



Rio Tinto plc (RIO)

Updated November 23rd, 2021, by Aristofanis Papadatos

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	9.2%	Market Cap:	\$98.9 B
Fair Value Price:	\$73	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	8/12/2021 ¹
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	9/23/2021
Dividend Yield:	9.0%	5 Year Price Target	\$73	Years Of Dividend Growth:	5
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	21.5%

Overview & Current Events

Rio Tinto Plc was founded in 1962 and is headquartered in London, the United Kingdom. It is one of the largest precious metals mining companies in the world with a market capitalization of \$98.9 billion. The company operates in exploration, mining, and production of a variety of minerals. Rio Tinto's main segments include Iron Ore, Aluminum, Copper & Diamonds, Energy & Minerals.

Rio Tinto greatly benefited from the rally of the price of iron ore in 2019 due to the collapse of a dam in Brazil in January-2019, which led the country's authorities to close 56 tailing dams. The supply of iron ore from Brazil gradually recovered but it slumped once again last year due to the impact of the pandemic on the country. As a result, the price of iron ore hit an all-time high on May 12th, 2021, though it has corrected more than -50% since then due to lower steel production in China amid strict controls on power usage and the upcoming launch of operations at the South Flank mine of BHP, one of the largest mines in the world.

In mid-October, Rio Tinto reported (10/15/21) production results for the third quarter of fiscal 2021. Its Pibara iron ore production decreased -4% over last year's quarter due to heritage management and project completion delays. As a result, Rio Tinto lowered its guidance for its annual Pibara shipments from 325-340 million tonnes to 320-325 million tonnes. Due to the aforementioned plunge of the price of iron ore, we have lowered our earnings-per-share forecast for 2021 from \$16.50 to \$14.00.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$8.09	\$5.03	\$5.53	\$5.03	\$2.49	\$2.84	\$4.83	\$5.12	\$6.36	\$7.70	\$14.00	\$8.10
DPS	\$1.17	\$1.66	\$1.76	\$2.03	\$2.21	\$1.51	\$2.36	\$3.07	\$3.31	\$3.86	\$5.61	\$4.12
Shares²	1,872	1,847	1,849	1,850	1,798	1,799	1,766	1,719	1,642	1,629	1,620	1,550

Over the past decade Rio Tinto has put together a decent but erratic growth record. This is to be expected given the industry. Not surprisingly, Rio Tinto's future growth prospects rely on the direction of commodity prices, particularly the iron ore price. Production growth will help boost revenue, as will continued investments, but lower prices are likely to more than offset production increases. As soon as the pandemic subsides, the supply of iron ore will revert to normal levels and thus iron ore prices will stabilize at levels much lower than the recent highs. Overall, we prefer to be conservative and assume flat earnings-per-share vs. the mid-cycle level (5-year average 2017-2021) of \$8.10.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	7.8	10.2	8.9	10.5	16.0	10.9	9.2	9.5	8.8	7.4	7.7	9.0
Avg. Yld.	1.9%	3.2%	3.6%	3.8%	5.5%	4.9%	5.3%	6.3%	5.9%	6.7%	9.0%	5.6%

¹ Semiannual dividend already paid.

² In millions.

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Over the past 10 years, shares of Rio Tinto have traded hands at an average price-to-earnings ratio of 9.9. Taking into consideration the high cyclical nature and the volatile performance record of Rio Tinto, we assume a fair earnings multiple of 9.0. The stock is now trading at 7.7 times its mid-cycle earnings-per-share of \$8.10. If it trades at our assumed fair value in five years, it will enjoy a 3.3% annualized gain in returns. Meanwhile, the dividend is also volatile, but ought to add meaningfully to shareholder returns as the company has been committed to paying out a sizable portion of its earnings in the form of cash dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	15%	33%	32%	40%	89%	53%	49%	60%	52%	50%	69%	51%

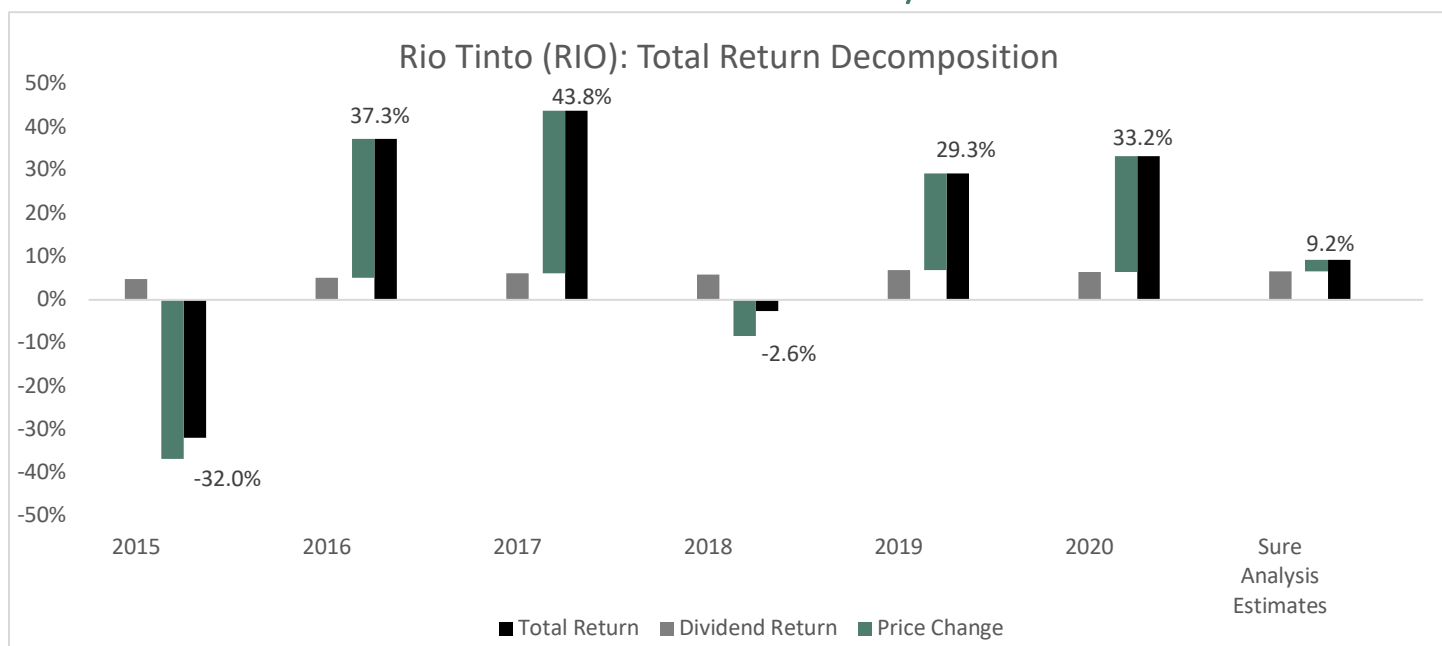
Rio Tinto's main competitive advantage is its global operations and top industry position. The company operates in 35 countries across six continents. It has the ability to acquire new properties for development that smaller competitors cannot match. The company also has a foothold in several premier emerging markets, which are the most attractive locations for long-term growth.

However, the stock and the business results of Rio Tinto are highly volatile due to the dramatic swings of commodity prices. Exploration and mining of precious metals can be a boom-or-bust industry, as evidenced by the fluctuation of the company's earnings over the past 10 years. Indeed, conditions can change rapidly if commodity prices enter another downturn over the next few years.

Final Thoughts & Recommendation

Rio Tinto may seem cheap to some investors thanks to its low price-to-earnings ratio, but great caution is warranted, as the price of iron ore is highly volatile. The price of iron ore has corrected more than -50% off its peak in May and thus the stock of Rio Tinto has shed -35% off its peak in that month. As a result, Rio Tinto could now offer a 9.2% average annual return over the next five years. Nevertheless, due to the high cyclical nature of Rio Tinto and its great sensitivity to downturns in the iron ore market, we rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	60,529	50,942	51,171	47,664	34,829	33,781	40,030	40,522	43,165	44,611
Gross Profit	41,966	30,788	32,134	27,960	18,797	18,251	24,223	23,963	26,753	29,126
Gross Margin	69.3%	60.4%	62.8%	58.7%	54.0%	54.0%	60.5%	59.1%	62.0%	65.3%
SG&A Exp.	3,159	3,524	3,513	3,370	2,165	1,454	2,338	2,580	2,257	2,088
D&A Exp.	3,972	4,624	4,791	4,860	4,645	4,794	4,375	4,015	4,384	4,279
Operating Profit	22,855	11,439	14,048	12,973	6,071	6,483	12,631	12,357	15,213	18,082
Op. Margin	37.8%	22.5%	27.5%	27.2%	17.4%	19.2%	31.6%	30.5%	35.2%	40.5%
Net Profit	5,835	-3,028	3,665	6,527	-866	4,617	8,762	13,638	8,010	9,769
Net Margin	9.6%	-5.9%	7.2%	13.7%	-2.5%	13.7%	21.9%	33.7%	18.6%	21.9%
Free Cash Flow	7,662	-8,185	2,077	6,124	4,698	5,453	9,402	6,391	9,424	9,686
Income Tax	6,472	589	2,426	3,053	993	1,567	3,965	4,242	4,147	4,991

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	120.2	118.5	111.0	107.8	91.6	89.3	95.7	90.9	87.8	97.4
Cash & Equivalents	9,762	1,320	1,548	1,146	7,774	5,774	9,171	9,497	6,068	8,664
Acc. Receivable	6,060	3,292	2,987	2,483	1,365	2,283	2,314	2,167	2,097	2,543
Inventories	5,538	6,375	5,737	4,350	3,168	2,937	3,472	3,447	3,463	3,917
Goodwill & Int.	14,743	7,601	4,916	4,512	3,522	3,519	3,763	3,458	3,386	3,430
Total Liabilities	61,268	60,697	57,523	53,233	47,436	43,533	44,611	41,126	42,560	45,487
Accounts Payable	9,582	3,317	3,095	2,592	2,567	2,787	3,255	3,180	2,855	3,124
Long-Term Debt	21,944	26,585	28,414	25,021	23,011	17,585	15,123	12,708	12,806	12,653
Total Equity	52,199	46,553	45,886	46,285	37,349	39,290	44,711	43,686	40,532	47,054
D/E Ratio	0.42	0.57	0.62	0.54	0.62	0.45	0.34	0.29	0.32	0.27

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.0%	-2.5%	3.2%	6.0%	-0.9%	5.1%	9.5%	14.6%	9.0%	10.6%
Return on Equity	10.6%	-6.1%	7.9%	14.2%	-2.1%	12.0%	20.9%	30.9%	19.0%	22.3%
ROIC	7.2%	-3.7%	4.4%	8.1%	-1.2%	7.1%	13.5%	21.2%	13.3%	15.9%
Shares Out.	1,872	1,847	1,849	1,850	1,798	1,799	1,766	1,719	1,642	1,629
Revenue/Share	31.27	27.55	27.55	25.64	19.09	18.68	22.25	23.40	26.29	27.39
FCF/Share	3.96	(4.43)	1.12	3.29	2.57	3.02	5.22	3.69	5.74	5.95

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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