

Rio Tinto Limited RIO

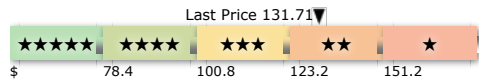
\$131.71 ↑ 2.03 | 1.57% (5:15PM 07-May-2024) **Trading Status:** Trading

[Research Report](#)[Research Snapshot](#)[Company Profile](#)

Morningstar Analyst Rating™



(02:23PM 17-Apr-2024)



Style Box™



Morningstar Sector

Basic Materials

Market Cap

48,139 M

Fair Value

\$112.00

Fair Value Uncertainty

Medium

Economic Moat

None

Capital Allocation

Standard

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Analyst Note

Updated: 2:23PM 17-Apr-2024

Rio Tinto: Solid Iron Ore Sales and Short-Term Price Tailwinds Keep Optimism High

We retain our AUD 112 per share fair value estimate for no-moat Rio Tinto after a solid start to 2024. First-quarter sales are broadly in line with our expectations. Rio's share of shipments from its Pilbara iron ore operations, the main driver of earnings, was roughly 66 million metric tons, 5% below the same quarter of 2023 and 10% lower than the previous quarter. Inclement weather was the main driver. Management made no changes to guidance, and we continue to forecast 2024 Pilbara iron ore sales of roughly 280 million metric tons (its share), similar to last year. We also reiterate our forecast for 2024 unit cash costs in the Pilbara of roughly USD 23 per metric ton, about 6% higher than last year, driven by inflation.

Iron ore accounts for roughly 75% of our forecast 2024 EBITDA of roughly USD 22 billion. Assuming a 60% payout ratio, at the top end of the company's target payout ratio of between 40% and 60% over the cycle, we forecast 2024 fully franked dividends of USD 3.90, or AUD 6.09, per share. This represents a yield of about 4.7% at current share prices.

The shares trade at about a 15% premium to fair value, likely partially due to high near-term iron ore prices. Optimism over rising copper and aluminum prices is likely another reason. Driven by the ramp-up of its two-thirds-owned Oyu Tolgoi mine in Mongolia, we forecast copper sales to increase by roughly 40% over our five-year forecast period to around 1 million metric tons in 2028. With our forecast

aluminum sales remaining relatively stable at about 3.3 million metric tons over this period, the share of Rio's earnings comprised by its base metals businesses is likely to rise. This is assisted by our assumption that iron ore prices fall to our long-term or midcycle assumption of roughly USD 70 per metric ton from 2028, materially below current spot prices of roughly USD 105. Despite this, iron ore still accounts for two-thirds of Rio's EBITDA in 2028 based on our forecasts.

Copper production of roughly 200,000 metric tons improved 7% on the same quarter of 2023 and 5% on the previous quarter. Our forecast for 2024 copper sales of approximately 850,000 metric tons (Rio's share), up roughly 15% on last year, remains unchanged. This is driven by higher production at Oyu Tolgoi and its Kennecott operations in Utah. Oyu Tolgoi also remains on track to ramp up to roughly 330,000 metric tons of copper per year (Rio's share) toward the end of this decade, up from around 110,000 metric tons (Rio's share) in 2023.

Rio's aluminum business also had a solid quarter, with bauxite, alumina, and aluminum production similar to our expectations. We continue to forecast aluminum production of about 3.3 million metric tons in 2024, around 2023 levels.

Bulls Say

- Rio Tinto is one of the direct beneficiaries of China's continuing strong appetite for natural resources.
- The company's operations are generally well run, large-scale, low-operating-cost assets. Mine life is generally long, and some assets, such as iron ore, have incremental expansion options.
- Capital allocation has improved following the missteps of the China boom with management generally preferring to return cash to shareholders than to make material expansions or acquisitions.

Bears Say

- With miners including Rio benefiting from high commodity prices, governments may use it as a source of tax revenue to plug shaky budgets.
- Rio Tinto is leveraged to demand for iron ore. If iron ore prices fall materially, the company's earnings will decline significantly.
- While Rio has shown much improved investment discipline since its mis-steps during the China boom, if commodity prices remain high, then the temptation to once again expand aggressively will increase.

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