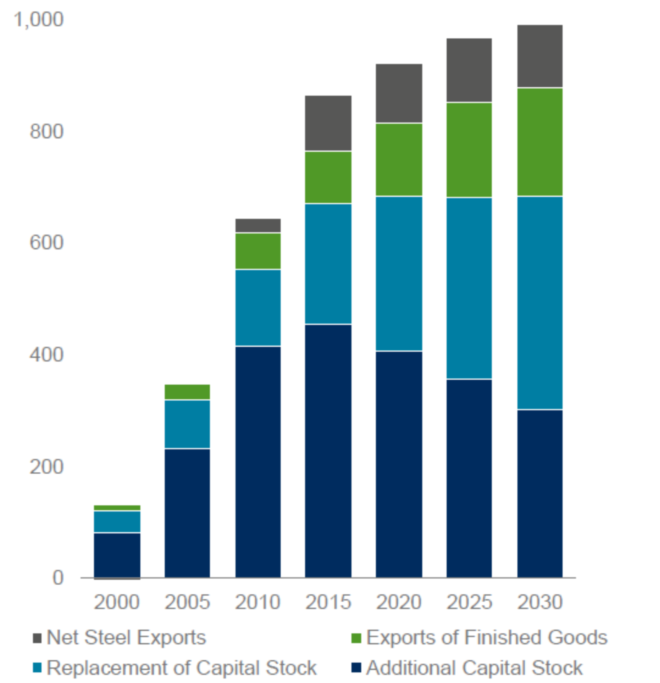
#5. Chinese steel production to 1Bt pa by 2030

A highlight of today's briefing was the update on internal forecasting and analysis by Vivek Tulpulé. The key focus of Vivek's discussion was the group outlook for global steel demand to grow by ~2.5% pa between now and 2030, supporting global iron ore demand of 3Bnt in 2030. Underlying this, RIO expects Chinese crude steel production to reach ~1.0Bt and RoW (ex-China) steel production to >1.5Bt by 2030. According to RIO, by 2030, China will still be the largest steel consumer, followed by India and ASEAN. This coincides with RIO's forecast for Chinese GDP growth of 4-5% pa by 2030 (off a much larger base), compared to the domestic target of ~7% pa now.

As the Chinese economy matures, RIO expects reduced construction, but higher capital intensity of other activities, such as manufacturing. In China, RIO also anticipates that the replacement cycle will pick up, which although contributing to scrap steel (market size of ~250Mt pa by 2030, vs ~150Mt now), will also lead to higher intensity of steel use, reflecting the nation's preference for multi-level apartment dwellings, as well as improving building codes. According to RIO, 220m Chinese are expected to urbanise over the next 15 years, compared with 320m between 2000 and 2015.

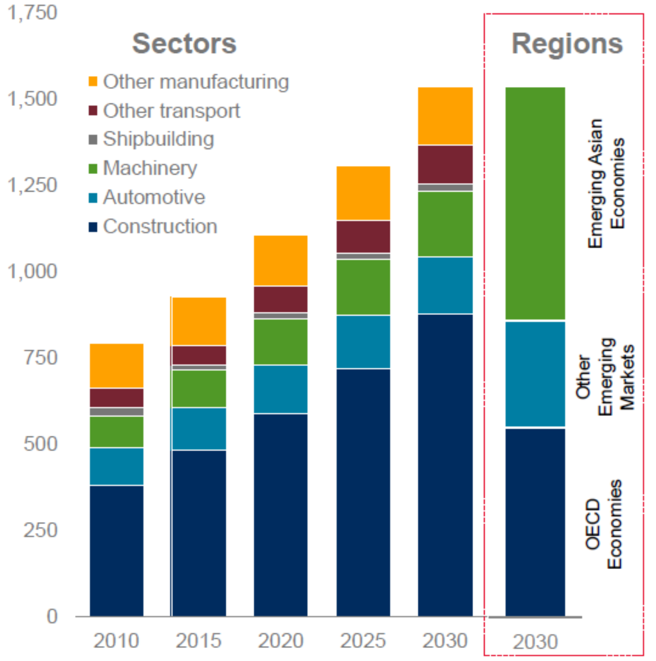
In 2015, 120Mt of marginal iron ore supply is expected to exit the market, with a further 45Mt 'at risk' of exiting. RIO forecasts Chinese exports to remain broadly flat at ~100Mtpa by 2030.

Figure 6: China domestic crude steel demand (Mt)



Source: Rio TInto

Figure 7: RoW (ex-China) crude steel output (Mt)



Source: Rio Tinto

Slower ramp up lowers earnings

We have adjusted our Pilbara iron ore production ramp up and sales. In particular, we have lowered 2016 production and sales from 342Mt to today's provided guidance of 335Mt.

At this stage we have made no adjustment to our iron ore price forecasts, but today's presentation does potentially support a higher price than we and the market are currently forecasting.

Figure 8: Earnings change summary

US$m	New 2015e	Old 2015e	% Change	New 2016e	Old 2016e	% Change	New 2017e	Old 2017e	% Change
Revenue	38,770	38,938	0%	39,110	39,737	-2%	40,676	41,382	-2%
EBITDA - Underlying	14,004	14,012	0%	13,101	13,393	-2%	14,006	14,361	-2%
EBIT	7,378	7,352	0%	7,304	7,465	-2%	8,162	8,410	-3%
PBT	5,084	5,058	1%	6,389	6,555	-3%	7,260	7,525	-4%
Net Profit	3,173	3,153	1%	4,668	4,787	-2%	5,498	5,706	-4%
Underlying earnings	**5,290**	**5,270**	**0%**	**4,668**	**4,787**	**-2%**	**5,498**	**5,706**	**-4%**
Underlying EPS (US cps)	291.8	290.7	0%	259.3	265.8	-2%	305.3	316.9	-4%
PE (x)	11.8	11.9	0%	13.3	13.0	3%	11.3	10.9	4%
DPS (US cps)	215	215	0%	220	220	0%	228	228	0%
NPV (US$/sh)	47.25	47.31	0%						
NPV (A$/sh)	64.45	64.53	0%						

Source: UBS estimates

Rio Tinto (RIO.AX)

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03 September 2015

MARKET INFORMATION

Rating:	**Neutral**
Price (as of 03-Sep-15):	A$49.27
Price Target (12 months):	**$ 61.00**
Issued Capital:	1,849.9
Market Capitalisation [US$m]:	63,801
Avg. daily turnover (US$m)	271.1
Year end:	December
Website:	www.riotinto.com
Major Shareholders:	Tinto Holdings 37.6%
Exchange rate AUDUSD	0.70

COMPANY DESCRIPTION

Rio Tinto is one of the world's largest diversified mining companies with major interests in copper, iron ore, coal, aluminium, mineral sands and borax, and with lesser exposure to diamonds and gold. Major operations are world-class, mostly lowest-cost quartile and located in North and South America, Australia, Indonesia, Europe and Southern Africa. Key operations include Hamersley Iron, QIT/RBM TiO2 feedstock, US Borax, 30% of Escondida copper, 40% of the Freeport/Grasberg expansion and Australian coal. Rio is a major shareholder in Turquoise Hill of Canada which owns the Oyu Tolgoi copper-gold deposit in Mongolia. A zero hedging policy for commodities is maintained.

INVESTMENT SUMMARY

(US$m)	**2014**	**2015E**	**2016E**	**2017E**
Net profit [reported] ($m)	6,527	3,173	4,668	5,498
Net profit [adjusted] ($m)	9,305	5,290	4,668	5,498
EPS [reported] ($)	5.03	2.90	2.59	3.05
EPS [adjusted, diluted] ($)	**5.04**	**2.92**	**2.59**	**3.05**
EPS Growth (%)	*-9%*	*-42%*	*-11%*	*18%*
PER [adjusted] (x)	**6.8**	**11.8**	**13.3**	**11.3**
Dividend ($)	2.15	2.15	2.20	2.28
Payout ratio (%)	*43%*	*74%*	*85%*	*75%*
Dividend Yield (%)	**6.2%**	**6.2%**	**6.4%**	**6.6%**
FCF Yield (%)	9.6%	7.1%	5.5%	6.8%
Shares [period-average, diluted] (m)	1,850	1,815	1,804	1,804

OPERATIONAL ASSUMPTIONS

	H1 15	**H2 15E**	**2014**	**2015E**	**2016E**	**2017E**
Prices						
Aluminium (USc/lb)	81.0	76.0	84.6	78.5	81.8	90.3
Copper (USc/lb)	269.8	270.0	311.4	269.9	280.0	300.0
Gold (US$/oz)	1,205.3	1,182.5	1,266.0	1,193.9	1,250.0	1,250.0
Iron Ore Fines (US$/t) - FOB	55.7	46.3	88.8	51.0	43.8	44.8
Steam Coal -JFY (US$/t)	74.8	67.8	95.0	81.8	67.8	66.4
A$:US$	0.78	0.77	0.90	0.78	0.77	0.77
Production (Equity Basis)						
Copper Mined - equity (kt)	278	223	603	502	631	600
Copper Refined - equity (kt)	128	104	295	233	279	277
Iron Ore - Hamersley (Mt)	115	134	217	249	270	281
Iron Ore - Robe River (Mt)	31	33	64	65	65	69
Thermal Coal (Mt)	8.8	9.5	21.9	18.3	16.2	16.2
Semi-soft Coking Coal (Mt)	1.9	1.6	3.2	3.5	3.9	3.9
Coking Coal (Mt)	4.1	4.1	7.5	8.2	9.4	9.4
Alumina (Mt)	3.8	4.0	7.5	7.9	8.4	8.4
Aluminium (Mt)	1.6	1.7	3.4	3.3	3.6	3.6

VALUATION

Valuation per share [NAV @10%] ($)	64.45
Price/NAV [10% disc rate] (x)	0.76x

Operating Assets [JH 15]	US$m	A$m	¢
Iron Ore	60,014	79,697	4417
Aluminium	15,391	20,390	1130
Copper	9,520	12,710	704
Energy	8,751	11,642	645
Diamonds & Minerals	12,756	16,939	939
Other	(5,503)	(7,147)	-396
Gross Assets	**100,929**	**134,232**	**7440**
Net Debt	(13,815)	(17,942)	-994
Net Asset Value @ 10% discount rate	**87,114**	**116,290**	**6445**

DIVISIONAL BREAKDOWN [EBIT]

(US$m)	**H1 15**	**H2 15E**	**2014**	**2015E**	**2016E**	**2017E**
Iron Ore	3,168	2,853	12,291	6,021	4,752	5,289
Aluminium	1,113	998	1,750	2,111	2,290	2,307
Copper	635	227	1,285	862	696	411
Energy	8	(155)	(297)	(148)	(188)	119
Diamonds & Minerals	199	397	660	596	893	1,236
Other	(30)	(35)	(325)	(65)	0	0

PROFIT & LOSS

(US$m)	**H1 15**	**H2 15E**	**2014**	**2015E**	**2016E**	**2017E**
Sales Revenue	17,980	17,640	47,664	35,620	35,046	36,301
Operating Cash Profit	**6,208**	**9,433**	**17,810**	**12,687**	**12,655**	**13,503**
Depn & Amortisation	(2,546)	(2,763)	(5,250)	(5,309)	(5,352)	(5,341)
EBIT	**3,662**	**6,671**	**12,560**	**7,378**	**7,304**	**8,162**
Other	(1,624)	(2,954)	(2,423)	(1,624)	0	0
Net interest	(293)	(377)	(585)	(670)	(915)	(902)
Profit before tax	**1,745**	**3,340**	**9,552**	**5,084**	**6,389**	**7,260**
Tax expense	(946)	(834)	(3,053)	(1,780)	(1,612)	(2,037)
Equity Associated NPAT	**799**	**2,505**	**6,499**	**3,304**	**4,777**	**5,223**
Minority Interests	7	(138)	28	(131)	(108)	274
Net Profit [reported]	**806**	**2,367**	**6,527**	**3,173**	**4,668**	**5,498**
Abnormal Gain/(Loss) after Tax	(2,117)	0	(2,778)	(2,117)	0	0
Net Profit [adjusted]	**2,923**	**2,367**	**9,305**	**5,290**	**4,668**	**5,498**
EBITDA margin (%)	*34.5%*	*53.5%*	*37.4%*	*35.6%*	*36.1%*	*37.2%*
Net Interest Cover [EBIT] (x)	*12.5*	*17.7*	*21.5*	*11.0*	*8.0*	*9.0*
Tax Rate (%)	*54.2%*	*25.0%*	*32.0%*	*35.0%*	*25.2%*	*28.1%*
EBIT/Total Assets (%)			*11.3%*	*6.8%*	*7.5%*	*8.5%*
NPAT/Equity (%)			*12.0%*	*6.3%*	*9.1%*	*10.5%*
EBIT/Avg Cap Employed (%)			*18.8%*	*11.5%*	*11.1%*	*12.2%*

ENTERPRISE VALUE

(US$m)	**2014**	**2015E**	**2016E**	**2017E**
Enterprise Value	**75,935**	**83,538**	**81,426**	**76,180**
EV/EBITDA (x)	*4.3*	*6.6*	*6.4*	*5.6*
EV/Operating Free Cash Flow (x)	*12.4*	*18.5*	*23.1*	*17.6*

EPS SENSITIVITIES

Commodity	**Base Change**	**2015E** EPS Change	**2016E**	**2017E**
Currency	5¢	-9.7%	-11.0%	-9.4%
Aluminium	10%	9.9%	11.7%	11.0%
Copper	10%	3.6%	4.2%	3.8%
Gold	10%	0.5%	0.6%	0.5%
Coal	10%	2.2%	2.5%	2.1%
Iron Ore	10%	29.9%	33.9%	28.8%

CASH FLOW

(US$m)	**2014**	**2015E**	**2016E**	**2017E**
Operating income [EBIT, UBS]	12,560	7,378	7,304	8,162
Depreciation & Amortisation	5,250	5,309	5,352	5,341
Net change in working capital	1,384	446	425	392
Other (operating)	0	0	0	0
Pre-tax op cash flow	**19,194**	**13,134**	**13,080**	**13,895**
Interest (paid) / received	(981)	(878)	(915)	(902)
Tax paid	(3,618)	(2,043)	(1,612)	(2,037)
Other	(309)	(296)	(296)	(296)
Operating cash flow	**14,286**	**9,916**	**10,257**	**10,660**
Capital expenditure	(8,162)	(5,399)	(6,735)	(6,336)
Exploration expenditure	0	0	0	0
Free cash flow	**6,124**	**4,518**	**3,523**	**4,324**
Net (acquisitions) / disposals	1,035	24	0	0
Dividends paid (Common)	(3,710)	(4,125)	(3,879)	(4,014)
Shares issued/(repurchased)	1,291	(1,966)	0	0

BALANCE SHEET [Selected Items]

(US$m)	**H1 15**	**H2 15E**	**2014**	**2015E**	**2016E**	**2017E**
Net Working capital	6,375	1,967	8,905	1,967	(12)	68
Fixed Assets	65,410	65,637	68,693	65,637	66,950	67,875
Net Other	(7,337)	(3,174)	(10,625)	(3,174)	(1,174)	(1,174)
Capital Employed	**64,448**	**64,430**	**66,973**	**64,430**	**65,763**	**66,769**
Net Cash / (Debt)	(13,815)	(14,211)	(12,379)	(14,211)	(14,568)	(14,258)
Total Equity [incl. minorities]	**50,633**	**50,218**	**54,594**	**50,218**	**51,196**	**52,511**
Minorities	(7,986)	(7,986)	(8,309)	(7,986)	(7,986)	(7,986)
Net Debt / Net Debt + Equity (%)	*21.4%*	*22.1%*	*18.5%*	*22.1%*	*22.2%*	*21.4%*
Book Value per Share($)	*27.37*	*27.15*	*29.51*	*27.15*	*27.67*	*28.39*

Source: Rio Tinto, UBS estimates

Forecast returns

Forecast price appreciation	+23.8%
Forecast dividend yield	6.2%
Forecast stock return	+30.0%
Market return assumption	6.9%
Forecast excess return	+23.1%

Statement of Risk

Investment risk inherent in the resource sector and applicable to Rio Tinto includes, but is not limited to movement of commodity price and currency which may differ materially from the assumptions used in this report. Furthermore the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact industry and company performance.

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities Australia Ltd: Glyn Lawcock; Amber MacKinnon. **UBS Limited:** Myles Allsop.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Rio Tinto Limited[4, 8]	RIO.AX	Neutral	N/A	A$49.27	03 Sep 2015
Rio Tinto Plc[4, 5, 16]	RIO.L	Neutral	N/A	2,267p	02 Sep 2015

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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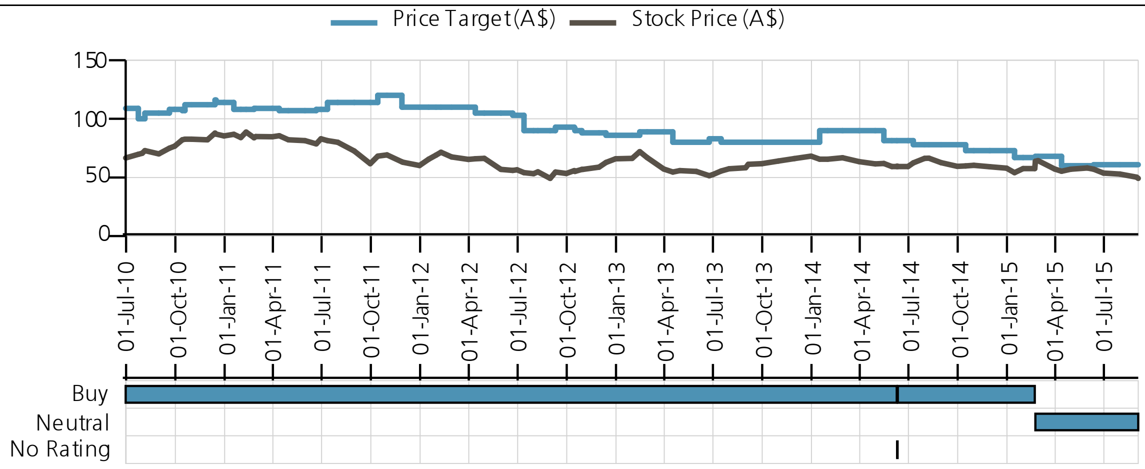
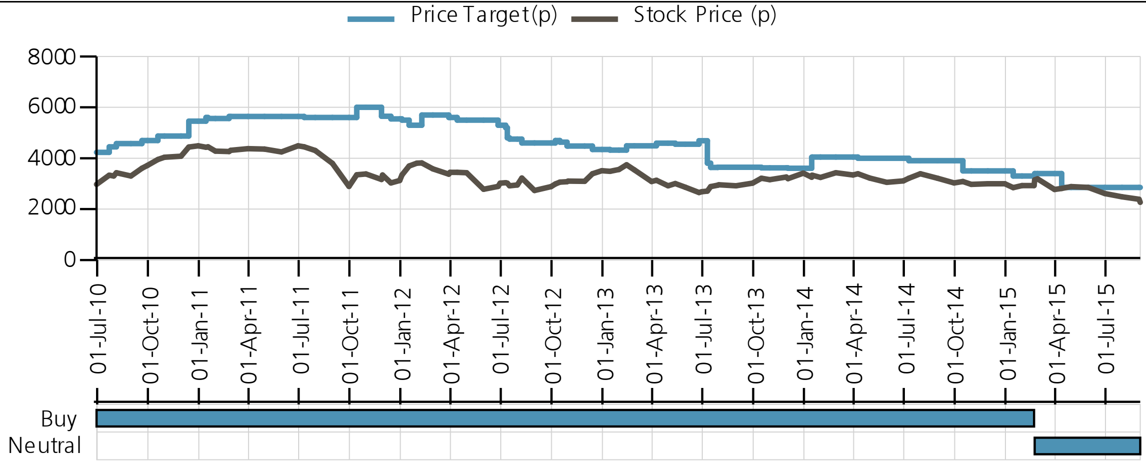
Rio Tinto Limited (A$)



Source: UBS; as of 03 Sep 2015

Rio Tinto Plc (p)



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