Daiwa Capital Markets

Company

Metals & Mining / UK
21 April 2011

The 10-second briefing

# Anglo American

AAL LN

Target price: **3329p**
Up/downside: **+4.8%**
Share price (20 Apr): **3175p**

1 Buy
2 Outperform
3 **Hold** (new)
4 Underperform
5 Sell

# Initiation of coverage

- AAL offers an attractive and diverse range of minerals with high exposure to Chinese economic growth
- Management are conservatively expanding into Brazil & Peru whilst maintaining a commitment to dividends
- We expect AAL to perform in line with the UK mining sector but could do better if consumer sentiment in the OECD recovers


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## What's new

We initiate coverage on Anglo American (AAL) with a 3 rating and a target price of 3329p.

In terms of global production, AAL is ranked 1st in platinum, 3rd in seaborne thermal coal, 4th in seaborne metallurgical coal, 5th in iron ore and is the 6th largest producer of copper.

Future investment growth in these commodities and the expansion of the nickel division should position AAL in the right areas to take advantage of emerging market demand over the next few decades.

## What's the impact

In comparison with the other listed major diversified mining companies, AAL offers the most balanced spread of commodities. The main difference between AAL and its peer group is AAL's leading position in the platinum and diamond markets.

There appears to be over capacity in the diamond market at present and we do not anticipate strong price rises in 2H-11.

The PGM market appears in better shape with palladium fundamentals looking to be more attractive at present.

Both industries should benefit when consumer confidence returns to the OECD driving sales growth in the jewellery and motor vehicle markets.

## What we recommend

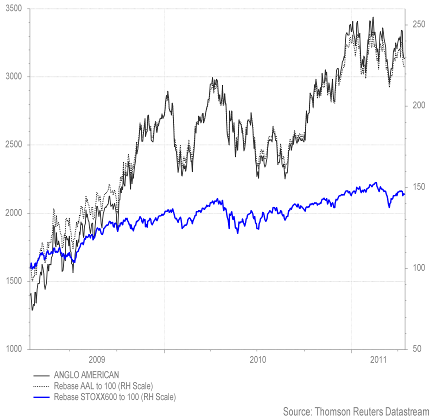
Real global GDP growth is expected to remain above 4% through 2012. Demand for raw materials in the emerging markets is expected to remain strong and we expect this will continue to benefit the mining sector.

We expect earnings growth to slow but profit margins to remain above average through 2012 supported by strong fundamentals in the copper and iron ore markets.

We value AAL using a weighted combination of DCF and PE multiple.

Risks to our view include lower than expected commodity prices including copper, iron ore and platinum; AAL is also exposed to exchange rate and geopolitical risk in South Africa, Chile, Brazil and Australia.

### Share Price Chart




*Source: Compiled by Daiwa CM Europe.*

### Market Data

| | |
|---|---|
| 12-month range (p) | 2227.5 – 3468.5 |
| Market cap (US$ mil; 20 Apr) | 68,876 |
| Shares outstanding (000; 20/04/11) | 1,322,443 |

### Financial Summary

| Year to | 12/10 | 12/11 E | 12/12 E |
|---|---|---|---|
| Rev (US$ mil) | 32,929 | 37,193 | 40,629 |
| EBIT (US$ mil) | 9,763 | 14,396 | 15,738 |
| Net profit (US$ mil) | 4,976 | 8,567 | 9,379 |
| EPS (US$) | 3.96 | 6.48 | 7.09 |
| EPS growth (%) | 89 | 64 | 9 |
| EPS vs. previous E (%) | na | na | na |
| P/E (x) | 13.2 | 8.0 | 7.3 |
| Div yield (%) | 1.2 | 1.9 | 2.0 |
| DPS (US$) | 0.65 | 0.97 | 1.06 |
| P/B (x) | 1.9 | 1.6 | 1.4 |
| ROE (%) | 21.3 | 22.8 | 20.6 |

*See end of report for notes concerning indicators.*
*FX conversion at GBPUSD = 1.640*

## Introduction

Anglo American (AAL) is a globally diversified mining company headquartered in London. Following a major management and operational restructuring exercise announced in 2009, Anglo American has chosen to focus on seven commodity groups. (See 'Positioning to supply china').

### AAL 2010 segment summary

| Division | Sales US$mn | Profit US$mn | Margin % | Contribution % | Assets* US$mn | Contribution % |
|---|---|---|---|---|---|---|
| Platinum | 6,602 | 425 | 6 | 9 | 15,813 | 29 |
| Diamonds | 2,644 | 302 | 11 | 6 | 1,936 | 4 |
| Copper | 4,877 | 1,721 | 35 | 35 | 7,300 | 14 |
| Nickel | 426 | 75 | 18 | 2 | 2,443 | 5 |
| Iron Ore / Mn | 6,612 | 1,423 | 22 | 29 | 13,213 | 25 |
| Met. Coal | 3,377 | 585 | 17 | 12 | 4,934 | 9 |
| Thermal Coal | 2,866 | 512 | 18 | 10 | 3,646 | 7 |
| Other | 5,520 | 522 | 9 | 10 | 4,596 | 9 |
| Total | 32,929 | 4,976 | 15 | 100 | 53,881 | 100 |

*Source: Company materials; * operating assets including associates*

The parent company holds financial interests in these operating divisions through various subsidiaries, (both private and listed) in addition to receiving a significant portion of earnings from associates. Please refer to appendix page 14 for organisation chart.

AAL owns majority interests in its metallurgical coal (Australia) copper (Chile) and nickel divisions (Brazil).

The entire diamond division is accounted for as an associate (AAL own a 45% stake in the worlds largest diamond producer, De Beers). Earnings are mainly generated in Botswana, South Africa and Namibia.

Platinum is managed through its 79.7% ownership of Anglo Platinum (AMS SJ, R654, not covered), operating in South Africa and listed in Johannesburg (JSE).

The iron ore & manganese division is more complicated as it consists of a 65.3% ownership in the JSE listed Kumba Iron Ore (KIO SJ, R472 , not covered) in South Africa, an associate Samancor Manganese (40% interest) and AAL's own iron ore business in Brazil.

The thermal coal division includes majority owned coal mines in South Africa plus a 33.3% stake in the Cerrejon coal mine in Columbia which is accounted for as an associate.

Assets remaining in Other Mining & Industrial are the UK Tarmac business, Scaw Metals and a few small coal, fertilizer and niobium operations mainly in South America. AAL may sell these businesses at a later date.

Divestments since the restructuring was announced add up to a total of US$3.3bn. AAL has chosen to move out of the industrial minerals, steel and zinc businesses. (See re-structuring section)

In comparison with the other listed major diversified miners, AAL offers the most balanced spread of commodities. The main difference between AAL and it peers is AAL's involvement in the platinum and diamond markets. (See industry analysis section)

However in terms of where it generates its sales and earnings, it is the most highly exposed to South Africa (See Risk section).

AAL's long term strategy is to generate earnings from long life, high quality mineral assets in key parts of the mineral chain.

AAL's immediate goal is to focus upon the development of four key projects that will help deliver on the long term strategy. AAL has also identified a further US$70bn in new projects which are being assessed. (See growth section for more information)

### Income Summary (US$ mil; y/y %)

| Year to | Sales | | EBITDA | | EBIT | | Net income | | EPS ($) | CFPS ($) | DPS ($) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 12/08 | 32,964 | 7.9 | 11,847 | 0.0 | 10,085 | 0.0 | 5,237 | -4.4 | 4.31 | 6.72 | 1.27 |
| 12/09 | 24,637 | -25.3 | 6,930 | -41.5 | 4,957 | -50.8 | 2,569 | -50.9 | 2.10 | 3.88 | 0.00 |
| 12/10 | 32,929 | 33.7 | 11,983 | 72.9 | 9,763 | 97.0 | 4,976 | 93.7 | 3.96 | 8.49 | 0.65 |
| 12/11 E | 37,193 | 13.0 | 16,673 | 39.1 | 14,396 | 47.4 | 8,567 | 72.2 | 6.48 | 9.56 | 0.97 |
| 12/12 E | 40,629 | 9.2 | 18,108 | 8.6 | 15,738 | 9.3 | 9,379 | 9.5 | 7.09 | 10.36 | 1.06 |
| 12/13 E | 40,629 | 0.0 | 17,133 | -5.4 | 14,661 | -6.8 | 8,834 | -5.8 | 6.68 | 9.85 | 1.00 |
| 12/11 PE | na | na | na | na | na | na | na | na | na | na | na |
| 12/12 PE | na | na | na | na | na | na | na | na | na | na | na |
| 12/13 PE | na | na | na | na | na | na | na | na | na | na | na |

*E: Daiwa CM Europe estimates. PE: Previous Daiwa CM Europe estimates.*

■ Key near term projects

| Project | Commodity | Country | Capex US$bn | Production | Full prod. |
|---|---|---|---|---|---|
| Barro Alto | Nickel | Brazil | 1.9 | 36ktpa | Q3-12 |
| Los Bronces | Copper | Chile | 2.5 | 200ktpa | Q4-12 |
| Kolomela | Iron ore | South Africa | 1.0 | 9Mtpa | Q1-13 |
| Minas-Rio | Iron ore | Brazil | 5.0 | 26.5Mtpa | Q3-14 |

*Source: Company materials*

As at 31 Dec 2010, AAL had net debt of US$7.4bn giving it a gearing ratio of 15.6% (ND/ND + E). Following an 18 month hiatus, dividends were reinstated in 2010 and we expect a 15% payout ratio to be maintained.

In the past 6 years AAL has returned US$10.7bn to shareholders in the form of share buybacks but have no immediate plans to recommence the programme.

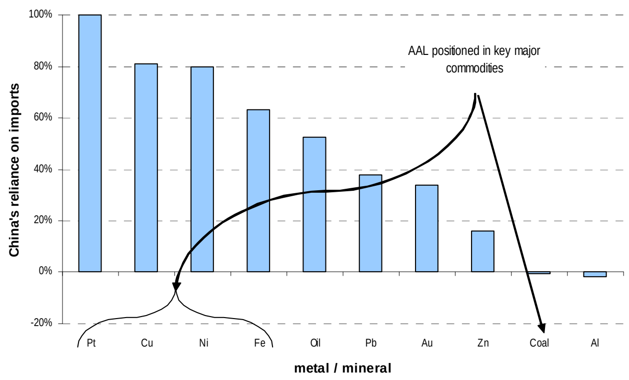
AAL's main priority over the next three years will be to focus on growth through new projects and to maintain a strong balance sheet.

# Long term strategy

## Positioning to supply China

The strategic reason for selecting the seven sectors is shown in the chart below.

■ China's import requirements




*Source: Economist, AME; Daiwa Capital Markets Europe*

Since becoming the world's second largest economy in 2010, China leads the world in its consumption of steel, coal, copper, lead, zinc, tin, nickel, aluminium, rubber, wool, cotton, rice and tea.

In terms of self sufficiency it is also a leading producer of many of these commodities but as the chart above shows it is also reliant on imports of certain commodities such as iron ore and copper.

Preferentially positioning itself to supply these key commodities to China over the next few decades is AAL's long term goal.

From Daiwa's perspective we:

- Believe that China will become the world's largest economy and number one consumer by 2020.
- Our preferred commodities exposures through 2012 are: copper, iron ore and coal (specifically coking coal but we remain positive on the potential for thermal coal once the short term over supply situation is cleared).
- Daiwa's least favoured commodities exposures through 2012 are: aluminium and nickel.

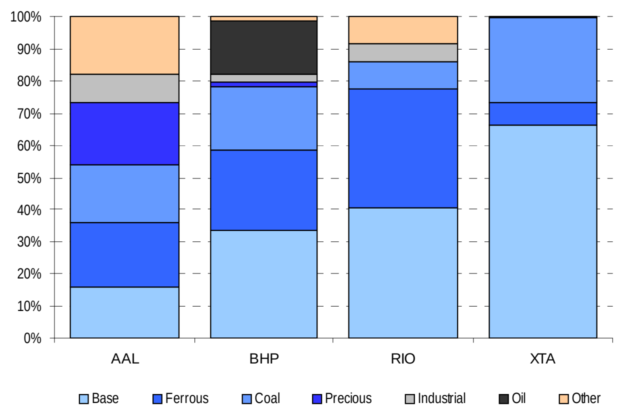
(See Daiwa 'Materials Sector' note 13th April 2011)

## Differences between the majors

AAL are not alone in identifying which subsectors in the mining space are likely to provide attractive returns. In the UK, the three major diversified miners BHP Billiton (BLT LN, 2534p, 1), Rio Tinto (RIO LN, 4367p, 1) and Xstrata (XTA LN , 1530p , 2) have all recently announced plans to expand their iron ore, copper and coal divisions.

In comparison with the other UK listed diversified miners, AAL currently offers the most balanced group of commodities.

■ UK Diversified Miners – % sales by commodity 2010

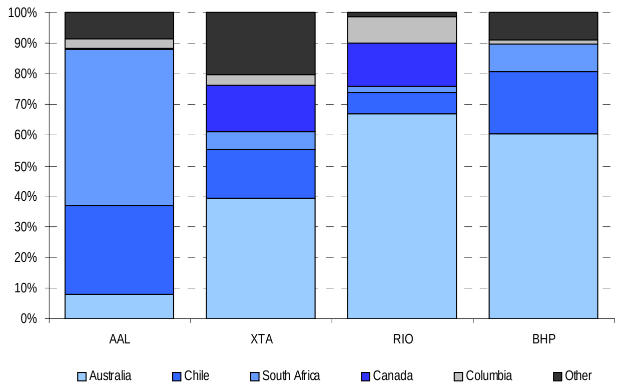



*Source: Company materials*
*Note: Base = Cu, Pb, Zn, Ni & Al; Precious = Au, Ag, PGM, Ferrous = Fe, FeCr, FeMn*

Of its UK peer group AAL is the only company to offer significant exposure to precious metals through its platinum and diamond divisions. In addition, AAL does not offer exposure to the aluminium market whereas both BHP & RIO have significant aluminium divisions.

However, in terms of where it generates its sales and earnings, AAL is the most highly exposed to South Africa.

■ UK Diversified Miners – % EBIT by country 2010

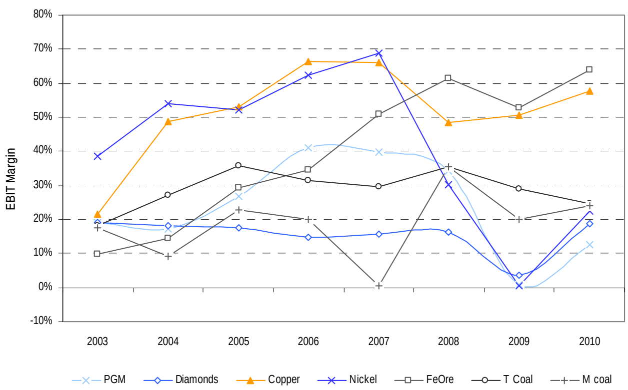



*Source: Company materials*

From a diversified investment perspective one could argue that a portfolio needs AAL since the other three could be deemed to be over exposed to Australia. However, the structural problems in South Africa's electricity and transport networks along with growing political uncertainty surrounding mining rights are not issues that can be easily or quickly overcome.(see section on Risk).

A breakdown of AAL's EBIT by division over time reveals that copper and iron ore were largely responsible for maintaining margins as the recession in 2008 had a devastating impact on the platinum, diamond and nickel markets.

■ AAL EBIT margin by division




*Source: Company materials*

The steep collapse in nickel margins was brought on by a fall in demand for stainless steel forcing the high cost Loma de Niquel operation into loss in 2008.

We expect that with the addition of the Barro Alto project in Brazil; (see later for project description), that nickel margins will recover. However, the nickel division is likely to remain a relatively small part of AAL's consolidated EBIT for the next few years.

In 2010, AAL generated US$727mn (15% of group underlying earnings) from its combined holdings in De Beers and Anglo Platinum. EBIT margins for the platinum division were below 20% compared with 40% pre financial crash. The diamond division recovered its margins to around 20%, albeit on reduced volumes.

If we assume that iron ore, copper and coal margins will be maintained in line with the other diversified miners, the best chance for AAL to outperform its UK peers is for a recovery in the platinum and diamond divisions.

## Industry Analysis

### Diamonds

The final point of sale for most diamonds are the retail jewellery markets in the USA, Japan & Europe. Future growth is dependent upon emerging market affluence and for that; China and India represent the hopes of industry participants.

In a recent report, KPMG India forecast that the global jewellery market would reach US$230bn by 2015 with India & China's combined market share to equal that of the US which currently accounts for 45% of the market.

In the rough diamond market, the privately held De Beers group (45% owned by AAL) is estimated to control approximately 45% of the rough diamond market making it the dominate player in the industry.

The rough diamond market was hit hard in 2009 forcing De Beers to shut down its key operations in Botswana for 4 months in order to prevent excessive inventory build-up.

Despite what the diamond industry would like consumers to believe, the diamond market is driven off the same supply and demand fundamentals as any other consumer discretionary product with both price and volume growth falling off significantly during the last global recession.

■ **Global average rough diamond prices and volumes**

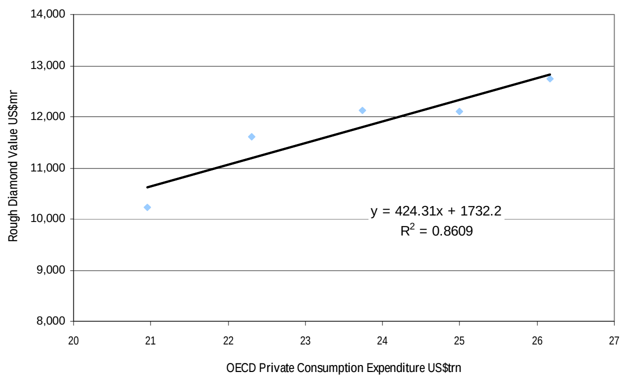
| | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|
| Production | mn cts | 159 | 177 | 176 | 168 | 163 | 125 |
| Prod growth | % | | 11 | 0 | -4 | -3 | -23 |
| Value | $mn | 10,222 | 11,606 | 12,129 | 12,107 | 12,732 | 8,636 |
| Unit Value | $/ct | 64 | 66 | 69 | 72 | 78 | 69 |
| Unit price growth | % | | 2 | 5 | 4 | 9 | -11 |

*Source: KPCS*

The only thing that stopped prices from falling further was the actions of De Beers to shut down 60% of its production for 4 months during 2009. Whilst this shows admirable supplier restraint, unfortunately the cost of this was born by the shareholders of Anglo American through their 45% holding in De Beers.

With excess production capacity in place we believe the key to sustainably higher prices will be the time it takes for demand to return. We observe that there has been a strong correlation between OECD private consumption expenditure and the value of the rough diamond market.

■ **Diamond market vs. OECD consumption 2004 – 2008**




*Source: Thomson Datastream; Kimberley Process Scheme*

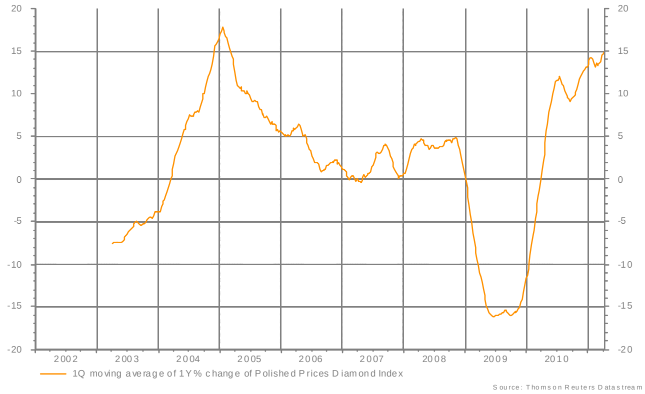
We note that the relationship did not hold during 2009 as the forecast, based on global expenditure of US$25.6tn, for the value of the rough diamond market was US$12.6bn (68% higher than the actual value US$8.6bn).

We believe the outlier is explained by two factors

- Lack of credit availability: the global recession had its origins in the US sub-prime credit markets but quickly spread into the global banking system. The rough diamond market is particularly sensitive to changes in credit conditions as the cutting, polishing and trading parts of the global supply chain operate solely on credit. When the availability of credit evaporated, so did the rough diamond business.
- Seasonal factor: the recession peaked in Q4 2008. The USA is still the largest diamond consumer in the world with ~45% global share. Approximately 50% of these purchases are made between the Thanksgiving Day Holiday in late November and Christmas Day making the diamond jewellery retail sector especially sensitive to consumer sentiment over that period.

It is therefore no surprise that the rough diamond producers were forced to cut back production as both the middle and end of the supply chain were hit by factors that made achieving their sales targets impossible. The good news is that alongside the global economic recovery, polished diamond prices have returned to the pre financial crisis levels.

■ **Polished diamond price index**




*Source: WWW International Diamond Consultants*

In terms of retail demand the recent quarterly earnings outlook from major US listed jewellers were on balance positive especially in the USA and indicated accelerating demand from China and Brazil.

- Tiffany & Co. (TIF US, US$65.76, 4) expects global sales in 2011 to increase by between 12-14% yoy. This is despite expectations of a 15% fall in sales from their second largest market, Japan.
- Signet Jewellers Ltd (SIG US, $US44.35, not covered) reported Q1_11 sales up 11% pcp based mainly on stronger US demand. Demand in Europe is expected to remain weak.
- Zale Corporation (ZLC US, US$3.84, not covered) reported Q2 sales to the end of January up 8%. Zale said that they would have to raise jewellery prices in 2011 due to the significant rises in the cost of raw materials, namely gold, silver and diamond prices.

We believe that rough diamond supply will be held off market until positive price trends return. We anticipate that rough diamond prices will grow in line with global GDP growth of 4.4% per year.

Special attention should be paid to the Indian economy as 70% of the global rough diamond market by value is cut and polished in India. As indicated earlier the industry operates entirely on credit and is particularly vulnerable to lower levels of credit availability.

## Platinum Group Metals

AAL owns a 79.7% stake in the world's largest PGM producer, Anglo Platinum (AMS). In 2010 AMS accounted for 43% of world platinum supply and 20% of world palladium supply.

The platinum group metals (PGM) include: platinum, palladium, rhodium, iridium and ruthenium. As the first two metals account for 87% of the global market value for PGM's (estimated in 2010 at US$18.5bn) we will focus upon these.

■ Platinum supply & demand

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| | koz | koz | koz | koz | koz |
| Supply | | | | | |
| South Africa | 5,295 | 5,070 | 4,515 | 4,635 | 4,585 |
| Russia | 920 | 915 | 805 | 785 | 810 |
| Others | 615 | 615 | 620 | 605 | 615 |
| Total Supply | 6,830 | 6,600 | 5,940 | 6,025 | 6,010 |
| Annual supply growth | 3% | -3% | -10% | 1% | 0% |
| Demand by Application | | | | | |
| Autocatalyst | 3,905 | 4,145 | 3,655 | 2,185 | 2,985 |
| Investment | -40 | 170 | 555 | 660 | 435 |
| Jewellery* | 2,195 | 2,110 | 2,060 | 2,810 | 2,420 |
| Other | 1830 | 1845 | 1720 | 1140 | 1720 |
| Total Gross Demand | 7,890 | 8,270 | 7,990 | 6,795 | 7,560 |
| annual demand growth | -1% | 5% | -3% | -15% | 11% |
| Recycling | | | | | |
| Autocatalyst | -860 | -935 | -1,130 | -830 | -1,095 |
| Electrical | 0 | 0 | -5 | -10 | -10 |
| Jewellery | -555 | -655 | -695 | -565 | -735 |
| Total Recycling | -1,415 | -1,590 | -1,830 | -1,405 | -1,840 |
| Total Net Demand | 6,475 | 6,680 | 6,160 | 5,390 | 5,720 |
| annual net demand growth | -3% | 3% | -8% | -13% | 6% |
| Movements in Stocks | 355 | -80 | -220 | 635 | 290 |

*Source: Johnson Matthey*

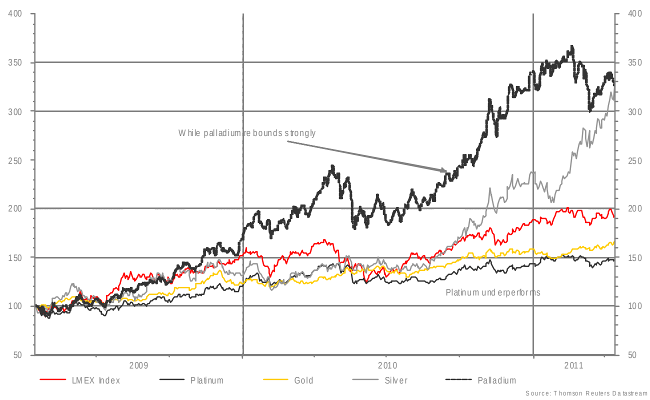
From a fundamental viewpoint, global primary supply growth over the past two years has been close to zero and yet platinum has been the worst and palladium has been the best performer of the exchange traded metals.

■ Palladium supply demand

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Palladium | koz | koz | koz | koz | koz |
| Supply | | | | | |
| South Africa | 2,775 | 2,765 | 2,430 | 2,370 | 2,485 |
| Russia primary | 3,220 | 3,050 | 2,700 | 2,675 | 2,700 |
| Russia stockpile | 700 | 1,490 | 960 | 960 | 1,010 |
| North America | 985 | 990 | 910 | 755 | 560 |
| Zimbabwe | 135 | 135 | 140 | 180 | 220 |
| Others | 135 | 150 | 170 | 160 | 165 |
| Total Supply | 7,950 | 8,580 | 7,310 | 7,100 | 7,140 |
| Annual supply growth | -5% | 8% | -15% | -3% | 1% |
| Demand by Application | | | | | |
| Auto catalyst | 4,015 | 4,545 | 4,465 | 4,050 | 5,150 |
| Chemical | 440 | 375 | 350 | 325 | 385 |
| Dental | 620 | 630 | 625 | 635 | 620 |
| Electrical | 1,495 | 1,550 | 1,370 | 1,270 | 1,405 |
| Investment | 50 | 260 | 420 | 625 | 670 |
| Jewellery | 1,140 | 950 | 985 | 775 | 630 |
| Other | 85 | 85 | 75 | 70 | 80 |
| Total Gross Demand | 7,845 | 8,395 | 8,290 | 7,750 | 8,940 |
| Annual demand growth | -6% | 7% | -1% | -7% | 15% |
| Recycling | | | | | |
| Auto catalyst | -805 | -1,015 | -1,140 | -965 | -1,320 |
| Electrical | -290 | -315 | -345 | -395 | -440 |
| Jewellery | -135 | -235 | -130 | -70 | -85 |
| Total Recycling | -1,230 | -1,565 | -1,615 | -1,430 | -1,845 |
| Total Net Demand | 6,615 | 6,830 | 6,675 | 6,320 | 7,095 |
| anuual net demand growth | -10% | 3% | -2% | -5% | 12% |
| Movements in Stocks | 1,335 | 1,750 | 635 | 780 | 45 |

*Source: Johnson Matthey*

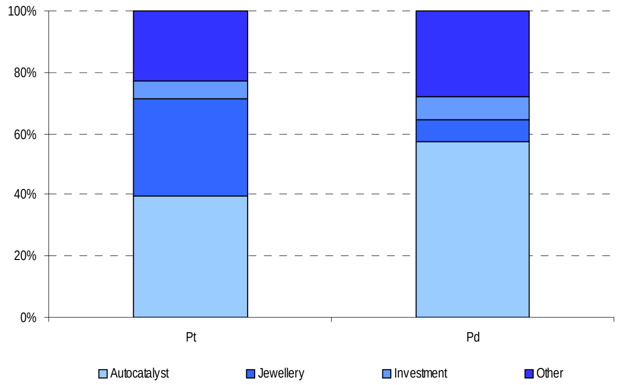
■ Pd outperformed Pt by 190% over past two years




*Source: Datastream – rebased 10 100*

According to Johnson Matthey (JMAT LN, 1881p, not covered), between 70 – 75% of demand for these metals stems from three sources: auto catalysts, jewellery and investment.

■ Pt & Pd end use markets




*Source: Johnson Matthey*

There appear to be three reasons behind the out performance of palladium over platinum over the past two years:

## Pt is more sensitive to jewellery demand

Platinum in jewellery accounts for 37% of final demand compared with only 7% for palladium. As indicated in our assessment of the rough diamond market, jewellery demand is only just recovering back to pre financial crisis levels. Jewellery demand is also price sensitive, particularly in China and as platinum prices have risen 50% over the past two years a smaller volume of platinum is demanded for the same dollar amount.

## Higher growth in Pd auto-cat markets

Europe and Japan combined account for 38% of world vehicle production and 65% of platinum auto catalyst demand. In contrast North America & China account for a similar 39% of global vehicle production but only 18% of platinum auto-catalyst demand.

■ Global vehicle production (mn units)

| | 2009 | 2010e | YoY growth | Pt auto-cat demand | Pd auto-cat demand |
|---|---|---|---|---|---|
| Europe | 17.0 | 19.6 | 16% | 47% | 24% |
| North America | 8.8 | 12.2 | 39% | 14% | 25% |
| Japan | 7.9 | 9.6 | 21% | 18% | 15% |
| China | 13.8 | 18.3 | 32% | 4% | 18% |
| ROW | 17.3 | 22.3 | 29% | 16% | 19% |
| Total | 61.7 | 77.6 | 26% | 100% | 100% |

*Source: JM; OICA; * preliminary estimates*

Higher emission standards and a preference for diesel vehicle production are responsible for the higher levels of platinum demand in Europe.

In China, soon to be the largest vehicle market in the world, production consumes 4% of global platinum auto-cat but 18% of the palladium auto-cat market. China's lower emission standards, relatively cheaper palladium prices per ounce and a bias for gasoline powered vehicles means it tends to favour palladium in its catalytic converters.

To expect a significant recovery in platinum demand economic growth will need to pick up in both Europe and Japan.

- The IMF recently released its World Economic Outlook report (April 2011). Projections suggest that both Europe and Japan are expected to recover more slowly than in China and North America.

■ Real GDP growth forecasts

| | 2010 | 2011e | 2012e |
|---|---|---|---|
| Europe | 2.1 | 2.0 | 2.2 |
| North America | 3.1 | 2.9 | 3.0 |
| Japan | 3.9 | 1.4 | 2.1 |
| China | 10.3 | 9.6 | 9.5 |

*IMF*

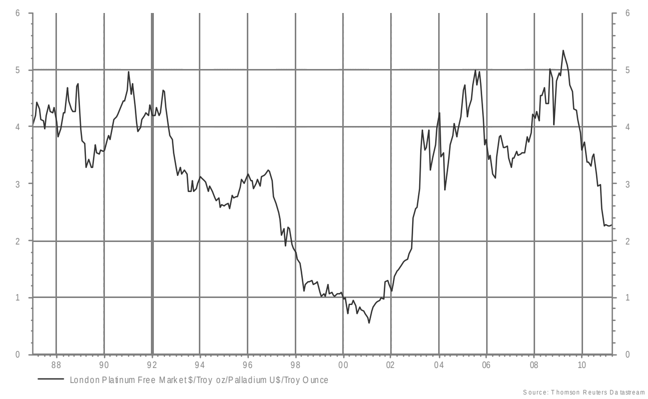
- In a recent report, (Japan's Economic Outlook for FY10 -12 {preliminary forecast}, 5th April 2011), Daiwa economists lowered their forecast for Japans' real GDP growth to 0.8% (previous 1.4%) due to the impacts of the Tohoku earthquake. Among several factors identified, the domestic automobile industry was highlighted as being particularly susceptible to, disruption due to impairment of supply chains and to expected power shortages.
- On April 12th, Toyota (7203 JP, ¥3170, 3) announced that it would stop production in 5 plants across Europe for 8 days through April and May due to shortages of supplies. Forecast beyond May were not forthcoming.

## Palladium more susceptible to speculation

The PGM markets are small by the standards of global finance. The palladium market was worth US$4.7bn compared to the platinum market at US$11.2bn in 2010. By the start of 2011 globally held physical stocks in Exchange Traded Funds amounted to 39t of platinum and 70t of palladium. It has taken the financial markets a mere three years to accumulate the equivalent of 20 % of platinum and 31% of palladium annual global supply.

These three factors appear to have led to a relatively higher demand for palladium over platinum over the past 12 months. Based on history, if the demand drivers continue along the same path in 2011, then palladium may soon reach platinum in terms of pricing parity.

■ Pt / Pd price ratio




*Source: Datastream*

■ Platinum palladium price outlook (US$/oz)

| | | Spot | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Pt | Consensus | 1805 | 1840 | 1900 | 1700 | 1634 |
| | Fw | 1805 | 1808 | 1817 | | |
| | Av | | 1824 | 1859 | | |
| | | | | | | |
| Pd | Consensus | 799 | 797 | 850 | 818 | 770 |
| | Fw | 799 | 794 | 798 | | |
| | Av | | 796 | 824 | | |
| Pt/Pd ratio | | 2.3 | 2.3 | 2.2 | 2.1 | 2.1 |

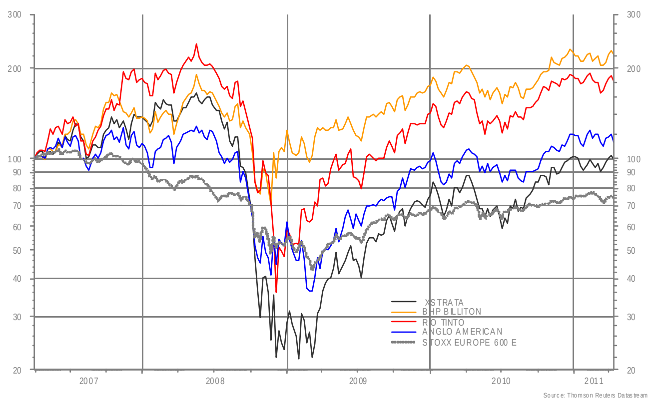
*Source: Bloomberg;*

Fundamentally the long term platinum and diamond picture appears robust but in terms of near term timing it is unclear as to when these divisions will begin to contribute in proportion to the investments that have been made. Until they do AAL are focussed on internal expansion options to generate the next phase of growth

## Restructuring a necessity

The decision to restructure AAL was born well before the global financial crisis which saw AAL shares fall by 65% from the pre-crash peak.

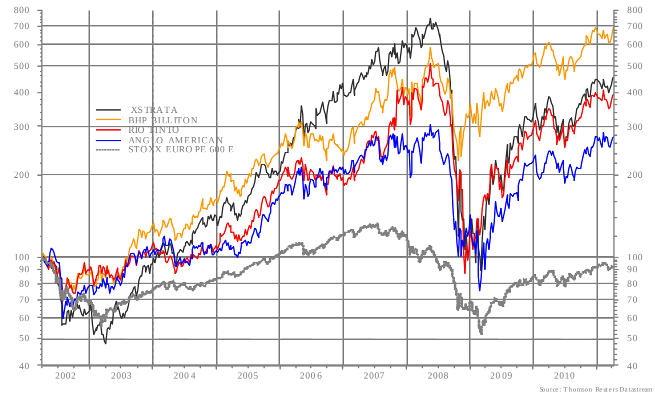
■ UK diversified mining shares rebased March 2007




*Source: Thomson datastream*

Over the last economic cycle, AAL has along with the mining sector, easily outperformed the DJSTOXX index, but has been a perennial underperformer amongst its UK peers.

■ UK Diversified miner' s vs. DJSTOXX 600




*Source: Thomson Datastream*

At the start of the up cycle in 2002 AAL operated in 61 countries across eight divisions that included, steel, forestry, gold and industrial services. It was by reputation bureaucratic, opaque from a financial analysis perspective and loaded with administration overhead.

AAL first identified that it should focus upon it core mining portfolio in 2005. Today, the company is still selling assets from its industrial division and on more than one occasion has mentioned in its annual report that restructuring of the business is 'nearly complete'.

## Changes at the board level

Since the latest restructuring announcement, October 2009, four new board members have joined AAL. The new Chairman, Sir John Parker joined several months earlier in June 2009.

With Mr Oppenheimer due to retire at the next general meeting, a replacement Director will represent a 42% turnover of the Board since the global financial crash in Q4 2008.

■ Anglo American board

| Name | Position | Joined board | Other company asscoaitions |
|---|---|---|---|
| Nicky Oppenheimer** | Director | Mar-99 | De Beers |
| David Challen | | Sep-02 | Citigroup; Smiths Gp. |
| Rene Medori* | CFO | Jun-05 | AMS, De Beers, SS&E |
| Peter Woike | Director | Jan-06 | Saudi Aramco |
| Dr Mamphela Ramphele | Director | Apr-06 | Gold Fields |
| Cynthia Carroll* | CEO | Jan-07 | Anglo Platinum |
| Sir CK Chow | Director | Apr-08 | MTR Corp. AiA Grp. |
| Sir John Parker | Chairman | Jul-09 | National Grid |
| Sir Philip Hampton | Director | Nov-09 | RBS |
| Jack Thompson | Director | Nov-09 | Century Aluminium; Molycorp; Tidewater |
| Ray O'Rourke | Director | Dec-09 | Laing O'Rourke |
| Phuthuma Nhleko | Director | Mar-11 | BP; MTN Group |

*Source: Company materials*Executive Director; **due to retire April 21 2011*

Shareholders were treated to the resumption of the dividend in 2010 but top priority is to be given to delivering its existing projects in on time.

## Internal growth priority

AAL management has provided the market with a frightening figure of US$70bn of new potential capital expenditure. As this includes the entire pipeline of projects that AAL gets to look at, investors need not be alarmed and should focus on the US$16bn of approved projects that make up the near term production growth. There are four key projects:

### Los Bronces expansion

The Los Bronces copper expansion in Chile was approved in November 2007. At full production, (estimated by Q4_12), it is expected to produce 400ktpa of copper over the first 10 years of the project life including 5.4ktpa of molybdenum. Final capital expenditure figure of US$2.5bn will be 47% above initial estimates due to the higher cost of raw materials, labour and energy.

### Kolomela (48.3% equity)

AAL owns an effective 48.3% stake in the Sishen Iron Ore Company through its 65.3% ownership of its listed subsidiary Kumba Iron Ore. Kolomela, (formerly know as Sishen South) is a green-field iron ore project in South Africa that is expected to reach full production of 9Mtpa of iron ore by Q1_13.

### Barro Alto

The Barro Alto nickel laterite project was approved in December 2006. At full production, (planned for Q3_12), it is expected to produce on average, 36ktpa of nickel in ferro-nickel over its 26 year mine life. This will more than double AAL's nickel division production to 61ktpa. The project was initially expected to cost US$1.2bn however with first production reported in Q1_11, a final capital expenditure figure of US$1.9bn (+58%) seems to be closer to the mark.

### Minas-Rio (99.4% equity)

The Minas-Rio iron pellet project in the states of Minas Gerais and Rio de Janeiro, Brazil, was purchased from MMX Mineracao (MMXM3 BZ, R$10.73, not covered) as part of a US$5.5 bn deal along with a 70% interest in the 4Mtpa Amapa iron ore mine and a 49% interest in LLX Minas Rio (Port). The Minas-Rio project involves the construction of an iron ore mine and 500km slurry pipeline to export 26.5Mtpa of pellet feed. Full production is planned for 2H_2014 with first production anticipated in Q3_2013. Initial estimated capital expenditure of US$2.7bn has blown out to US$5.0bn (+85%). A healthy cash margin of US$70/t is expected on long term pellet prices, and will be required for the project to earn its cost of capital.

For a summary of AAL's project pipeline over the next five years, please refer to the Appendix, page 18.

## Acquisitions & Divestments

Of the UK diversified mining companies, AAL has been the least likely to get involved in a large acquisition. During the last cycle RIO bought Alcan, BHP bought WMC Resources, XTA bought MIM Holdings and Falconbridge. AAL is believed to have turned down an approach from XTA to merge in 2010.

We do not believe AAL have major acquisition plans at this stage and are more likely to continue divesting non core assets and developing its own projects.

■ AAL divestments 2010 – 2011

| Date | Business Unit | Acquirer | US$mn |
|---|---|---|---|
| Feb-11 | Zinc : Black Mountain Mining; Skorpion | VED | 1338 |
| Jan-11 | Moly-Cop & AltaSteel Business | One Steel | 932 |
| Dec-10 | Coal: Various Australia | POSCO; Cockatoo Coal; Korea E&P | 500 |
| Jul-10 | Multiple Targets | Westside Corp | 70 |
| May-10 | Tarmac Materiaux de Construction | Foundations Capital | 88 |
| Feb-10 | Tarmac's European construction aggregates | Eurovia; Innova Capital | 400 |
| | | Total | 3328 |

*Source: Company materials*

## Other uses of capital

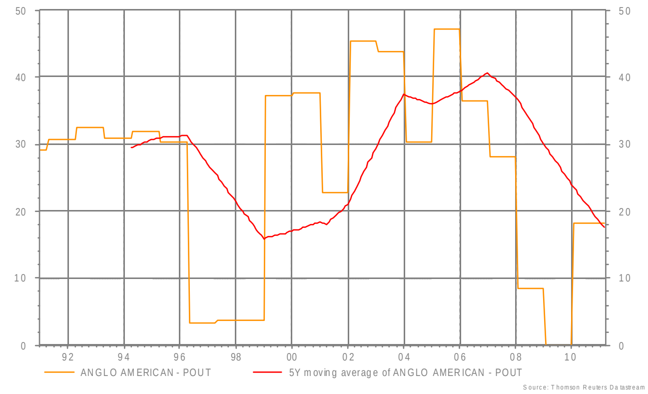
### Dividends

AAL tries to maintain a progressive dividend policy where a base dividend is established which is expected to be at least maintained, if not increased through the business cycle.

In 2H08 AAL was forced to stop paying dividends due to liquidity pressure stemming from the global financial crisis. In 2010 a new base dividend of 65c /share was announced (expected to be approved by shareholders on April 21st 2011).

AAL does not publically commit to a dividend payout ratio however in the past the ratio has averaged 30% over the cycle with a peak of 40% and trough of 18%.

■ Historic dividend payout ratio




*Source: Thomson Datastream*

We believe that AAL will maintain dividends at the low end of its historic range until cash flow from its new projects begin to accumulate starting in 2012. We therefore conservatively expect the payout ratio to stay between 15-20% of earnings for 2011 and 2012.

## Share buyback

In the past, share buybacks were used to return surplus cash to investors. In total US$10.7bn was returned to shareholders via this method over a three year period.

■ Share buy back history

| Programme | From | To | Amount US$bn | Shares mn |
|---|---|---|---|---|
| 1 | Mar-06 | Aug-06 | 2.0 | 48.9 |
| 2 | Sep-06 | Apr-07 | 4.0 | 84.6 |
| 3 | May-07 | Oct-07 | 3.0 | 50.6 |
| 4 | Oct-07 | Feb-09 | 1.7 | 28.0 |
| total | | | 10.7 | 212.1 |

*Source: Company Materials*

The programme was cancelled in February 2009. AAL do not have plans to reinstate the share buyback programme.

# Valuation

We value AAL using a weighted combination of NPV and forward looking PE ratio.

## Discounted cash flow

We determine the cost of equity capital using the capital asset pricing model and assume a long term cost of debt equal to the US 10 year Treasury bond yield plus a spread equal to AAL's traded 10 year CDS yield.

■ Weighted Average Cost of Capital

| | |
|---|---|
| Risk free rate (%) | 3.6 |
| Beta | 1.8 |
| Equity market risk premium (%) | 6.0 |
| Ke (%) | 14.2 |
| | |
| Cost of Debt | |
| LT target gearing ratio (%) | 30 |
| Corporate Income Tax (%) | 28 |
| Kd (%) | 4.7 |
| | |
| Weighted Average Cost of Capital (%) | 11.0 |

*Source: Daiwa Capital Markets Europe*

We forecast free cash flow from each division to arrive at our estimated value of the firm and deduct net debt to arrive at the value of equity.

■ DCF Value

| NPV | @ WACC | 11.0% | US$mn | GBp /sh |
|---|---|---|---|---|
| Platinum | | | 18,100 | 855 |
| Diamonds | | | 5,707 | 270 |
| Copper | | | 4,816 | 228 |
| Nickel | | | 2,862 | 135 |
| Iron Ore / Manganese | | | 17,296 | 817 |
| M-Coal | | | 5,268 | 249 |
| T-Coal | | | 9,409 | 445 |
| Other Mining & Industrial | | | 954 | 45 |
| Corporate | | | -1,234 | -58 |
| Other | | | 0 | 0 |
| Projects | | | 0 | 0 |
| Investments | | | 0 | 0 |
| Total | | | 63,179 | 2986 |
| Less net debt | | | 7,038 | |
| Valuation | | | 56,141 | |
| End of period issued securities | | | 1,322 | |
| Net value per share | | (US$/shr) | 42.45 | |
| @ LT exchange rate | | GBP USD | 1.60 | |
| | | | | |
| Net value per share | | (GBp/shr) | 2653 | |

*Source: Daiwa Capital Markets Europe*

## Peer group

The UK is fortunate to have the primary listing of four of the world's largest diversified mining companies.

### Diversified Peer Group

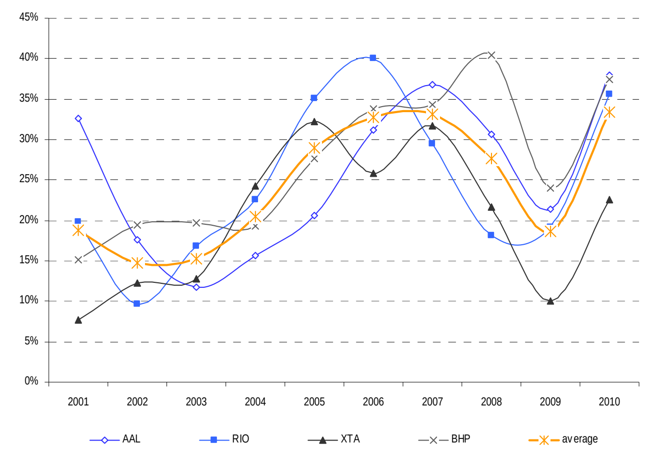
| Company | Ticker | Exch | Ccy | Price | MC U\$mn | PE CY | PE +1 | DY % |
|---|---|---|---|---|---|---|---|---|
| ANGLO AMERICAN PLC. | AAL | LN | GBp | 3175 | 68,876 | 8.5 | 7.3 | 1.3 |
| BHP BILLITON PLC. | BLT | LN | GBp | 2534 | 261,744 | 10.1 | 8.6 | 2.2 |
| RIO TINTO PLC. | RIO | LN | GBp | 4367 | 148,225 | 7.2 | 7.4 | 1.5 |
| VALE SA | BR:VL5 | SP | US$ | 46.50 | 98,049 | 6.5 | 6.8 | 1.9 |
| XSTRATA PLC. | XTA | LN | GBp | 1530 | 74,712 | 9.1 | 8.5 | 1.0 |
| TECK RESOURCES LIMITED | C:TCK.B | TR | C$ | 52.68 | 32,643 | 9.4 | 9.2 | 1.1 |
| Diversified Group Mean | | | | | 123,074 | 8.5 | 8.1 | 1.6 |
| Diversified Group Median | | | | | 98,049 | 9.1 | 8.5 | 1.5 |

*Source: Bloomberg analyst consensus*

On the surface it is tempting to apply an average EV or PE multiple to the relevant earnings forecast to derive an estimate of relative value. However this method needs to be used carefully as there are significant differences between the firms based on differing corporate structure and the way financial accounts are reported.

Since 2001, EBIT margins over the commodity cycle for the UK diversified mining sector have averaged 24% with an average peak of 34% and average trough of 15%.

### UK diversified EBIT margins over the commodity cycle




*Source: Thomson Datastream*

The rising EBIT margins in 2010 disguise a collective US\$58bn in approved capital expenditure. Apart from the lowering of free cash flow, the inevitable consequence of investment will be to bring on new supply which ultimately will act to drive future margins lower.

### Announced capital expenditure US\$bn

| | Approved | Period (yrs) | Flagged* |
|---|---|---|---|
| AAL | 16 | 3 | 70 |
| BHP | 15 | 1 | 80 |
| RIO | 13 | 1 | 39 |
| XTA | 14 | 2 | 8 |
| Total | 58 | 1.8 | 197 |

*Source: Company materials*
*Note: * includes potential capex in unapproved projects over next 5 years*

Another factor to consider when using EBIT multiples for valuation is that this will tend to relatively speaking flatter AAL since amongst the peer group, AAL has the highest % of earnings from minority interests embedded within its EBIT.

### Minority interest in consolidated income

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Average |
|---|---|---|---|---|---|---|---|---|---|
| AAL | 18% | 11% | 10% | 12% | 14% | 15% | 17% | 19% | 15% |
| XTA | 10% | 13% | 11% | 22% | 6% | 7% | 23% | 5% | 12% |
| RIO | 1% | -2% | 5% | 5% | 6% | 17% | 8% | 6% | 6% |
| BHP | 2% | 3% | 4% | 1% | 1% | 4% | 7% | 2% | 3% |

*Source: Company materials*

AAL also does not include revenue from associates in its statutory accounts but does include their contribution at the EBIT level, which left unadjusted will result in higher EBIT margins. We choose to include associate revenues with consolidated revenue when forecasting in order to maintain consistent comparisons.

### Valuation

| | | |
|---|---|---|
| NPV - valuation | (GBp/shr) | 2653 |
| P/NPV | (x) | 1.20 |
| EPS 12m forward - valuation | (GBp/shr) | 3554 |
| PE Multiple | (x) | 9 |
| PE weighting in target price | (%) | 75% |
| Market price | (GBp/shr) | 3175 |
| Target price | (GBp/shr) | 3329 |
| Upside / (downside) | (%) | 4.8% |
| Rating | | 3 |

*Source: Daiwa Capital Markets Europe*

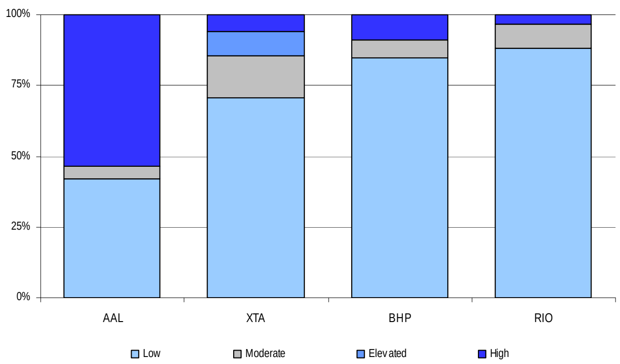
# Risks

## Geopolitical

In its 2011 annual global mining survey, the Fraser Institute found in the opinions of the 494 companies surveyed, South Africa ranked 67 out of 79 world mining jurisdictions. This showing ranks South Africa in the bottom quartile amongst Russia, Zimbabwe and Indonesia.

AAL are investing in South America but compared with where the other three are invested, AAL has left it quite late to begin diversifying out of South Africa. XTA started in 2003; Billiton in 2000. What is worse is when you aggregate the ratings into quartiles the difference in geo-political risk becomes stark

- **Geopolitical risk to EBIT exposure**




*Source: Company materials; Fraser Institute compiled by Daiwa Capital Markets Europe*

Some of the main concerns companies had about investing in South Africa were:

## Growing uncertainty surrounding direction of minerals policy

- Through its Black Economic Empowerment (BEE) policy South Africa requires all multinationals to divest 26% of their holdings to BEE approved companies by 2014.
- The spectre of resource nationalisation does not seem to put away. The South African state formed a new mining company in February 2011: African Mining Exploration & Finance Company (AEMFC) which will compete with private companies for resources.
- Uncertainty over mineral rights and the legal system. In addition to the high profile KIO dispute (see below), the South African Mines Ministry have also had problems communicating changes in legislation to the industry.

Currently KIO and Arcelor Mittal South Africa (MT NA, €24.90, not covered) are in dispute over sales contracts that require KIO to supply MT with 6.25Mtpa of iron ore at cost + 3%. The sales agreement has existed since 2001 however according to SA Mines Department records, MT's rights lapsed when MT failed to renew their licence by the end of April 2009. This caused KIO to stop delivering on the sales contracts and to apply for the mining rights for itself.

The sales contract covers a 21.4% mining interest in Sishen Iron Ore Mine (see appendix for ownership structure), which on last years prices meant that 15% of KIO's production was sold at $16/t (88 % below export market prices) resulting in opportunity cost of US$700mn.

It is understood that the two companies are in arbitration during which time KIO will continue to supply MT with lump ore at an average price of US$65/t (~75% below current export prices) until 31 July 2011. A court hearing is expected in early 2012.

In a second related dispute involving MT's 21.4% lapsed stake in the rights to the Sishen Iron Ore Mine. The South Africa Mines Ministry deemed that MT's mining & prospecting rights had lapsed but then in a surprise move awarded the prospecting rights to a private investment group lead by the son of the President of South Africa. In a further twist MT have offered to buy back the stake for R800mn (US$115mn).

KIO are in the process of challenging the SA government's decision to award the Sishen prospecting rights to the private investment group Imperial Crown Trading. The mining rights issue remains unresolved.

## Underpowered electricity grid

In January 2008 the state run utility Eskom (supplier of 95% of South Africa's electricity) announced that it would be unable to supply electricity to the country's mines forcing smelters and deep underground mines to close at short notice. In the ensuing months, and after lengthy enquiries, the outcome was for Eskom to spend US$63bn over the next seven years.

- To help finance this expansion, Eskom has been allowed to increase its electricity price by a compounded 25% pa for the next three years (effectively doubling electricity costs by 2013) so that it can pay for the new capacity.
- The first new station will not come online until 2012 followed by the second in 2014. Eskom believe the power market will remain tight for the next 5-6 years.

## Poorly co-ordinated transport network

AAL owns 27% of the Richards Bay Coal Terminal (RBCT) which has a nominal annual export capacity of 91Mt. In 2010, RBCT shipped 63Mt (69% of port availability) due to limits in the above and below track rail infrastructure.

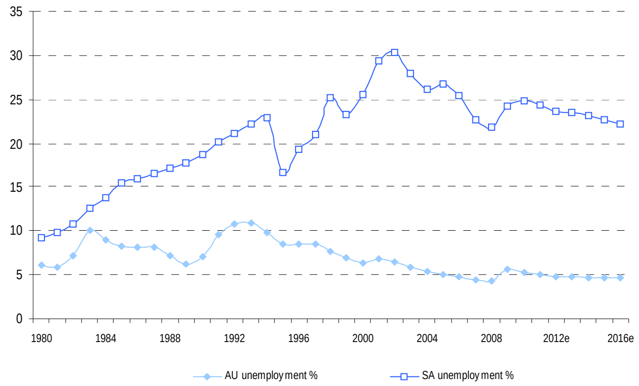
In a similar way to Eskom, Transnet, the government controlled rail provider is expected to charge US$17/t to haul coal to RBCT (+30% yoy). The expansion plans are to take the rail system from 65Mtpa to 81Mtpa by 2015 (still 10Mtpa short of RBCT's current capacity).

In a report RBCT announced they were putting all expansion plans on hold until the rail system catches up.

## Difficult labour relations

A cursory glance at the unemployment figures between Australia and South Africa would suggest that upward wage pressure is more likely to be felt in Australia.

- Australia vs. South Africa Unemployment rate

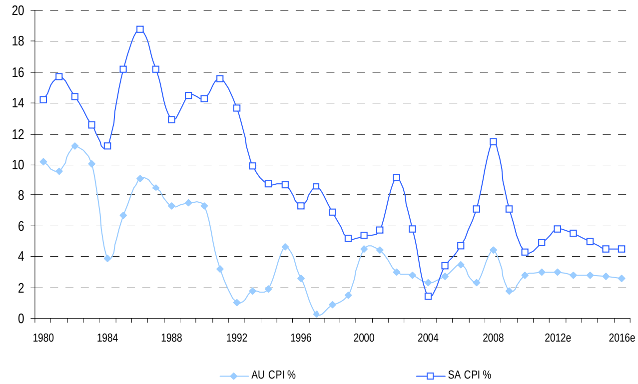



*Source: IMF*

However, it is unusual to hear of strike action being taken by Australian miners, whereas it is an annual, event in South Africa. A higher level of union membership, riskier working conditions and a historical tendency to pay relatively lower wages by world standards contributes to the mistrust of management. This in turn leads to a higher level of industrial action and ultimately to lower productivity.

With relatively higher rates of inflation set to continue, we can expect the trend for annual increases in wages in South Africa to continue.

Australia vs. South Africa inflation

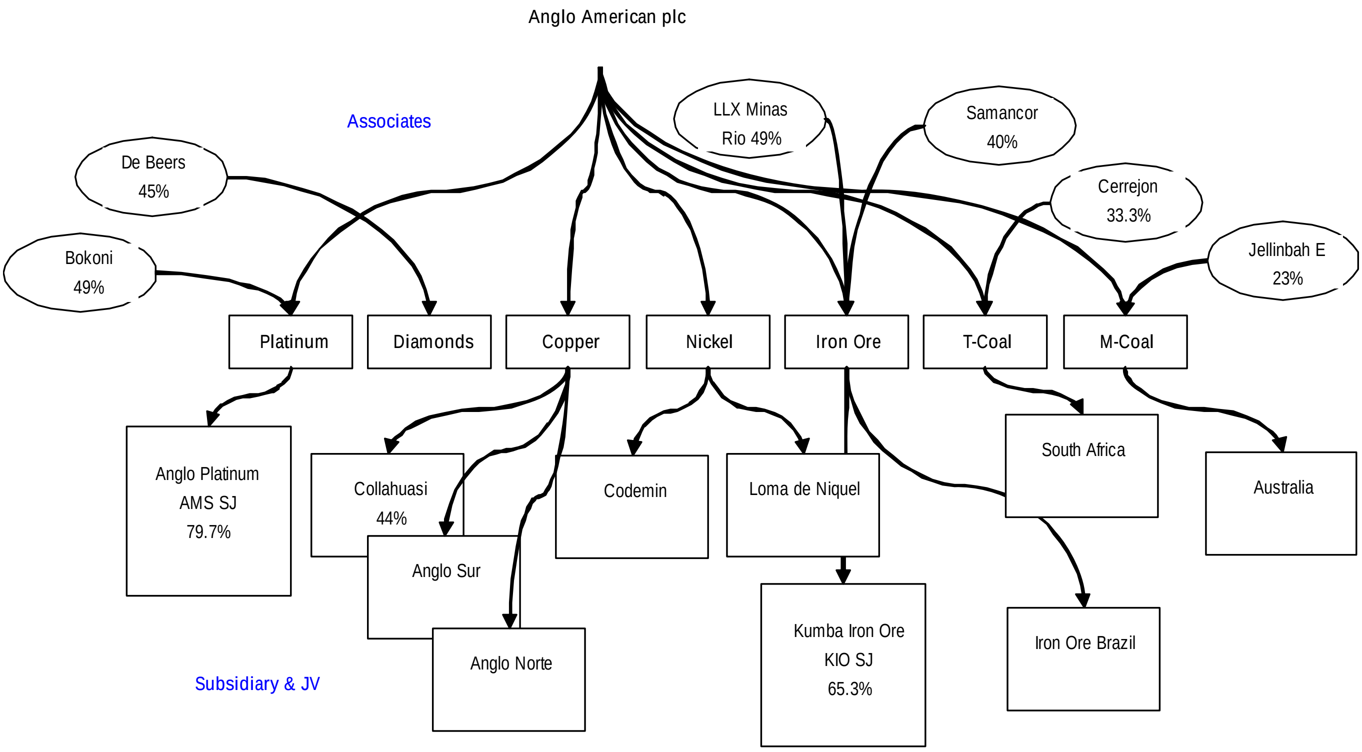



*Source: IMF*

There does not appear to be a quick fix to any of these issues. South Africa's mining industry was built upon the availability of cheap electricity and cheap labour. With this era coming to an end it is no surprise that AAL along with the other major mining companies are now heavily investing into Brazil, Chile and Peru.

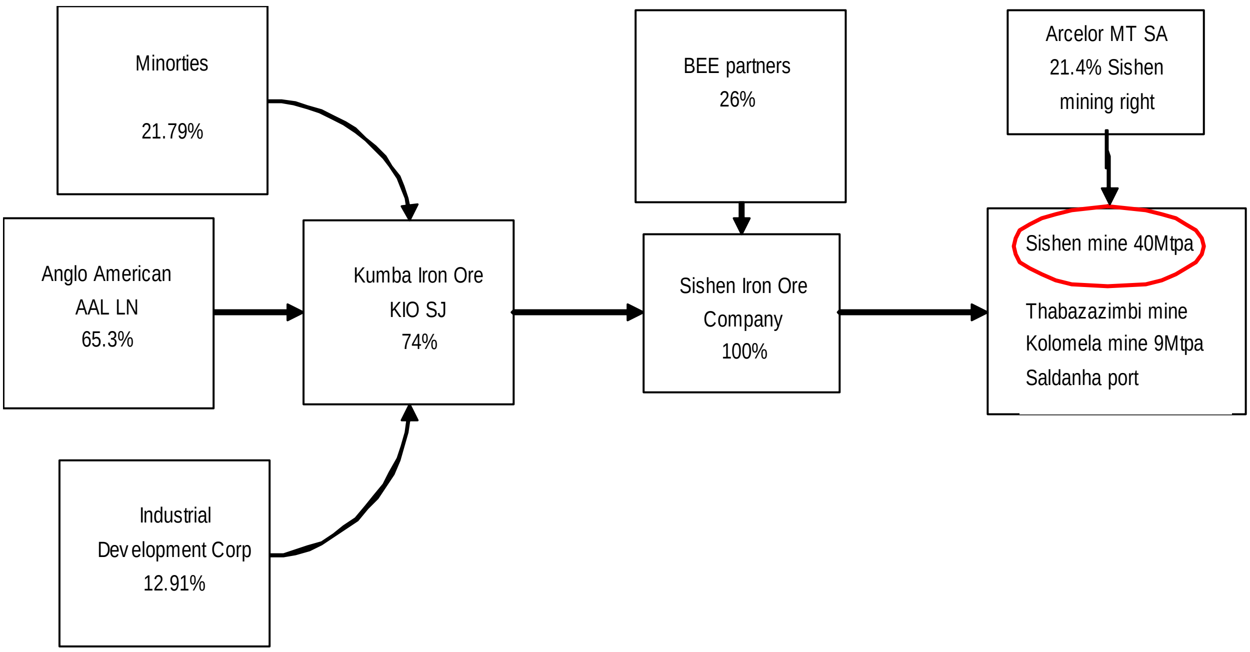
# Appendix

## ■ Anglo American business structure




*Source: Company materials; compiled by Daiwa Capital Markets Europe*

## ■ Kumba Iron Ore structure




*Source: Company materials Daiwa Capital Markets Europe*

# Assumptions

## ■ Price & exchange rate assumptions

| Assumptions | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Platinum (US$/oz) | 1,208 | 1,613 | 1,839 | 1,859 | 1,700 |
| Diamonds (US$/ct) | 131 | 154 | 158 | 165 | 173 |
| Copper USc/lb | 234 | 343 | 435 | 450 | 405 |
| Nickel USc/lb | 665 | 991 | 1,143 | 950 | 858 |
| Iron Ore - fines USc/dmtu | 0 | 81 | 259 | 264 | 233 |
| Coal - HCC US$/t | 0 | 107 | 266 | 266 | 241 |
| Coal - Thermal API4 US$/t | 64 | 89 | 116 | 131 | 126 |
| | | | | | |
| AUDUSD | 0.79 | 0.92 | 1.02 | 0.97 | 0.90 |
| USDCLP | 559 | 510 | 475 | 491 | 506 |
| GBPUSD | 1.56 | 1.55 | 1.61 | 1.62 | 1.66 |
| USDZAR | 8.42 | 7.32 | 6.85 | 7.41 | 7.39 |

*Source: Company materials; Daiwa Capital Markets Europe estimates*

## ■ Production assumptions

| Production - 100% | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Platinum (koz) | 2,452 | 2,570 | 2,570 | 2,570 | 2,570 |
| Diamonds (k cts) 45% share | 11,070 | 14,849 | 18,584 | 21,459 | 24,334 |
| Copper (kt) | 672 | 626 | 596 | 704 | 837 |
| Nickel (kt) | 20 | 20 | 34 | 52 | 60 |
| Iron / Pellet / Sinter (kt) | 44,596 | 47,414 | 43,508 | 47,108 | 50,708 |
| Manganese ore (kt) | 1,570 | 2,953 | 2,953 | 2,953 | 2,953 |
| Metallurgical coal (kt) | 12,623 | 14,702 | 14,649 | 14,649 | 12,983 |
| Thermal coal (kt)* | 83,400 | 82,973 | 83,026 | 83,026 | 83,026 |

*Source: Company materials; Daiwa Capital Markets Europe estimates*

# Financial statement summary

## ■ Income statement (US$mn)

| Year to 31 Dec | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Sales revenue: Sub. & JV | 20,858 | 27,960 | 31,710 | 34,407 | 33,826 |
| plus associate sales | 3,779 | 4,969 | 5,484 | 6,222 | 6,804 |
| Group revenue | 24,637 | 32,929 | 37,193 | 40,629 | 40,629 |
| Operating expenses | 18,228 | 19,642 | 20,520 | 22,521 | 23,496 |
| EBITDA | 6,409 | 13,287 | 16,673 | 18,108 | 17,133 |
| Depreciation & Amort. | 1973 | 2220 | 2278 | 2370 | 2472 |
| EBIT | 4,436 | 11,067 | 14,396 | 15,738 | 14,661 |
| Net financing Costs | 407 | 139 | 451 | 408 | 387 |
| Pre-tax profit | 4,029 | 10,928 | 13,945 | 15,330 | 14,274 |
| Tax | 1117 | 2809 | 3905 | 4292 | 3997 |
| Non controlling interests | 487 | 1575 | 1474 | 1659 | 1443 |
| Net profit (reported) | 2,425 | 6,544 | 8,567 | 9,379 | 8,834 |
| FD EPS (US$) | 1.98 | 5.18 | 6.48 | 7.09 | 6.68 |
| DPS (US$) | 0.00 | 0.65 | 0.97 | 1.06 | 1.00 |
| EBITDA (adj.) | 6,930 | 11,983 | 16,673 | 18,108 | 17,133 |
| EBIT (adj.) | 4,957 | 9,763 | 14,396 | 15,738 | 14,661 |
| Net profit (adj.) | 2,569 | 4,976 | 8,567 | 9,379 | 8,834 |
| EPS (adj.) (US$) | 2.10 | 3.96 | 6.48 | 7.09 | 6.68 |

*Source: Company materials; Daiwa Capital Markets Europe estimates*

# Financial statement summary - continued

## ■ Cash flow statement (US$mn)

| Year to 31 Dec | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Profit before tax | 4,029 | 10,928 | 13,945 | 15,330 | 14,274 |
| Depreciation and amortisation | 1,973 | 2,220 | 2,278 | 2,370 | 2,472 |
| Tax paid | -1,456 | -2,482 | -3,905 | -4,292 | -3,997 |
| Change in working capital | 4,324 | 6,346 | 2,520 | -67 | 33 |
| Other operational CF items | -4,783 | -9,285 | -2,070 | 475 | 355 |
| Cash flow from operations | 4,087 | 7,727 | 12,768 | 13,816 | 13,136 |
| Capex | -4,607 | -5,280 | -5,930 | -4,915 | -4,123 |
| Net (acquisitions)/disposal | 2,010 | 2,020 | 1,400 | 0 | 0 |
| Other investing CF items | 449 | 790 | 0 | 0 | 0 |
| Cash flow from investing | -2,148 | -2,470 | -4,530 | -4,915 | -4,123 |
| Change in debt | -371 | -1,144 | 0 | 0 | 0 |
| Net share issues/(repurchases) | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | -1,007 | -919 | -1,706 | -1,398 | -1,374 |
| Other financing CF items | -302 | -337 | -451 | -408 | -387 |
| Cash flow from financing | -1,680 | -2,400 | -2,157 | -1,805 | -1,762 |
| Forex effect/others | -2,482 | -3,035 | 0 | 0 | 0 |
| Change in cash | 259 | 2,857 | 6,081 | 7,096 | 7,251 |

*Source: Company materials; Daiwa Capital Markets Europe estimates*

## ■ Balance sheet (US$mn)

| As at 31 Dec | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Cash & short-term investment | 3,269 | 6,401 | 12,482 | 19,578 | 26,829 |
| Inventory | 3,212 | 3,604 | 1,459 | 1,574 | 1,510 |
| Accounts receivable | 3,351 | 3,731 | 4,385 | 4,516 | 4,429 |
| Other current assets | 1,199 | 942 | 942 | 942 | 942 |
| Total current assets | 11,031 | 14,678 | 19,268 | 26,611 | 33,711 |
| Fixed assets | 35,198 | 39,810 | 42,063 | 44,607 | 46,259 |
| Goodwill & intangibles | 2,776 | 2,316 | 2,316 | 2,316 | 2,316 |
| Other non-current assets | 7,303 | 9,852 | 8,452 | 8,452 | 8,452 |
| Total assets | 56,308 | 66,656 | 72,099 | 81,986 | 90,738 |
| Short-term debt | 1499 | 1535 | 0 | 0 | 0 |
| Accounts payable | 4395 | 4950 | 5979 | 6159 | 6040 |
| Other current liabilities | 851 | 1397 | 25 | 34 | -15 |
| Total current liabilities | 6745 | 7882 | 6004 | 6192 | 6025 |
| Long-term debt | 12816 | 11904 | 11904 | 11904 | 11904 |
| Other non-current liabilities | 8678 | 8899 | 8939 | 10665 | 12075 |
| Total liabilities | 28,239 | 28,685 | 26,846 | 28,761 | 30,004 |
| Share capital | 738 | 738 | 738 | 738 | 738 |
| Reserves/R.E./others | 25383 | 33501 | 40783 | 48755 | 56264 |
| Shareholders' equity | 26,121 | 34,239 | 41,521 | 49,493 | 57,002 |
| Minority interests | 1,948 | 3,732 | 3,732 | 3,732 | 3,732 |
| Total equity & liabilities | 56,308 | 66,656 | 72,099 | 81,986 | 90,738 |
| Net debt/(cash) | 11,046 | 7,038 | -578 | -7,674 | -14,925 |

*Source: Company materials; Daiwa Capital Markets Europe estimates*

## ■ Financial ratios

| Year to 31 Dec | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Sales – YoY | -25.3% | 33.7% | 13.0% | 9.2% | 0.0% |
| EBITDA (adj.) – YoY | -41.5% | 72.9% | 39.1% | 8.6% | -5.4% |
| Net profit (adj.) – YoY | -50.9% | 93.7% | 72.2% | 9.5% | -5.8% |
| | | | | | |
| EBITDA margin (adj.) | 28.1% | 36.4% | 44.8% | 44.6% | 42.2% |
| EBIT margin (adj.) | 20.1% | 29.6% | 38.7% | 38.7% | 36.1% |
| Net-profit margin (adj.) | 10.4% | 15.1% | 23.0% | 23.1% | 21.7% |
| ROE | 12.9% | 21.3% | 22.8% | 20.6% | 16.6% |
| ROA | 10.5% | 20.3% | 15.3% | 16.0% | 14.6% |
| | | | | | |
| ND / E | 39.4% | 18.5% | -1.3% | -14.4% | -24.6% |
| ND / ND + E | 28.2% | 15.6% | -1.3% | -16.8% | -32.6% |
| Effective tax rate | 27.7% | 25.7% | 28.0% | 28.0% | 28.0% |
| | | | | | |
| | | | | | |
| Net interest cover (x) | 12.2 | 70.2 | 31.9 | 38.6 | 37.9 |
| Net dividend payout (%) | 0.0 | 15.8 | 15.0 | 15.0 | 15.0 |

*Source: Company materials; Daiwa Capital Markets Europe estimates*

# AAL operations map South Africa

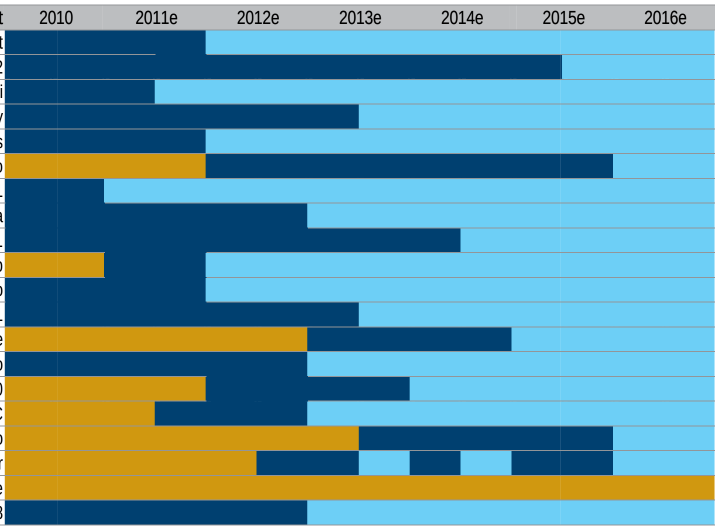
## ■ Operations location


*Source: United Nations modified by Daiwa Capital markets Europe*

# Growth projects 2011 - 2016

## ■ Growth projects 2011 - 2016

| | |
|---|---|
| Permitting | all phases from PFS to board approval for investment: including environmental, financing |
| Construction | includes both physical construction and commissioning phases associated with bringing the plant up to full operating level |
| Operation | first full period of operation |



| Division | Country | Equity | Project | 2010 | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | US$bn* | Comment* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Platinum | SAF | 80% | Dishaba East | | | | | | | | 0.22 | 100koz pa |
| | SAF | 80% | Thembelani 2 | | | | | | | | 0.32 | 120koz pa |
| | SAF | 80% | Bokoni | | | | | | | | 0.18 | 108koz pa |
| | SAF | 80% | BM refinery | | | | | | | | 0.36 | 11ktpa nickel |
| Copper | CHL | 100% | Los Bronces | | | | | | | | 2.50 | 200 ktpa copper |
| | PER | 82% | Quellaveco | | | | | | | | 3.00 | 225 ktpa copper |
| | CHL | 44% | Collahuasi Ph 1 | | | | | | | | 0.09 | 92 ktpa copper |
| Iron Ore | SAF | 63% | Kolomela | | | | | | | | 1.02 | 9 Mtpa iron ore |
| | BRL | 99% | Minas-Rio Ph1 | | | | | | | | 5.00 | 26.5Mtpa iron pellet |
| | SAF | 63% | Sishen Exp Ph1b | | | | | | | | | F: 0.7Mtpa iron ore bene. |
| Nickel | BRL | 100% | Barro Alto | | | | | | | | 1.90 | 36ktpa nickel |
| | BRL | | Jacare Ph 1 | | | | | | | | | F: 40ktpa nickel |
| | BRL | | Morro Sem Bone | | | | | | | | | F: 30ktpa nickel |
| Coal | SAF | 73% | Zibulo | | | | | | | | 0.51 | 6.6 Mtpa thermal coal |
| | COL | 33% | Cerrejon P40 | | | | | | | | | F: 8 Mtpa thermal coal |
| | SAF | | Elders OC | | | | | | | | | F: 6.4 Mtpa thermal coal |
| | SAF | | New Largo | | | | | | | | | F: 14.7 Mtpa thermal coal |
| | AUS | | Grosvenor | | | | | | | | 0.98 | F: 4.3 Mtpa HC coal |
| Diamond | CAN | 22% | Gahcho Kue | | | | | | | | 0.60 | 4.5Mcts pa |
| | BWA | 45% | Jwaneng Cut 8 | | | | | | | | 0.50 | 12 Mcts pa extension |
| | | | Expansion capital | 5.3 | 6.5 | 4.0 | 1.0 | | | | 17.18 | |

* capex & production on 100% basis ; F = Feasibility Study

*Source: Company materials*

**Notes concerning market data and financial summary**

- Forecasts by Daiwa Capital Markets Europe
- Shares outstanding: Common shares outstanding (excl. treasury stock)
- Market cap: Market cap based on shares outstanding as of indicated date
- EBIT & Net profit : on adjusted basis
- ROE: Net income / average of start-FY and end-FY shareholders' equity
- Share Price Chart retroactively adjusted to reflect stock splits/reverse stock splits

## Risks associated with our valuation and financial forecasts

There are risks associated with the share price reaching our target price. In general terms there are risks associated with forecasting errors with respect to changes in copper, coal, nickel and PGM prices, foreign exchange rates and geopolitical events.

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| | |
|---|---|
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| Rating 3 (Neutral) | 45.3% |
| Rating 4 (Under perform) | 12.5% |
| Rating 5 (Sell) | 1.6% |

### Daiwa CM Europe distribution of stock ratings for investment banking clients

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| | |
|---|---|
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| Rating 4 (Under perform) | 30.8% |
| Rating 5 (Sell) | 0.0% |

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