



# Rio Tinto plc (RIO)

Updated February 24<sup>th</sup>, 2023, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$71	<b>5 Year CAGR Estimate:</b>	5.7%	<b>Market Cap:</b>	\$146 B
<b>Fair Value Price:</b>	\$65	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	3/9/2023 <sup>1</sup>
<b>% Fair Value:</b>	110%	<b>5 Year Valuation Multiple Estimate:</b>	-1.8%	<b>Dividend Payment Date:</b>	4/20/2023
<b>Dividend Yield:</b>	9.6%	<b>5 Year Price Target</b>	\$68	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 \$146 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 in 2020 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 12<sup>th</sup>, 2021, though it has corrected -42% since then due to a partial recovery of supply, the launch of South Flank mine of BHP, one of the largest mines in the world, and fears of an upcoming recession.

In late February, Rio Tinto reported (2/22/23) financial results for the full fiscal 2022. Despite record production at Pibara iron ore mine in the second half of the year, earnings-per-share slumped -38% over the prior year due to a correction of commodity prices off their blowout levels in 2021 as well as higher costs of energy and raw materials. Nevertheless, Rio Tinto achieved its second-best earnings last year. It also provided guidance for marginal production growth of iron ore in 2023. We expect somewhat lower earnings in 2023, mostly due to lower iron ore prices.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$5.53	\$5.03	\$2.49	\$2.84	\$4.83	\$5.12	\$6.36	\$7.70	\$13.21	\$8.20	<b>\$7.20</b>	<b>\$7.57</b>
<b>DPS</b>	\$1.76	\$2.03	\$2.21	\$1.51	\$2.36	\$3.07	\$3.31	\$3.86	\$6.85	\$6.84	<b>\$6.84</b>	<b>\$4.08</b>
<b>Shares<sup>2</sup></b>	1,849	1,850	1,798	1,799	1,766	1,719	1,642	1,629	1,618	1,630	<b>1,600</b>	<b>1,550</b>

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 the pandemic has subsided, the supply of iron ore has partly recovered and thus iron ore prices have corrected from abnormally high levels in 2021. Overall, we prefer to be conservative and assume 1% average annual growth of earnings-per-share over the next five years, particularly given the ongoing global economic slowdown amid rising interest rates.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	8.9	10.5	16.0	10.9	9.2	9.5	8.8	7.4	5.8	8.0	<b>9.9</b>	<b>9.0</b>
<b>Avg. Yld.</b>	3.6%	3.8%	5.5%	4.9%	5.3%	6.3%	5.9%	6.7%	9.0%	10.4%	<b>9.6%</b>	<b>6.0%</b>

<sup>1</sup> Estimated date for semiannual dividend.

<sup>2</sup> 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 9.5. Taking into consideration the high cyclicality and the volatile performance record of Rio Tinto, we assume a fair earnings multiple of 9.0. The stock is now trading at 9.9 times its expected earnings this year. If it trades at our assumed fair value in five years, it will incur a -1.8% annualized drag 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	40%	89%	53%	49%	60%	52%	50%	52%	83%	95%	54%

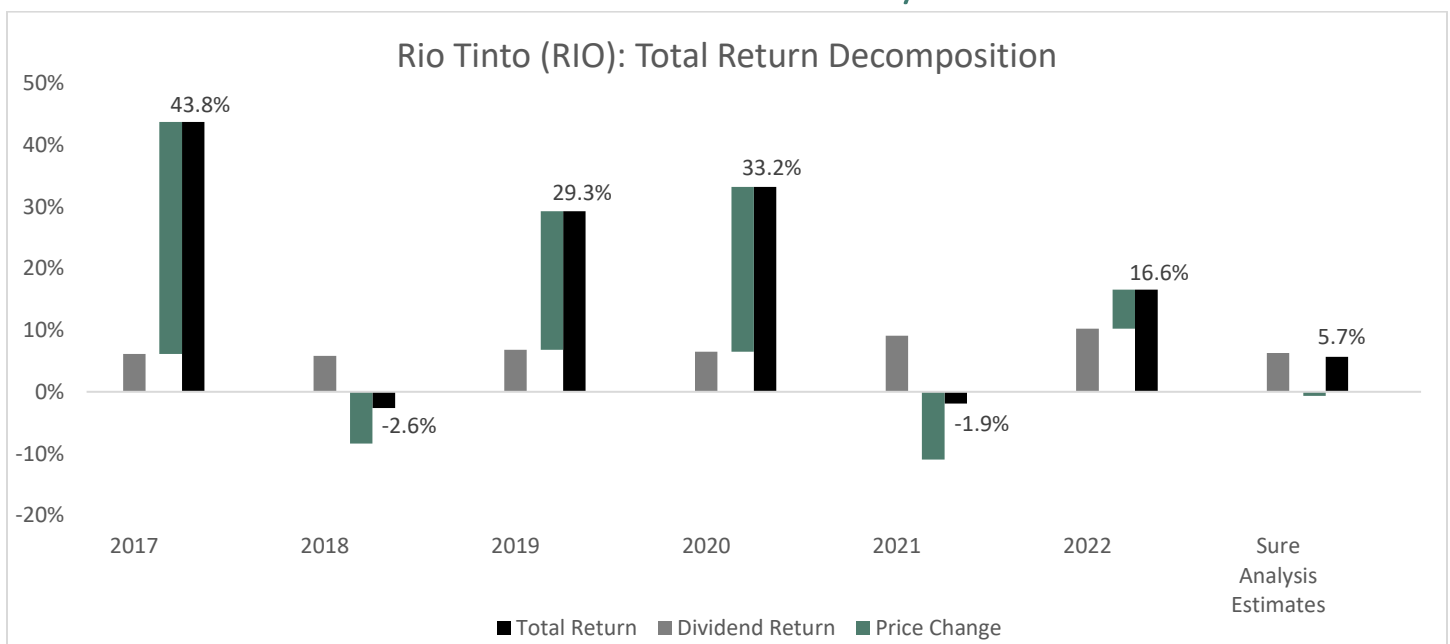
Rio Tinto's main competitive advantage is its global operations and top industry position. The company operates in 35 countries across six continents. It has the ability to acquire new properties for development that smaller competitors cannot match. The company also has a foothold in several premier 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 -42% off its peak in May-2021 and thus the stock of Rio Tinto has shed -23% off its peak in that month. The stock can offer a 5.7% average annual return over the next five years thanks to its 9.6% starting dividend yield and 1.0% growth of earnings-per-share, partly offset by a -1.8% valuation headwind. It receives a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	51,171	47,664	34,829	33,781	40,030	40,522	43,165	44,611	63,495	55,554
<b>Gross Profit</b>	32,134	27,960	18,797	18,251	24,223	23,963	26,753	29,126	44,934	34,270
<b>Gross Margin</b>	62.8%	58.7%	54.0%	54.0%	60.5%	59.1%	62.0%	65.3%	70.8%	61.7%
<b>SG&amp;A Exp.</b>	3,513	3,370	2,165	1,454	2,338	2,580	2,257	2,088	3,275	7,400
<b>D&amp;A Exp.</b>	4,791	4,860	4,645	4,794	4,375	4,015	4,384	4,279	4,697	5,010
<b>Operating Profit</b>	14,048	12,973	6,071	6,483	12,631	12,357	15,213	18,082	29,810	19,321
<b>Op. Margin</b>	27.5%	27.2%	17.4%	19.2%	31.6%	30.5%	35.2%	40.5%	46.9%	34.8%
<b>Net Profit</b>	3,665	6,527	-866	4,617	8,762	13,638	8,010	9,769	21,094	12,420
<b>Net Margin</b>	7.2%	13.7%	-2.5%	13.7%	21.9%	33.7%	18.6%	21.9%	33.2%	22.4%
<b>Free Cash Flow</b>	2,077	6,124	4,698	5,453	9,402	6,391	9,424	9,686	17,961	9,384
<b>Income Tax</b>	2,426	3,053	993	1,567	3,965	4,242	4,147	4,991	8,258	5,586

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets (\$B)</b>	111.0	107.8	91.6	89.3	95.7	90.9	87.8	97.4	102.9	96.7
<b>Cash &amp; Equivalents</b>	1,548	1,146	7,774	5,774	9,171	9,497	6,068	8,664	11,591	5,808
<b>Acc. Receivable</b>	2,987	2,483	1,365	2,283	2,314	2,167	2,097	2,543	2,241	2,179
<b>Inventories</b>	5,737	4,350	3,168	2,937	3,472	3,447	3,463	3,917	5,436	6,213
<b>Goodwill &amp; Int.</b>	4,916	4,512	3,522	3,519	3,763	3,458	3,386	3,430	3,348	3,103
<b>Total Liabilities</b>	57,523	53,233	47,436	43,533	44,611	41,126	42,560	45,487	46,306	44,470
<b>Accounts Payable</b>	3,095	2,592	2,567	2,787	3,255	3,180	2,855	3,124	3,410	3,269
<b>Long-Term Debt</b>	28,414	25,021	23,011	17,585	15,123	12,708	12,806	12,653	12,168	11,071
<b>Total Equity</b>	45,886	46,285	37,349	39,290	44,711	43,686	40,532	47,054	51,432	50,175
<b>LTD/E Ratio</b>	0.62	0.54	0.62	0.45	0.34	0.29	0.32	0.27	0.24	0.22

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	3.2%	6.0%	-0.9%	5.1%	9.5%	14.6%	9.0%	10.6%	21.1%	12.4%
<b>Return on Equity</b>	7.9%	14.2%	-2.1%	12.0%	20.9%	30.9%	19.0%	22.3%	42.8%	24.4%
<b>ROIC</b>	4.4%	8.1%	-1.2%	7.1%	13.5%	21.2%	13.3%	15.9%	31.6%	18.8%
<b>Shares Out.</b>	1,849	1,850	1,798	1,799	1,766	1,719	1,642	1,629	1,618	1,630
<b>Revenue/Share</b>	27.55	25.64	19.09	18.68	22.25	23.40	26.29	27.39	38.98	34.09
<b>FCF/Share</b>	1.12	3.29	2.57	3.02	5.22	3.69	5.74	5.95	11.03	5.76

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

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