

# Rio Tinto plc

Europe Satellite\*

Recommended since 26.09.2024

26.09.2024



<b>Country</b> GB	<b>Market capitalization (bn)</b> GBP 87,1	<b>Perf. since reco. (%)</b>
<b>Sector</b> Basic Resources	<b>Free float</b> 82,7%	Rio Tinto plc 0,0
<b>Factset</b> RIO-GB	<b>Closing price</b> GBP 50,77	Sector 0,0
<b>ISIN</b> GB0007188757	<b>ESG Risk score*</b> 32,9 High risk	

**Profile**  
Rio Tinto is a less diversified mining company, with exposure mainly to iron ore (68% of EBITDA 2024e). The remaining third of its business is split between copper (14% of EBITDA), aluminum (13% of EBITDA 2024e) and other minerals (titanium dioxide, borates, diamonds - 6% of EBITDA 2024e). Rio is differentiated from its peers by its Aluminium division, which is vertically integrated (bauxite, alumina) and with production powered by renewable energy in Canada.

**Strengths/opportunities**

- Quality assets with low production costs (Tier-1 categories), long lifetimes and, for some sites, expansion potential.
- Overall low-risk geographic exposure.
- Strong balance sheet with low debt.

**Weaknesses/threats**

- Highly sensitive to fluctuations in commodity prices, particularly iron ore.
- Sensitivity to changes in demand in China.
- Project execution risk.

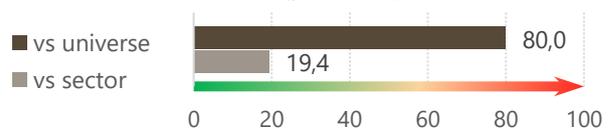
**Investment case**

- Rio Tinto benefits from excellent positioning on the production cost curve, a solid balance sheet and low-risk geographical exposure. These factors enable Rio Tinto to outperform its peers in times of economic uncertainty, while retaining its ability to take advantage of rebound phases. The destruction of the Juukan prehistoric aboriginal site in Australia in 2020 led to a renewal of management, with the appointment in 2021 of Jakob Stausholm as CEO, whose aim was to regain the confidence of investors and localities.
- The seasonally weaker Q2-Q3 period was accentuated by lower demand in China and an uncertain global manufacturing cycle. These factors have led to a fall in iron ore prices (-33%) since the beginning of the year. The first signs of production adjustments by unprofitable competitors and the entry into a seasonally more favorable Q4-Q1 period on the demand side should translate into improved performance.
- We remain cautious about the macroeconomic environment (weak and uncertain manufacturing PMIs globally, structural challenges in China), but the change in the Chinese authorities' stance, with the announcement of significant measures to bolster the economy, represents support for the sector in the short term. We enter Rio Tinto as a Satellite recommendation.

**Valuation**

Reasonable valuation, with EV/EBITDA and P/BV NTM at a 13% and 20% discount to peers. FCF yield and dividend yield of 7% and 6% in 2025, well above the peer average (3.5% and 5.1% respectively).

**ESG risk vs. universe & sector (percentile)\***



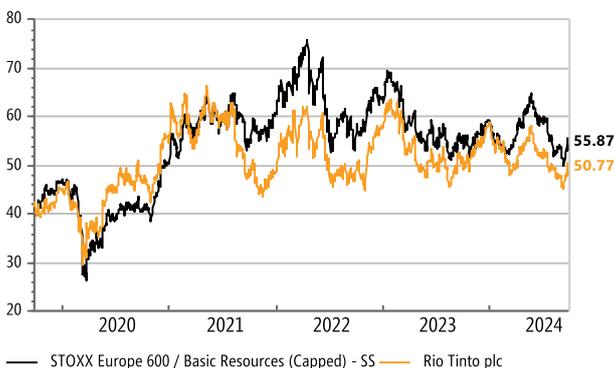
USD	12/2023	2024e	2025e
Sales revenue (mio)	54 041	53 005	52 140
Sales growth	-2,7%	-1,9%	-1,6%
EBIT adjusted (mio)	16 646	17 086	17 267
% of sales	30,8%	32,2%	33,1%
Net income (mio)	11 755	11 298	11 316
Net income growth	-11,5%	-3,9%	0,2%
FCF/Sales	12,7%	8,5%	10,2%
Net debt/Ebitda	0,2x	0,2x	0,1x
Dividend yield	6,7%	6,0%	5,9%
VE/EBITDA	4,9x	5,1x	5,0x
P/BV	1,9x	1,9x	1,7x

Factset estimates

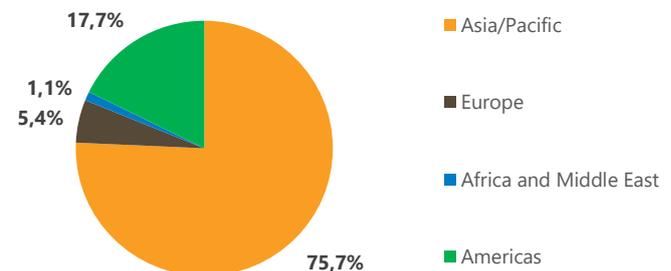
**ESG - risks and key points**

- Rio Tinto's ESG risk level has deteriorated over the last five years to become high, reflecting the destruction of the prehistoric Aboriginal site in Australia (2020).
- Like the entire sector, Rio is exposed to environmental risks and regulatory requirements (pollution control, tailings treatment, etc.).
- Consultation and engagement with local communities are prerequisites for continued operations.
- Solid performance in terms of corporate governance.

**5-year performance vs sector**



**Sales breakdown - 12/2023**



\*: see overleaf

Source: Factset, Sustainalytics

# Glossary

## Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

## b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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