

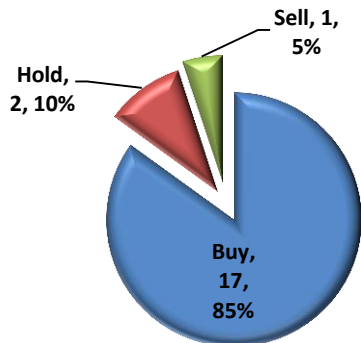


RIO TINTO LTD. 2014 HALF YEAR NUMBERS

Analyst: Evan Lucas
Code: RIO

Where the market is positioned

What the brokers think of RIO



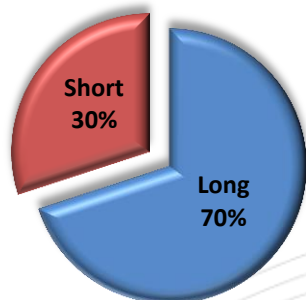
Source: Bloomberg

The market versus the brokers on RIO's is worth

Current Market Price	Consensus Price Target	Premium or Discount
\$66.27	\$74.95	11.58% Discount

Source: Bloomberg

What IG clients think of RIO



KEY FINDINGS

1. Iron ore still delivering despite soft pricing
2. Productive drive delivering in droves
3. Capex and net debt well ahead of the curve

Matrix sees RIO as a LONG call

Matrix Impressions

"World Class" is the line CEO Sam Walsh is using to describe the results and the proof is plain to see. Record shipments from the Pilbara iron ore project, coupled with increased production from its copper operations in Utah and Mongolia have delivered the company an underlying net profit of US\$5.1 billion and group sales at US\$25.6 billion.

The iron ore numbers are the headline grabber, with the two-month ahead of schedule 290 Pilbara project seeing EBITDA rising to US\$8.09 billion, up 6% period compared to period, and with further production upgrades nearing completion it will remain the feather in the cap for Rio.

More importantly, the EBITDA for its copper division was key. Significant improvements at Kennecott were flagged in the latest quarterly production report, which has seen copper EBITDA jump 31% to US\$1.17 billion. The profit results in the deliverables are matched by the impressiveness of the structural reforms that has been undertaken at the board level since Sam Walsh has taken over.

Sustainable operating cash costs improvements have exceeded expectations at US\$3.2 billion from the 2012 forecast of US\$3 billion, with a further \$1 billion in saving come the end of 2015.

Capital expenditure was \$3.6 billion - well below the US\$5.7 billion expected, and is now anticipated to fall to 9 billion by year-end, which is 2 billion ahead of estimates, and down to 8 billion by 2015. Net debt also fell substantially to \$16.1 billion - a 27% fall on the corresponding period.

Share value on the back of initiatives should pay dividends for shareholders and the continued capital management coupled with a drive to core offering should see Rio insulated from the current softness in the global markets.

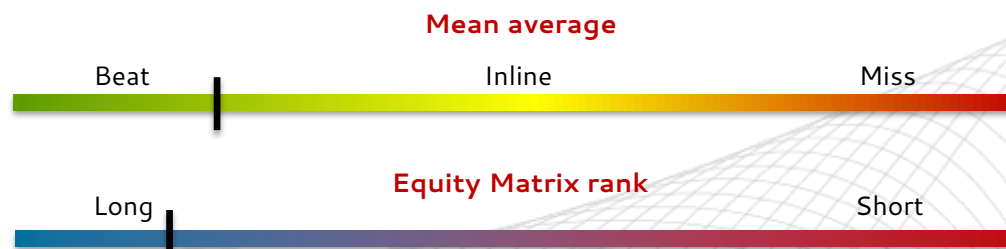
The matrix sees Rio as a LONG call, as the results beat on all major comparisons, with only the dividend coming in-line. With Rio trading at a 11.6% discount to its target price, and 85% of brokers seeing Rio as a buy, the market looks like it is going to play catch-up.

RIO 2014 HALF YEAR NUMBERS – KEY FIGURE COMPARISONS

Actual Earnings	H1CY14 actuals	H1CY13 actuals	pcp Change	Comment	I G
Revenue (m)	\$25,565.0	\$24,511.0	4.30%	290 project sees iron ore revenue higher despite spot iron ore pricing	B
Net Profit (m)	\$5,116.0	\$4,229.0	20.97%	Mass productivity gains and capex reduction see Rio well ahead of the curve	B

Actuals Vs Consensus	H1CY14 actuals	Consensus Estimates	Diff.	Comment	I G
Revenue (m)	\$25,565.0	\$23,486.00	8.85%	Record iron ore volumes, production records and thermal coal	B
Earnings/Share	\$2.760	\$2.41	14.52%	Operating cash cost improvements, capex reductions and lower debt repayments all helped earnings	B
Net Profit (m)	\$5,116.0	\$4,539.00	12.71%	Productivity programs are working and alterations to the balance sheet are also helping the bottom line	B
Final Dividend	\$0.96	\$0.96	0.00%	In-line as per the company stated payout ratio guidance	I

Key Additional Numbers	H1CY14 actuals	Consensus Estimates	Diff.	Comment	IG
Net Debt (m)	-\$3,576	-\$5,257	31.98%	Capex down to 3.6 billion in first half and expects 2014 capex to be at 9 billion - 2 billion lower than forecasted	B
CAPEX (m)	\$16,100.0	\$18,810	14.41%	Net debt down \$1.9 billion to 16.1 billion versus \$22.1 billion at June 30 last year	B



*Sources: Actuals – RIO Media release Consensus numbers - Bloomberg

RIO 2014 HALF YEAR NUMBERS – THE INVESTMENT CASE



Technical View

RIO for the last 52 weeks has technically traded sideways, as China concerns and iron ore pricing is offset by productivity gains and capex reductions. Rio is currently testing the upper Bollinger with \$67.09 the first level to watch on the number before heading to heavy resistance at \$71. If results are disappointing the 20-day moving average at \$64.70 would be the likely first support level.

Sector View

The materials space is currently experiencing strong structural changes. Demand for ore and industrial metals has normalised after a decade of boom seeing pricing slide over the last year. While the space has dramatically undergone capex and productivity initiatives coupled with volume expansion, it is unlikely that this will completely offset softer pricing and the expectation that 2015 is likely to be softer considering the currently climate.



DEFINITIONS:

INLINE: The author considers a result within +/-2% of estimates or comparable actuals as **INLINE** and are unlikely to be seen as materially different. That is not to say that under certain circumstances a beat or miss of 2% will would not be seen as a market sensitive but it is likely to be less material than a result outside of these boundaries.

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