



# Rio Tinto plc (RIO)

Updated November 15<sup>th</sup>, 2023, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$68	<b>5 Year CAGR Estimate:</b>	5.4%	<b>Market Cap:</b>	\$109 B
<b>Fair Value Price:</b>	\$65	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	3/8/2024 <sup>1</sup>
<b>% Fair Value:</b>	105%	<b>5 Year Valuation Multiple Estimate:</b>	-1.0%	<b>Dividend Payment Date:</b>	4/19/2024
<b>Dividend Yield:</b>	5.9%	<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 \$109 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 about -40% 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 the latest global economic slowdown.

In mid-October, Rio Tinto reported (10/17/23) production results for the third quarter of fiscal 2023. Production of iron ore slipped -1% over last year's quarter but the company still expects annual production in the upper half of its initial guidance of 320-335 million tons. Moreover, iron ore prices rose 7% during the quarter thanks to healthy demand from China and some supply constraints. We were expecting that Rio Tinto would face easier comparisons in commodity prices in the second half of the year. We thus still expect a modest (-12%) decline in earnings-per-share in the full year.

## 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>\$4.02</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 high 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>9.4</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>5.9%</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 9.4 times its expected earnings this year. If it trades at our assumed fair value in five years, it will incur a -1.0% 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%	56%	54%

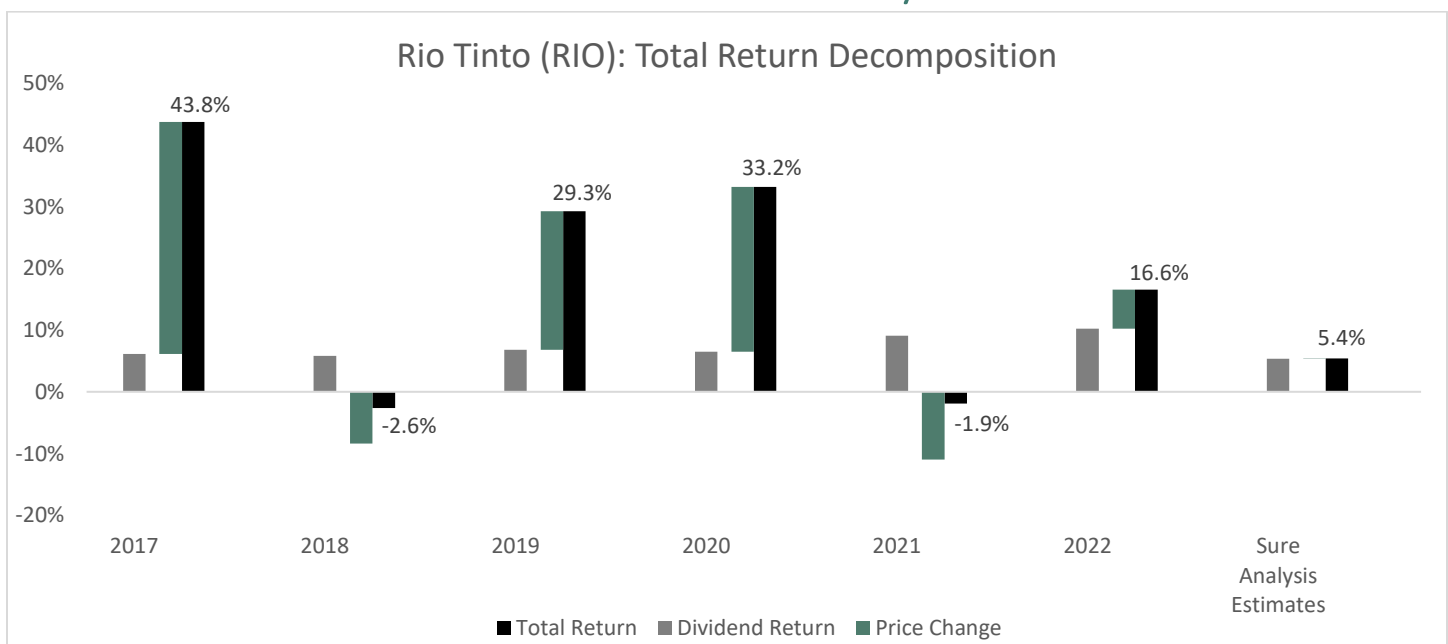
Rio Tinto's main competitive advantage is its global operations and top industry position. The company operates in 35 countries across six continents. It has the ability to acquire new properties for development that smaller competitors cannot match. The company also has a foothold in several premier 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 rallied 50% off its bottom in late 2022 and thus the stock of Rio Tinto has rallied 26% since then. The stock can offer a 5.4% average annual return over the next five years thanks to its 5.9% starting dividend yield and 1.0% growth of earnings-per-share, partly offset by a -1.0% potential valuation headwind. It maintains its 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
Revenue	51,171	47,664	34,829	33,781	40,030	40,522	43,165	44,611	63,495	55,554
Gross Profit	32,134	27,960	18,797	18,251	24,223	23,963	26,753	29,126	44,934	34,270
Gross Margin	62.8%	58.7%	54.0%	54.0%	60.5%	59.1%	62.0%	65.3%	70.8%	61.7%
SG&A Exp.	3,513	3,370	2,165	1,454	2,338	2,580	2,257	2,088	3,275	7,400
D&A Exp.	4,791	4,860	4,645	4,794	4,375	4,015	4,384	4,279	4,697	5,010
Operating Profit	14,048	12,973	6,071	6,483	12,631	12,357	15,213	18,082	29,810	19,321
Op. Margin	27.5%	27.2%	17.4%	19.2%	31.6%	30.5%	35.2%	40.5%	46.9%	34.8%
Net Profit	3,665	6,527	-866	4,617	8,762	13,638	8,010	9,769	21,094	12,420
Net Margin	7.2%	13.7%	-2.5%	13.7%	21.9%	33.7%	18.6%	21.9%	33.2%	22.4%
Free Cash Flow	2,077	6,124	4,698	5,453	9,402	6,391	9,424	9,686	17,961	9,384
Income Tax	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
Total Assets (\$B)	111.0	107.8	91.6	89.3	95.7	90.9	87.8	97.4	102.9	96.7
Cash & Equivalents	1,548	1,146	7,774	5,774	9,171	9,497	6,068	8,664	11,591	5,808
Acc. Receivable	2,987	2,483	1,365	2,283	2,314	2,167	2,097	2,543	2,241	2,179
Inventories	5,737	4,350	3,168	2,937	3,472	3,447	3,463	3,917	5,436	6,213
Goodwill & Int.	4,916	4,512	3,522	3,519	3,763	3,458	3,386	3,430	3,348	3,103
Total Liabilities	57,523	53,233	47,436	43,533	44,611	41,126	42,560	45,487	46,306	44,470
Accounts Payable	3,095	2,592	2,567	2,787	3,255	3,180	2,855	3,124	3,410	3,269
Long-Term Debt	28,414	25,021	23,011	17,585	15,123	12,708	12,806	12,653	12,168	11,071
Total Equity	45,886	46,285	37,349	39,290	44,711	43,686	40,532	47,054	51,432	50,175
LTD/E Ratio	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
Return on Assets	3.2%	6.0%	-0.9%	5.1%	9.5%	14.6%	9.0%	10.6%	21.1%	12.4%
Return on Equity	7.9%	14.2%	-2.1%	12.0%	20.9%	30.9%	19.0%	22.3%	42.8%	24.4%
ROIC	4.4%	8.1%	-1.2%	7.1%	13.5%	21.2%	13.3%	15.9%	31.6%	18.8%
Shares Out.	1,849	1,850	1,798	1,799	1,766	1,719	1,642	1,629	1,618	1,630
Revenue/Share	27.55	25.64	19.09	18.68	22.25	23.40	26.29	27.39	38.98	34.09
FCF/Share	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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