

Company: Rio Tinto Group		Ticker: RIO		Industry: Metals and Mining	
		Price: \$65.09			
Target Price: \$75.39	TTM P/E: 8.53x	Beta: 1.81	Market Cap: \$106 Billion		
Stop Loss: 25%	Forward P/E: 15x	Credit Rating: Aa3 (Moody's)	Avg. Vol. (12 M): 2.1M		
52 Week High/Low: \$50.92/\$83.21	EPS: \$7.63 LTM	Rating Outlook: Stable	Div. Yield: 7.62% annual		

Company Background:

RIO is a Metals and Mining company based out of London, UK. RIO has a long operating history as they reached their 150-year anniversary of being founded in 1873. They operate in 56 countries across 6 continents. RIO's revenues are reported based on 4 segments: Iron Ore, Aluminum Ore, Copper Ore, and Minerals. RIO ranks as the number one global producer of Iron Ore, the 6th producer of Aluminum Ore, the 13th producer of Copper Ore, and the 9th producer of minerals. Throughout their history, RIO has successfully confronted recessions, political turbulence, oversupplies and low prices, labor disputes, and environmental and human rights issues. RIO has successfully invested, and continues to invest, in first-class mining properties with large reserves and low production costs.

Industry Outlook:

We believe the metals and mining industry remains well capitalized and overdrawn after hitting a rough patch for the FY 2022, on macroeconomic concerns regarding a global slowdown in economic activity amid tighter monetary and fiscal policy globally. Through over a decade long bear market in metals, mining, and energy, we believe these areas of market offer attractive opportunities through much cleaner financial statements; as the past decade consisted of years of debt repayments, drastically lower production, resulting in lower capex, in a capital-intensive industry. We believe metals and mining companies are in the driver's seat in capturing upside from higher commodity prices due to tight supply. As many countries and world governments have pleaded to net zero emissions by 2040-2050, the buildout of our energy transition in renewables and sustainability continue to serve as major tailwinds to the metals and mining industry due to increased demand, and lack of substitutes. Currently the market is pricing in sufficient supply to meet current demand, however deficits are forecasted to occur come 2025, and thereafter. Base metals (I.e., Copper, Aluminum, Iron Ore), as well as rare earth's (lithium, cobalt, neodymium, etc), are applicable to the buildout of solar panels, electric vehicles, battery's, wind turbines, windmill's, most of which are part of Rio Tinto's product mix.

Investment Thesis:

In our view, we see RIO Tinto Group as a company who is on the forefront of an incoming commodity supercycle, and will be a major beneficiary of the energy transition. In a market that remains tight on the supply side, and is rapidly growing on the demand side, we believe Rio Tinto will capitalize on higher commodity prices to come, while also gaining market share in a sector that has seen a significant investment drought over the past decade. Rio Tinto currently trades at a 30% discount relative to its valuation in 2007, which could be attributed to the last boom/bust cycle in the metals and mining space, but the company today is much better capitalized as they have significantly higher cash reserves, operating metrics, and valuation measures where on a P/E, ROIC, Debt/Equity, and EPS all show it to be much more attractive. We believe these factors, as well as the added tailwind that the energy transition adds on a demand basis, fair well for the overall attractiveness of the metals and mining space.

Investment Risks:

One of the risks involved in RIO includes employee safety concerns. The well-being and safety of employees has been a high priority fix for companies across the entire Metals and Mining industry. Recently, RIO has been using automated robots to conduct high-risk tasks. In addition to this RIO has improved their relationship with safety committees for knowledge of how to improve the safety of operations in their highly dangerous line of business. These improvements have led to 0 fatalities under managed operations and one fatality in a non-managed charter vessel. Another risk involved with RIO includes government regulation. RIO has faced trouble opening new mines in the past due to the government demanding higher social and sustainability standards. As of recent, RIO has improved their social and

environmental standards allowing them to explore and open new mines. RIO plans to maintain their strong relationship with global governments through impeccable environmental and social practices. Another risk for RIO would be another global slowdown. Metals and Mining companies tend to underperform when the economy slows down due to decreases in global manufacturing, leading to lower demand for their products. RIO has survived many recessions and has shown to excel immediately after any global slowdown. With countries all over the world opening from covid lockdowns, we are already seeing the start of a long run for RIO.

4-Year Financial Performance (Billions):

	2019	2020	2021	2022
Revenue	\$43,165	\$44,611	\$63,495	\$55,554
Net Income	\$8,010	\$9,769	\$21,094	\$12,420
NOPLAT	\$10,635	\$12,242	\$21,179	\$12,359
Revenue Growth %	6.12%	3.24%	29.74%	-14.29%
EBIT % Margin	34.25%	38.63%	46.36%	32.30%
ROE	19.76%	20.76%	41.01%	24.75%
FCF	\$9,545	\$8,933	\$14,800	\$9,108

Discounted Cash Flow Valuation:

Terminal Year FCF	\$ 6,957.71
Terminal Value	\$ 110,788.15
Discount Rate	10.00%
Perpetual Growth Rate	3.50%
PV of Terminal Value	38830.56917
PV of Cash Flows	\$ 86,730.06
Enterprise Value	125560.6259
+ Cash	\$ 8,907.00
- Debt	12,271
Equity Value	\$ 122,196.63
Shares Outstanding	1,620.80
Implied Share Price	\$ 75.39
Current Share Price	\$ 64.42
Margin of Safety	15%

Relative Valuation and ESG scores:

Company Info		Financial Metrics (Billions)			Valuation Metrics				Operational Metrics		
Ticker	Company	Market Cap	Revenue FY 2022	Enterprise Value	EV/EBITDA	EPS	P/E	Debt/Equity	Operating Margin	EBITDA Margin	ROIC
RIO	Rio Tinto Group	105.514	55.554	109.795	4.24x	7.67x	9.07x	0.22x	35.88%	44.77%	16.80%
BHP	BHP Group Ltd	207.315	65.098	210.398	4.46x	12.21x	8.45x	0.31x	52.39%	73.45%	38.30%
VALE	Vale SA	69.43	43.839	79.642	3.08x	4.05x	4.35x	0.42x	42.86%	58.91%	28.90%
FCX	Freeport-McMoran Inc	54.137	22.780	55.274	6.68x	7.41x	15.68x	0.62x	39.89%	38.50%	11.80%
Mean		109.099	46.81775	113.85175	4.60x	6.59x	9.39x	0.39x	41%	53%	23%
Median		67.472	49.6965	94.7165	4.32x	5.86x	8.76x	0.38x	39%	52%	22%

Return:

	RIO	S&P Metals and Mining Select Industry Index	SPY ETF
YTD	-8.4%	2.36%	4.11%
1 Year	-17.11%	-19.33%	-13.03%
5 Years	28.76%	9.32%	52.66%

Financial Materiality Scores | ESG SCORE »

	Score	2Y Change	Vs Peers
Environmental	5.98	+0.66	Leading
Social	5.75	-0.67	Leading
Governance	8.59	+0.66	Leading