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Back to school: miners' league table

Stock picking to the fore: we rank the miners and upgrade Vedanta to Buy

In our view, the days of commodity prices being the main driver of mining equity performance are numbered. With many commodities in surplus, prices are more predictable. In this more stable environment, the actions of mining company managements will now be a more important differentiator for equity performance. To identify our top picks in this context, we rank the 18 stocks under our coverage across 19 metrics. VED is ranked top and we upgrade from Hold to Buy. RIO is ranked second and remains our top pick of the "big 4". The precious metals miners dominate the bottom rankings, due to declining Au/Ag prices and production growth. We downgrade RRS and ABG to Hold.

Ranking our coverage on NPV, growth, cash management and returns

We ranked our coverage universes across a number of metrics including NPV trends, working capital management, commodity diversity, production growth, returns, payouts and valuation multiples.

We prefer the diversified – Rio remains our top pick

Our ranking is in Figure 1. We find that the diversified miners and smaller base metals plays (Norsk, Nyrstar, Kazakhmys) all rank highly, on working capital management, EPS and DPS growth and valuation metrics. The precious metals miners rank last, hindered by our view of falling prices and high capex.

Upgrade VED to Buy from Hold; downgrade RRS and ABG to Hold

Our valuation methodologies and risks to our TPs are detailed in pages 32 – 83.

Figure 1: Ranking the miners

Rank	Rec	TP (GBP)	% up/down-side	P/NPV	
1	Vedanta	Buy	12.50	19.0%	0.78
2	Rio Tinto	Buy	46.50	44.1%	0.71
3	BHP Billiton	Buy	25.00	31.4%	0.85
4	Norsk Hydro	Hold	38.00*	4.6%	0.98
5	Nyrstar	Hold	3.11**	-1.6%	0.86
6	Ferrexpo	Buy	3.12	138.2%	0.44
7	Anglo American	Hold	16.50	8.2%	0.78
8	Kazakhmys	Hold	3.18	6.0%	0.70
9	Glencore	Buy	4.00	10.8%	0.90
10	Boliden	Hold	108***	-2.4%	1.23
11	Lonmin	Buy	3.50	49.6%	0.60
12	Antofagasta	Sell	7.30	-7.2%	1.01
13	Fresnillo	Hold	8.60	-11.0%	1.19
14	Randgold	Hold	50.0	-2.0%	0.89
15	African Barrick	Hold	2.80	15.2%	0.63
16	Aquarius Platinum	Buy	0.30	25.0%	0.65
17	Polyus Gold	Hold	2.06	8.4%	1.17
18	Polymetal	Hold	5.55	2.6%	1.27

Source: Deutsche Bank, *NOK, **EUR, ***SEK

Key Changes

Company	Target Price	Rating
RRS.L	-	Buy to Hold
VED.L	-	Hold to Buy
ABGL.L	-	Buy to Hold

Source: Deutsche Bank

Top picks

Rio Tinto (RIO.L),GBP3,236.50	Buy
Vedanta Resources (VED.L),GBP1,060.00	Buy

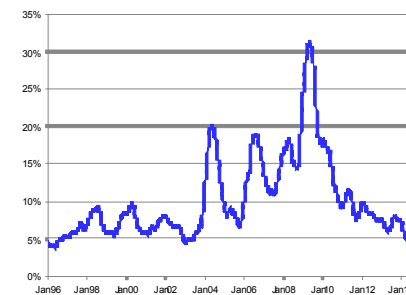
Source: Deutsche Bank

Companies Featured

Anglo American (AAL.L),GBP1,562.00	Hold
African Barrick (ABGL.L),GBP237.40	Hold
Antofagasta PLC (ANTO.L),GBP791.00	Sell
BHP Billiton Plc (BLT.L),GBP1,920.00	Buy
Boliden AB (BOL.ST),SEK112.20	Hold
Fresnillo (FRES.L),GBP952.50	Hold
Ferrexpo Plc (FXPO.L),GBP128.00	Buy
Glencore (GLEN.L),GBP367.55	Buy
Kazakhmys PLC (KAZ.L),GBP307.00	Hold
Lonmin Plc (LMI.L),GBP231.60	Buy
Norsk Hydro (NHY.OL),NOK36.55	Hold
Nyrstar NV (NYR.BR),EUR3.15	Hold
Rio Tinto (RIO.L),GBP3,236.50	Buy
Randgold (RRS.L),GBP4,991.00	Hold
Vedanta Resources (VED.L),GBP1,060.00	Buy

Source: Deutsche Bank

Commodity price volatility has dropped



Source: Deutsche Bank

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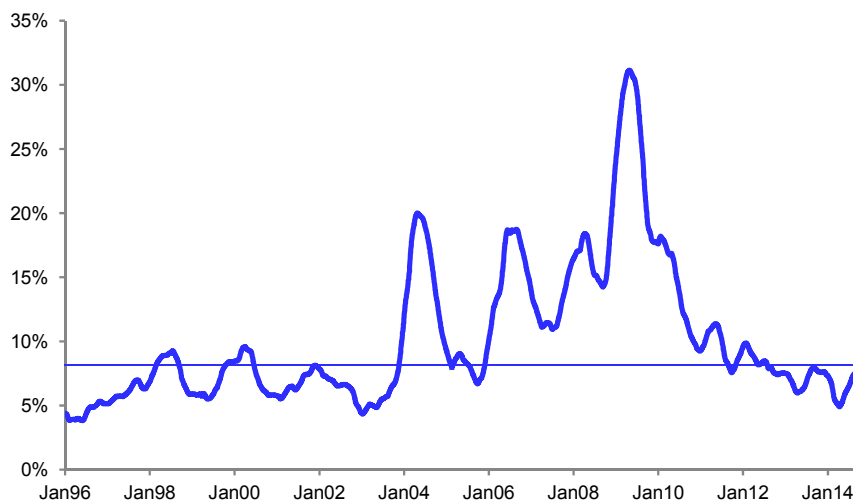


The return of stock picking

In a stable price environment, management action is key

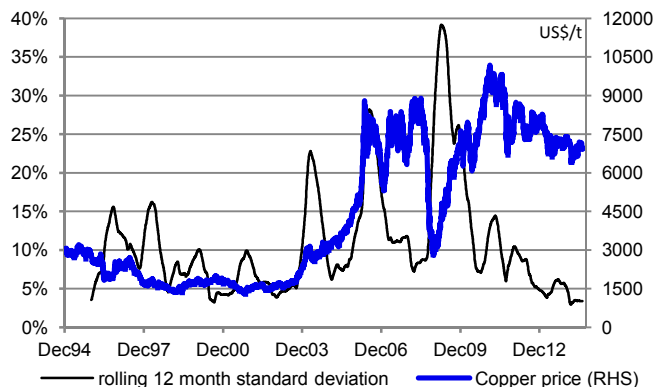
In our view, the days of commodity prices being the key driver of mining equity performance are numbered. Instead of commodity exposure, we think mining equities will be driven instead by the actions of company management and their success or failure in delivering to plan. As shown in Figure 2, the volatility (rolling 12-month standard deviation) of commodity prices (a basket of base metals, gold and iron ore in Figure 1) has dropped from a high in 2009 down to below the long-run average:

Figure 2: Commodity price volatility has dropped



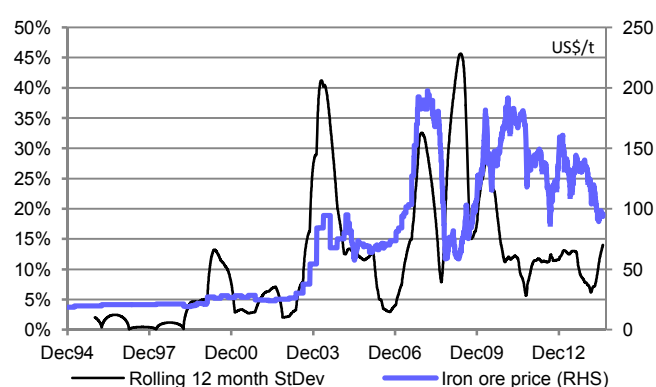
Source: Deutsche Bank, DataStream; This is the average price volatility of copper, zinc, nickel, aluminium, coal, gold, iron ore.

Figure 3: Copper price and volatility



Source: Deutsche Bank, DataStream

Figure 4: Iron ore price and volatility,



Source: Deutsche Bank, DataStream

The drop in volatility is due to the fact that most commodity markets have moved back into surplus. This means that prices move down to the marginal cost of production and become more predictable as the volatility drops.



In a more stable commodity price environment, we believe the actions of mining company managements will now be a much more important differentiator for mining equity performance - stock picking will come to the fore for investors. High profile value destruction has also been a feature of the recent price boom and one of the reasons for the recent de-rating of the sector – consequently we believe that a demonstrated improvement in cash generation and management will be a key catalyst for share price performance.

To identify our top picks in this new context we have analysed our coverage universe across a number of metrics including NPV trends, working capital management, diversity (across commodities), copper equivalent production, returns and payouts and valuation multiples. We have ranked each stock relative to peers. The table below shows the best and worst performer(s) for each metric –our methodology is explained for each one on pages 4 and 5.

Figure 5: The best and worst in each metric

Parameter	Best	Worst
NPV Peak year	NHY	AAL / BOL / RRS
NPV Peak upside	KAZ	AAL / RRS
NPV ST Sensitive	PGIL	KAZ
Working Cap - Notional FCF loss	BHP	POLYP
Working Cap - CCC	VED	POLYP
Working Cap – Tied up Equity	VED	AQP
Diversity – Commodity	AAL	FXPO / PGIL / RRS
Diversity – Spot prices	NHY	AAL
Cu Eq 2013 -17 CAGR	RRS	KAZ
Cu Eq 2013 -20 CAGR	ABG	KAZ
EV/Cu Eq prod	BOL	FRES
EPS CAGR	NHY	POLYP
Div Payout	NHY	AQP / KAZ / NYR
ROCE	FRES	ABG
FCF payout	VED	ABG
Unbiased Ownership	AQP	VED
P/NPV	FXPO	POLYP
EV/EBITDA	NYR	PGIL
P/E	KAZ	NYR

Source: Deutsche Bank

RIO is top pick, VED to Buy from Hold, RRS and ABG down to Hold

Although Rio Tinto does not rank first in any individual metric, it ranks second overall of the 18 companies we cover (see Figure 1), giving us confidence to reiterate our Buy recommendation and that Rio remains our Top Pick in the sector.

We upgrade Vedanta from a Hold to a Buy. Vedanta ranks the most highly in our analysis, scoring well on working capital management, EPS growth, FCF payout and Earnings multiples. We have 19% upside to our target price supporting the move to a Buy recommendation.

We now have 2% downside to our TP for Randgold and thus downgrade to Hold. Given the low ranking of all of the gold miners, in the context of our declining gold price view, we also downgrade African Barrick to Hold, and are now neutral on the gold/silver miners, with no Buy recommendations.



Ranking the miners

Our overall ranking results are shown in Figure 6. The ranking is based on 19 parameters. In each of the parameters the company with the best performance (most shareholder value accretive) is ranked 1 and the worst performance is ranked 18. The final Overall Ranking is equal weighted across parameters and is a simple ranking directly correlated to the individual parameter ranking.

The parameters

NPV metrics

- **Peak year:** This ranking is based on the year in which the real value NPV of the company attains its peak. The stock with NPV peaking in the furthest year from now has the highest/longest growth potential. The ranking goes from the furthest NPV peak year to the nearest NPV peak year;
- **Peak upside:** This ranking is based on the potential upside the peak NPV has over current NPV, moving from the largest upside to the smallest upside;
- **Short-term sensitivity:** This ranking is based on a company's NPV sensitivity to near term commodity price and currency movements. The value of a company with a higher weighting of its NPV in the near-term (2014-17) will be more sensitive to commodity and currency fluctuations in those years. A higher sensitivity clearly represents a greater potential stress on balance sheets and capital investment plans. The ranking moves from the lowest sensitivity to the highest;

Working Capital Management

- **Notional FCF loss:** This metric shows the notional loss of Free Cash Flow a company incurs due to the cash its has tied up in working capital. Optimal Working Capital Management frees up the most cash for Free Cash Flow, incurring the lowest "Notional FCF Loss". The ranking based on this metric moves from the company incurring the lowest least notional FCF loss to the highest;
- **CCC (Cash Conversion Cycle):** This metric is calculated by adding the Days Inventories Outstanding and Days Receivables Outstanding less Days Payables Outstanding. A lower CCC represents efficient Working capital and Cash management. The ranking moves from the lowest CCC to the highest;
- **Tied up Equity:** Here we look at the percentage of Shareholders' Equity tied up as Net Working Capital; a lower percentage represents better Working Capital efficiency;

Diversity

- **Commodity:** This parameter represents the diversity in a company's revenue exposure to commodities. A more diversely exposed company will be able to take advantage of different commodity & business cycles and will be better protected from troughs in any single cycle. The ranking based on this metric goes from the most diverse to the least;
- **Spot Prices:** We measure the percentage move in estimated earnings from using spot commodity and currency prices, with the ranking moving from highest upside using spot to lowest;



Copper Equivalent Production growth

- **CAGR 2013-17e:** The ranking moves from the highest Copper Equivalent Production CAGR to the lowest CAGR for 2013-17e;
- **CAGR 2013-20e:** The ranking moves from the highest Copper Equivalent Production CAGR to the lowest CAGR for 2013-20e;
- **EV/Copper Equivalent production:** Based on the average Enterprise value over average Copper Equivalent production from 2014-17e, ranked from the lowest to the highest multiple;

Returns and payouts

- **EPS CAGR:** The ranking moves from the highest EPS CAGR to the lowest EPS CAGR for 2014-17e;
- **Dividend payout:** The ranking shows the average dividend payout over the next 4 years and moves from the company with highest payout to company with the lowest payout;
- **ROCE:** Return on Capital Employed is calculated using our 2017 estimates, ranked from highest to lowest;
- **FCF payout:** The metric shows the potential payout a company could provide if all the Free Cash Flow it generates is given out as dividend. The ranking based on this metric moves from highest payout to least payout.

Unbiased ownership

Here we look at the percentage of publicly available shares not held by parent/related parties, governments or other miners, as a proxy to determine the unbiased ownership interest in the company. A company with a lower percentage should have the most unbiased ownership control and should thus be the safest to invest in from a management control perspective. The ranking based on this metric moves from highest unbiased shares held percentage to least.

Multiples

- **P/NPV:** The ranking moves from lowest to highest;
- **EV/EBITDA:** The ranking moves from the lowest/cheapest to the highest/most expensive;
- **P/E:** The ranking moves from cheapest to most expensive shares on a P/E basis.

Figure 6 overleaf summarises the results.

Figure 6: Overall Miner Ranking summary

Company Ticker	NPV			Working Cap. Mgmt			Diversity		Copper Eq. Production			Returns and Payouts				Unbiased	Multiples			Total	Overall
	Peak year	Peak upside	ST sens	Notional FCF loss	CCC	Tied up equity	Commodity	Spot Prices	CAGR 2013-17	CAGR 2013-20	EV/Cu Eq prod	EPS CAGR	Div Payout	ROCE 2017	FCF Payout	Ownership	P/ NPV	EV/ EBITDA	P/E		
AAL	16	17	14	8	8	8	1	17	5	4	8	9	7	8	11	6	7	8	4	166	6
ABG	5	6	17	6	14	6	15	4	7	1	7	17	14	18	18	14	3	17	14	203	15
ANTO	5	8	8	13	6	7	14	7	13	13	14	11	8	3	8	13	14	11	10	186	12
AQP	9	15	6	11	15	17	11	11	12	14	2	3	16	16	17	1	4	13	11	204	16
BHP	9	14	11	1	2	2	3	13	8	8	11	13	4	2	15	4	9	12	8	149	3
BOL	16	16	9	10	7	13	7	12	10	15	1	5	9	7	7	3	17	6	7	177	10
FRES	13	13	5	15	16	9	7	8	2	5	18	10	3	1	6	15	16	16	13	191	13
FXPO	2	5	4	16	10	10	16	18	4	6	9	16	13	10	3	17	1	4	2	166	6
GLEN	9	10	10	9	5	9	2	15	9	12	13	7	6	5	9	11	12	9	6	168	9
KAZ	5	1	18	4	12	12	11	3	18	18	3	6	16	9	13	9	5	2	1	166	6
LMI	13	9	2	14	11	5	13	10	16	17	4	4	15	14	12	7	2	5	9	182	11
NHY	1	7	3	12	9	11	6	1	11	11	6	1	1	17	10	10	13	10	12	152	4
NYR	2	2	16	5	4	15	7	9	14	2	5	8	16	12	2	8	10	1	18	156	5
PGIL	2	4	1	9	17	14	16	2	6	10	17	15	11	11	16	16	15	18	17	217	17
POLYP	13	11	13	17	18	16	10	16	15	16	15	18	10	15	4	12	18	14	16	267	18
RIO	5	12	7	3	3	3	5	14	3	7	10	12	5	4	14	5	6	7	5	130	2
RRS	16	17	15	7	13	4	16	5	1	3	16	14	12	13	5	2	11	15	15	200	14
VED	9	3	12	2	1	1	4	6	17	9	12	2	2	6	1	18	8	3	3	119	1

Source: Deutsche Bank





Assessing the ranking in depth

Valuation: we choose P/NPV

Every investor will choose his or her valuation metrics and time horizons for investment, each with its own strengths and shortcomings. We base our valuations on discounted cash flows for the miners for two main reasons:

- The mines are finite assets containing natural variation. The latter, combined with commodity price and currency cyclicalities, drives earnings volatility, so basing a value off any one particular year's earnings is not valid. The DCF captures the entire life of mine cash flows;
- This is the way that mining companies' value their own assets and potential acquisition targets – in the case of a takeover, the NPV of the assets' cash flows would be the minimum value that shareholders should receive.

The shortcoming of this valuation methodology is of course the ability to accurately predict future cash flows – we ameliorate this somewhat by modelling to long-term operating margins, e.g. if our long-term copper price was to double, we would lift costs for each of the copper assets to return our estimate of the assets' long-term operating margins to levels reflecting their relative positions on the global cost curve. (copper prices would not rise without mining inflation rising as well). The table below shows our covered companies from cheapest to most expensive on a Price to NPV basis.

Figure 7: P/NPV comparison

Company	Rec	Price	Target Price	M. Cap (US\$m)	P/NPV
Ferrexpo Plc	Buy	136	312	1324	0.44
Lonmin Plc	Buy	234	350	2211	0.60
African Barrick Gold	Hold	232	280	1578	0.63
Aquarius Platinum	Buy	24.3	30.0	589	0.65
Kazakhmys PLC	Hold	301	318	2234	0.70
Rio Tinto PLC	Buy	3336	4650	104586	0.71
Anglo American PLC	Hold	1568	1650	33363	0.78
Vedanta Resources	Buy	1027	1250	4648	0.78
BHP Billiton	Buy	1946	2500	180016	0.85
Nyrstar NV	Hold	3.04	3.11	626	0.86
Randgold Resources	Hold	4941	5000	7556	0.89
Glencore	Buy	367	400	80039	0.90
Norsk Hydro ASA	Hold	37.3	38.0	12315	0.98
Antofagasta PLC	Sell	808	730	13210	1.01
Polyus Gold	Hold	186	206	9328	1.17
Fresnillo PLC	Hold	929	860	11347	1.19
Boliden AB	Hold	111	108	4361	1.23
Polymetal	Hold	541	555	3775	1.27
Sector				499919	0.87

Source: Deutsche Bank, Company Data



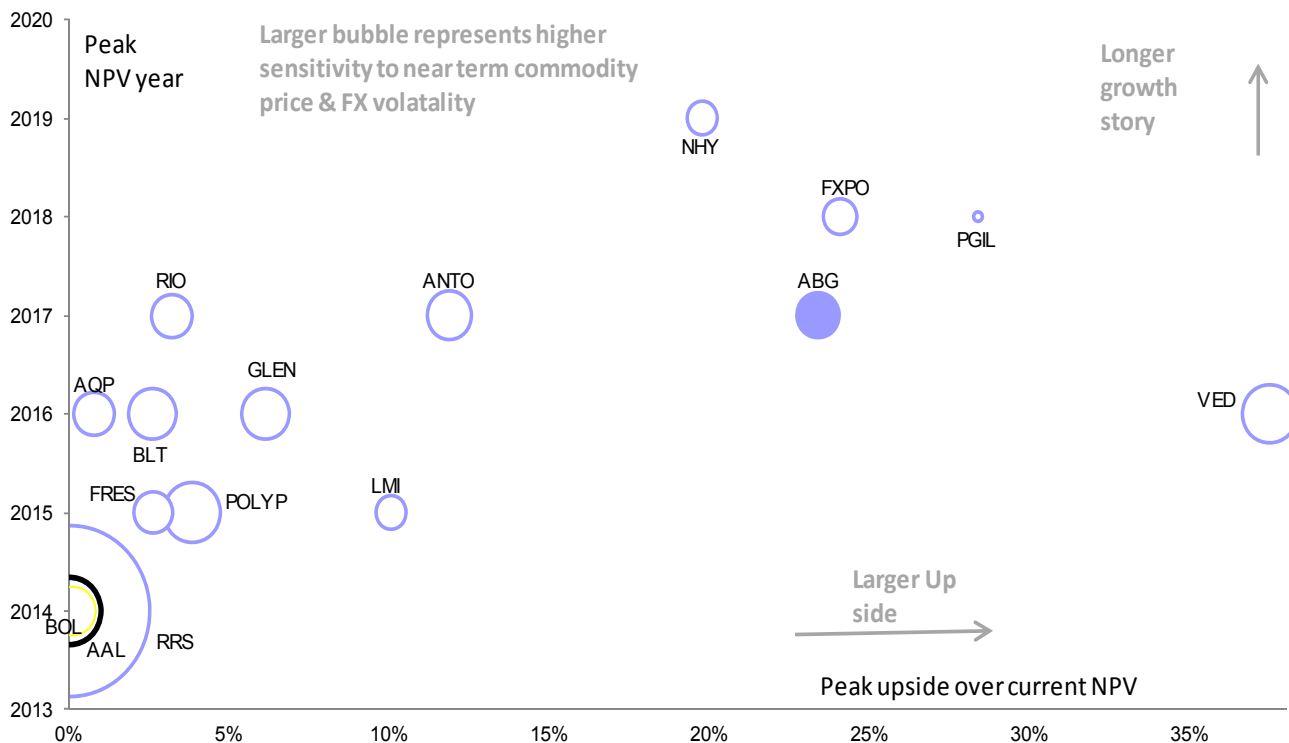
Growing NPV over time

NPVs move over time. As companies move through their capex phases, the asset NPVs grow each year as the capex hump is moved through, and one moves closer to cash flows paying down debt. In this section, we look at how NPVs progress over time for the companies that we cover. A reason to hold a stock may be in anticipation of a re-rating (i.e. on a view that it is mispriced) or on a view that the value goes up over time for a growth company.

We look at what year the NPV (in real terms) for each company peaks (basically when they become ex-growth) and how much upside there is to the peak from the current NPV. The results are displayed in Figure 8 - the further up a company is in the chart, the longer the period of growth, and the further to the right a company is, the more growth potential it has available to be priced in.

We have also analysed the sensitivity a company's NPV has to near term (2014-17) commodity and producer currency fluctuations. Near term sensitivity is measured by the size of the bubble in the chart and is explained further in the subsequent section.

Figure 8: Peak NPV (real) and NPV sensitivity to near term commodity volatility



Source: Deutsche Bank, Company Data

African Barrick (highlighted in the above chart) has a negative near term NPV due to negative FCF in the next few years, due to our forecast for gold prices to drop and continued capex. The negative near term NPV makes its project plans particularly vulnerable to near-term downwards commodity price movements and makes its valuation particularly sensitive to the price movements. This also applies to Nyrstar and Kazakhmys.



Near-term NPV leverage

We are looking here at how much of the value of the companies is in the near term vs. in the long term. A company with more of its NPV generated in the near term is clearly more leveraged to near-term forecast errors.

The ST sensitivity in percentage terms in the table below shows the percentage of current NPV that is sensitive to short term (2014-17) commodity and producer currency fluctuations. A negative "ST sensitive %" value is due to a negative FCF in the short term for these companies (KAZ, ABG and NYR). These companies have cash outflows in the near term to fund future growth prospects, so will be very sensitive to commodity volatility, with a weaker than forecast price environment putting potential extra pressure on their capex plans.

Figure 9: NPV analysis – Peak NPV and near term sensitivity

Company	Peak year	Peak upside %	ST sensitivity %
African Barrick Gold	2018	45%	-20%
Anglo American PLC	2015	1%	43%
Antofagasta PLC	2045	60%	21%
Aquarius Platinum Ltd.	2018	23%	18%
BHP Billiton	2036	42%	25%
Boliden AB	2017	11%	24%
Ferrexpo Plc	2031	92%	12%
Fresnillo PLC	2017	15%	17%
Glencore	2022	28%	24%
Kazakhmys PLC	2018	460%	-134%
Lonmin Plc	2045	62%	10%
Norsk Hydro ASA	2030	74%	10%
Nyrstar NV	2019	131%	-9%
Polymetal International	2018	17%	32%
Polyus Gold	2019	49%	2%
Randgold resources	2015	1%	285%
Rio Tinto PLC	2021	23%	18%
Vedanta Resources	2017	83%	32%

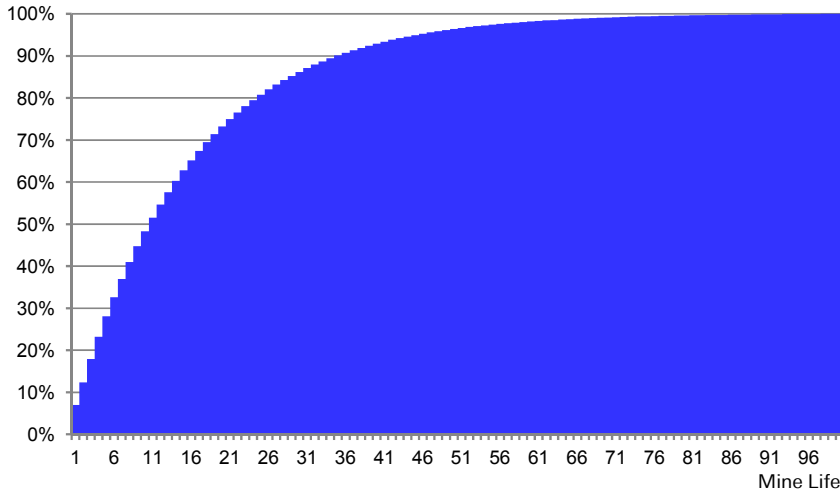
Source: Deutsche Bank, Company data

Looking at the life of mine NPV basics

Below we show the notional build of NPV over time for a mine with 100 year life and which has a steady cash flow in real-terms (current value of cash flow of all 100 years are equal). Of note is that 90% of the NPV is obtained in the first 35 years of the mine life. Mathematically, the remaining 65 years only generates an additional 10% of the NPV.



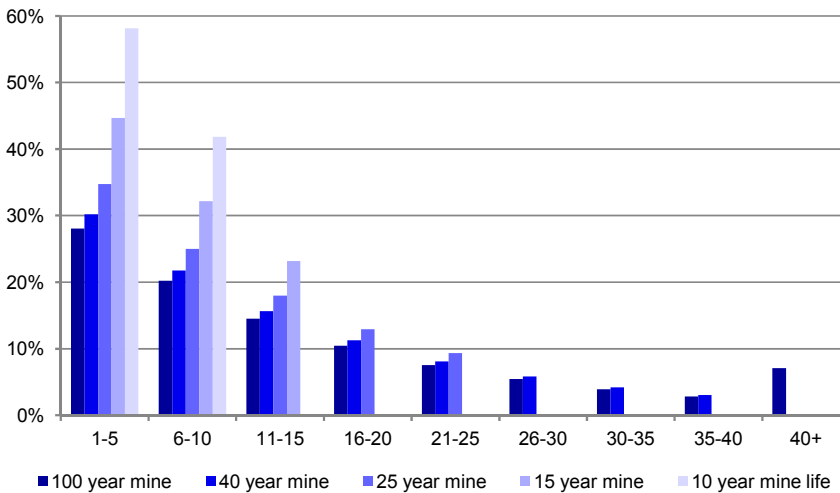
Figure 10: NPV build for a 100 year mine at 10% WACC (Nominal)



Source: Deutsche Bank

The chart below shows how much of a mine's NPV is generated in each 5 year period for mines of different lifespan. So, a 100 year mine will have 28% of its NPV generated in the first 5 years of its life vs. a 10 year mine which will have 58% of its NPV generated over the first 5 years.

Figure 11: Percentage of NPV generated per time period for various LoM



Source: Deutsche Bank, *LoM: Life of Mine



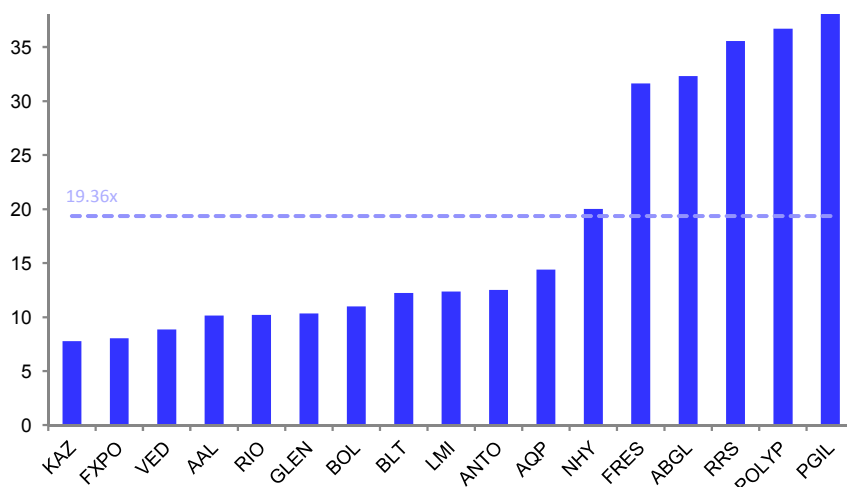
Other valuation metrics

Price to earnings

Figure 12 compares P/E multiples for 2017e. The picture is skewed somewhat by our view that all base metals prices will be higher in 2017 than today's level, whilst gold, silver, iron ore, oil and manganese will be lower. In our coverage universe, this means that the gold and silver miners have an average drop of 24.8% in EPS (2017e vs. 2014e) and the five most expensive stocks on PE are precious miners. Nyrstar is missing from the chart as it is loss making, on our estimates, in 2017.

The five cheapest stocks all have growing base metals-driven earnings in the time frame, except for Ferrexpo, which is a stand-out given the iron ore price is falling on our estimates:

Figure 12: 2017 P/E (x)



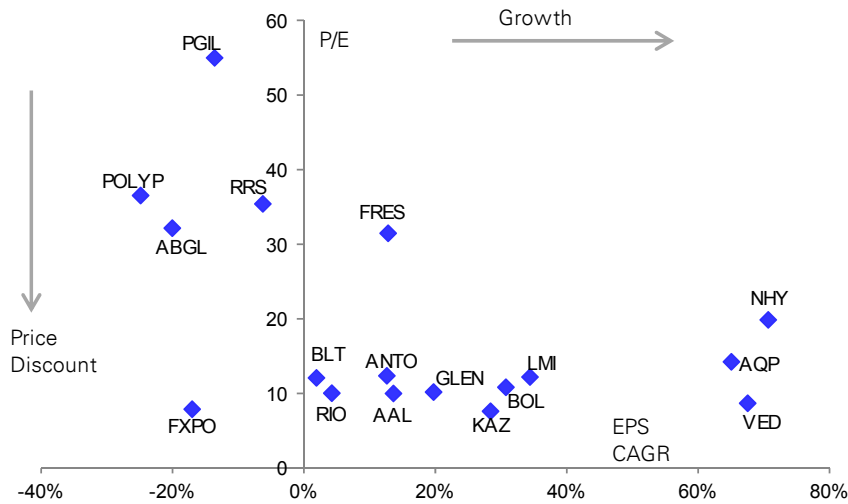
Source: Deutsche Bank estimates

PE vs. earnings growth

Some of the higher than average PEs can be justified by higher EPS growth – as shown in Figure 13 below, which compares P/E to EPS growth, Aquarius and Norsk Hydro look more reasonable, and Vedanta has high growth and a low PE multiple.



Figure 13: P/E vs. EPS growth



Source: Deutsche Bank estimates

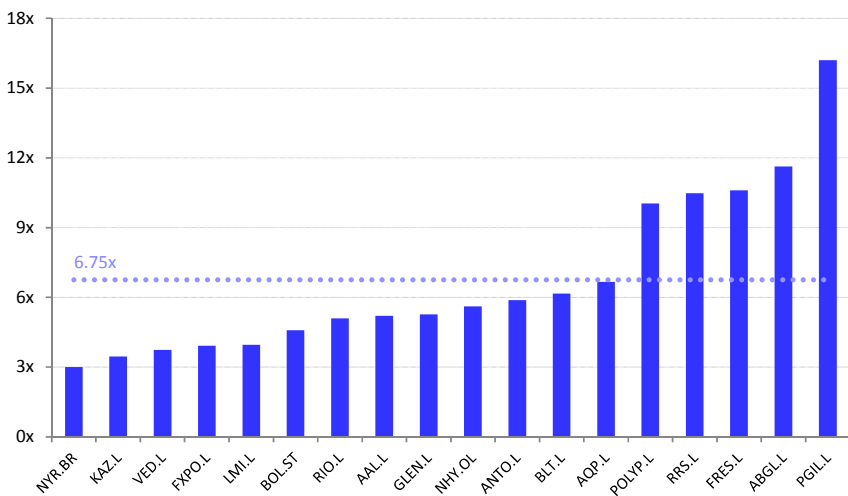
EV/EBITDA

The 2017 EV/EBITDA multiple comparison presents a similar picture to the P/E comparison, but clearly looks at the companies before the impact of interest payments.

The top five most expensive stocks are the same ones – all precious metals miners – albeit in a slightly different order. Nyrstar is the cheapest stock on an EV/EBITDA basis – this is perhaps misleading however, as it is loss-making on the bottom line in 2017 due to its high debt burden.

Aside from Nyrstar, Ferrexpo, Kazakhmys and Vedanta are in the top five cheapest stocks on an EV/EBITDA and a P/E basis.

Figure 14: 2017 (calendarised) EV/EBITDA (x)



Source: Deutsche Bank estimates



Production growth

Bigger is not necessarily better

The traditional way to improve mining performance in the past was to “Buy bigger trucks”. Additional production can be an effective way of growing earnings, as not only does it give greater top line growth, it also typically reduces unit costs in this high fixed cost industry. However, growing through more production can also cover a multitude of sins if there are no related efficiency gains, and growth capital is not allocated successfully. In recent years, the result of chasing production growth to help control unit costs was, more often than not, at the expense of efficiency and returns to shareholders.

Looking forward, we can assess the relative growth prospects of the miners and how cheap or expensive it makes them.

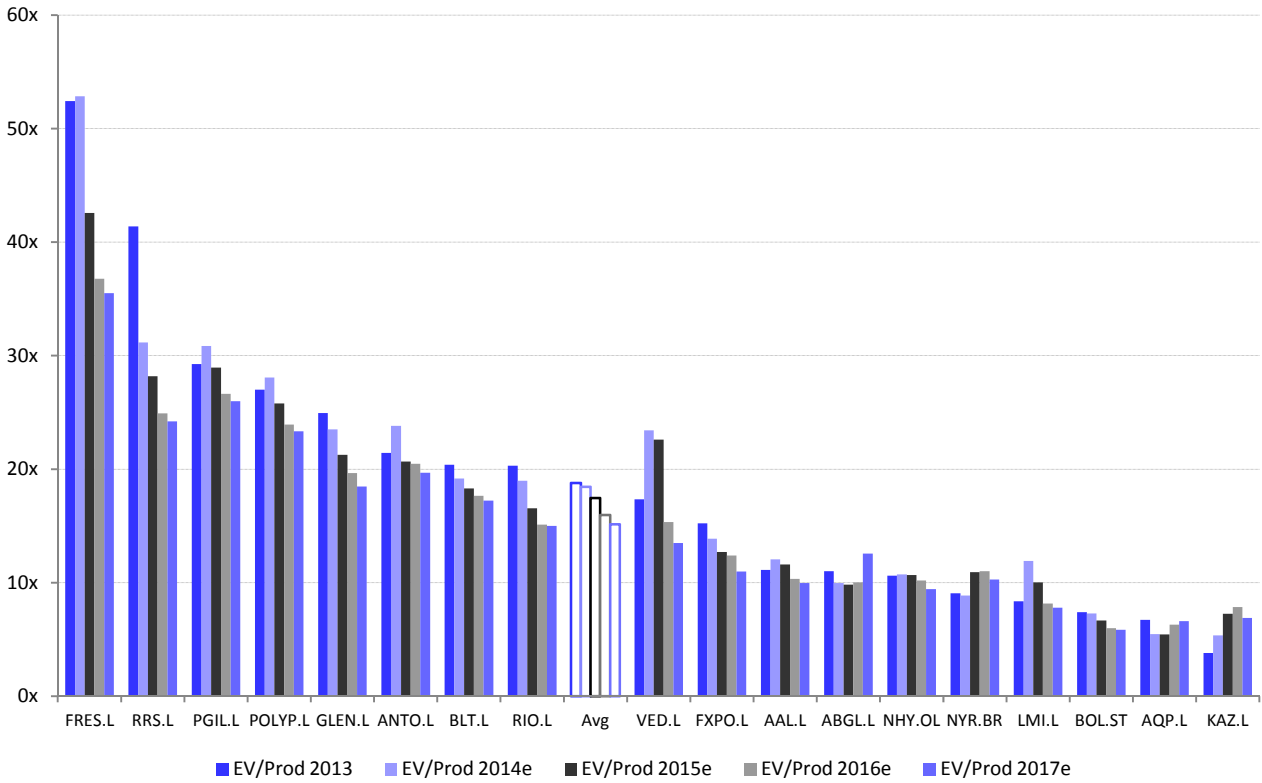
Production units per invested capital

In this section we compare mining companies’ total equivalent copper production. In Figure we look at the ratio of enterprise value (EV) to copper equivalent production. This tells us how many times a miner is valued with respect to its production units - the higher the ratio, the more expensive the company.

In 2013 Fresnillo was the most expensive company on this metric while Kazakhmys was the cheapest. We expect this ranking (in terms of copper equivalent production) to remain quite stable over the next four years (clearly share price changes will impact it) but Boliden will move to the cheapest position ahead of Kazakhmys by 2016 on our estimates.



Figure 15: Enterprise value over copper equivalent production



Source: Deutsche Bank estimates

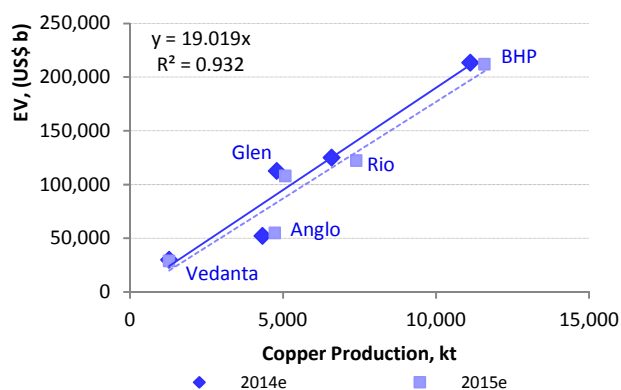
On a mine by mine basis, a decreasing ratio over time means either a copper equivalent production increase or a lower valuation (enterprise values are calculated as most recent market capitalization plus expected net debt and minorities minus investments in associates or joint ventures).



In Figures 16 and 17, we assess those two potential reasons to understand the reason for each company's profile. These charts show EV and copper production for the larger miners (copper equivalent production larger than 1,500kt) and the smaller ones separately, for 2014 and 2015.

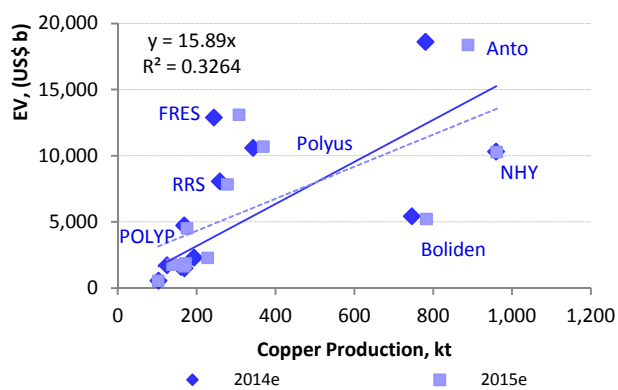
The slope of the trend line is the average EV/copper production ratio for the companies included in each chart. The miners below the best fit line are cheaper while those above are expensive. The larger R-squared tells us that the positive correlation between enterprise value and copper equivalent production is much stronger for the bigger miners. Moving from 2014 to 2015 the majority of companies do not change position in the charts with the exception of Antofagasta, for which we expect an increase in (Cu Eq) production from 781kt in FY14e to 889kt in FY15e. Anglo is the cheapest amongst bigger miners in both years – this is due in particular to growth in copper production of 4.9% from 2014-2016e and 3.3% from 2014-17e.

Figure 16: EV/Copper production for bigger miners



Source: Deutsche Bank

Figure 17: EV/Copper production for smaller miners



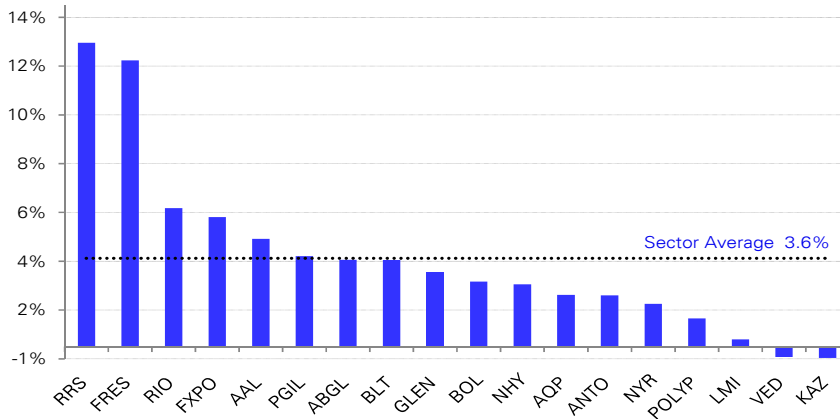
Source: Deutsche Bank



Copper equivalent growth to 2017

We estimate that copper equivalent production will increase for 15 of our 18 companies from 2013 to 2017 year over year. Randgold and Fresnillo may achieve a double digit growth rate and this explains why their EV/copper production ratios are expected to decrease so quickly. We think that Rio, Ferrexpo and Anglo will also outperform the average, while Kazakhmys and Vedanta will have negative compounded annual growth rates:

Figure 18: Compounded annual growth rate 2013-2017e

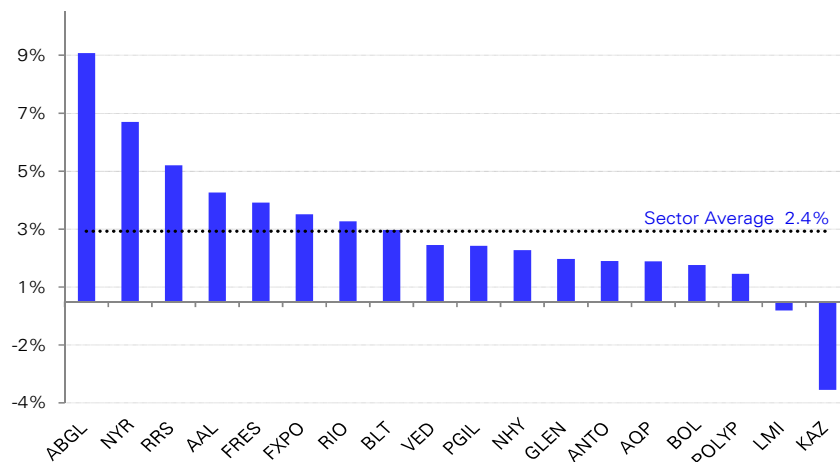


Source: Deutsche Bank, Company Data

Copper equivalent growth to 2020

Widening our time horizon to 2020, the picture is different. The sector average CAGR drops from 3.6% (2013-17e) to 2.4%. African Barrick will have the largest compounded annual growth rate, with Nyrstar, Randgold, Anglo, Fresnillo, Ferrexpo and Rio all with above average growth, and Lonmin and Kazakhmys with negative rates.

Figure 19: Compounded annual growth rate 2013-2020e



Source: Deutsche Bank, Company Data



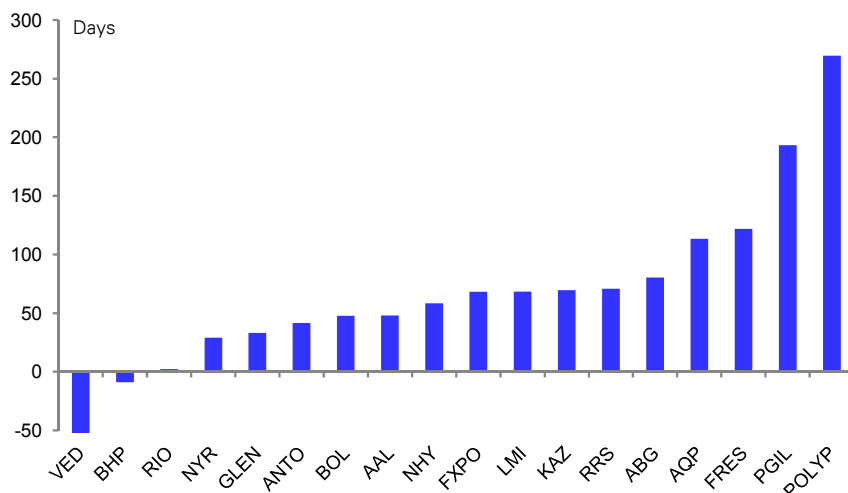
Show us the money

In this section, we look at the miner's cash management and FCF generation, payouts and returns. Our parameters are working capital management (cash conversion cycles and working capital tied in equity), dividend and FCF payouts and return on capital employed.

Who is managing working capital best?

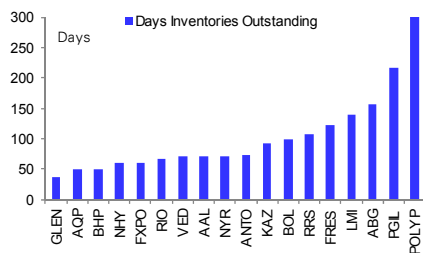
Using end FY13 reported balance sheets, we have calculated the cash conversion cycle for each miner: days of inventory outstanding plus days of receivables outstanding, less days of payables outside. A lower number equates to better working capital management.

Figure 20: Miners 2013 Cash Conversion cycle (2013 Days)



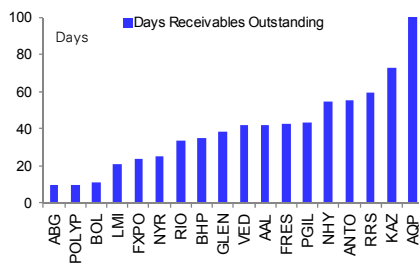
Source: Deutsche Bank, Company Data

Figure 21: Days Inventories



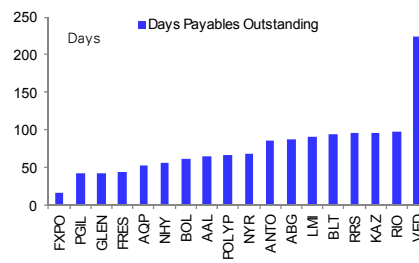
Source: Deutsche Bank, Company Data

Figure 22: Days Receivables



Source: Deutsche Bank, Company Data

Figure 23: Days Payables



Source: Deutsche Bank, Company Data



Figure 24: Cash Conversion Cycle – Days outstanding

Company Name	Days Inventories	Days Receivables	Days Payables	Cash Conversion Days
Anglo American	72	42	66	48
African Barrick Gold	158	9	87	80
Antofagasta	73	55	87	42
Aquarius Platinum	50	116	53	113
BHP Billiton	51	35	94	-9
Boliden	98	11	62	48
Fresnillo	123	42	44	122
Ferrexpo	61	24	17	68
Glencore	37	38	43	33
Kazakhmys	94	73	97	70
Lonmin	139	21	91	68
Norsk Hydro	61	54	57	58
Nyrstar	72	25	68	29
Polyus Gold	216	43	67	193
Polymetal	302	10	42	270
Rio Tinto	67	33	98	2
Randgold Resources	108	59	97	71
Vedanta Resources	71	42	224	-111

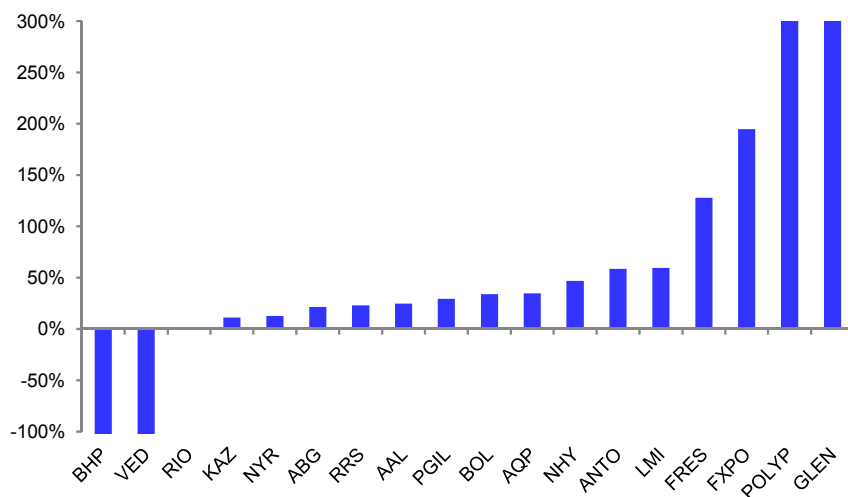
Source: Deutsche Bank, Company Data

Free cashflow impact of WC management

If we take the cash tied up due to a company's cash conversion cycle, we can assess how much FCF it is 'losing' (forfeiting).

In Figure 24, we rank the results – note that for Glencore the poor result is skewed by our inclusion of its trading business in our working capital analysis.

Figure 25: Notional FCF loss due to tied-up WC (2013)

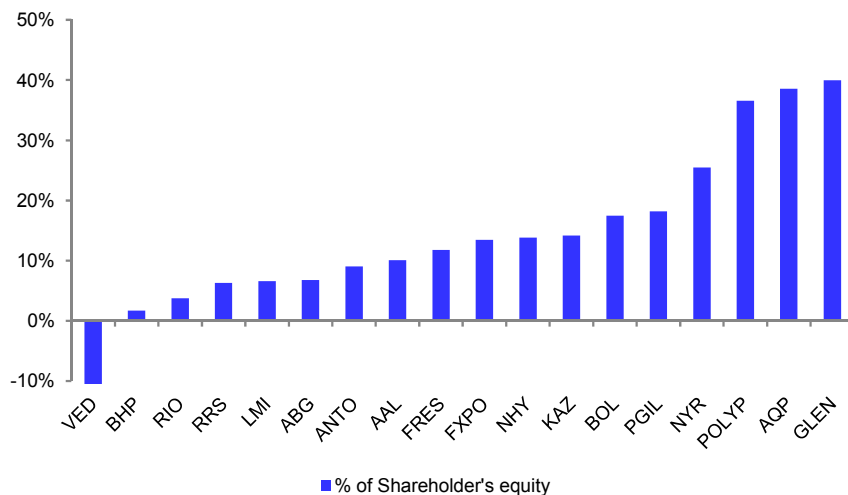


Source: Deutsche Bank, Data

As a further assessment, we can look at the percentage of Shareholders' Equity tied up as Net Working Capital; a lower percentage represents better Working Capital efficiency:



Figure 26: % of Shareholder's equity tied up as WC (2013)



Source: Deutsche Bank, Company Data

Earnings Growth

We include our estimate of earnings growth in this section in order to then assess the companies' dividend payout prospects.

Five of the 18 companies have EPS declines over the period – once again, four of these are gold miners and Ferrexpo is also included (due to our forecast for cost inflation in the period).

It is worth noting that we have estimate most producer currencies will depreciate from 2014 to 2017 (see Figure 27 (aside from the South Africa Rand, Russian Rouble and Mexican Peso), which is aiding EPS growth during the period.

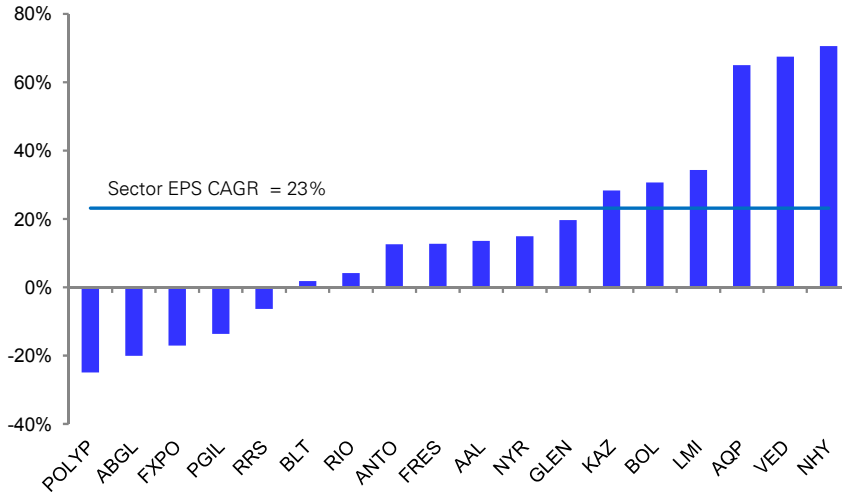
Figure 27: Producer Currencies' forecasts (2014-17)

	2014e	2017e	% change
AUD	1.09	1.17	7.7%
ZAR	10.7	10.5	-1.9%
EUR	0.75	0.91	21.1%
NOK	6.27	7.22	15.2%
ARS	8.46	10.22	20.7%
CLP	555	564	1.6%
INR	60.7	64.0	5.5%
KZT	178	181	1.7%
MXN	13.2	12.9	-2.5%
RUB	35.2	34.5	-2.0%
SEK	6.54	6.95	6.3%

Source: Deutsche Bank



Figure 28: EPS CAGR (2014-17e)

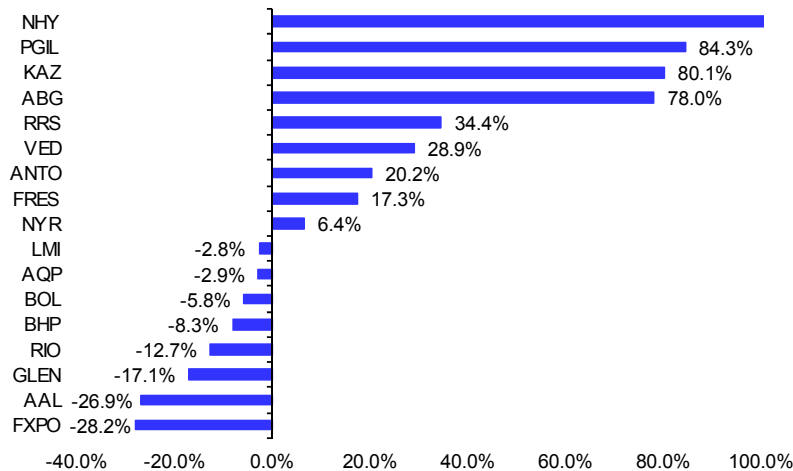


Source: Deutsche Bank

Earnings sensitivities

Figure 29 shows the sensitivity of our CY15 earnings forecast for each company to spot prices and currencies, showing big upwards movements from low absolute earnings levels for the gold miners, Norsk Hydro and Kazakhmys.

Figure 29: CY2015 Net Earnings upside/downside at spot prices



Source: Deutsche Bank estimates



Figure 30: CY2015 Net Earnings upside/downside at spot prices

Companies	2015 earnings %
Norsk Hydro	315%
Polyus Gold	84%
Kazakhmys	80%
African Barrick	78%
Randgold Resources	34%
Vedanta Resources	29%
Antofagasta	20%
Fresnillo	17%
Nyrstar	6%
Lonmin	-3%
Aquarius Platinum	-3%
Boliden	-6%
BHP Billiton	-8%
Rio Tinto	-13%
Glencore	-17%
Anglo American	-27%
Ferrexpo	-28%

Source: Deutsche Bank

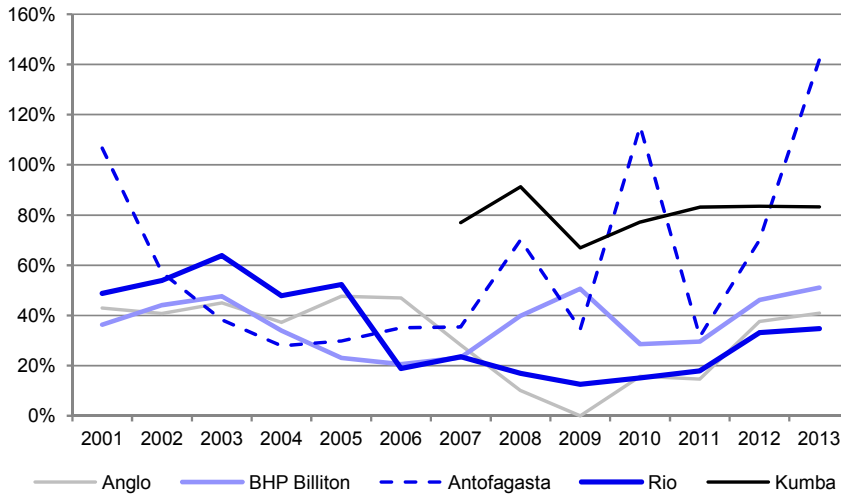
Payout ratio = market premium

The charts below clearly show the benefit of a consistently high payout in our view. We have selected a number of stocks based on their respective dividend payouts. In these charts, the companies with the highest payout ratios (Kumba and Antofagasta) have also traded at the highest price to NPV in the past. This is also clear for individual companies over time: when Rio had a higher payout ratio at the start of last decade, it also traded at a higher relative premium to the other companies; now with the lowest payout ratio of the companies shown here it also has the lowest price to NPV premium. In this light, the formula for re-rating is simple in our view – increase the payout.

Of the companies shown, Kumba has the highest consistent pay-out ratio (as a subsidiary of Anglo, it is the only way for Anglo to get the cash out). Antofagasta has had a high pay-out ratio in the past, but it has also been quite variable depending on its capital project schedule. Rio used to have a relatively high payout ratio 10 years ago and now has the lowest of the companies shown.



Figure 31: Underlying earnings Payout ratio

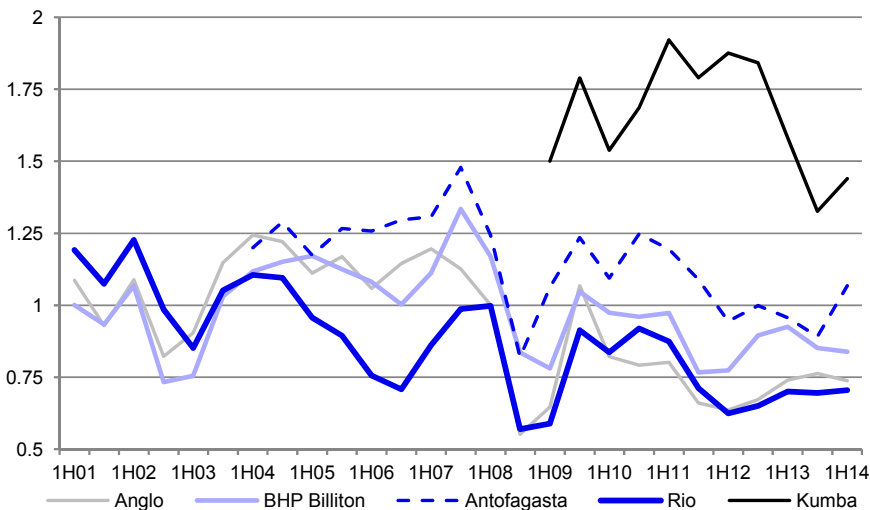


Source: Deutsche Bank estimates, company data

The higher payout ratios have been reflected in the market premia paid for the equities:

- Kumba has a consistently high payout ratio and its premium to NPV is high;
- Antofagasta has a relatively high payout ratio and premium;
- Rio used to have a relatively high premium when its payout ratio was high and now has the lowest now that its payout ratio is the lowest.

Figure 32: Price to NPV



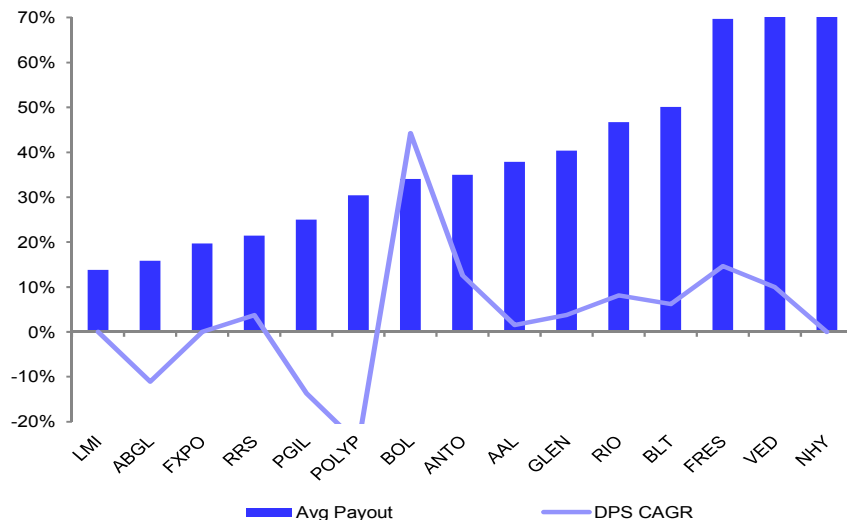
Source: Deutsche Bank estimates/forecasts

If we widen our analysis to include all our stocks, and look forward to the average earnings pay-out ratio from 2014-7e (Figure 33), we expect Norsk Hydro, Vedanta and Fresnillo to have the highest average payout ratios in the period. Three companies will have falling dividends per share (African Barrick,



Polyus, Polymetal), but this is for the same reason as their lower ranking on other metrics – a falling gold price forecast. The sector average payout ratio is 42%.

Figure 33: Miners Dividend growth (CAGR 2014-17) and Average Payout

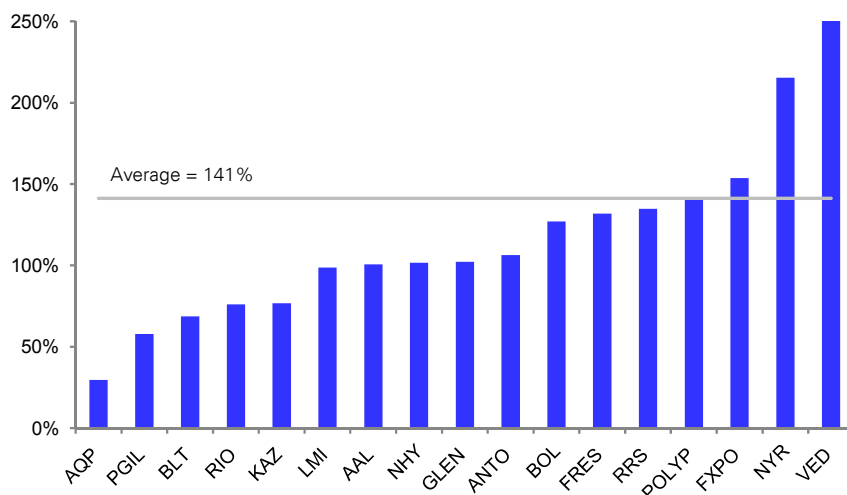


Source: Deutsche Bank

FCF payout: average of 141% possible

The metric shows the potential payout a company could provide if all the Free Cash Flow it generates is given out as dividend (i.e. it measures FCF/earnings). The average payout would 141% - showing the scope vs. the average earnings payout shown above of 42%. Note that ABG is not shown in the chart below as we predict a negative FCF for the company till 2018.

Figure 34: 2017 FCF Payout ratio



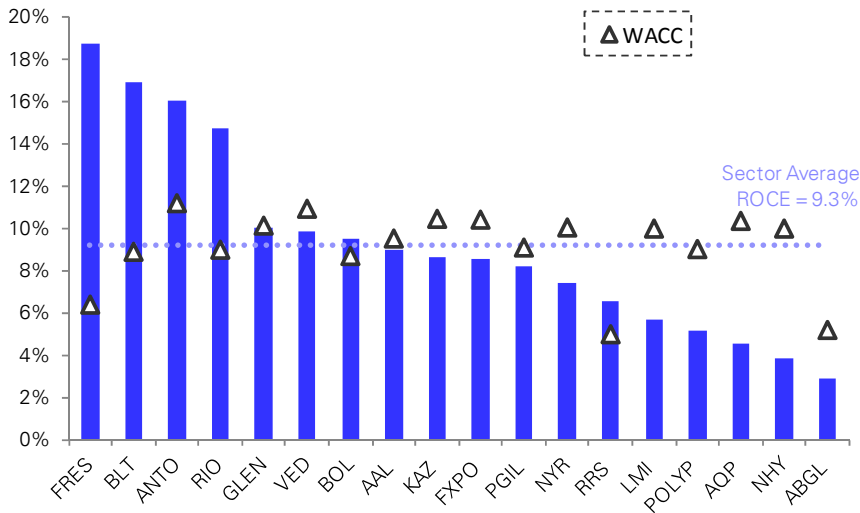
Source: Deutsche Bank



Return on capital employed

The average ROCE we estimate for the sector in 2017 is 9.3%. As shown below, only 6 of the 18 companies has a ROCE above its WACC (DBe) in 2017, highlighting the legacy of poor capital allocation in past cycles in the sector.

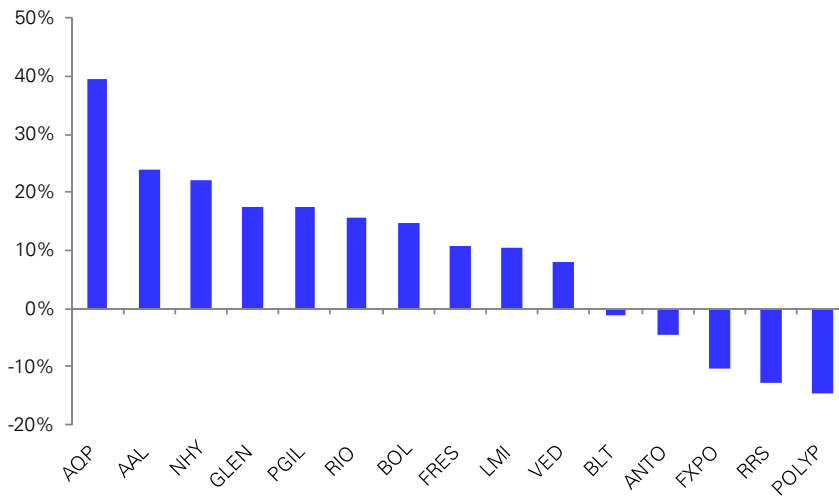
Figure 35: Return on capital employed, 2017e; vs. WACC assumed



Source: Deutsche Bank estimates

In Figure 36, we show the movement of each company's ROCE over time, from 2013 (reported) to 2017e, with Aquarius, Anglo American and Norsk Hydro showing the most improvement. We do not include African Barrick, Kazakhmys and Nyrstar because ROCE for each was negative in 2013 (-43.5%, -8.1% and -1.6% respectively) - we expect ROCE to improve to 2.9%, 8.7% and 7.5% respectively in 2017.

Figure 36: ROCE Compounded annual growth rate, 2013-17e



Source: Deutsche Bank



Commodity diversification

The more the better when it comes to revenues

An application of the HHI measure

We have measured business diversification adapting the HHI definition of market concentration to a single company. The HHI - Herfindahl Hirschman Index – tends towards one when a market is close to being a monopoly and goes to zero as competition increases. For the purpose of our analysis these extreme scenarios become: production of a single commodity versus a wider portfolio as the HHI number gets lower. The formula is the following:

$$HHI = (\%RS_1)^2 + (\%RS_2)^2 + \dots + (\%RS_n)^2$$

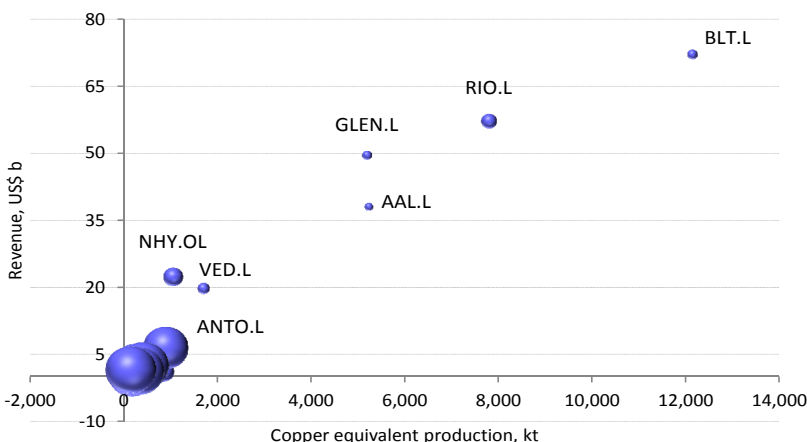
In the formula, RS stands for revenue share, and is the percentage of revenues from one specific commodity over total revenues ("n" is the number of commodities produced the company in question). The sum of all squared revenue shares gives us the HHI coefficient.

We base our analysis on revenue forecasts for FY17 and as an example we show explicit calculations for Polymetal. The group produces gold, silver and a small quantity of copper and we expect it will respectively earn US\$1,026m, US\$535m and US\$44m from these commodities in FY17. Thus Polymetal's revenue shares are 63.9% gold, 33.3% silver and 2.8% copper and the HHI formula gives us $(63.9\%)^2 + (33.3\%)^2 + (2.8\%)^2 = 0.52$. This score would place Polymetal in the middle of the range of peers.

Figure shows the results for all the miners under our coverage: Polyus, Randgold and Ferrexpo are 100% focused, producing only one commodity – gold in the case of the first two and iron ore for the latter – while Anglo is the most diversified, with the lowest HHI score.

The bubble chart in Figure 37 shows that companies producing a higher amount of copper equivalent production generate more revenues and are also more diversified. Therefore the more a mining company diversifies its revenue sources, the better.

Figure 37: Correlation among revenues, production and diversification



Source: Deutsche Bank
 The bubble size measures business concentration calculated with the HHI formula (Herfindahl Hirschman Index). The bigger the bubble, the lower is the number of commodities produced by a company.

Figure 38: Concentration analysis

Company	Ticker	HHI
Anglo American PLC	AAL.L	0.15
Glencore	GLEN.L	0.18
BHP Billiton	BLT.L	0.19
Vedanta Resources PLC	VED.L	0.22
Rio Tinto PLC	RIO.L	0.30
Norsk Hydro ASA	NHY.OL	0.38
Nyrstar NV	NYR.BR	0.41
Boliden AB	BOL.ST	0.41
Fresnillo PLC	FRES.L	0.41
Polymetal International PLC	POLYP.L	0.52
Kazakhmys PLC	KAZ.L	0.64
Aquarius Platinum Ltd	AQP.L	0.64
Lonmin Plc	LMI.L	0.87
Antofagasta PLC	ANTO.L	0.89
African Barrick Gold plc	ABGL.L	0.91
Polyus Gold International Limited	PGIL.L	1.00
Randgold Resources	RRS.L	1.00
Ferrexpo Plc	FXPO.L	1.00

Source: Deutsche Bank



Mean reversion trading

For those investors who that believe every stock will have its day, we look at mean reversion outcomes for the miners over varying time scales. In the first instance, we look at the full suite of our coverage, and then we look at just the Big 4 diversified miners as this is likely to be the main area where a mean reversion trade will play out, in our view.

Figure 39: Ranked stock performance over various periods

Rank	2014 YTD		2H14 TD		12 months to end June		1H14 performance		2Q14 performance	
	Company	Percentage	Company	Percentage	Company	Percentage	Company	Percentage	Company	Percentage
1	Kazakhmys	44%	Nyrstar	34%	African Barrick	155%	Kazakhmys	44%	Norsk Hydro	22%
2	Fresnillo	38%	African Barrick	16%	Norsk Hydro	49%	Fresnillo	38%	Fresnillo	21%
3	African Barrick	37%	Fresnillo	14%	Boliden	30%	African Barrick	37%	Kazakhmys	21%
4	Randgold	35%	Norsk Hydro	10%	Glencore	29%	Randgold	35%	Aquarius	18%
5	Norsk Hydro	35%	Boliden	9%	Rio	23%	Norsk Hydro	35%	Glencore	17%
6	Nyrstar	30%	Glencore	8%	Anglo	23%	Nyrstar	30%	Randgold	13%
7	Anglo	20%	Anglo	7%	Randgold	22%	Anglo	20%	Vedanta	13%
8	Glencore	15%	Antofagasta	6%	Billiton	18%	Glencore	15%	Nyrstar	10%
9	Boliden	10%	Rio	5%	Fresnillo	13%	Boliden	10%	Boliden	10%
10	Vedanta	10%	Aquarius	4%	Kazakhmys	12%	Vedanta	10%	Billiton	8%
11	Billiton	8%	Billiton	4%	Aquarius	6%	Billiton	8%	Anglo	4%
12	Aquarius	8%	Randgold	3%	Antofagasta	-2%	Aquarius	8%	Rio	0%
13	Rio	-1%	Ferrexpo	2%	Vedanta	-4%	Rio	-1%	African Barrick	-2%
14	Antofagasta	-1%	Kazakhmys	1%	Ferrexpo	-5%	Antofagasta	-1%	Antofagasta	-3%
15	Lonmin	-27%	Lonmin	-7%	Nyrstar	-6%	Lonmin	-27%	Ferrexpo	-14%
16	Ferrexpo	-30%	Vedanta	-8%	Lonmin	-15%	Ferrexpo	-30%	Lonmin	-23%
17	African Minerals	-83%	African Minerals	-54%	African Minerals	-82%	African Minerals	-83%	African Minerals	-78%

Source: Deutsche Bank, Data stream

If we had followed a mean reversion strategy for the second quarter, we would have been long the worst performers and short the best of the preceding quarter. In this case, the best 3 performers of 2Q14 were Norsk Hydro, Fresnillo and Kazakhmys. 3Q14 to date two still remain relatively high (Norsk Hydro 4th, Fresnillo 3rd and Kazakhmys 14th) – so only Kazakhmys appears to be mean reverting this quarter thus far. Of the bottom 3 performers in the second quarter (African Minerals, Lonmin and Ferrexpo), two of them (African Minerals and Lonmin) still remain in the bottom 3 and Ferrexpo is currently 13th quarter to date. Across the suite of miners, many of the smaller ones with more leverage to single commodities or single/key risks can remain relative out/under performers for extended periods of time and various themes play out.

The key risk issue is not as prevalent for the larger miners as they tend to be more commodity and region diverse, and to have more operations, so issues at any one of them have a much smaller percentage impact on the company. We look now at mean reversion performance just for the big miners where the outcome is more compelling.



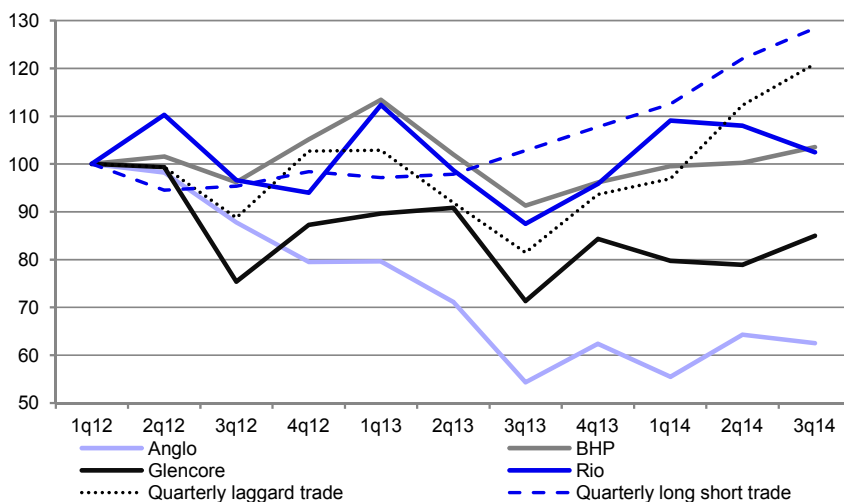
The big 4 – mean reversion has worked recently

If you are a hard working stock picker, then you may want to skip this next section which you could find a little depressing....

If 2 and a half years ago at the start of 2012 you had looked at the big 4 miners to decide which to buy, depending on your choice, the outcome at the end of June 2014 would have been: Anglo -37%, Glencore -15%, Rio + 2% and BHP +4%.

If instead, you had put your money into the previous quarter laggard and then sold at the end of the quarter and bought the laggard of the last quarter (rolling quarterly laggard trade), then today you would be up +21% excluding trading costs. A quarterly laggard long/short trade (i.e., half your capital long last quarter's underperformer and half short the top performer) would have yielded +28%. The performance of the trades is shown in the chat below.

Figure 40: Performance since 1/7/2012 (end 2q12)



Source: Deutsche Bank, DataStream

We recognize the starting point is relatively arbitrary (we picked it because Glencore listed mid-2011, so we could not get comparisons much further back than our start point). We also recognize that many investors have 12 month time horizons, so have included below the performance outcomes on a rolling 12 month basis. As can be seen, the quarterly long/short laggard trade was the best or second best performer in every period shown except that ending 4Q12 (i.e., for calendar year 2012) where it was the 4th best performer of the six with a return of -3%.



Figure 41: Rolling 12 month performance

	End 4q12	End 1q13	End 2q13	End 3q13	End 4q13	End 1q14	End 2q14
12 month performance							
Anglo	-20%	-28%	-38%	-21%	-30%	-10%	15%
BHP	13%	0%	-5%	-9%	-12%	-2%	13%
Glencore	-10%	-9%	-5%	-3%	-11%	-13%	19%
Rio	12%	-10%	-9%	2%	-3%	9%	17%
Quarterly laggard trade	3%	-7%	-8%	-9%	-6%	22%	48%
Quarterly long short trade	-3%	4%	8%	9%	16%	25%	25%
Rank							
Anglo	6	6	6	6	6	5	5
BHP	1	2	2	4	5	4	6
Glencore	5	4	3	3	4	6	3
Rio	2	5	5	2	2	3	4
Quarterly laggard trade	3	3	4	5	3	2	1
Quarterly long short trade	4	1	1	1	1	1	2

Source: Deutsche Bank, DataStream

The table below shows the quarterly price performance for the majors. Based on the performance over the second quarter, those following a laggard trade would have been Long Rio this quarter (3rd best performer quarter to date, so not performing too well so far) and those following a long/short laggard trade would have been short Glencore against it (quarter to date, Glencore is the best performer, so again not such a great performance this quarter).

Figure 42: Quarterly performance.

	1 Jan 12	1 Apr 12	1 Jul 12	1 Oct 12	1 Jan 13	1 Apr 13	1 Jul 13	1 Oct 13	1 Jan 14	1 Apr 14	1 Jul 14	15 Aug 14
Anglo	6.7%	-1.8%	-10.6%	-9.5%	0.2%	-10.7%	-23.6%	14.9%	-11.1%	15.9%	-2.8%	6.5%
BHP	8.0%	1.6%	-5.3%	9.3%	7.9%	-10.1%	-10.5%	5.3%	3.5%	0.7%	3.3%	4.2%
Glencore	-2.7%	-0.7%	-24.1%	15.7%	2.7%	1.4%	-21.5%	18.2%	-5.4%	-1.1%	7.7%	8.2%
Rio	8.2%	10.3%	-12.4%	-2.7%	19.5%	-12.1%	-11.4%	9.6%	13.8%	-1.0%	-5.1%	5.4%

Source: Deutsche Bank estimates



Model updated: 02 September 2014

Running the numbers

Europe

United Kingdom

Gold

African Barrick

Reuters: ABGL.L

Bloomberg: ABG LN

Hold

Price (2 Sep 14) GBP 237.40

Target Price GBP 280.00

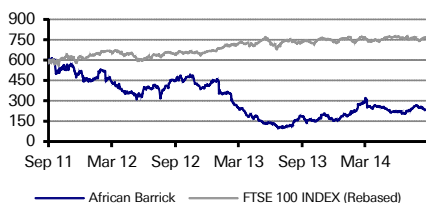
52 Week range GBP 135.80 - 320.00

Market Cap (m) GBPm 974
USDm 1,617

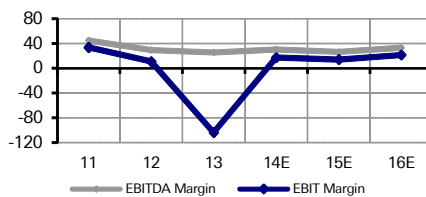
Company Profile

African Barrick Gold is a gold exploration and mining company with four operating mines in Tanzania, producing c.700 - 800 koz of gold p.a. The company was spun out of parent company Barrick Gold, which is the world's largest gold producer. The company aims to grow production to over 1Moz of gold p.a. through a series of brownfield expansions at its existing mines, one Greenfield project called Nyanzaga and potential M&A.

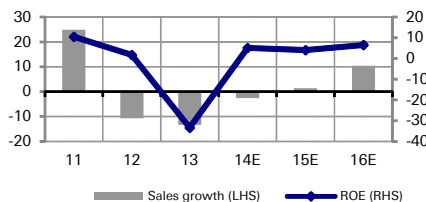
Price Performance



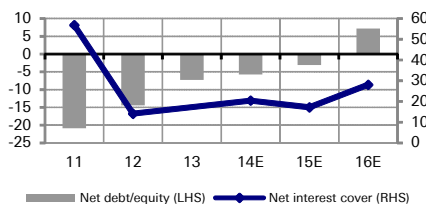
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	0.67	0.23	0.26	0.25	0.21	0.36
Reported EPS (USD)	0.67	0.12	-1.90	0.25	0.21	0.36
DPS (USD)	0.16	0.16	0.03	0.04	0.03	0.06
BVPS (USD)	6.7	6.7	4.7	5.0	5.3	5.8
Weighted average shares (m)	410	410	410	410	410	410
Average market cap (USDm)	3,383	2,734	1,228	1,617	1,617	1,617
Enterprise value (USDm)	2,836	2,355	1,093	1,504	1,555	1,794

Valuation Metrics

P/E (DB) (x)	12.3	29.2	11.6	15.9	19.0	10.9
P/E (Reported) (x)	12.3	57.6	nm	16.0	19.0	10.9
P/BV (x)	1.06	1.07	0.66	0.79	0.74	0.68
FCF Yield (%)	6.7	nm	nm	nm	nm	nm
Dividend Yield (%)	2.0	2.5	1.0	1.1	0.7	1.6
EV/Sales (x)	2.3	2.2	1.2	1.6	1.7	1.7
EV/EBITDA (x)	5.2	7.4	4.5	5.4	6.3	5.3
EV/EBIT (x)	6.9	20.4	nm	9.6	12.0	8.2

Income Statement (USDm)

Sales revenue	1,218	1,087	942	918	931	1,028
Gross profit	648	432	356	348	322	406
EBITDA	544	319	240	278	246	340
Depreciation	134	159	158	122	116	120
Amortisation	0	45	1,061	0	0	0
EBIT	410	115	-978	157	129	220
Net interest income(expense)	-7	-8	-8	-8	-8	-8
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	403	107	-986	149	122	212
Income tax expense	118	71	-188	49	36	64
Minorities	10	-11	-17	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	275	47	-781	101	85	148
DB adjustments (including dilution)	0	46	887	1	0	0
DB Net profit	275	93	106	102	85	148

Cash Flow (USDm)

Cash flow from operations	498	287	187	259	260	308
Net Capex	-273	-313	-375	-267	-301	-536
Free cash flow	225	-26	-187	-7	-41	-228
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-31	-74	-55	-14	-17	-11
Net inc/(dec) in borrowings	0	0	142	50	0	250
Other investing/financing cash flows	-11	-54	-19	-1	5	5
Net cash flow	183	-154	-119	28	-53	16
Change in working capital	0	0	0	0	0	0

Balance Sheet (USDm)

Cash and other liquid assets	584	401	282	310	259	270
Tangible fixed assets	1,823	1,964	1,281	1,427	1,612	2,028
Goodwill/intangible assets	259	278	211	211	211	211
Associates/investments	0	0	0	0	0	0
Other assets	629	685	658	644	636	671
Total assets	3,295	3,329	2,432	2,593	2,718	3,180
Interest bearing debt	0	0	142	192	192	442
Other liabilities	496	553	363	342	347	348
Total liabilities	496	553	505	534	539	790
Shareholders' equity	2,761	2,752	1,922	2,054	2,175	2,385
Minorities	38	23	5	5	5	5
Total shareholders' equity	2,799	2,775	1,927	2,058	2,180	2,390
Net debt	-584	-401	-140	-118	-67	172

Key Company Metrics

Sales growth (%)	24.9	-10.7	-13.3	-2.6	1.4	10.4
DB EPS growth (%)	28.2	-66.0	13.7	-4.1	-16.4	74.1
EBITDA Margin (%)	44.7	29.3	25.5	30.3	26.4	33.0
EBIT Margin (%)	33.7	10.6	-103.8	17.1	13.9	21.4
Payout ratio (%)	24.3	141.1	nm	17.1	13.1	17.3
ROE (%)	10.4	1.7	-33.4	5.1	4.0	6.5
Capex/sales (%)	22.4	28.8	39.7	27.8	32.4	52.1
Capex/depreciation (x)	2.0	2.0	2.4	2.1	2.6	4.5
Net debt/equity (%)	-20.9	-14.5	-7.3	-5.7	-3.1	7.2
Net interest cover (x)	56.8	14.1	nm	20.4	17.2	28.1

Source: Company data, Deutsche Bank estimates

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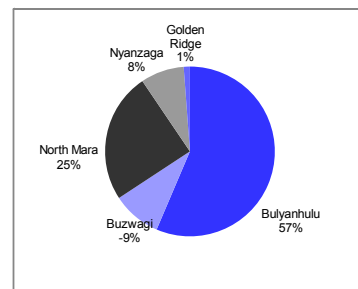
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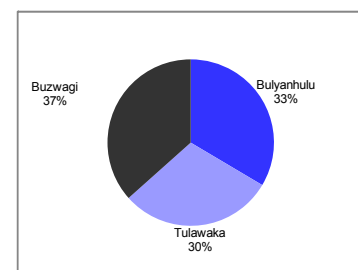
Figure 43: African Barrick Gold Operational and Financial Summary

FX/COMMODITY ASSUMPTIONS	CY10	CY11	CY12	CY13	CY14F	CY15F	CY16F	CY17F	CY18F	CY19F	CY20F	NPV	US\$m	US\$ps	£ps
Silver	20.2	35.2	31.3	23.9	20.0	19.8	19.0	18.8	20.0	24.6	25.4	Bulyanhulu	1824	4.45	2.87
Gold	1226	1570	1671	1413	1257	1163	1150	1125	1200	1598	1654	Buzwagi	-302	-0.74	-0.48
Copper	343	400	361	334	309	302	295	327	340	340	352	North Mara	802	1.95	1.26
Zinc	98	99	89	88	94	105	108	112	115	120	124	Nyanzaga	267	0.65	0.42
Lead	98	109	94	98	96	104	105	107	108	112	115	Golden Ridge	38	0.09	0.06
Tanzanian Shilling	1433	1555	1580	1580	1580	1600	1600	1600	1600	1600	1600	Investments	0	0.00	0.00
UK/USD	0.65	0.62	0.63	0.64	0.61	0.64	0.72	0.72	0.72	0.72	0.72	Total Operational	2629	6.41	4.14
												Corporate / unallocated	-604	-1.47	-0.95
												Net (Debt)/Cash	310	0.76	0.49
												Total	2335	5.69	3.67
												NPV discount			0.80
												Target price			2.80
KEY FINANCIAL METRICS															
Underlying earnings (US\$m)	218	275	134	106	101	85	148	51	111	456	471				
Cash Generated for Operations (US\$m)	344	501	291	191	264	267	316	257	173	550	711				
Capex (incl. expl) and divestments (US\$m)	224	273	313	375	255	301	536	371	199	220	228				
Dividend (US\$m)	260	31	74	55	14	17	11	26	12	0	65				
Acquisitions (US\$m)	63	0	22	1	0	0	0	0	0	0	0				
Net Cash Flow (US\$m)	332	184	-154	-117	29	-51	11	-36	-92	0	98				
Net Debt / (Cash) - US\$m	-401	-584	-401	-140	-118	-67	172	358	450	250	-48				
Gearing (ND/E - %)	-18%	-21%	-14%	-7%	-6%	-3%	7%	15%	18%	8%	-1%				
ROE (%)	9%	10%	3%	-41%	5%	4%	6%	2%	4%	15%	13%				
ROA (%)	8%	9%	2%	-33%	4%	3%	5%	2%	3%	12%	11%				
Underlying EPS (USc)	0.53	0.67	0.33	0.26	0.25	0.21	0.36	0.12	0.27	1.11	1.15				
EPS Change (%)		26%	-51%	-21%	-5%	-16%	74%	-65%	116%	313%	3%				
EPS CAGR since FY12 (%)															
DPS (USc)	0.05	0.16	0.16	0.03	0.04	0.03	0.06	0.03	0.00	0.16	0.23				
Payout ratio (%)	10%	24%	50%	12%	17%	13%	17%	24%	0%	14%	20%				
PRODUCTION															
Attributable production															
Gold	702	688	626	642	703	752	846	742	939	1122	1117				
Silver	338	381	396	392	382	442	468	469	469	469	469				
Copper	7	15	5	6	9	7	7	5	11	16	16				
Consolidated production															
Gold	720	714	640	644	703	752	846	742	939	1122	1117				
Silver	338	381	396	392	382	442	468	469	469	469	469				
Copper	7	15	5	6	9	7	7	5	11	16	16				
Copper Equivalent production	162	168	143	144	161	168	189	165	212	256	255				
Gold Equivalent production	709	696	634		650	711	761	856	751	948	1131				
Gold production CAGR (%)					2%	6%	6%	8%	3%	7%	9%				
Revenue															
Bulyanhulu	328	427	418	263	307	400	444	451	479	660	676				
Tulawaka	79	131	76	13	0	0	0	0	0	0	0				
Buzwagi	245	316	283	259	273	244	300	160	170	223	231				
North Mara	267	272	311	365	335	259	256	250	267	356	368				
Nyanzaga	0	0	0	0	0	0	0	0	238	583	604				
Byproducts	55	63	48	43	42	29	28	27	19	10	12				
Total	974	1208	1135	942	957	931	1028	888	1173	1832	1890				
EBITDA															
Bulyanhulu	187	265	204	68	117	184	212	214	236	403	411				
Tulawaka	33	71	16	-8	0	0	0	0	0	0	0				
Buzwagi	110	180	86	-634	31	12	59	-79	-77	-35	-36				
North Mara	166	133	118	-140	189	119	113	105	118	198	204				
Nyanzaga	0	0	0	0	0	-24	-8	0	10	179	187				
Others	-76	-87	-105	-113	-80	-72	-62	-61	-61	-60	-62				
Total	420	561	318	-827	256	219	314	179	226	685	705				
CAPEX															
Bulyanhulu	81	82	118	175	132	183	93	93	95	97	101				
Tulawaka	16	21	17	0	0	0	0	0	0	0	0				
Buzwagi	30	74	87	82	43	50	25	20	20	20	21				
North Mara	91	104	76	94	83	67	67	67	68	71	73				
Nyanzaga	0	5	10	0	0	0	350	175	0	0	0				
Others	5	12	9	2	0	0	0	0	0	0	0				
Total	222	292	317	354	258	300	535	355	183	188	195				
EBITDA Margin															
Bulyanhulu	57%	62%	49%	26%	38%	46%	48%	47%	49%	61%	61%				
Tulawaka	42%	54%	21%	-61%	NM	NM	NM	NM	NM	NM	NM				
Buzwagi / Golden Ridge	45%	57%	30%	-245%	11%	5%	20%	-50%	-45%	-16%	-15%				
North Mara	62%	49%	38%	-38%	56%	46%	44%	42%	44%	56%	56%				
Nyanzaga	NM	NM	NM	NM	NM	NM	NM	NM	NM	4%	31%				
Total	43%	46%	28%	-88%	27%	24%	31%	20%	19%	37%	37%				

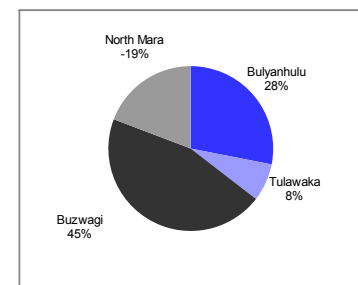
Valuation (FY14)



Revenue split (FY14)



EBITDA split (FY14)



Source: Deutsche Bank estimates, Company Data



Investment Thesis - ABG

Outlook

African Barrick Gold was formed from parent company (and 64% shareholder) Barrick Gold's African gold assets. Africa historically contributed less than 10% of Barrick's global gold production, and was therefore not a focus for the company. As a result the operational track record of these assets is somewhat mixed and in our view, whilst there is significant upside potential in the existing asset and cost base, there are also execution risks. We believe African Barrick now has the right management team in place to deliver its stated cost and capex cutting targets during the next 12 months. This is needed to drive down its All-In Sustaining Costs to sustainable levels in what we expect to be a declining gold price environment. Hold.

Valuation

Our 12-month price target is based on 0.8x our end 2014e NAV. Our NAV is based on a life of mine discounted cash flows, with a WACC of 5% and a long-run gold price assumption of US\$1300/oz. Our WACC of 5% is based on a risk free rate of 4%, a market risk premium of 6%, a beta of 0.3x and a 30% target gearing.

Risks

Key risks include higher- or lower-than-expected gold prices, higher- or lower-than expected costs and volatility in the Tanzanian Shilling. The failure to deliver cost and capex cuts as planned, plus the failure to improve grades especially at its Bulyanhulu mine, are two key downside risks, offset by the upside risk that cost cutting is faster and higher than we expect and is targeted. There is a risk of an overhang in the shares from any further sell-down by Barrick Gold of its majority stake in African Barrick Gold. Barrick placed 10% of ABG's issued shares on the market in March 2014, taking its total stake from 74% to 64%.



Model updated: 28 July 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

Anglo American

Reuters: AAL.L

Bloomberg: AAL LN

Hold

Price (2 Sep 14) GBP 1,562.00

Target Price GBP 1,650.00

52 Week range GBP 1,226.50 - 1,648.00

Market Cap (m) GBPrm 20,040
USDm 33,296

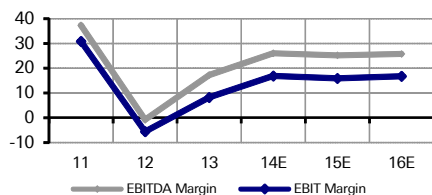
Company Profile

Anglo American plc is a globally diversified mining company. It has interests in diamonds, platinum, met coal, thermal coal, copper, nickel, iron ore and industrial minerals. The Group has operations and developments in Africa, Europe, Australia, and South and North America. The company first listed in London in 1999, and has been disposing of non-core assets to create a more focused mining group. Anglo's diamond and platinum assets differentiate it from the other diversified miners.

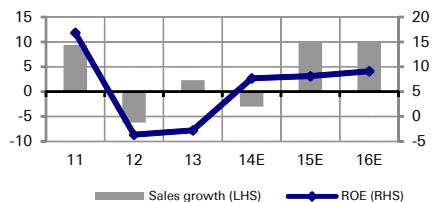
Price Performance



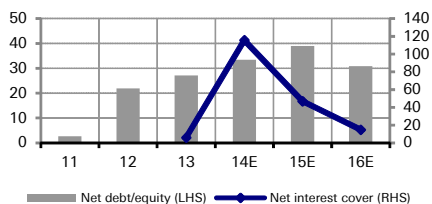
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	4.85	2.21	2.08	1.80	2.15	2.54
Reported EPS (USD)	4.89	-1.10	-0.75	1.94	2.15	2.54
DPS (USD)	0.74	0.85	0.85	0.85	0.85	0.87
BVPS (USD)	32.3	30.3	24.7	25.8	27.1	28.8
Weighted average shares (m)	1,210	1,244	1,281	1,283	1,283	1,283
Average market cap (USDm)	54,238	42,250	31,653	33,296	33,296	33,296
Enterprise value (USDm)	64,162	54,005	46,856	51,729	54,532	51,735

Valuation Metrics

P/E (DB) (x)	9.2	15.3	11.9	14.4	12.1	10.2
P/E (Reported) (x)	9.2	nm	nm	13.4	12.1	10.2
P/BV (x)	1.14	1.02	0.88	1.01	0.96	0.90
FCF Yield (%)	6.0	0.0	2.1	nm	nm	4.1
Dividend Yield (%)	1.7	2.5	3.4	3.3	3.3	3.4
EV/Sales (x)	2.1	1.9	1.6	1.8	1.7	1.5
EV/EBITDA (x)	5.6	nm	9.3	7.0	6.9	5.8
EV/EBIT (x)	6.8	nm	19.5	10.8	11.0	9.0

Income Statement (USDm)

Sales revenue	30,580	28,680	29,342	28,459	31,295	34,424
Gross profit	11,406	-243	5,045	7,409	7,887	8,863
EBITDA	11,406	-243	5,045	7,409	7,887	8,863
Depreciation	1,967	1,357	2,638	2,612	2,921	3,101
Amortisation	0	0	0	0	0	0
EBIT	9,439	-1,600	2,407	4,797	4,965	5,762
Net interest income(expense)	183	-377	-406	-41	-106	-388
Associates/affiliates	977	432	168	260	347	439
Exceptionals/extraordinary	183	1,394	-469	137	0	0
Other pre-tax income/(expense)	2	0	0	0	0	0
Profit before tax	10,784	-151	1,700	5,152	5,207	5,813
Income tax expense	2,860	375	1,274	1,470	1,327	1,486
Minorities	1,753	879	1,387	1,197	1,125	1,064
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,171	-1,405	-961	2,485	2,756	3,263
DB adjustments (including dilution)	-49	4,244	3,634	-180	0	0
DB Net profit	6,122	2,839	2,673	2,305	2,756	3,263

Cash Flow (USDm)

Cash flow from operations	9,362	5,562	6,792	6,272	6,460	7,254
Net Capex	-6,126	-5,541	-6,117	-6,335	-6,885	-5,903
Free cash flow	3,236	21	675	-63	-425	1,351
Equity raised/(bought back)	-347	24	14	11	0	0
Dividends paid	-2,222	-2,237	-2,237	-1,950	-2,258	-2,276
Net inc/(dec) in borrowings	4,667	5,834	1,043	1,669	0	0
Other investing/financing cash flows	299	-6,453	-1,100	-815	-106	-388
Net cash flow	5,633	-2,811	-1,605	-1,149	-2,789	-1,312
Change in working capital	0	0	0	0	0	0

Balance Sheet (USDm)

Cash and other liquid assets	11,732	9,094	7,704	6,749	3,960	6,649
Tangible fixed assets	40,549	45,089	41,505	45,462	49,426	52,228
Goodwill/intangible assets	2,682	4,964	4,431	4,443	4,443	4,443
Associates/investments	8,804	9,339	7,478	7,731	7,838	8,126
Other assets	8,675	10,883	10,047	9,500	10,266	10,906
Total assets	72,442	79,369	71,165	73,886	75,933	82,352
Interest bearing debt	12,873	18,673	17,848	19,882	19,882	19,882
Other liabilities	16,380	16,909	15,953	14,759	15,185	19,552
Total liabilities	29,253	35,582	33,801	34,641	35,067	39,434
Shareholders' equity	39,092	37,657	31,671	33,111	34,776	36,936
Minorities	4,097	6,130	5,693	6,134	6,091	5,982
Total shareholders' equity	43,189	43,787	37,364	39,244	40,866	42,918
Net debt	1,141	9,579	10,144	13,133	15,922	13,233

Key Company Metrics

Sales growth (%)	9.4	-6.2	2.3	-3.0	10.0	10.0
DB EPS growth (%)	23.7	-54.4	-6.0	-13.6	19.5	18.4
EBITDA Margin (%)	37.3	-0.8	17.2	26.0	25.2	25.7
EBIT Margin (%)	30.9	-5.6	8.2	16.9	15.9	16.7
Payout ratio (%)	14.5	nm	nm	43.9	39.6	34.2
ROE (%)	16.8	-3.7	-2.8	7.7	8.1	9.1
Capex/sales (%)	20.3	19.6	21.3	22.4	22.0	17.1
Capex/depreciation (x)	3.2	4.1	2.4	2.4	2.4	1.9
Net debt/equity (%)	2.6	21.9	27.1	33.5	39.0	30.8
Net interest cover (x)	nm	nm	5.9	115.6	46.9	14.9

Source: Company data, Deutsche Bank estimates

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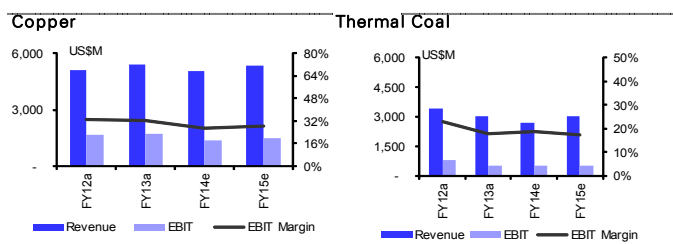
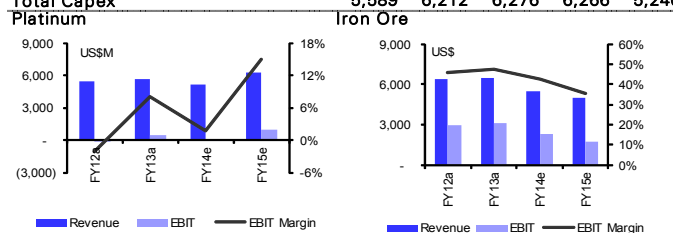
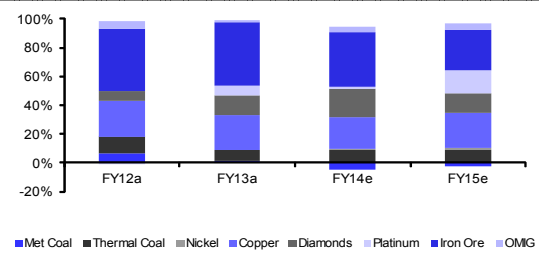
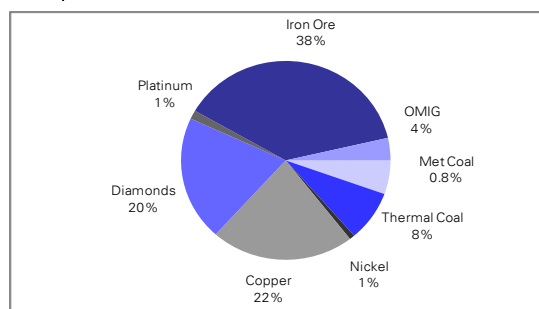
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Figure 44: Anglo American Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	FY12a	FY13a	FY14e	FY15e	FY16e	US\$bn	NAV	Multiple	Value	NCIs	AAL value
ZAR/USD	8.21	9.79	10.72	9.98	9.84	Collahuasi	5,695	1.00	5,695	0	5695
Platinum \$/oz	1,558	1,487	1,466	1,575	1,650	Los Bronces	7,063	1.00	7,063	3525	3539
Palladium \$/oz	655	726	794	853	950	Mantos Blancos copper	380	1.00	380	0	380
Gold \$/oz	1,671	1,413	1,257	1,163	1,150	Met coal	7,237	1.00	7,237	1165	6073
Met Coal \$/t	210	159	130	135	155	Thermal coal	6,776	1.00	6,776	236	6541
Iron Ore \$/t	108	106	81	88	82	Minas-Rio Phase 1	6,579	1.00	6,579	0	6579
Copper Usc/lb	361	334	309	302	295	Kumba	9,673	1.00	9,673	2931	6742
Nickel Usc/lb	797	685	799	962	1,089	Diamonds	7,928	1.00	7,928	1189	6739
PRODUCTION						Manganese	799	1.00	799	0	799
Platinum koz	#REF!	2,289	1,883	2,342	2,422	Total core	52,133	1.00	52,133	9045	43088
SA Thermal Coal - Eskom & Dom mt	40	39	39.3	41.7	41.9	Minas-Rio phase 2 & 3	1,133	0.50	566	0.0	566
SA Thermal Coal - Export mt	17	18	17.0	17.5	17.6	Platinum	10,633	0.50	5,317	1,063.3	4,253
Australia Met Coal - Domestic mt	8	6	6.8	5.0	5.0	Quellaveco	950	0.50	475	0.0	475
Australia Met Coal - Export mt	22	25	24.7	26.0	27.1	Other mining & Tarmac	2,223	1.00	2,223	0.0	2,223
Sth America Thermal Coal - Expor mt	12	11	11.7	12.4	12.4	Nickel	2,068	1.00	2,068	0.0	2,068
Iron Ore mt	43	42	46.7	60.2	74.1	Total stub	17,007	0.00	10,649	0.0	9,585
Copper kt	660	775	746	771	783	Total value					32,295
Nickel kt	39.3	34.4	35.7	24.2	38.2	Net debt	(13,132.8)	1.0	(13,132.8)	0.0	(13,132.8)
Diamonds mCt	27.9	31.2	32.8	33.7	34.2	Corporate	(1,567.6)	1.0	(1,567.6)	0.0	(1,567.6)
REVENUE, US\$M						PT per share (USD)					24.8
Met Coal	3,899	3,396	3,016	3,271	4,232	Per share (GBP)					16.50
Thermal Coal	3,447	3,004	2,691	3,033	3,423	Today's share price					16.33
Nickel	336.0	136	162	195	917	<i>Upside/downside</i>					1.0%
Copper	5,122	5,392	5,031	5,334	5,281	Per share (ZAR)					299.0
Diamonds	4,197	6,404	7,000	6,822	7,158	Today's share price					292.0
Platinum	5,489	5,688	5,180	6,285	7,034	<i>Upside/downside</i>					2.4%
Iron Ore	6,403	6,517	5,496	5,012	4,862						
OMIG	4,066	2,521	2,629	3,055	3,347						
Total	32,959	33,058	31,204	33,009	36,254						
EBIT, US\$M											
Met Coal	405	46	-338	-166	422						
Thermal Coal	793	541	502	531	833						
Nickel	26	-44	52	67	389						
Copper	1,687	1,739	1,361	1,499	1,341						
Diamonds	496	1,003	1,243	868	781						
Platinum	-120	464	88	946	1,031						
Iron Ore	2,949	3,119	2,338	1,772	1,575						
OMIG	337	137	224	279	343						
EBIT margins											
Met Coal	10%	1%	-11%	-5%	10%						
Thermal Coal	23%	18%	19%	18%	24%						
Nickel	8%	-32%	32%	34%	42%						
Copper	33%	32%	27%	28%	25%						
Diamonds	12%	16%	18%	13%	11%						
Platinum	-2%	8%	2%	15%	15%						
Iron Ore	46%	48%	43%	35%	32%						
OMIG	8%	5%	9%	9%	10%						
Growth Capex, US\$M											
Met Coal	1,028	1,050	905	813	765						
Thermal Coal	212	213	161	154	178						
Nickel	100	(28)	88	329	29						
Copper	996	1,011	725	1,503	1,521						
Diamonds	94	551	787	943	895						
Platinum	822	608	574	633	690						
Iron Ore	2,077	2,517	2,769	1,606	876						
OMIG	260	290	266	285	285						
Total Capex	5,589	6,212	6,276	6,266	5,240						

EBIT split (2014e)



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Anglo

Outlook

We think Anglo management has the right approach and tools to turn around the group and drive towards its 15% ROCE 2016 target but there are significant near-term headwinds and a lack of positive catalysts for the shares in 2014. Other diversified miners under our coverage have more short-term positive catalysts, plus higher earnings and FCF upgrade potential. We believe there is a longer-term re-rating story in Anglo but that it can be revisited once headwinds have passed and tangible cost savings are in sight - 2H14 at the earliest in our view. Hold.

Valuation

We set our 12-month TP by applying multiples to DCF-derived NPV valuations for Anglo's main divisions and mines. We forecast that a re-rating to 1x NAV can be achieved for Anglo's copper, coal and diamonds divisions, Kumba Iron Ore and Minas-Rio (phase 1). We then apply a 0.8x NPV multiple to reflect historical management performance relative to the broader sector over time. We assume that the non-core/stub of Anglo's business does not re-rate in the 12-month time frame, and apply a 0.5x NAV to reflect the barriers to exiting these assets. We use a WACC of 9.5%.

Risks

Risks include stronger-or weaker-than-expected operating currencies (Rand, A\$) and higher/lower commodity prices than we forecast, in particular PGMs, copper and iron ore. More specific risks include further cost increases or delays at Minas Rio, the implementation risks of the Platinum operational review and delays to project approvals. Upside risks come from delivering the 2016 ROCE target more quickly than we anticipate.



Model updated: 26 August 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

Antofagasta PLC

Reuters: ANTO.L

Bloomberg: ANTO LN

Sell

Price (2 Sep 14) GBP 791.00

Target Price GBP 730.00

52 Week range GBP 746.50 - 959.00

Market Cap (m) GBPm 7,798
USDm 12,956

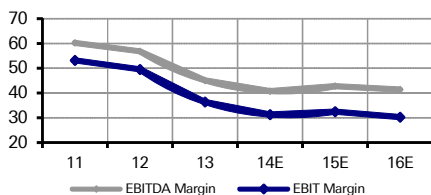
Company Profile

Antofagasta plc is one of the world's top ten copper producers with operations centered in Chile. The company also has diversified holdings in the transport, port energy and water industries, all as a way of hedging input costs. The Group's mining operations however represent the core of earnings (c.90%) and specialise in copper, via their Los Pelambres, El Tesoro, Esperanza and Michilla mines. Their transport operations encompass an extensive rail network, which serves the mining region of Northern Chile. The company has an extensive portfolio of early stage exploration and development projects across the globe.

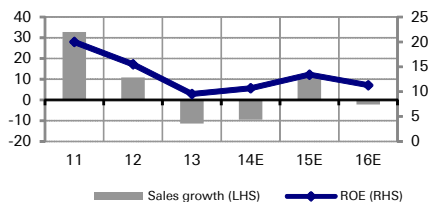
Price Performance



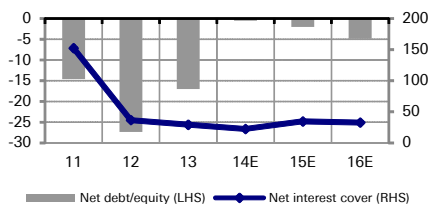
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	1.40	1.40	0.67	0.71	0.92	0.84
Reported EPS (USD)	1.25	1.05	0.67	0.71	0.92	0.84
DPS (USD)	0.44	0.99	0.95	0.25	0.32	0.29
BVPS (USD)	6.3	7.2	6.8	6.5	7.1	7.6
Weighted average shares (m)	986	986	986	986	986	986
Average market cap (USDm)	20,276	18,810	14,525	12,956	12,956	12,956
Enterprise value (USDm)	24,316	21,865	18,676	18,535	18,385	18,057

Valuation Metrics

P/E (DB) (x)	14.7	13.6	22.0	18.4	14.3	15.7
P/E (Reported) (x)	16.4	18.2	22.0	18.4	14.3	15.7
P/BV (x)	3.00	2.98	2.00	2.01	1.84	1.72
FCF Yield (%)	8.9	10.4	2.2	0.3	4.1	5.3
Dividend Yield (%)	2.1	5.2	6.4	1.9	2.4	2.2
EV/Sales (x)	4.0	3.2	3.1	3.4	3.1	3.1
EV/EBITDA (x)	6.6	5.7	6.9	8.4	7.2	7.4
EV/EBIT (x)	7.5	6.6	8.6	11.0	9.4	10.1

Income Statement (USDm)

Sales revenue	6,077	6,740	5,972	5,406	6,014	5,884
Gross profit	3,661	3,829	2,702	2,201	2,571	2,435
EBITDA	3,661	3,829	2,690	2,202	2,571	2,435
Depreciation	432	494	518	510	617	653
Amortisation	0	0	0	0	0	0
EBIT	3,229	3,335	2,172	1,691	1,954	1,782
Net interest income/(expense)	-21	-91	-74	-75	-57	-54
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	-131	-490	-14	10	35	35
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	3,077	2,754	2,084	1,626	1,932	1,763
Income tax expense	946	1,021	844	488	574	522
Minorities	893	702	580	433	453	417
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,237	1,032	660	704	905	823
DB adjustments (including dilution)	141	350	0	0	0	0
DB Net profit	1,379	1,382	660	704	905	823

Cash Flow (USDm)

Cash flow from operations	2,466	2,818	1,763	1,774	1,860	1,875
Net Capex	-667	-864	-1,450	-1,742	-1,325	-1,195
Free cash flow	1,799	1,954	313	33	535	680
Equity raised/(bought back)	0	0	110	0	0	0
Dividends paid	-1,924	-1,141	-1,437	-1,473	-386	-366
Net inc/(dec) in borrowings	-115	-189	-528	0	0	0
Other investing/financing cash flows	-23	-142	345	0	0	0
Net cash flow	-262	481	-1,198	-1,440	149	314
Change in working capital	-132	-30	-43	126	-80	76

Balance Sheet (USDm)

Cash and other liquid assets	3,280	4,297	2,685	1,245	1,394	1,708
Tangible fixed assets	6,443	6,513	7,425	8,656	9,364	9,905
Goodwill/intangible assets	144	158	133	123	123	123
Associates/investments	334	376	453	653	653	653
Other assets	1,504	1,527	1,694	1,839	2,047	2,005
Total assets	11,705	12,870	12,390	12,515	13,581	14,394
Interest bearing debt	2,140	1,889	1,212	1,199	1,199	1,199
Other liabilities	1,759	2,176	2,514	2,663	2,792	2,766
Total liabilities	3,899	4,065	3,726	3,862	3,991	3,965
Shareholders' equity	6,196	7,111	6,725	6,443	7,046	7,526
Minorities	1,611	1,694	1,939	2,210	2,544	2,903
Total shareholders' equity	7,807	8,805	8,664	8,653	9,590	10,430
Net debt	-1,140	-2,407	-1,473	-46	-195	-510

Key Company Metrics

Sales growth (%)	32.8	10.9	-11.4	-9.5	11.2	-2.2
DB EPS growth (%)	31.1	0.2	-52.3	6.7	28.6	-9.0
EBITDA Margin (%)	60.2	56.8	45.0	40.7	42.7	41.4
EBIT Margin (%)	53.1	49.5	36.4	31.3	32.5	30.3
Payout ratio (%)	35.1	94.1	142.0	35.0	35.0	35.0
ROE (%)	20.0	15.5	9.5	10.7	13.4	11.3
Capex/sales (%)	11.0	12.8	24.3	32.2	22.0	20.3
Capex/depreciation (x)	1.5	1.7	2.8	3.4	2.1	1.8
Net debt/equity (%)	-14.6	-27.3	-17.0	-0.5	-2.0	-4.9
Net interest cover (x)	152.3	36.7	29.3	22.5	34.6	32.8

Source: Company data, Deutsche Bank estimates

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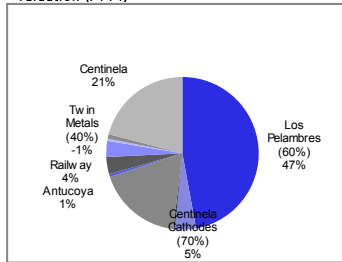
anna.mulholland@db.com



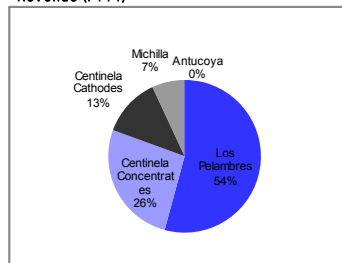
Figure 45: Antofagasta Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	CY10A	CY11A	CY12A	CY13A	CY14F	CY15F	CY16F	CY17F	CY18F	CY19F	CY20F	Valuations	US\$m	US\$/Sh	£/share
Gold	1,226	1,570	1,671	1,412	1,244	1,163	1,150	1,125	1,200	1,598	1,654	Los Pelambres (60%)	6433.35	6.53	4.08
Silver	20.2	35.2	31.3	23.9	19.9	19.8	19.0	18.8	20.0	24.6	25.4	Centinela Cathodes (70%)	612.73	0.62	0.39
Copper	338	400	361	333	306	302	295	327	340	340	352	Michilla (74%)	43,047.4	0.04	0.03
Molybdenum	15.9	15.6	13.0	10.4	12.3	12.8	12.0	13.0	14.0	17.2	17.8	Centinela Concentrates	2468.03	2.50	1.56
Chilean Peso	511	468	485	495	555	556	564	564	564	564	564	Antucoya	79.2468	0.08	0.05
												Railway	496.266	0.50	0.31
												Water	468.047	0.04	0.03
KEY FINANCIAL METRICS (US\$m)												Associates & exploration	60.918	0.06	0.04
Revenue	4577	6077	6740	5972	5406	6014	5884	6505	6861	7261	7338	Twin Metals (40%)	-129.98	-0.13	-0.08
EBITDA	2772	3661	3829	2702	2201	2571	2435	2957	3147	3343	3403	Centinela	2859.15	2.90	1.81
EBIT	2592	3098	2845	2158	1701	1989	1817	2314	2495	2706	2774	Los Pelambres 330kt Exj	503.206	0.51	0.32
Net Income	1052	1237	1032	660	704	905	823	1067	1113	1213	1249	Reko Diq (37%)	0	0.00	0.00
Operating Cash Flow	2495	3229	3335	2172	1691	1954	1782	2279	2460	2671	2739	Total operations	13894	14.09	8.81
Capex (incl. exploration) and divestments	1302	667	874	1459	1742	1325	1195	900	825	543	562	Corp/other	-493	-0.50	-0.31
Dividend	939	1924	1141	1437	1473	386	366	568	695	879	918	Less net cash (attrib.)	46	0.05	0.03
Acquisitions / (Sale of Assets)	0	32	-341	-9	0	0	0	0	0	0	0	Total to shareholders	13447	13.64	8.53
Free Cash Flow - before debt & equity	1764	2166	2418	1363	1374	1480	1475	1764	1935	2063	2148	Ordinary shares outstanding		986	
Net Debt / (Cash)	-1345	-1140	-2407	-1311	116	-34	-348	-1044	-1810	-2800	-3817				
Gearing (ND/E - %)	-22%	-18%	-34%	-19%	2%	0%	-5%	-13%	-20%	-29%	-36%				
ROE (%)	-17%	-20%	-15%	-10%	-11%	-13%	-11%	-13%	-12%	-12%	-12%				
ROA (%)	-17%	-20%	-15%	-10%	-11%	-13%	-11%	-13%	-12%	-12%	-12%				
EPS (USc)	107	125	105	67	71.4	92	84	108	113	123	127				
EPS Change (%)		18%	-17%	-36%	7%	29%	-9%	30%	4%	9%	3%				
EPS CAGR (%) - off CY13 earnings					7%	17%	8%	13%	11%	11%	10%				
DPS (USc)	16	20	21	95	24	32	29	38	40	43	44				
Payout ratio (%)	15%	16%	20%	142%	33%	35%	35%	35%	35%	35%	35%				
PRODUCTION															
Copper (kt)	528	641	709	721	702	769	761	767	790	812	788				
Molybdenum (Kt)	8.8	9.8	12.2	8.8	7.1	12.6	12.6	12.6	12.2	12.2	12.1				
Gold (koz)	35	192	311	283	263	315	315	305	301	294	285				
Copper equivalent production	535	674	762	769	746	823	815	819	841	862	836				
Copper equivalent production (% Change)		26%	13%	1%	-3%	10%	-1%	1%	3%	2%	-3%				
Cu Equivalent Production - Off CY12 CAGR				1%	-1%	3%	2%	1%	2%	2%	1%				
REVENUE (US\$m)															
Los Pelambres	3348	3677	3554	3129	2729	2814	2736	3049	3293	3641	3703				
Centinela Concentrates	0	923	1704	1454	1326	1604	1565	1709	1753	1840	1818				
Centinela Cathodes	740	820	838	733	628	661	653	722	752	745	769				
Michilla	242	349	296	291	349	179	2	2	2	0	0				
Antucoya	0	0	0	0	0	403	565	648	675	638	638				
EBITDA (US\$m)															
Los Pelambres	2375	2642	2457	1814	1433	1433	1346	1628	1731	1914	1961				
Centinela Concentrates	0	519	1074	649	524	745	678	778	791	845	840				
Centinela Cathodes	355	448	483	431	254	289	273	340	359	342	353				
Michilla	60	151	38	23	118	24	1	1	1	0	0				
Antucoya	0	0	0	0	0	93	145	213	233	205	205				
Capex (US\$m)															
Los Pelambres	216	174	179	209	249	350	500	575	500	207	214				
Centinela Concentrates	1060	259	130	325	438	260	150	150	150	155	161				
Centinela Cathodes	29	120	131	156	130	430	430	80	80	83	86				
Michilla	13	53	58	17	20	20	0	0	0	0	0				
Antucoya	0	275	440	597	863	200	50	30	30	31	32				
Other (water, rail, other)				156	45	65	65	65	65	67	70				
Total capex	1318	881	938	1459	1745	1325	1195	900	825	543	562				
EBITDA Margin (%)															
Los Pelambres	71%	72%	69%	58%	53%	51%	49%	53%	53%	53%	53%				
Centinela Concentrates		56%	63%	45%	40%	46%	43%	45%	45%	46%	46%				
Centinela Cathodes	48%	55%	58%	59%	40%	44%	42%	47%	48%	46%	46%				
Michilla	25%	43%	13%	8%	34%	14%	31%	38%	40%						
Antucoya			72%	70%	31%	23%	26%	33%	34%	32%	32%				

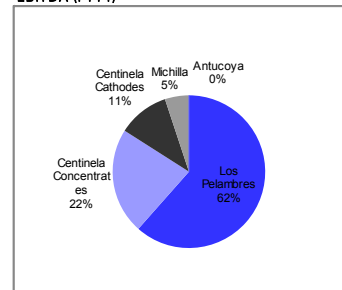
Valuation (FY14)



Revenue (FY14)



EBITDA (FY14)



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Antofagasta

Outlook

We think the key issues for Antofagasta shares in 2014 are: (i) muted production growth: we forecast group production to drop 3% year on year, with output at Antofagasta's two largest mines, Los Pelambres and Esperanza, static as plant debottlenecking projects kick in, offsetting harder ore and declining grades; (ii) delivering the cost saving opportunity: Antofagasta is aiming to keep its unit costs level in 2014 vs. 2013; (iii) capex continuing to rise to a peak of US\$1.9bn and then remaining above US\$1bnpa into the medium-term; and (iv) managing risks from new government policies: Chile's incoming government has an ambitious programme of reform, which could see tax rate increases pushed through. Despite these challenges, the stock trades at a premium on 2014e PE and EV/EBITDA multiples versus its global copper peers, and the group's previously conservative stance to keep net cash on its balance sheet may now be under pressure from increasing capex in the 12 month period. We have a Sell recommendation on downside to our target price.

Valuation

Our 12-month price target is set at a 10% premium to our DCF valuation, reflecting the quality of both management and operations. We use life of mine cash flow analysis to derive our valuation, applying a WACC of 11.2% (reflects a cost of equity (Beta 1.2) of 11.2%, cost of debt (post tax) of 6.2% and a tax rate of 23%).

Risks

Key upside risks includes stronger copper, gold and molybdenum price performance than we currently assume; a weaker Chilean Peso than we currently forecast; better grades than we assume at the main Los Pelambres mine; and higher-than-guided cost savings.



Model updated: 07 August 2014

Running the numbers

Australasia

Australia

M&M - Other Metals

Aquarius Platinum

Reuters: AQP.L

Bloomberg: AQP LN

Buy

Price (2 Sep 14) GBP 24.00

Target Price GBP 30.00

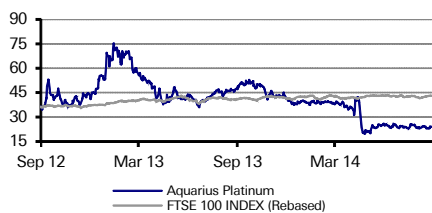
52 Week range GBP 19.75 - 52.75

Market Cap (m) GBPm 351
USDm 584

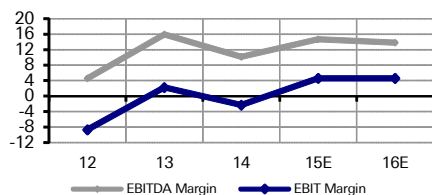
Company Profile

Aquarius Platinum Limited is a platinum group metals (PGM) producer in southern Africa with listings on the Australian and London stock exchanges. Through its wholly owned subsidiary Aquarius Platinum South Africa, the Company operates the Kroondal, Marikana and Everest mines as well as two tailing retreatment facilities. The Company also has a fifty percent stake in the Mimosa Platinum Mine in Zimbabwe.

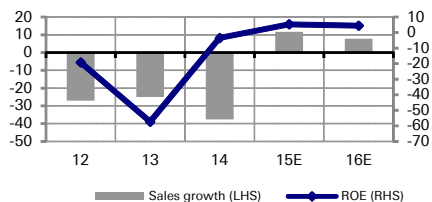
Price Performance



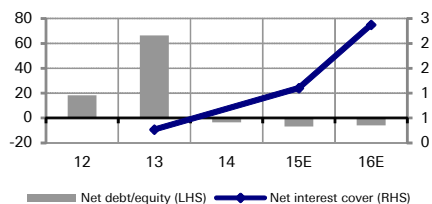
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun

Financial Summary

	2012	2013	2014	2015E	2016E
DB EPS (USD)	-0.31	-0.31	-0.01	0.01	0.02
Reported EPS (USD)	-0.31	-0.58	-0.01	0.02	0.02
DPS (USD)	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	1.4	0.6	0.5	0.3	0.4
Weighted average shares (m)	467	480	943	1,464	1,464
Average market cap (USDm)	1,269	352	597	584	584
Enterprise value (USDm)	1,389	545	580	549	551

Valuation Metrics

	2012	2013	2014	2015E	2016E
P/E (DB) (x)	nm	nm	nm	51.2	24.9
P/E (Reported) (x)	nm	nm	nm	22.2	24.9
P/BV (x)	0.49	0.97	0.79	1.14	1.09
FCF Yield (%)	nm	nm	nm	3.1	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	2.8	1.5	2.5	2.1	2.0
EV/EBITDA (x)	61.4	9.2	24.6	14.4	14.2
EV/EBIT (x)	nm	66.1	nm	46.1	42.9

Income Statement (USDm)

	2012	2013	2014	2015E	2016E
Sales revenue	498	373	233	260	281
Gross profit	35	74	31	44	45
EBITDA	23	60	24	38	39
Depreciation	66	51	29	26	26
Amortisation	0	0	0	0	0
EBIT	-43	8	-5	12	13
Net interest income(expense)	-35	-31	-28	-11	-5
Associates/affiliates	0	0	5	23	27
Exceptionals/extraordinary	-4	-281	-2	15	0
Other pre-tax income/(expense)	-95	-21	18	0	0
Profit before tax	-177	-324	-13	39	35
Income tax expense	-31	-44	1	12	11
Minorities	0	-1	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	-146	-279	-13	26	23
DB adjustments (including dilution)	0	128	2	-15	0
DB Net profit	-146	-151	-11	11	23

Cash Flow (USDm)

	2012	2013	2014	2015E	2016E
Cash flow from operations	8	8	21	42	24
Net Capex	-96	-54	-28	-24	-26
Free cash flow	-88	-45	-7	18	-2
Equity raised/(bought back)	0	0	218	0	0
Dividends paid	-19	0	0	0	0
Net inc/(dec) in borrowings	7	-10	-1	0	-118
Other investing/financing cash flows	-49	-22	26	0	0
Net cash flow	-148	-77	236	18	-120
Change in working capital	-9	-4	-43	0	0

Balance Sheet (USDm)

	2012	2013	2014	2015E	2016E
Cash and other liquid assets	180	103	137	155	35
Tangible fixed assets	276	261	100	98	98
Goodwill/intangible assets	88	59	54	54	54
Associates/investments	0	0	230	253	280
Other assets	657	341	196	196	196
Total assets	1,201	765	717	756	663
Interest bearing debt	304	300	120	120	3
Other liabilities	221	168	123	123	123
Total liabilities	525	468	243	244	126
Shareholders' equity	677	297	474	512	537
Minorities	0	0	0	0	0
Total shareholders' equity	677	297	474	512	537
Net debt	124	197	-17	-34	-32

Key Company Metrics

	2012	2013	2014	2015E	2016E
Sales growth (%)	-27.1	-25.0	-37.6	11.7	7.9
DB EPS growth (%)	na	-0.5	96.3	na	105.6
EBITDA Margin (%)	4.5	15.9	10.1	14.7	13.8
EBIT Margin (%)	-8.7	2.2	-2.3	4.6	4.6
Payout ratio (%)	nm	nm	nm	0.0	0.0
ROE (%)	-19.1	-57.3	-3.5	5.3	4.5
Capex/sales (%)	19.2	14.4	12.0	9.3	9.3
Capex/depreciation (x)	1.4	1.0	1.0	0.9	1.0
Net debt/equity (%)	18.3	66.4	-3.5	-6.7	-6.0
Net interest cover (x)	nm	0.3	nm	1.1	2.4

Source: Company data, Deutsche Bank estimates

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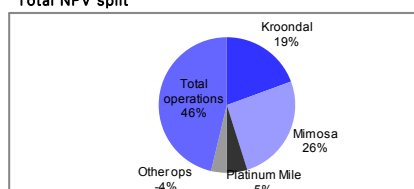
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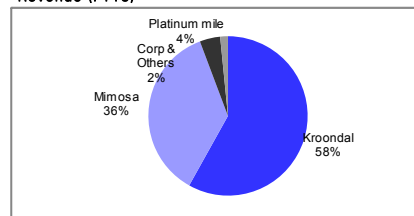
Figure 46: Aquarius Platinum Operational and Financial Summary Data

COMMODITY/FX ASSUMPTIONS	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F	Valuation by Div	US\$M	US\$/sh
Platinum price (USD/oz)	1151	1454	1707	1606	1552	1431	1523	2106	Kroondal	326	0.22
Palladium price (USD/oz)	239	389	682	676	689	753	815	1053	Mimosa	432	0.29
Rhodium price (USD/oz)	1167	1033	1183	1400	1550	1800	3020	4212	Platinum Mile	82	0.06
Gold (USD/oz)	1608	1295	1200	1150	1138	1163	1399	1626	Other ops	-63	-0.04
Rand : Dollar (ZAR/\$)	8.98	10.40	10.52	9.79	10.18	10.86	11.52	11.52	Total operations	777	0.57
Basket Price: Rand/ 4E oz	10,972	12,058	13,111	13,297	14,618	16,755	20,342	22,674	Exploration tenements	13	0.01
Basket Price USD/ 4E oz	1,221	1,160	1,246	1,359	1,436	1,543	1,767	1,969	Net (Debt)/ Cash	10	0.01
									Corporate/ Others	-38	-0.03
									Equity Value	761	0.52
PRODUCTION (PGMs)									Target price: GBP	<i>unrounded</i>	0.30
Platinum (Koz)	181	184	194	195	196	196	196	196	Target price: ZAR	<i>unrounded</i>	5.41
Palladium (Koz)	108	111	114	115	115	115	115	115			
Rhodium (Koz)	27	28	29	29	29	29	29	29			
Gold (Koz)	9	9	10	10	10	10	10	10			
Total 4 PGE Production (koz)	325	332	346	349	350	350	350	350			
PRODUCTION BY OPERATION (koz)											
Kroondal	203	215	219	219	220	220	220	220			
Mimosa	109	111	112	112	112	112	112	112			
Platinum mile	12	6	15	18	18	18	18	18			
Total Production	324	332	346	349	350	350	350	350			
Costs per 4E oz (ZAR)											
Kroondal	8,343	9,115	9,581	9,693	10,046	10,046	10,397	10,761			
Mimosa	7,790	9,128	8,246	8,026	8,707	9,688	10,632	11,005			
Platinum Mile	6,478	8,993	7,626	7,254	7,577	7,842	8,116	8,400			
Weighted average group cost:											
Rand/4E oz	8,082	9,117	9,061	9,030	9,489	9,817	10,353	10,716			
US\$/4E oz	900	877	861	923	932	904	899	931			
<i>Margin (%)</i>	<i>26.3%</i>	<i>24.4%</i>	<i>30.9%</i>	<i>32.1%</i>	<i>35.1%</i>	<i>41.4%</i>	<i>49.1%</i>	<i>52.7%</i>			
Capex per 4E oz	1,002	761	791	732	716	747	817	843			
All-in cost per 4E oz (ZAR)	9,084	9,878	9,853	9,762	10,205	10,564	11,171	11,559			
<i>Margin (%)</i>	<i>17.2%</i>	<i>18.1%</i>	<i>24.8%</i>	<i>26.6%</i>	<i>30.2%</i>	<i>37.0%</i>	<i>45.1%</i>	<i>49.0%</i>			
Revenue (US\$mn)											
Kroondal	216	222	237	258	275	295	336	373			
Mimosa	137	131	147	160	170	180	192	204			
Platinum mile	13	5	17	22	23	24	27	30			
Corp & Others	2	4	6	1	1	2	3	4			
Consolidation adjnt (excl. Mimosa)	0	-131	-147	-160	-170	-180	-192	-204			
Group	371	233	260	281	299	321	366	408			
EBITDA (US\$mn)											
Kroondal	24	33	38	42	58	91	137	168			
Mimosa	37	35	59	68	74	80	89	97			
Platinum mile	4	0	6	8	9	11	15	17			
Corp & Others	-1	0	-6	-5	-5	-4	-2	-1			
Consolidation adjnt (excl. Mimosa)	-	-34	-59	-67	-74	-79	-88	-96			
Group	64	31	44	45	63	99	149	183			
Capex (US\$mn)											
Kroondal	31	24	21	23	23	22	21	22			
Mimosa	18	18	13	14	14	15	16	16			
Platinum mile	0	2	0	0	0	0	0	0			
Corp & Others	-1	-4	4	2	1	2	3	3			
Consolidation adjnt (excl. Mimosa)	-18	-18	-13	-14	-14	-15	-16	-16			
Group	36	24	26	26	25	24	25	26			

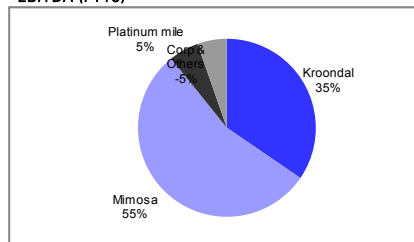
Total NPV split



Revenue (FY15)



EBITDA (FY15)



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Aquarius

Outlook

We have a Buy recommendation for Aquarius for three main reasons: (i) the delivery of the turnaround of Kroondal which should ensure maximum cash flow with the mine now running at its full capacity; (ii) the strengthening of the group's balance sheet via the recent rights issue and from the planned sale of non-core assets, helped by a more supportive rand basket price and delivery of corporate cost savings; (iii) the successful repurchase of convertible debt due end 2015- we think the early timing of this was sensible, alleviating pressure in a tough operating environment. Buy.

Valuation

Our price target is set at 0.8x our NPV and reflects a 5% discount to our valuation for Mimoso post the deal to finalise the company's Zimbabwean credits. The 20% discount to our NAV reflects the track record of the operations and management over the past five years. We value Aquarius on a sum-of-the-parts asset DCF valuation basis, applying a nominal WACC of 10.4% (cost of equity post tax 12.7% (beta 1.45), cost of debt 7%).

Risks

Downside risks to our price target include: 1) lower-than-forecast PGM metals prices' 2) a stronger-than-forecast ZAR/USD exchange rate; 3) industrial action/prolonged strike action disrupting production at Kroondal; and 4) a deterioration in the operating environment in Zimbabwe and/or changes in Zimbabwe mining legislation that could include an increase in taxes, royalties or the introduction of raw material export restrictions.



Model updated: 29 August 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

BHP Billiton Plc

Reuters: BLT.L

Bloomberg: BLT LN

Buy

Price (2 Sep 14) GBP 1,920.00

Target Price GBP 2,500.00

52 Week range GBP 1,754.50 - 2,096.00

Market Cap (m) GBpm 102,166
USDm 169,744

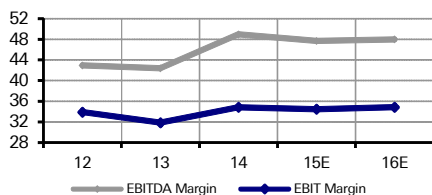
Company Profile

BHP Billiton Plc is an international resources company. The company's principal business lines are mineral and petroleum production, including coal (thermal and coking), iron ore, aluminium, manganese, nickel, copper concentrate and cathode, diamonds, and oil & gas (conventional and unconventional, LNG).

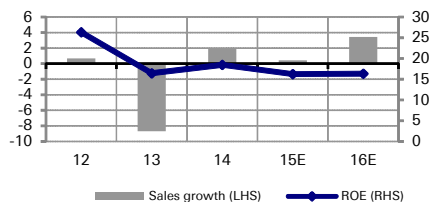
Price Performance



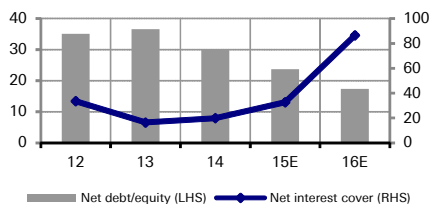
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun

Financial Summary

	2012	2013	2014	2015E	2016E
DB EPS (USD)	3.20	2.49	2.52	2.49	2.68
Reported EPS (USD)	3.02	2.10	2.59	2.49	2.68
DPS (USD)	1.12	1.16	1.21	1.30	1.36
BVPS (USD)	12.4	13.3	14.9	15.9	16.9
Weighted average shares (m)	5,323	5,321	5,321	5,321	5,321
Average market cap (USDm)	166,322	163,671	162,159	169,744	169,744
Enterprise value (USDm)	187,938	193,925	191,748	196,992	193,787

Valuation Metrics

P/E (DB) (x)	9.8	12.3	12.1	12.8	11.9
P/E (Reported) (x)	10.3	14.6	11.8	12.8	11.9
P/BV (x)	2.29	1.93	2.17	2.00	1.88
FCF Yield (%)	3.7	0.2	6.3	7.0	7.6
Dividend Yield (%)	3.6	3.8	4.0	4.1	4.3
EV/Sales (x)	2.6	2.9	2.9	2.9	2.8
EV/EBITDA (x)	6.1	6.9	5.8	6.1	5.8
EV/EBIT (x)	7.7	9.2	8.2	8.5	8.0

Income Statement (USDm)

Sales revenue	72,226	65,953	67,206	67,494	69,815
Gross profit	30,113	24,000	31,385	32,194	33,510
EBITDA	31,011	27,947	32,909	32,194	33,510
Depreciation	6,531	6,945	9,498	8,931	9,175
Amortisation	0	0	0	0	0
EBIT	24,480	21,002	23,411	23,263	24,334
Net interest income(expense)	-730	-1,276	-1,176	-712	-281
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	-759	-927
Profit before tax	23,750	19,726	22,235	21,792	23,126
Income tax expense	7,490	6,906	7,012	6,972	7,400
Minorities	115	1,597	1,392	1,530	1,445
Other post-tax income/(expense)	0	0	0	0	0
Net profit	16,145	11,223	13,831	13,290	14,281
DB adjustments (including dilution)	972	2,090	-384	0	0
DB Net profit	17,117	13,313	13,447	13,290	14,281

Cash Flow (USDm)

Cash flow from operations	24,384	20,154	25,364	24,982	25,372
Net Capex	-18,226	-19,905	-15,067	-13,171	-12,411
Free cash flow	6,158	249	10,297	11,811	12,961
Equity raised/(bought back)	-62	21	0	0	0
Dividends paid	-5,877	-6,167	-6,387	-6,940	-7,260
Net inc/(dec) in borrowings	8,827	7,157	-910	-4,000	-1,000
Other investing/financing cash flows	-14,349	-364	126	-1,000	-1,050
Net cash flow	-5,303	896	3,126	-129	3,651
Change in working capital	-76	-7,514	655	-103	-890

Balance Sheet (USDm)

Cash and other liquid assets	4,781	5,677	8,803	8,674	12,325
Tangible fixed assets	95,247	100,565	108,787	113,026	116,262
Goodwill/intangible assets	5,112	5,496	5,439	5,657	5,897
Associates/investments	3,148	1,880	2,436	2,436	2,436
Other assets	20,985	25,560	25,948	26,004	26,540
Total assets	129,273	139,178	151,413	155,797	163,460
Interest bearing debt	28,330	33,187	34,589	30,589	29,589
Other liabilities	33,858	30,700	31,442	32,748	34,528
Total liabilities	62,188	63,887	66,031	63,337	64,117
Shareholders' equity	65,870	70,667	79,143	84,691	90,128
Minorities	1,215	4,624	6,239	7,769	9,215
Total shareholders' equity	67,085	75,291	85,382	92,460	99,343
Net debt	23,549	27,510	25,786	21,915	17,264

Key Company Metrics

Sales growth (%)	0.7	-8.7	1.9	0.4	3.4
DB EPS growth (%)	-18.2	-22.1	1.0	-1.2	7.5
EBITDA Margin (%)	42.9	42.4	49.0	47.7	48.0
EBIT Margin (%)	33.9	31.8	34.8	34.5	34.9
Payout ratio (%)	36.9	55.0	46.6	52.1	50.7
ROE (%)	26.3	16.4	18.5	16.2	16.3
Capex/sales (%)	25.5	33.7	23.8	19.5	17.8
Capex/depreciation (x)	2.8	3.2	1.7	1.5	1.4
Net debt/equity (%)	35.1	36.5	30.2	23.7	17.4
Net interest cover (x)	33.5	16.5	19.9	32.7	86.5

Source: Company data, Deutsche Bank estimates

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Investment Thesis - BHP

Outlook

The long-term BHP Billiton story remains one of production and earnings growth, portfolio simplification and growing also through acquisitions. The US\$15b purchase of US tight oil assets in 2011 demonstrated a focus on further diversification and on the importance of energy in the portfolio. A decision to demerge non-core assets (Aluminium, Manganese, and South African coal assets, the Cannington lead/silver mine, Illawarra met coal and Cerro Matoso nickel) will further simplify the portfolio and improve returns. The company's capital allocation strategy is focused on: 1. Organic growth, with a focus on returns. 2. Balance sheet management (maintaining the A rating), 3. Progressively growing (and periodically rebasing) the dividend, and; 4. Returning excess cash to shareholders (likely share buybacks). BHP Billiton's assets are long life, low operating cost, and in low to moderate risk countries (Australia, North America, Southern Africa, Brazil, Chile) and overall are considered premium quality relative to the sector, offering above average returns and operating margins. We rate BHPB a Buy due to the attractive valuation, margins, returns, growth and diversification.

Valuation

Our price target is based off the Plc line at spot FX rates. The London listed PT is at 1.1x NAV, using life of mine cash flows with a WACC of 8.9% (COE 11.4% - Rf 6%, Rp 4.5%; CoD 6.0% on a D/E of 30%; Beta is 1.20). The 10% premium is based on the management performance relative to the broader Metals and Mining peer group under our coverage. It assumes a USD/GBP exchange rate of 1.55.

Risks

The key risks to our forecasts include variance in commodity prices and exchange rates vs. our estimates. Downside risks include the ability to continue to deliver on planned growth at reasonable costs, particularly the US Onshore oil program. Delivery risk exists on the large iron ore expansions in the Pilbara, Jansen potash, and the petroleum growth projects (both US Onshore and the GoM). A potential medium-term slowdown in Chinese steel demand may result in lower iron ore and coking coal demand and therefore lower bulk commodity prices.



Model updated: 18 July 2014

Running the numbers

Europe

Sweden

Metals & Mining

Boliden AB

Reuters: BOL.ST

Bloomberg: BOL SS

Hold

Price (2 Sep 14) SEK 112.20

Target Price SEK 108.00

52 Week range SEK 87.70 - 114.90

Market Cap (m) SEKm 30,688

USDm 4,386

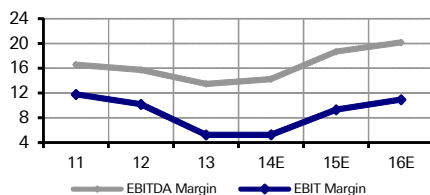
Company Profile

Boliden is an international mining and smelting company which mines, smelts and refines zinc and copper. By-products include lead, gold, silver, among others. The group operations in five countries Sweden, Finland, Norway, Ireland and Netherlands.

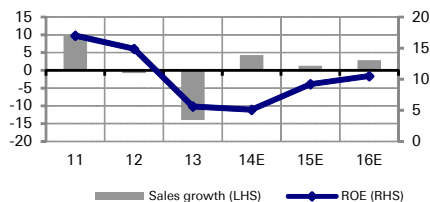
Price Performance



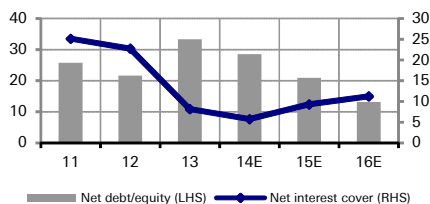
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (SEK)	12.39	11.96	4.72	4.42	8.55	10.55
Reported EPS (SEK)	12.39	11.96	4.72	4.42	8.55	10.55
DPS (SEK)	4.00	4.00	1.75	1.00	3.00	4.00
BVPS (SEK)	76.9	83.9	84.4	89.2	96.8	104.3
Weighted average shares (m)	274	274	274	274	274	274
Average market cap (SEKm)	29,946	29,531	27,295	30,688	30,688	30,688
Enterprise value (SEKm)	35,841	35,137	35,463	38,009	36,587	34,789

Valuation Metrics

P/E (DB) (x)	8.8	9.0	21.1	25.4	13.1	10.6
P/E (Reported) (x)	8.8	9.0	21.1	25.4	13.1	10.6
P/BV (x)	1.31	1.46	1.17	1.26	1.16	1.08
FCF Yield (%)	0.0	4.5	nm	4.3	5.5	8.5
Dividend Yield (%)	3.7	3.7	1.8	0.9	2.7	3.6
EV/Sales (x)	0.9	0.9	1.0	1.1	1.0	0.9
EV/EBITDA (x)	5.4	5.6	7.7	7.4	5.4	4.6
EV/EBIT (x)	7.5	8.6	19.7	20.1	10.8	8.5

Income Statement (SEKm)

Sales revenue	40,323	40,002	34,408	35,891	36,358	37,398
Gross profit	6,678	6,288	4,634	5,111	6,785	7,539
EBITDA	6,678	6,288	4,634	5,111	6,785	7,539
Depreciation	1,930	2,218	2,831	3,223	3,408	3,458
Amortisation	0	0	0	0	0	0
EBIT	4,748	4,070	1,803	1,888	3,377	4,081
Net interest income(expense)	-189	-179	-221	-330	-364	-364
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	4,559	3,891	1,582	1,558	3,013	3,718
Income tax expense	1,170	617	287	349	675	833
Minorities	0	2	3	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,389	3,272	1,292	1,209	2,338	2,884
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	3,389	3,272	1,292	1,209	2,338	2,884

Cash Flow (SEKm)

Cash flow from operations	4,025	5,516	3,504	4,915	5,699	6,221
Net Capex	-4,013	-4,179	-4,971	-3,589	-4,003	-3,603
Free cash flow	12	1,337	-1,467	1,326	1,696	2,618
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,368	-1,094	-1,094	-479	-274	-821
Net inc/(dec) in borrowings	905	364	2,154	662	0	0
Other investing/financing cash flows	-13	0	-1	-1	0	0
Net cash flow	-464	607	-408	1,509	1,422	1,798
Change in working capital	-1,014	320	-546	584	-47	-121

Balance Sheet (SEKm)

Cash and other liquid assets	355	1,011	611	2,121	3,544	5,341
Tangible fixed assets	22,927	25,279	27,348	27,863	28,458	28,603
Goodwill/intangible assets	3,184	3,160	3,130	3,197	3,197	3,197
Associates/investments	182	136	33	43	43	43
Other assets	10,967	10,449	10,719	10,985	11,091	11,364
Total assets	37,615	40,035	41,841	44,209	46,332	48,548
Interest bearing debt	5,768	5,981	8,307	9,088	9,088	9,088
Other liabilities	10,815	11,105	10,459	10,722	10,781	10,932
Total liabilities	16,583	17,086	18,766	19,810	19,869	20,020
Shareholders' equity	21,032	22,949	23,075	24,399	26,464	28,528
Minorities	0	0	0	0	0	0
Total shareholders' equity	21,032	22,949	23,075	24,399	26,464	28,528
Net debt	5,413	4,970	7,696	6,967	5,544	3,747

Key Company Metrics

Sales growth (%)	9.8	-0.8	-14.0	4.3	1.3	2.9
DB EPS growth (%)	-14.4	-3.5	-60.5	-6.4	93.4	23.4
EBITDA Margin (%)	16.6	15.7	13.5	14.2	18.7	20.2
EBIT Margin (%)	11.8	10.2	5.2	5.3	9.3	10.9
Payout ratio (%)	32.3	33.4	37.1	22.6	35.1	37.9
ROE (%)	17.0	14.9	5.6	5.1	9.2	10.5
Capex/sales (%)	10.0	10.4	14.4	10.0	11.0	9.6
Capex/depreciation (x)	2.1	1.9	1.8	1.1	1.2	1.0
Net debt/equity (%)	25.7	21.7	33.4	28.6	21.0	13.1
Net interest cover (x)	25.1	22.7	8.2	5.7	9.3	11.2

Source: Company data, Deutsche Bank estimates

Rob Clifford

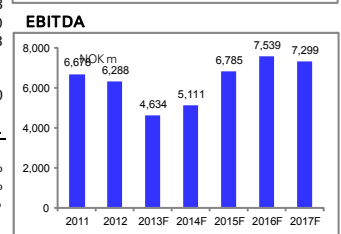
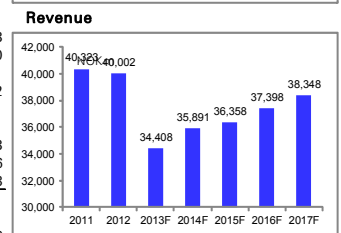
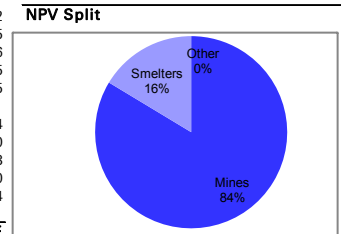
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Figure 48: Boliden Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	2010	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	NPV	SEKm	SEK/s	US\$/s
SEK/USD	7.3	6.5	6.8	6.6	6.7	6.7	6.9	6.7	6.6	6.6	6.6	Mines	27,536	100.67	13.07
Copper (USc/lb)	343	400	361	333	310	302	295	327	340	340	352	Smelters	5,377	19.66	2.55
Copper TC/RC (USc/lb)	12.8	12.2	17.3	19.5	17.9	20.4	20.4	15.4	15.4	15.9	16.5	Other	0	0.00	0.00
Zinc (USc/lb)	98	99	89	88	94	105	108	112	115	120	124	Total ops	32,913	120.33	15.63
Zinc treatment charges (US\$/t)	273	216	201	200	202	204	201	201	201	202	202	Corporate	-346	-1.26	-0.16
Lead (USc/lb)	98	109	94	98	96	104	105	107	108	112	115	Net debt	-8,000	-29.25	-3.80
Gold (US\$/oz)	1226	1570	1671	1413	1258	1163	1150	1125	1200	1598	1654	Total	24,567	89.82	11.67
Silver (US\$/oz)	15	35	31	24	20	20	19	19	20	25	25	WACC	8.7%		
PRODUCTION												NPV Split			
Mine production															
Zinc (kt)	294	283	271	272	291	317	323	320	315	312	312				
Copper (kt)	76	81	79	79	80	88	92	95	102	102	85				
Lead (kt)	50	49	49	48	61	74	76	76	76	76	76				
Gold (t)	3.7	3.7	3.6	3.5	4.5	5.5	5.5	5.5	5.5	5.5	5.5				
Silver (t)	229	230	229	253	290	324	335	335	335	335	335				
Smelter production															
Zinc (kt)	456	461	467	455	461	452	454	454	454	454	454				
Copper (kt)	303	336	339	312	350	350	350	350	350	350	350				
Lead (kt)	17	11	19	25	25	23	23	23	23	23	23				
Lead Alloys (kt)	42	41	43	45	43	40	40	40	40	40	40				
Gold (t)	14.2	12.8	16.2	15.2	17.4	17.4	17.4	17.4	17.4	17.4	17.4				
Silver (t)	450	488	576	485	616	616	581	581	581	581	581				
P&L BREAKDOWN	2010	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F				
Revenue NOKm															
Smelter	34,390	38,471	38,753	33,410	34,757	34,335	34,958	35,782	36,535	39,157	40,263				
Mines	9,579	10,279	9,510	8,304	9,278	10,551	11,212	11,561	12,119	13,044	12,690				
Other (predominantly eliminations)	-7,252	-8,427	-8,261	-7,306	-8,144	-8,528	-8,772	-8,995	-9,244	-9,918	-10,061				
Total	36,717	40,323	40,002	34,408	35,891	36,358	37,398	38,348	39,410	42,283	42,892				
EBITDA NOKm															
Smelter	2,794	1,604	2,093	1,124	1,715	2,154	2,236	1,805	1,655	2,021	1,791				
Mines	5,066	5,023	4,233	3,515	3,442	4,677	5,349	5,541	6,029	6,818	6,253				
Other	-415	51	-38	-5	-46	-46	-46	-46	-46	-46	-46				
Total	7,445	6,678	6,288	4,634	5,111	6,785	7,539	7,299	7,638	8,793	7,998				
CAPEX															
Smelter NOKm															
Maintenance	503	513	573	843	600	603	603	615	627	640	653				
Expansionary	301	1,150	309	350	200	600	200	200	200	0	0				
Total	803	1,663	882	1,193	800	1,203	803	815	827	640	653				
Mine NOKm															
Maintenance	1,206	1,450	1,700	1,827	1,836	2,400	1,800	1,800	1,662	1,713	1,771				
Expansionary	983	887	1,848	1,740	1,200	400	1,000	0	0	0	0				
Total	2,189	2,337	3,548	3,567	3,036	2,800	2,800	1,800	1,662	1,713	1,771				
Boliden Total	2,992	4,000	4,430	4,760	3,836	4,003	3,603	2,615	2,490	2,353	2,424				
EBITDA Margin %															
Smelter	8%	4%	5%	3%	5%	6%	6%	5%	5%	5%	4%				
Mines	53%	49%	45%	42%	37%	44%	48%	48%	50%	52%	49%				
Total	20%	17%	16%	13%	14%	19%	20%	19%	19%	21%	19%				



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Boliden

Outlook

Boliden is a mining and smelting company with assets in Northern Europe. The group produces around 70Ktpa of copper and 340Ktpa of zinc at various mining operations, between 350-450Ktpa of refined copper and zinc at its four smelters and various by-products. While the assets in general are in the middle of the cost curve, they have not been exposed to the general mining inflation seen in other parts of the world. Boliden's management team retains a prudent capital expenditure program including the hedging of enough product to cover capex plans. We have a Hold Recommendation given valuation.

Valuation

Our price target is set at 1.2x NPV in line with its management performance relative to the sector. (WACC of 8.7% based on cost of equity 11.3%, cost of debt 6.5%, tax rate of 28% and target gearing 40%).

Risks

Risks include zinc and copper prices higher/lower than expectations and/or copper TC/RC's lower/higher than expected. A strengthening/weakening in the SEK or increasing mining cost inflation in Northern Europe is also a downside risk for Boliden. From an operational perspective, lower volumes from the Aitik expansion is the key downside risk.



Model updated:06 August 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

Ferrexpo Plc

Reuters: FXPO.L

Bloomberg: FXPO LN

Buy

Price (2 Sep 14) GBP 128.00

Target Price GBP 312.00

52 Week range GBP 121.80 - 199.00

Market Cap (m) GBPm 749
USDm 1,245

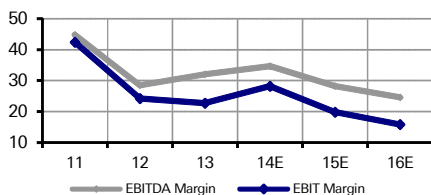
Company Profile

Ferrexpo is a Top 12 global pellet producer, enjoys close proximity to customers in Europe. Ferrexpo is principally involved in the production and export of iron ore pellets to Ukraine, European and Asian steel industries. The principal asset of Ferrexpo is Ferrexpo Poltava GOK Corporation which operates an open-pit iron ore mine, concentrating and pelletising operations situated in central Ukraine, on the banks of the river Dniro.

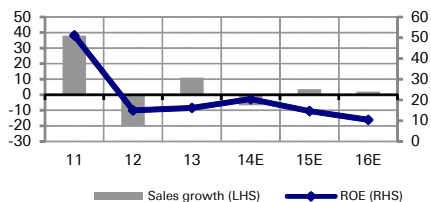
Price Performance



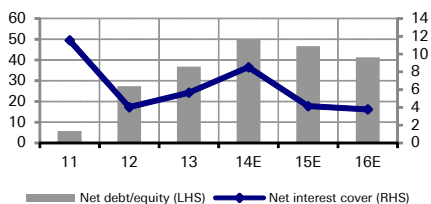
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	0.97	0.37	0.50	0.52	0.33	0.26
Reported EPS (USD)	0.97	0.37	0.45	0.52	0.34	0.27
DPS (USD)	0.07	0.13	0.13	0.07	0.07	0.07
BVPS (USD)	2.3	2.6	2.9	2.2	2.5	2.7
Weighted average shares (m)	585	585	585	585	585	585
Average market cap (USDm)	3,641	2,257	1,755	1,245	1,245	1,245
Enterprise value (USDm)	3,604	2,597	2,182	1,675	1,711	1,699

Valuation Metrics

P/E (DB) (x)	6.4	10.4	6.0	4.1	6.4	8.1
P/E (Reported) (x)	6.4	10.4	6.7	4.1	6.2	7.9
P/BV (x)	1.78	1.56	1.08	0.97	0.86	0.78
FCF Yield (%)	3.5	nm	nm	6.0	0.4	4.2
Dividend Yield (%)	1.1	3.4	4.4	3.1	3.1	3.1
EV/Sales (x)	2.0	1.8	1.4	1.1	1.1	1.1
EV/EBITDA (x)	4.5	6.4	4.3	3.3	4.0	4.4
EV/EBIT (x)	4.8	7.5	6.1	4.0	5.6	6.9

Income Statement (USDm)

Sales revenue	1,788	1,424	1,581	1,475	1,528	1,561
Gross profit	801	405	506	511	431	383
EBITDA	801	405	506	511	431	383
Depreciation	41	54	100	91	125	133
Amortisation	1	7	47	5	3	3
EBIT	759	345	359	416	303	247
Net interest income(expense)	-66	-86	-64	-49	-73	-65
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	-2	7	10	-1	4	4
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	691	266	305	366	234	186
Income tax expense	116	47	42	55	33	26
Minorities	7	1	2	6	2	2
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	568	217	262	305	199	158
DB adjustments (including dilution)	2	-1	32	2	-4	-4
DB Net profit	570	216	294	307	195	155

Cash Flow (USDm)

Cash flow from operations	505	119	235	330	325	332
Net Capex	-378	-428	-277	-256	-320	-280
Free cash flow	126	-310	-42	74	5	52
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-40	-39	-78	-77	-39	-39
Net inc/(dec) in borrowings	542	51	7	90	390	-140
Other investing/financing cash flows	-58	5	-93	3	0	0
Net cash flow	571	-294	-206	90	356	-127
Change in working capital	-111	-128	-103	-9	0	0

Balance Sheet (USDm)

Cash and other liquid assets	890	597	390	472	828	701
Tangible fixed assets	925	1,348	1,534	1,215	1,410	1,557
Goodwill/intangible assets	103	112	117	81	81	81
Associates/investments	137	105	234	231	231	231
Other assets	444	597	657	537	537	615
Total assets	2,499	2,758	2,932	2,537	3,088	3,185
Interest bearing debt	970	1,020	1,029	1,118	1,508	1,368
Other liabilities	136	191	168	123	123	201
Total liabilities	1,106	1,211	1,197	1,241	1,631	1,569
Shareholders' equity	1,373	1,527	1,713	1,280	1,439	1,597
Minorities	20	21	22	15	17	19
Total shareholders' equity	1,393	1,547	1,735	1,295	1,457	1,616
Net debt	80	423	639	646	680	666

Key Company Metrics

Sales growth (%)	38.1	-20.4	11.0	-6.7	3.6	2.1
DB EPS growth (%)	30.2	-62.1	36.0	4.3	-36.3	-20.9
EBITDA Margin (%)	44.8	28.5	32.0	34.7	28.2	24.6
EBIT Margin (%)	42.4	24.2	22.7	28.2	19.8	15.8
Payout ratio (%)	6.8	35.5	29.5	12.7	19.4	24.4
ROE (%)	51.2	15.0	16.2	20.4	14.6	10.4
Capex/sales (%)	21.2	30.1	17.6	17.4	20.9	17.9
Capex/depreciation (x)	9.0	7.7	2.8	2.8	2.5	2.1
Net debt/equity (%)	5.8	27.4	36.8	49.9	46.7	41.2
Net interest cover (x)	11.5	4.0	5.6	8.5	4.1	3.8

Source: Company data, Deutsche Bank estimates

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Figure 49: Ferrexpo Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	FY10	FY11	FY12	FY13F	FY14F	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F	NPV	US\$m	US\$/share
UAH/USD	7.85	7.98	8.10	8.25	11.13	12.00	12.00	12.00	12.00	12.00	12.00	Iron ore	3662	6.26
Spot 62% fines CIF China	146.7	167.8	123.8	129.8	104.0	95.8	90.0	88.0	95.0	98.3	101.8	Oil investments	10	0.02
Received prices												Port facilities	0	0.00
Pellets - 62% grade (US\$/t)	121.6	151.3	114.1	116.9	93.9	90.2	82.9	72.4	79.4	82.2	85.2	Development projects	0	0.00
Pellets - 65% grade (US\$/t)	127.5	166.8	135.4	142.4	114.2	107.3	101.3	91.2	98.5	102.0	105.6	Total operations	3672	6.27
Iron ore concentrate (US\$/t)	79.0	98.4	80.4	87.7	72.0	69.2	63.8	55.9	61.1	63.3	65.6	Less net debt	-639	-1.09
PRODUCTION												Less minorities	-116	-0.20
Pellets - 62% (kt)	5,153	5,012	5,572	5,825	4,019	-	-	-	-	-	-	Total to shareholders	2918	4.99
Pellets - 65% (kt)	4,879	4,799	4,118	4,988	7,418	11,895	12,118	11,944	11,951	11,951	11,951	Ordinary shares outstanding		585
Concentrate sold (kt)	-	-	-	-	-	-	1,018	8,201	8,549	8,549	8,549		£ mn	£/share
Total product	10,031	9,811	9,690	10,813	11,437	11,895	13,136	20,145	20,500	20,500	20,500	Total to shareholders	1824	3.12
REVENUE, US\$m												£/US	1.60	
Pellets - 62% grade	607	750	631	677	381	-	-	-	-	-	-	WACC	10.4%	
Pellets - 65% grade	607	798	552	704	849	1,276	1,227	1,089	1,177	1,219	1,262	No. of shares		
Concentrate sold	-	-	-	-	-	-	65	458	523	541	561	Revenue split (2013F)		
Others	81	241	241	201	246	252	269	365	370	383	396			
Total	1,295	1,788	1,424	1,581	1,475	1,528	1,561	1,912	2,070	2,143	2,219	NPV Split		
Costs, US\$m														
Mining Costs	176	243	292	310	277	324	357	491	529	547	567			
Processing costs - own ore	202	247	285	308	262	300	313	330	352	364	377			
Distribution costs	127	128	130	140	138	142	157	241	245	245	245			
Processing costs - other ore	11	8	3	4	2	-	-	-	-	-	-			
Cost of purchased concentrate	101	103	29	35	16	-	-	-	-	-	-			
General and administration costs	49	52	56	55	48	49	49	49	49	51	53			
Other costs	42	206	222	223	221	282	302	409	417	432	447			
Total costs	710	987	1,019	1,075	964	1,097	1,178	1,520	1,592	1,639	1,687			
Key Operating Costs (US\$/t)														
Mine C1 costs	38.8	50.7	59.9	59.8	49.2	55.3	53.8	43.1	45.5	47.1	48.7			
Costs including distribution	51.5	63.8	73.3	70.4	61.1	67.3	65.8	55.1	57.4	59.0	60.7			
CAPEX, US\$m														
Growth Capex	100	249	321	219	215	245	190	-	-	-	-			
Sustaining Capex	67	116	108	104	41	75	90	91	91	94	97			
Total Capex	167	365	429	323	257	320	280	91	91	94	97			
Key Ratios														
EBITDA Margin	45%	45%	28%	32%	35%	28%	25%	21%	23%	24%	24%			
EBIT Margin	42%	42%	24%	23%	28%	20%	16%	13%	16%	17%	18%			
Net Profit Margin	33%	32%	15%	17%	21%	13%	10%	9%	12%	13%	14%			

Source: Deutsche Bank estimates, Company Data



Investment Thesis - Ferrexpo

Outlook

Ferrexpo is sitting on very significant iron ore resources that could support both significant expansions and significant mine lives. Ferrexpo also has upside potential from moving its achieved price for iron ore pellets from the current local price, which is in line with fines prices, to the pellet price achieved by its international peers. With the stock trading below our price target, we have a Buy recommendation.

Valuation

Our share price target is in line with our DCF-derived NAV and consistent with the sector. We use DCF analysis over the life of the mine to value the company. Our WACC assumption of 10.4% includes a target debt to equity of 40% broadly reflecting the group's current position and medium-term projections. This assumes a CoD of 7.9%, CoE of 13%, beta of 1.3x and a tax rate of 18% (RFR of 5.5%, ERP of 6%) we have included value for the upgrade of the pellet plant and the implementation of the Yeristovskoe projects.

Risks

Risks include variation in the performance of the Hryvnia or the iron ore price from our expectations. This includes the impact of regional demand in Eastern Europe on the regional price of iron ore. With the Ukraine demonstrating periods of volatile and high cost inflation, cost performance remains a point of risk for our earnings expectations. Other risks include the size, scope and delivery schedule of growth projects.



Model updated: 05 August 2014

Running the numbers

Europe

United Kingdom

Gold

Fresnillo

Reuters: FRES.L

Bloomberg: FRES LN

Hold

Price (2 Sep 14) GBP 952.50

Target Price GBP 860.00

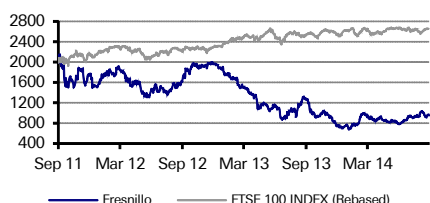
52 Week range GBP 674.50 - 1,281.00

Market Cap (m) GBpm 7,019
USDm 11,662

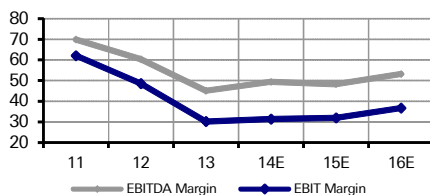
Company Profile

Fresnillo is the world's largest primary silver producer and a significant gold producer. All its operations are currently based in the highly prospective gold and silver belts of Mexico. The group currently has five operating mines, two advanced stage development and four medium-term growth projects, as well as significant land holdings in Mexico. Fresnillo's goal is to double production silver and gold by 2018, equating to 65Moz of silver and over 400koz of gold.

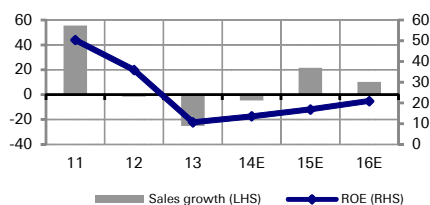
Price Performance



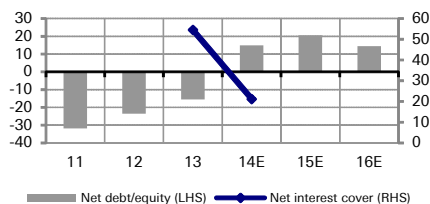
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	1.10	0.91	0.38	0.32	0.41	0.56
Reported EPS (USD)	1.26	1.03	0.33	0.37	0.41	0.56
DPS (USD)	1.03	0.58	0.34	0.24	0.29	0.38
BVPS (USD)	2.6	3.1	3.1	2.4	2.5	2.8
Weighted average shares (m)	717	717	737	737	737	737
Average market cap (USDm)	18,354	19,191	13,455	11,662	11,662	11,662
Enterprise value (USDm)	17,378	18,331	13,002	11,929	12,134	12,055

Valuation Metrics

P/E (DB) (x)	23.3	29.4	48.4	48.7	38.3	28.5
P/E (Reported) (x)	20.4	26.1	56.0	42.8	38.3	28.5
P/BV (x)	9.11	9.63	3.99	6.67	6.26	5.66
FCF Yield (%)	4.3	1.2	nm	0.8	0.5	3.2
Dividend Yield (%)	4.0	2.2	1.9	1.5	1.8	2.4
EV/Sales (x)	7.9	8.5	8.0	7.7	6.5	5.8
EV/EBITDA (x)	11.3	14.1	17.9	15.7	13.4	11.0
EV/EBIT (x)	12.8	17.5	26.7	24.6	20.3	15.9

Income Statement (USDm)

Sales revenue	2,193	2,157	1,615	1,541	1,873	2,065
Gross profit	1,736	1,598	1,000	973	1,116	1,199
EBITDA	1,533	1,301	727	761	904	1,097
Depreciation	172	254	239	277	305	340
Amortisation	0	0	0	0	0	0
EBIT	1,361	1,047	488	484	599	758
Net interest income(expense)	-1	8	-9	-23	4	2
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	160	118	-54	47	0	0
Other pre-tax income/(expense)	15	-8	-6	-36	-77	-93
Profit before tax	1,535	1,165	418	473	525	668
Income tax expense	496	319	158	148	152	194
Minorities	137	109	21	52	68	64
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	902	736	240	273	305	410
DB adjustments (including dilution)	-115	-84	38	-33	0	0
DB Net profit	787	652	278	239	305	410

Cash Flow (USDm)

Cash flow from operations	1,249	736	446	683	663	817
Net Capex	-460	-506	-560	-591	-609	-444
Free cash flow	790	230	-114	92	54	373
Equity raised/(bought back)	0	0	346	0	0	0
Dividends paid	-787	-424	-505	-119	-242	-296
Net inc/(dec) on borrowings	0	0	830	0	0	0
Other investing/financing cash flows	123	120	81	-713	40	36
Net cash flow	125	-73	638	-740	-149	113
Change in working capital	0	0	0	0	0	0

Balance Sheet (USDm)

Cash and other liquid assets	685	613	1,252	512	363	476
Tangible fixed assets	1,194	1,480	1,838	2,144	2,448	2,552
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	573	615	436	478	442	408
Other assets	407	562	558	484	525	553
Total assets	2,859	3,270	4,084	3,618	3,779	3,990
Interest bearing debt	0	0	836	837	837	837
Other liabilities	710	669	576	611	639	653
Total liabilities	710	669	1,412	1,448	1,476	1,490
Shareholders' equity	1,868	2,233	2,273	1,749	1,861	2,059
Minorities	282	369	399	421	441	441
Total shareholders' equity	2,149	2,602	2,672	2,170	2,303	2,501
Net debt	-685	-613	-415	325	474	360

Key Company Metrics

Sales growth (%)	55.5	-1.6	-25.1	-4.6	21.5	10.2
DB EPS growth (%)	48.4	-17.2	-58.5	-13.9	27.3	34.5
EBITDA Margin (%)	69.9	60.3	45.0	49.4	48.2	53.1
EBIT Margin (%)	62.1	48.5	30.2	31.4	32.0	36.7
Payout ratio (%)	81.7	56.4	104.6	64.5	69.2	68.4
ROE (%)	50.4	35.9	10.7	13.5	16.9	20.9
Capex/sales (%)	21.3	24.1	35.4	38.7	32.5	21.5
Capex/depreciation (x)	2.7	2.0	2.4	2.2	2.0	1.3
Net debt/equity (%)	-31.9	-23.6	-15.5	15.0	20.6	14.4
Net interest cover (x)	nm	nm	54.5	21.2	nm	nm

Source: Company data, Deutsche Bank estimates

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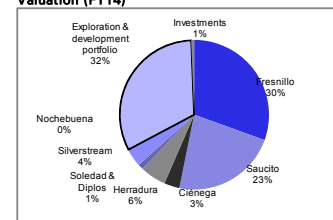
anna.mulholland@db.com



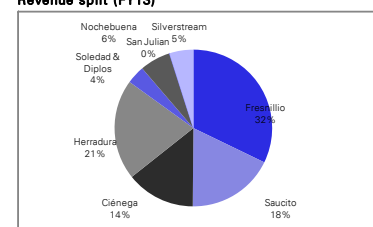
Figure 50: Fresnillo Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	CY12	CY13	CY14F	CY15F	CY16F	CY17F	CY18F	CY19F	CY20F	NPV (FY14)	US\$m	US\$ps	£ps
Silver	31	24	20	20	19	19	20	25	25	Fresnillo	3011	4.09	2.72
Gold	1671	1413	1289	1163	1150	1125	1200	1598	1654	Saucito	2238	3.04	2.03
Copper	361	334	309	302	295	327	340	340	352	Ciénega	329	0.45	0.30
Zinc	89	88	94	105	108	112	115	120	124	Herradura	562	0.76	0.51
Lead	94	98	96	104	105	107	108	112	115	Soledad & Diplos	65	0.09	0.06
Mexican Pesos	13.2	12.8	13.2	12.9	12.9	12.9	12.9	12.9	12.9	Nochebuena	-36	-0.05	-0.03
UK £ / US\$	0.63	0.64	0.61	0.64	0.72	0.72	0.72	0.72	0.72	Silverstream	395	0.54	0.36
										Exploration & developm	3173	4.31	2.87
										Investments	62	0.08	0.06
KEY FINANCIAL METRICS										Total Operational	9942	13.49	8.99
Profit After Tax (US\$m)	845	261	325	373	474	457	542	752	588	Corporate / unallocated	-968	-1.31	-0.88
Cash Generated for Operations (US\$m)	1250	784	864	813	991	991	1078	1340	1095	Net (Debt)/Cash	-325	-0.44	-0.29
Capex (incl. expl. and divestments (US\$m))	520	572	596	609	444	284	200	204	190	Total	8649	11.74	7.82
Dividend (US\$m)	424	505	119	242	296	345	360	446	411				
Other investment inflow / (outflow)	117	70	60	45	41	43	52	72	82				
Net Cash Flow (US\$m)	-74	637	-738	-149	113	209	359	471	321				
Net Debt / (Cash) - US\$m	-613	-415	325	474	360	151	-207	-678	-1000				
Gearing (ND/E - %)	-24%	-16%	15%	21%	14%	6%	-7%	-22%	-30%				
ROE (%)	32%	10%	15%	16%	19%	18%	19%	24%	18%				
ROA (%)	26%	6%	9%	10%	12%	11%	13%	16%	12%				
EPS (USc)	0.91	0.38	0.32	0.41	0.56	0.53	0.63	0.91	0.78				
EPS Change (%)	-17%	-58%	-15%	27%	35%	-5%	18%	45%	-14%				
EPS CAGR since FY12 (%)	-58%	-40%	-23%	-12%	-10%	-6%	0%	0%	-2%				
DPS (USc)	0.58	0.34	0.24	0.29	0.38	0.36	0.42	0.59	0.53				
Payout ratio (%)	64%	89%	73%	69%	68%	68%	67%	64%	68%				
PRODUCTION													
Attributable production													
Silver	36,939	38,796	39,096	49,817	60,250	61,466	61,662	60,717	60,444				
Silverstream	4,035	3,946	3,806	2,866	2,866	2,866	2,866	2,866	2,866				
Total silver	40,974	42,742	42,902	52,683	63,116	64,331	64,528	63,582	63,310				
Gold	473	411	439	529	553	562	549	440	250				
Zinc	25	25	34	48	57	59	59	59	62				
Lead	25	26	31	45	56	60	60	60	61				
Consolidated production													
Silver	37,076	38,963	39,315	49,945	60,369	61,573	61,751	60,776	60,474				
Gold	888	584	636	798	822	844	833	638	303				
Zinc	25	25	34	48	57	59	59	59	62				
Lead	25	26	31	45	56	60	60	60	61				
Copper Equivalent production	285	269	287	365	411	422	420	376	305				
Gold Equivalent production	1,337	1,265	1,345	1,713	1,931	1,982	1,973	1,763	1,430				
Gold Equivalent CAGR (%)	-5%	0%	9%	10%	8%	7%	4%	1%					
Revenue													
Fresnillo	899	580	483	619	643	639	675	815	844				
Saucito	290	324	345	458	464	454	475	572	595				
Ciénega	322	256	238	163	158	156	174	215	217				
Herradura	582	372	440	490	475	491	566	516	-				
Soledad & Diplos	178	68	-	111	122	119	91	73	78				
Nochebuena	110	115	134	98	93	99	104	116	120				
San Julian	-	-	109	165	156	154	164	202	209				
Silverstream	125	89	75	56	54	53	56	69	72				
Total	2,505	1,803	1,824	2,159	2,166	2,166	2,305	2,578	2,135				
EBITDA													
Fresnillo	629	354	267	363	372	359	391	523	543				
Saucito	195	216	227	297	299	283	300	392	409				
Ciénega	219	146	105	44	34	23	38	77	75				
Herradura	420	221	280	313	291	299	370	352	-				
Soledad & Diplos	102	1	-	45	53	48	29	21	25				
Nochebuena	81	65	50	27	23	29	33	43	44				
San Julian	-	-	74	160	146	138	155	219	215				
Silverstream	109	61	49	36	34	33	37	49	51				
Total	1,755	1,064	1,052	1,284	1,251	1,211	1,353	1,677	1,363				
CAPEX													
Fresnillo	86	87	78	56	56	56	37	38	39				
Saucito	54	102	132	152	152	32	37	38	39				
Ciénega	82	58	40	30	30	30	30	30	31				
Herradura	109	230	70	20	20	20	20	21	-				
Soledad & Diplos	9	30	10	10	10	10	10	10	11				
Nochebuena	42	50	36	36	36	36	36	37	38				
San Julian	-	240	230	185	40	40	40	41	42				
Other	76	40	-	120	-	-	-	-	-				
Total	458	837	596	609	344	224	210	215	201				
EBITDA Margin													
Fresnillo	70%	61%	55%	59%	58%	56%	58%	64%	64%				
Saucito	67%	67%	66%	65%	64%	62%	63%	69%	69%				
Ciénega	68%	57%	44%	27%	21%	15%	22%	36%	35%				
Herradura	72%	60%	64%	64%	61%	61%	65%	68%	NM				
Soledad & Diplos	57%	2%	NM	40%	43%	40%	32%	29%	32%				
Nochebuena	74%	56%	37%	28%	24%	29%	32%	37%	37%				
San Julian	-	-	68%	97%	94%	89%	95%	108%	102%				
Silverstream	87%	69%	65%	65%	63%	63%	65%	71%	71%				
Total	70%	59%	58%	59%	58%	56%	59%	65%	64%				

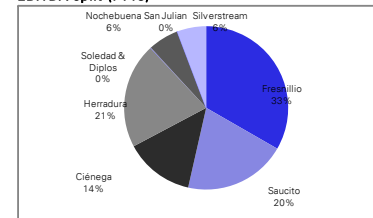
Valuation (FY14)



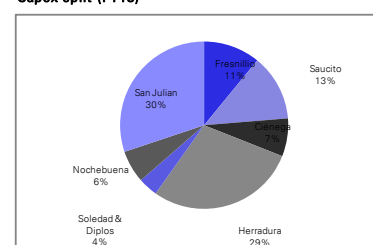
Revenue split (FY13)



EBITDA split (FY13)



Capex split (FY13)



Source: Deutsche Bank



Investment Thesis - Fresnillo

Outlook

Fresnillo is the world's largest primary silver producer (43Moz in 2013, or 6% of global mined supply), and a significant gold producer as well (425 koz in 2013). We believe the company is in a good position to successively grow volumes through the addition of three new mines and a series of brownfield expansions over the next four to five years. Growth in the next two years is more muted, however, as grades decrease at four of its five mines. Fresnillo is the quality company in the sector in our view, in terms of delivering production growth and controlling costs although prevailing weak silver and gold prices are likely to squeeze margins in the next 12 months. Hold.

Valuation

Our price target is based on 1.1x NAV, which is a premium to peers due to the company's track record for delivery, but is below the bottom end of the company's recent trading history given the potential for mark-to-market downgrades on spot commodity prices. Our NAV is based on life-of-mine cash flows, using a long-term gold price of US\$1300/oz and a silver price of US\$20/oz. The WACC of 6.4% is based on a risk-free rate of 4%, a market risk premium of 6%, a Beta of 0.4, and 0% gearing.

Risks

A key risk is higher or lower than expected silver and gold prices. The company has an excellent exploration track record and could surprise on the upside by discovering significant resources of silver and gold, leading to an upgrade in future production expectations or improving grades at the large Fresnillo mine. The company has an extensive project pipeline over the medium term, and the key risk here is higher capex and a later start than we have assumed. A deterioration in community relations could result in production interruptions.



Model updated: 20 August 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

Glencore

Reuters: GLEN.L

Bloomberg: GLEN LN

Buy

Price (2 Sep 14) GBP 367.55

Target Price GBP 400.00

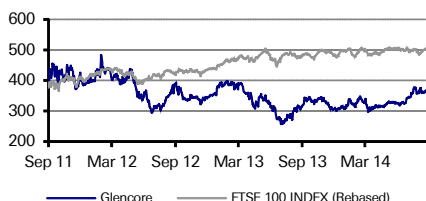
52 Week range GBP 297.00 - 377.50

Market Cap (m) GBpm 48,805
USDm 81,087

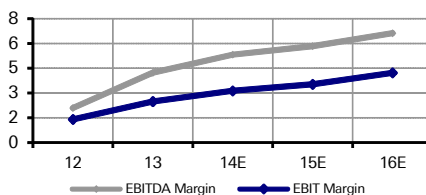
Company Profile

Glencore is one of the world's leading integrated producers and marketers of commodities, covering metals and minerals, energy and agricultural commodities. The company has worldwide activities in production, sourcing, processing, refining, transporting, storage and financing of commodities. The recent merger with Xstrata has significantly increased its mining output and moved it from a trading dominated to mining dominated company.

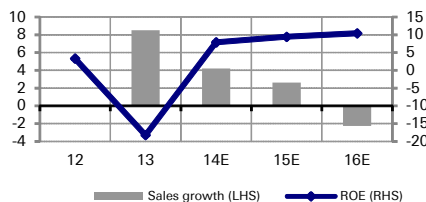
Price Performance



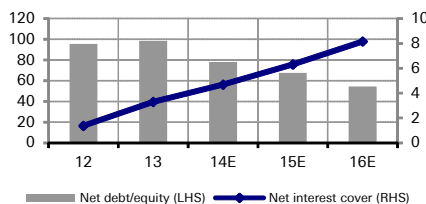
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014E	2015E	2016E
DB EPS (USD)	0.07	0.32	0.34	0.43	0.52
Reported EPS (USD)	0.14	-0.65	0.32	0.43	0.52
DPS (USD)	0.16	0.17	0.18	0.19	0.19
BVPS (USD)	4.4	3.8	4.5	4.8	5.2
Weighted average shares (m)	7,011	11,141	13,278	13,140	13,120
Average market cap (USDm)	40,987	57,866	81,087	81,087	81,087
Enterprise value (USDm)	51,412	91,670	109,346	105,439	99,414

Valuation Metrics

	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	80.7	16.1	18.2	14.1	11.7
P/E (Reported) (x)	43.3	nm	19.4	14.1	11.7
P/BV (x)	1.30	1.37	1.36	1.27	1.18
FCF Yield (%)	3.4	nm	nm	7.5	10.1
Dividend Yield (%)	2.7	3.2	3.0	3.0	3.1
EV/Sales (x)	0.2	0.4	0.5	0.4	0.4
EV/EBITDA (x)	11.5	9.3	8.5	7.3	6.2
EV/EBIT (x)	17.1	15.9	14.4	12.0	9.7

Income Statement (USDm)

	2012	2013	2014E	2015E	2016E
Sales revenue	214,436	232,694	242,477	248,831	243,182
Gross profit	5,474	9,825	12,898	14,539	16,099
EBITDA	4,477	9,825	12,898	14,539	16,099
Depreciation	1,473	4,049	5,319	5,771	5,846
Amortisation	0	0	0	0	0
EBIT	3,004	5,776	7,578	8,768	10,253
Net interest income(expense)	-2,184	-1,751	-1,617	-1,391	-1,258
Associates/affiliates	367	0	0	0	0
Exceptionals/extraordinary	0	-11,068	-74	0	0
Other pre-tax income/(expense)	-111	-1	41	81	81
Profit before tax	1,076	-7,044	5,927	7,458	9,076
Income tax expense	-76	254	1,395	1,475	1,979
Minorities	148	104	231	204	264
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,004	-7,402	4,302	5,779	6,834
DB adjustments (including dilution)	-466	11,068	290	0	0
DB Net profit	538	3,666	4,592	5,779	6,834

Cash Flow (USDm)

	2012	2013	2014E	2015E	2016E
Cash flow from operations	4,381	9,184	7,952	13,248	13,134
Net Capex	-3,005	-9,329	-8,866	-7,202	-5,077
Free cash flow	1,376	-145	-914	6,046	8,057
Equity raised/(bought back)	0	10	-780	-250	0
Dividends paid	-1,066	-2,062	-2,254	-2,429	-2,452
Net inc/(dec) in borrowings	6,123	558	251	-3,776	-5,249
Other investing/financing cash flows	-4,956	1,706	4,967	540	420
Net cash flow	1,477	67	1,271	131	776
Change in working capital	727	2,599	-1,991	995	192

Balance Sheet (USDm)

	2012	2013	2014E	2015E	2016E
Cash and other liquid assets	2,782	2,849	4,120	4,251	5,026
Tangible fixed assets	23,238	67,507	69,979	71,410	70,641
Goodwill/intangible assets	2,664	9,053	9,100	9,100	9,100
Associates/investments	25,353	21,724	23,707	23,707	23,707
Other assets	51,500	53,799	58,650	55,897	55,464
Total assets	105,537	154,932	165,556	164,365	163,938
Interest bearing debt	35,526	55,185	52,872	49,096	43,847
Other liabilities	35,711	46,598	50,233	48,975	48,733
Total liabilities	71,237	101,783	103,105	98,071	92,580
Shareholders' equity	31,266	49,957	59,237	63,080	68,144
Minorities	3,034	3,192	3,214	3,214	3,214
Total shareholders' equity	34,300	53,149	62,451	66,294	71,358
Net debt	32,744	52,336	48,752	44,845	38,821

Key Company Metrics

	2012	2013	2014E	2015E	2016E
Sales growth (%)	nm	8.5	4.2	2.6	-2.3
DB EPS growth (%)	na	345.9	4.2	28.6	20.4
EBITDA Margin (%)	2.1	4.2	5.3	5.8	6.6
EBIT Margin (%)	1.4	2.5	3.1	3.5	4.2
Payout ratio (%)	111.0	nm	56.7	42.3	36.2
ROE (%)	3.3	-18.2	7.9	9.4	10.4
Capex/sales (%)	1.5	4.1	3.7	2.9	2.1
Capex/depreciation (x)	2.1	2.4	1.7	1.2	0.9
Net debt/equity (%)	95.5	98.5	78.1	67.6	54.4
Net interest cover (x)	1.4	3.3	4.7	6.3	8.2

Source: Company data, Deutsche Bank estimates

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Investment Thesis - Glencore

Outlook

Glencore Xstrata's unique integrated business model allows the company to leverage not only the growth in global commodity demand, but also growth in global commodity trade. Its merger with Xstrata has transformed the business from a trading dominated (by earnings) business to a fully fledged miner. Its large group of industrial or producing assets offers price exposure to a diversified basket of commodities including metals, agricultural products and energy products. Its trading business is a key differentiator versus the diversified miners, able to leverage the trend of increased commodity price volatility and the preferential growth of commodity trading. Glencore's current asset base can deliver superior production growth over the next two years compared with the other miners. The equity market remains sceptical on the sustainability of the marketing earnings in a range of commodity price and trading environments which should only improve as its track record develops. Buy.

Valuation

We value Glencore using discounted cash flow analysis on its life of asset cash flows. We use a WACC of 10.1% (CoD 6%, Gearing target 30%, Tax rate 20% and RFR 4%) Our price target is set at our valuation in line with the sector.

Risks

Weaker commodity prices or stronger operating currencies than expected are key downside risks to our earnings and valuation forecasts. Key stock-specific downside risks: Some of Glencore's key growth assets are in less politically stable regions, such as the Democratic Republic of Congo (DRC) and Equatorial Guinea, which introduces a higher degree of sovereign risk. Of the large miners, we view Glencore as the most likely to undertake further M&A in the near term-transactions are usually viewed sceptically by the market in the first instance and could lead to price underperformance.



Model updated: 21 August 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

Kazakhmys PLC

Reuters: KAZ.L

Bloomberg: KAZ LN

Hold

Price (2 Sep 14) GBP 307.00

Target Price GBP 318.00

52 Week range GBP 171.50 - 354.00

Market Cap (m) GBpm 1,372

USDm 2,280

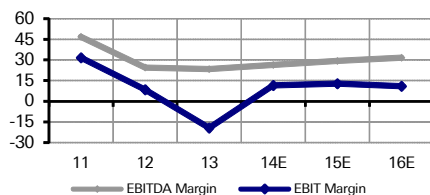
Company Profile

Kazakhmys is a Top 10 global copper producer, Top 5 in silver, an expanding zinc producer, enjoys bottom quartile costs, has expansion and acquisition potential and close proximity to key end-consumer, China. Kazakhmys listed in London recently and entered the FTSE 100 index. Its assets are all located in Kazakhstan.

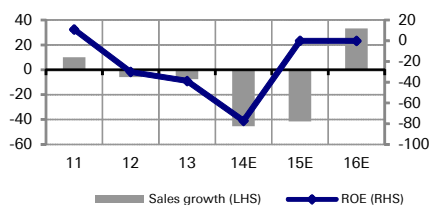
Price Performance



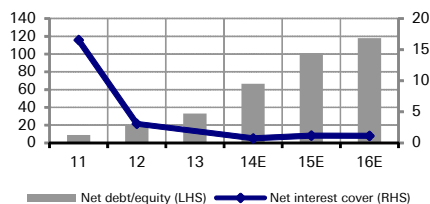
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	2.76	0.94	0.37	0.04	0.00	0.00
Reported EPS (USD)	1.74	-4.32	-3.96	-5.44	0.00	0.00
DPS (USD)	0.28	0.11	0.00	0.00	0.00	0.00
BVPS (USD)	16.7	12.0	9.4	4.6	4.6	4.6
Weighted average shares (m)	534	526	513	447	447	447
Average market cap (USDm)	10,271	6,790	3,050	2,280	2,280	2,280
Enterprise value (USDm)	5,049	3,910	2,296	1,437	2,157	2,501

Valuation Metrics

	2011	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	7.0	13.8	16.1	130.1	nm	nm
P/E (Reported) (x)	11.0	nm	nm	nm	nm	nm
P/BV (x)	0.86	1.06	0.38	1.10	1.10	1.10
FCF Yield (%)	5.4	nm	nm	nm	nm	nm
Dividend Yield (%)	1.5	0.9	0.0	0.0	0.1	0.0
EV/Sales (x)	1.4	1.2	0.7	0.9	2.2	1.9
EV/EBITDA (x)	3.0	4.8	3.2	3.2	7.5	6.0
EV/EBIT (x)	4.5	13.9	nm	7.4	17.1	17.5

Income Statement (USDm)

	2011	2012	2013	2014E	2015E	2016E
Sales revenue	3,563	3,353	3,099	1,690	989	1,317
Gross profit	1,669	819	722	445	289	416
EBITDA	1,669	819	722	445	289	416
Depreciation	264	278	288	152	103	193
Amortisation	280	260	1,036	99	60	80
EBIT	1,125	281	-602	194	126	143
Net interest income(expense)	-68	-91	-79	-264	-106	-126
Associates/affiliates	94	-2,374	-1,224	207	0	0
Exceptionals/extraordinary	0	0	0	-3,038	0	0
Other pre-tax income/(expense)	0	0	0	-32	-20	-20
Profit before tax	1,623	-2,204	-681	-3,140	0	-2
Income tax expense	221	86	127	-505	0	0
Minorities	0	0	0	1	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	930	-2,270	-2,032	-2,429	0	-2
DB adjustments (including dilution)	545	2,763	2,222	2,447	0	0
DB Net profit	1,475	493	190	18	0	-2

Cash Flow (USDm)

	2011	2012	2013	2014E	2015E	2016E
Cash flow from operations	1,140	620	70	896	298	154
Net Capex	-589	-1,019	-1,542	-1,335	-1,018	-497
Free cash flow	551	-399	-1,472	-439	-720	-343
Equity raised/(bought back)	-83	-88	0	0	0	0
Dividends paid	-129	-121	-42	0	0	-1
Net inc/(dec) in borrowings	-3	569	683	-471	338	-162
Other investing/financing cash flows	-351	178	1,296	457	0	0
Net cash flow	-15	139	465	-452	-382	-505
Change in working capital	154	70	-13	470	-79	-37

Balance Sheet (USDm)

	2011	2012	2013	2014E	2015E	2016E
Cash and other liquid assets	1,102	1,246	1,715	1,263	881	375
Tangible fixed assets	2,700	3,062	3,312	2,048	2,962	3,266
Goodwill/intangible assets	53	64	52	271	271	271
Associates/investments	6,412	4,088	1,293	1,265	1,265	1,265
Other assets	1,464	1,533	2,247	328	470	536
Total assets	11,731	9,993	8,619	5,174	5,849	5,714
Interest bearing debt	1,893	2,468	3,111	2,645	2,984	2,822
Other liabilities	1,006	1,260	1,287	451	789	817
Total liabilities	2,899	3,728	4,398	3,096	3,772	3,639
Shareholders' equity	8,825	6,259	4,217	2,073	2,072	2,070
Minorities	7	6	4	5	5	5
Total shareholders' equity	8,832	6,265	4,221	2,078	2,077	2,075
Net debt	791	1,222	1,396	1,383	2,103	2,447

Key Company Metrics

	2011	2012	2013	2014E	2015E	2016E
Sales growth (%)	10.1	-5.9	-7.6	-45.5	-41.5	33.2
DB EPS growth (%)	1.9	-66.1	-60.5	-89.4	na	-1,315.3
EBITDA Margin (%)	46.8	24.4	23.3	26.3	29.2	31.6
EBIT Margin (%)	31.6	8.4	-19.4	11.5	12.7	10.9
Payout ratio (%)	16.1	nm	nm	nm	nm	nm
ROE (%)	10.9	-30.1	-38.8	-77.2	0.0	-0.1
Capex/sales (%)	16.5	30.4	49.8	79.0	103.0	37.7
Capex/depreciation (x)	2.2	3.7	5.4	8.8	9.8	2.6
Net debt/equity (%)	9.0	19.5	33.1	66.5	101.2	117.9
Net interest cover (x)	16.5	3.1	nm	0.7	1.2	1.1

Source: Company data, Deutsche Bank estimates

Rob Clifford

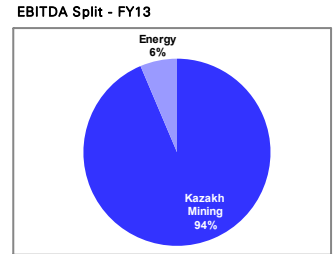
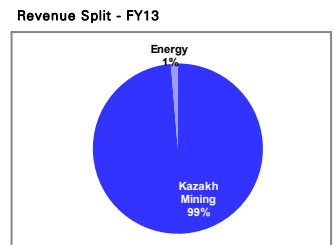
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Figure 52: Kazakhmys Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	CY10A	CY11A	CY12A	CY13F	CY14F	CY15F	CY16F	CY17F	CY18F	CY19F	CY20F	Valuation (FY13)	US\$m	US\$/s	£/s
US\$EUR	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	Kazakh Mining	0	0.00	0.00
LME Copper - US\$/lb	3.43	4.06	3.61	3.34	3.09	3.02	2.95	3.27	3.40	3.40	3.52	MKM	0	0.00	0.00
Zinc - US\$/lb	0.98	1.01	0.89	0.88	0.94	1.05	1.08	1.12	1.15	1.20	1.24	ENRC (26%)	0	0.00	0.00
Gold - US\$/oz	1,226	1,570	1,671	1,413	1,257	1,163	1,150	1,125	1,200	1,598	1,654	Dostan-Temir LLP	0	0.00	0.00
Silver - US\$/oz	20.2	35.2	31.3	23.9	20.0	19.8	19.0	18.8	20.0	24.6	25.4	Power	0	0.00	0.00
												Eurasia Gold	0	0.00	0.00
												Total operations	0	0.00	0.00
												Corp/other	0	0.00	0.00
												Less net debt	-418	-0.93	-0.58
												Less minorities	0	0.00	0.00
												Total	-418	-0.93	-0.58
KEY FINANCIAL METRICS												WACC	10.48%		
Underlying Earnings (US\$m)	1450	1475	493	191	18	0	-2	359	534	545	437	Valuation Split (FY13)			
Operating Cash Flow	1046	1140	620	70	896	298	154	434	767	836	763				
Capex (incl. explorations) and Divestments (US\$m)	720	604	1209	650	309	1018	497	216	193	182	150				
Dividend (US\$m)	80	129	121	42	0	0	1	14	36	43	39				
Free Cash Flow before Debt and Equity (US\$m)	-97	66	-341	-213	49	-720	-344	204	538	611	574				
Net Debt (US\$m)	-350	19	-707	-771	-418	-1138	-1482	-1278	-739	-128	445				
Gearing (ND/E - %)	4%	0%	11%	18%	20%	55%	72%	53%	26%	4%	-12%				
ROE (%)	18%	11%	-36%	-48%	-117%	0%	0%	15%	18%	16%	12%				
ROA (%)	10%	10%	4%	1%	3%	2%	2%	9%	12%	11%	9%				
EPS (Usc)	271	174	104	-396	-544	0	0	80	120	122	98				
EPS Change (%)	162%	-36%	-40%	-481%	37%	-100%	1317%	-18532%	49%	2%	-20%				
EPS CAGR (%) - off CY12 earnings				-481% nm		-107%	-100%	-5%	2%	2%	-1%				
DPS (Usc)	22	28	20	0	0	0	0	6	10	10	8				
Payout ratio (%)	8%	16%	19%	0%	0%	-1019%	0%	8%	8%	8%	8%				
PRODUCTION															
Copper cathode Eq from own ore	303	298	292	294	292	312	331	334	318	307	280				
Copper cathodes from own conc	303	298	292	263	176	168	170	172	154	141	113				
Copper sold in conc	0	0	0	32	116	144	161	162	164	166	167				
Zinc in conc	167	140	152	134	119	108	104	104	67	54	30				
Silver (Moz)	14.1	13.1	12.6	14.3	8.6	11.6	11.7	11.8	10.0	9.5	8.6				
Gold (koz)	136	124	128	109	101	131	135	136	132	127	113				
Ekbastuz power production (GWhr)	11065	12697	14368	12785											
External sales from captive power plants		2547	2098	2366	2784	3466	3481	3464	3463	3462	3477				
Revenue (US\$m)															
Kazakh Mining	3182	3548	1785	3003	1648	989	1317	2244	2611	2607	2171				
Energy	0	0	0	41	42	0	0	0	0	0	0				
Other Operations	54	0	0	0	0	0	0	0	0	0	0				
Others/Corporate/Hedging/Unallocated	0	15	-39	55	0	0	0	0	0	0	0				
Total Revenue	3237	3563	1746	3099	1690	989	1317	2244	2611	2607	2171				
Capex (US\$m)															
Maintenance	380	420	230	422	239	164	189	216	193	182	150				
Expansionary	211	169	26	1120	1096	854	308	0	0	0	0				
Total	590	589	256	1542	1335	1018	497	216	193	182	150				
EBITDA															
Kazakh Mining	1715	1808	831	705	0	0	0	0	0	0	0				
Energy	0	0	0	48	0	0	0	0	0	0	0				
Other Operations	28	0	0	0	0	0	0	0	0	0	0				
Others/Corporate/Hedging/Unallocated	-170	-139	-115	-31	0	0	0	0	0	0	0				
Total EBITDA	1573	1669	716	722	0	0	0	0	0	0	0				
EBITDA Margin (%)															
Kazakh Mining	54%	51%	47%	23%	0%	0%	0%	0%	0%	0%	0%				
Energy	0%	0%	0%	117%	0%	0%	0%	0%	0%	0%	0%				
Other Operations	51%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%				
Others/Corporate/Hedging/Unallocated	0%	-927%	295%	-56%	0%	0%	0%	0%	0%	0%	0%				
Total Margin	49%	47%	41%	23%	0%	0%	0%	0%	0%	0%	0%				



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Kazakhmys

Outlook

Kazakhmys has recently received share holder approval to demerge its mature assets and smelters to a private vehicle and keep its lower cost mines and growth projects. While not all approvals have been received yet, the company has economic separation from the end of July 2014. The remaining company is to be called Kaz Minerals and consists of 4 mines in Kazakhstan, 1 mine in Kyrgyzstan and 3 greenfield projects in Kazakhstan. The company produces and sells copper in concentrate. The main by-product of the operations is zinc. In late 2009, the group reached a funding agreement with the China Development Bank and Samruk for a line of credit up to US\$2.7b--the bulk of this (US\$2b) will be used for the 100ktpa Bozshakol and Aktogay copper projects. Bozshakol is due to be commissioned in 2015 and Aktogay in 2016.

Valuation

Our share price target is set at 0.75x our DCF-derived net asset valuation and is consistent with its performance in the sector. This assumes a WACC of 10.6% on post-tax cash flow and assumes 15% gearing (CoE 11.8%, CoD 6.5%, tax rate of 20%). We use life of mine cash flow analysis to arrive at our DCF valuation.

Risks

Key risks include stronger copper and zinc prices than forecast, higher production of copper and zinc and a weaker local operating currency (tenge). Other risks include project delivery (which have deteriorated recently with capex increases), corporate governance, domestic economic and political developments and acquisitions. For Kazakhmys, project delivery is a key risk as it continues its major greenfield copper projects in Kazakhstan, Bozshakol and Aktogay. While it is moving through the development of its two large projects, its gearing will increase substantially and pose an extra risk in the event of commodity price declines.



Model updated: 27 July 2014

Running the numbers

Sub-Saharan Africa

South Africa

Platinum

Lonmin Plc

Reuters: LMI.L

Bloomberg: LMI LN

Buy

Price (2 Sep 14) GBP 231.60

Target Price GBP 350.00

52 Week range GBP 212.90 - 352.80

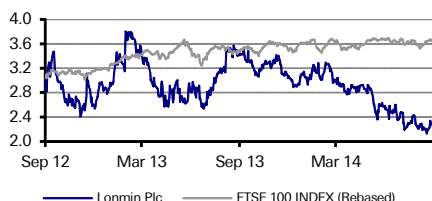
Market Cap (m) GBpm 1,319

USDm 2,191

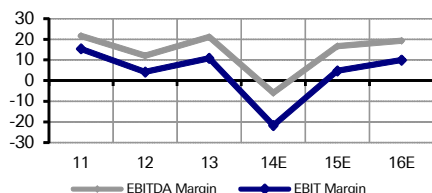
Company Profile

Lonmin specializes in the mining of PGMs (platinum group metals). The Group operates a number of platinum mines, concentrators, smelters and a refinery within its core Marikana operations, all situated in the Bushveld Igneous Complex of South Africa. After declining production from 2006, the company's new growth target is 950koz of platinum ounces by 2015

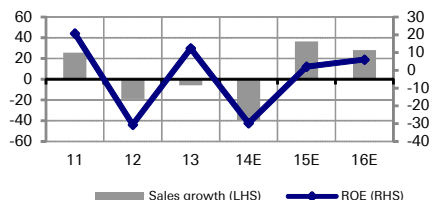
Price Performance



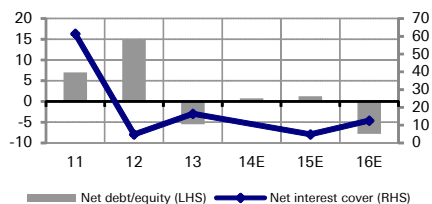
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Sep

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	2.08	0.07	0.20	-0.22	0.05	0.14
Reported EPS (USD)	2.52	-2.01	0.31	-0.70	0.05	0.14
DPS (USD)	0.28	0.00	0.00	0.00	0.00	0.05
BVPS (USD)	27.1	12.6	6.5	5.6	6.3	6.9
Weighted average shares (m)	108	203	532	569	570	571
Average market cap (USDm)	1,470	1,539	2,503	2,191	2,191	2,191
Enterprise value (USDm)	2,115	2,217	2,503	2,403	2,435	2,264

Valuation Metrics

P/E (DB) (x)	6.5	103.1	23.0	nm	79.2	26.9
P/E (Reported) (x)	5.4	nm	15.1	nm	79.2	26.9
P/BV (x)	0.32	0.38	0.80	0.68	0.61	0.56
FCF Yield (%)	15.0	nm	nm	nm	nm	8.9
Dividend Yield (%)	2.1	0.0	0.0	0.0	0.0	1.3
EV/Sales (x)	1.1	1.4	1.6	2.6	1.9	1.4
EV/EBITDA (x)	4.9	11.5	7.8	nm	11.6	7.3
EV/EBIT (x)	6.9	33.1	15.3	nm	41.4	14.2

Income Statement (USDm)

Sales revenue	1,992	1,614	1,520	922	1,257	1,611
Gross profit	425	202	339	-46	228	329
EBITDA	431	193	321	-55	210	311
Depreciation	124	126	157	145	151	152
Amortisation	0	0	0	0	0	0
EBIT	307	67	164	-200	59	160
Net interest income(expense)	-5	-14	-10	-14	-12	-13
Associates/affiliates	9	4	4	2	6	6
Exceptionals/extraordinary	-18	-755	-18	-354	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	293	-698	140	-567	53	153
Income tax expense	-28	-148	-58	-154	16	46
Minorities	48	-140	32	-15	9	25
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	273	-410	166	-398	28	82
DB adjustments (including dilution)	-47	425	-57	272	0	0
DB Net profit	226	15	109	-126	28	82

Cash Flow (USDm)

Cash flow from operations	630	263	16	-114	138	380
Net Capex	-410	-404	-159	-100	-160	-184
Free cash flow	220	-141	-143	-214	-22	196
Equity raised/(bought back)	1	0	778	0	0	0
Dividends paid	-40	-45	-12	-18	-2	-2
Net inc/(dec) in borrowings	-223	424	-730	0	0	0
Other investing/financing cash flows	-30	1	0	0	0	0
Net cash flow	-72	239	-107	-232	-24	194
Change in working capital	232	275	-246	169	-44	127

Balance Sheet (USDm)

Cash and other liquid assets	76	315	201	563	540	916
Tangible fixed assets	2,742	2,889	2,908	2,978	3,262	3,466
Goodwill/intangible assets	1,106	502	502	500	500	500
Associates/investments	400	578	470	325	325	325
Other assets	538	339	535	395	524	467
Total assets	4,862	4,623	4,616	4,760	5,151	5,675
Interest bearing debt	310	736	0	589	589	589
Other liabilities	1,211	1,072	959	788	804	904
Total liabilities	1,521	1,808	959	1,377	1,393	1,493
Shareholders' equity	2,930	2,558	3,456	3,208	3,573	3,961
Minorities	411	257	201	186	195	220
Total shareholders' equity	3,341	2,815	3,657	3,394	3,768	4,182
Net debt	234	421	-201	26	49	-327

Key Company Metrics

Sales growth (%)	25.7	-19.0	-5.8	-39.4	36.4	28.1
DB EPS growth (%)	59.0	-96.5	178.8	na	na	193.9
EBITDA Margin (%)	21.6	12.0	21.1	-6.0	16.7	19.3
EBIT Margin (%)	15.4	4.2	10.8	-21.7	4.7	9.9
Payout ratio (%)	11.1	nm	0.0	nm	0.0	35.0
ROE (%)	20.7	-30.6	12.4	-29.7	2.1	6.0
Capex/sales (%)	20.6	25.0	10.5	10.9	12.7	11.4
Capex/depreciation (x)	3.3	3.2	1.0	0.7	1.1	1.2
Net debt/equity (%)	7.0	15.0	-5.5	0.8	1.3	-7.8
Net interest cover (x)	61.4	4.8	16.4	nm	4.8	12.5

Source: Company data, Deutsche Bank estimates

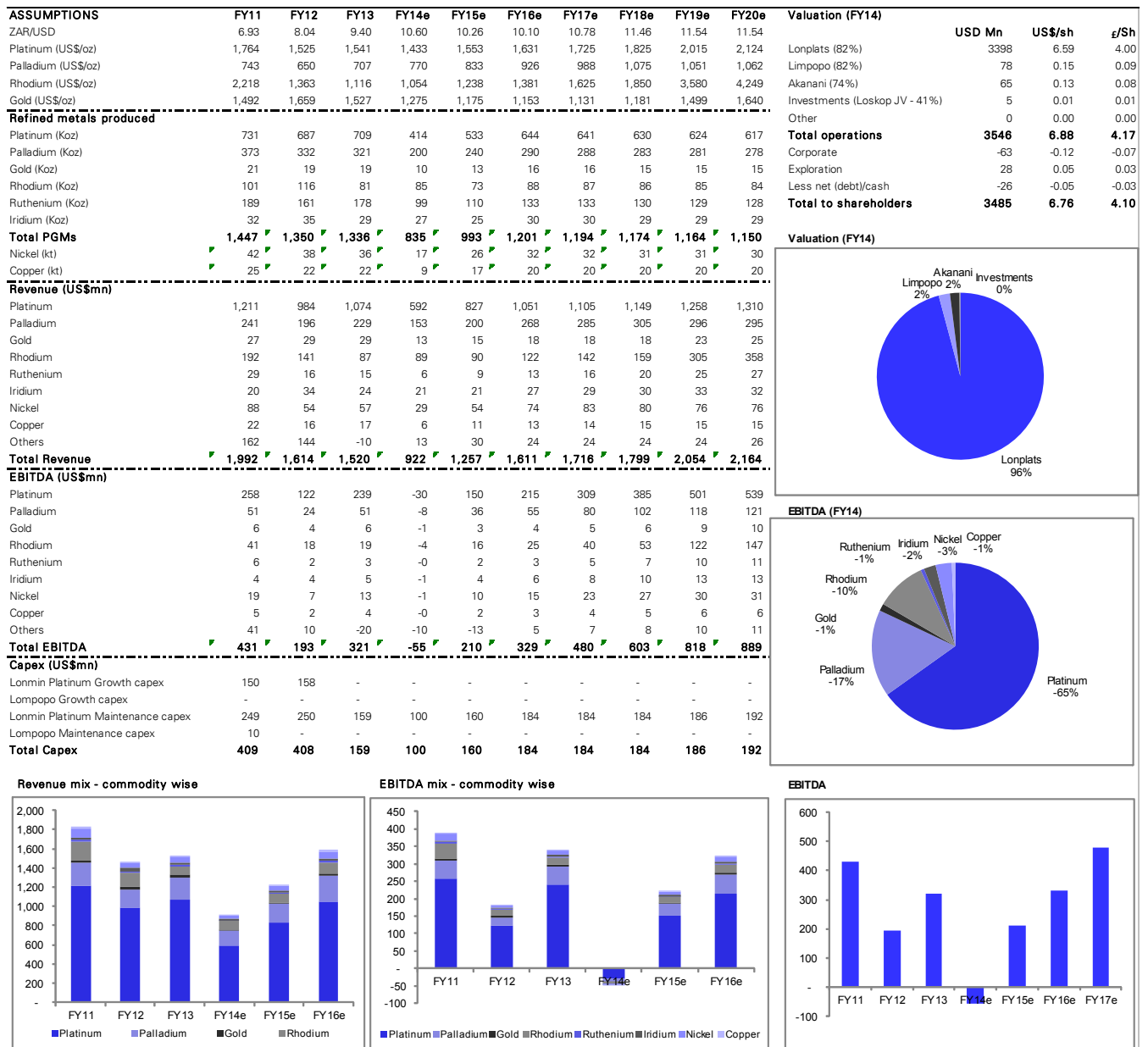
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Figure 53: Lonmin Operational and Financial Summary Data



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Lonmin

Outlook

Lonmin's mining and smelting performance improved significantly during 2013 under the Lonmin Renewal Plan, but the exceptional improvement in operational performance was derailed by the five-month AMCU strike in H1CY14. Significant damage was done to Lonmin's balance sheet as a result of the lengthy stoppage. As such, Lonmin's plan to grow to 850kozpa platinum, re-starting its K4 shaft (currently on care and maintenance), is now unaffordable on our estimates. As the company navigates through the post-strike period, we await a revised plan for Marikana. Lonmin has kept its operations ready for a speedy ramp-up, in our view. It has demonstrated previously, after the 2012 Marikana strike, its ability to recover from production disruptions quickly, assisted by its high ore reserve availability. We would expect Lonmin to replicate the previous ramp-up process given its sole asset is Marikana. In this case, we believe Lonmin would outperform peers in the near term. Buy.

Valuation

Our price target is derived by applying a 0.9x multiple to the group's DCF valuation. The 10% discount is based on company management performance, relative to the broader Metals and Mining peer group (based on life-of-mine cash flows discounted at a WACC of 10.0%, Beta 1.4, ERP 6%).

Risks

Downside risks include a stronger-than-expected rand and lower-than-expected PGM prices. There is also a risk of a stock overhang if Glencore Xstrata sells down its 24.5% stake; and a risk of dilution from equity issuance as part of future Black Economic Empowerment deals. Further labour disruption also remains a downside risk.



Model updated: 22 July 2014

Running the numbers

Europe

Norway

Metals & Mining

Norsk Hydro

Reuters: NHY.OL

Bloomberg: NHY NO

Hold

Price (2 Sep 14) NOK 36.55

Target Price NOK 38.00

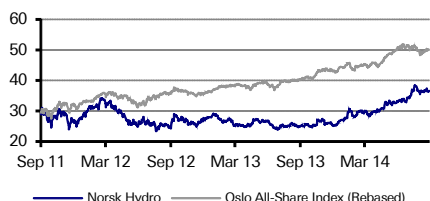
52 Week range NOK 24.61 - 38.40

Market Cap (m) NOKm 74,510
USDm 12,028

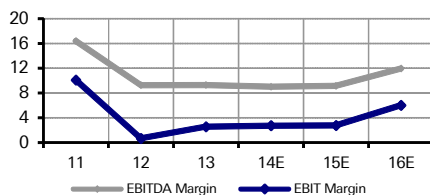
Company Profile

Hydro is a fully integrated aluminium producer with power generating, alumina refining, aluminum smelting and aluminium processing operations. Its recent acquisition of the Brazilian aluminium, alumina and bauxite assets from Vale has shifted its balance from naturally short alumina (neutral when including long-term offtake agreements) to naturally long. With the transfer of the assets only just complete, the company is in the process of integrating them into its business. Once done, the bauxite and alumina assets offer significant growth options to Hydro. The company is in the process of commissioning its major greenfield smelter in Qatar.

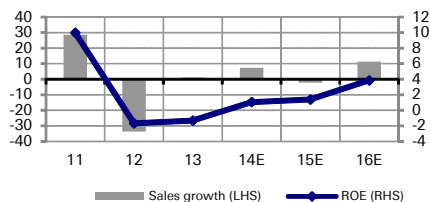
Price Performance



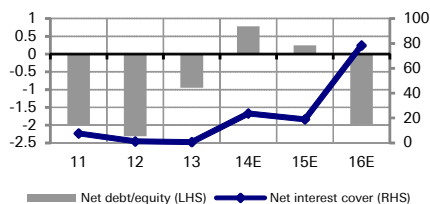
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (NOK)	2.01	0.25	0.93	0.47	0.47	1.30
Reported EPS (NOK)	3.42	-0.61	-0.45	0.36	0.48	1.33
DPS (NOK)	0.75	0.75	0.75	0.75	0.75	0.75
BVPS (NOK)	38.4	34.2	34.3	34.6	34.1	34.9
Weighted average shares (m)	1,959	2,037	2,038	2,039	2,039	2,039
Average market cap (NOKm)	72,334	56,708	52,775	74,510	74,510	74,510
Enterprise value (NOKm)	65,746	49,843	39,187	65,141	64,733	63,034

Valuation Metrics

P/E (DB) (x)	18.3	112.5	27.8	77.8	78.5	28.1
P/E (Reported) (x)	10.8	nm	nm	100.4	76.1	27.6
P/BV (x)	0.72	0.82	0.79	1.06	1.07	1.05
FCF Yield (%)	4.8	4.0	4.6	1.4	2.5	4.3
Dividend Yield (%)	2.0	2.7	2.9	2.1	2.1	2.1
EV/Sales (x)	0.7	0.8	0.6	0.9	0.9	0.8
EV/EBITDA (x)	4.1	8.3	6.5	10.3	10.3	6.9
EV/EBIT (x)	6.7	115.4	23.4	34.0	34.1	13.7

Income Statement (NOKm)

Sales revenue	97,407	64,580	65,359	70,149	68,575	76,338
Gross profit	15,984	5,976	6,066	6,326	6,272	9,117
EBITDA	15,984	5,976	6,066	6,326	6,272	9,117
Depreciation	6,158	5,544	4,392	4,409	4,374	4,523
Amortisation	0	0	0	0	0	0
EBIT	9,826	432	1,674	1,917	1,898	4,593
Net interest income/(expense)	-1,288	-348	-2,550	-81	-100	-59
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	8,538	84	-876	1,836	1,798	4,534
Income tax expense	1,790	803	153	799	521	1,348
Minorities	45	-13	82	294	298	484
Other post-tax income/(expense)	0	-528	189	0	0	0
Net profit	6,703	-1,234	-922	742	979	2,702
DB adjustments (including dilution)	-2,756	1,738	2,823	215	-30	-55
DB Net profit	3,947	504	1,901	957	949	2,647

Cash Flow (NOKm)

Cash flow from operations	7,277	5,434	5,074	3,961	5,846	6,313
Net Capex	-3,841	-3,183	-2,637	-2,952	-3,963	-3,086
Free cash flow	3,436	2,251	2,437	1,009	1,883	3,228
Equity raised/(bought back)	88	72	56	23	0	0
Dividends paid	-1,781	-1,741	-1,528	-1,686	-1,529	-1,529
Net inc/(dec) in borrowings	934	2,245	-511	10	2,000	1,500
Other investing/financing cash flows	-5,068	-3,771	1,369	522	-86	-102
Net cash flow	-2,391	-944	1,823	-122	2,268	3,096
Change in working capital	0	0	0	0	0	0

Balance Sheet (NOKm)

Cash and other liquid assets	10,145	11,377	10,892	9,931	12,199	15,296
Tangible fixed assets	64,192	61,772	50,670	53,538	53,127	51,689
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	19,372	15,950	23,767	22,763	22,763	22,763
Other assets	38,844	28,258	29,906	29,797	29,410	31,431
Total assets	132,553	117,357	115,235	116,029	117,499	121,178
Interest bearing debt	8,438	9,630	10,181	10,526	12,386	13,784
Other liabilities	38,949	32,230	29,790	30,134	29,941	30,565
Total liabilities	47,387	41,860	39,971	40,660	42,327	44,348
Shareholders' equity	78,178	69,662	69,981	70,528	69,452	71,110
Minorities	6,988	5,835	5,283	5,720	5,720	5,720
Total shareholders' equity	85,166	75,497	75,264	76,248	75,172	76,830
Net debt	-1,707	-1,747	-711	595	186	-1,512

Key Company Metrics

Sales growth (%)	28.6	-33.7	1.2	7.3	-2.2	11.3
DB EPS growth (%)	51.9	-87.7	277.0	-49.7	-0.8	178.9
EBITDA Margin (%)	16.4	9.3	9.3	9.0	9.1	11.9
EBIT Margin (%)	10.1	0.7	2.6	2.7	2.8	6.0
Payout ratio (%)	21.9	nm	nm	205.9	156.1	56.6
ROE (%)	10.0	-1.7	-1.3	1.1	1.4	3.8
Capex/sales (%)	3.9	5.0	4.1	4.2	5.8	4.0
Capex/depreciation (x)	0.6	0.6	0.6	0.7	0.9	0.7
Net debt/equity (%)	-2.0	-2.3	-0.9	0.8	0.2	-2.0
Net interest cover (x)	7.6	1.2	0.7	23.7	19.0	78.3

Source: Company data, Deutsche Bank estimates

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Figure 54: Norsk Hydro Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	NPV (FY13)	NOK Mn	NOK/Sh	US\$/Sh
Aluminium (US\$/lb)	98.6	108.8	93.0	85.7	81.9	85.9	99.8	108.9	118.0	139.4	144.3	Alumina	18181	8.92	153.25
Alumina Contract (US\$/t)	256.9	315.1	297.6	273.4	252.9	270.0	286.1	312.1	338.1	399.6	413.6	Aluminium metal	59718	29.29	503.38
EUR/USD	1.33	1.39	1.29	1.18	1.33	1.21	1.10	1.10	1.10	1.10	1.10	Metal Markets	4427	2.17	37.31
NOK/USD	5.90	5.60	5.82	5.88	6.07	6.10	6.00	6.00	6.00	6.00	6.00	Rolled Products	8188	4.02	69.01
Oil (US\$/bbl)	79.6	95.1	94.2	98.0	102.5	96.3	90.0	95.0	98.3	101.8	105.3	SAPA	2935	1.44	24.74
												Energy	5769	2.83	48.63
												Corporate	-894	-0.44	-7.54
												Less Net Debt	-20520	-10.07	-172.97
KEY FINANCIAL METRICS (NOK Mn)												TOTAL	77802	38.17	655.82
Profit After Tax	2119	6748	-719	-1029	1036	1278	3186	4277	5927	9751	9615	WACC (nominal)		10% Shares	2,039Mn
Cash Generated for Operations	6363	7277	5434	5074	3961	5846	6313	7643	9381	11706	13718	Valuation (FY13)			
Capex (incl. expl) and disposal	2115	3841	3183	2637	2952	3963	3086	3896	4544	4393	2301				
Dividend	866	1781	1741	1528	1686	1529	1529	1529	1529	1570	2652				
Free Cash Flow - before debt and equity	554	3268	2599	-2815	187	-354	-1699	-2218	-3308	-4783	-8765				
Net Debt/(Net Cash)	-10982	-1707	-1747	-711	595	186	-1512	-3730	-7038	-11821	-20586				
Gearing (ND/E - %)	-19.2%	-2.0%	-2.3%	-0.9%	0.8%	0.2%	-2.0%	-4.7%	-8.4%	-12.8%	-20.8%				
ROE (%)	7.4%	15.8%	-3.3%	-2.2%	2.7%	3.4%	8.3%	10.7%	14.1%	21.2%	19.4%				
ROA (%)	7.2%	14.8%	0.7%	2.9%	3.3%	3.2%	7.6%	9.7%	12.5%	18.8%	17.3%				
EPS (NOK)	1.35	3.42	0.61	-0.45	0.36	0.48	1.33	1.81	2.57	4.28	4.16				
EPS change (%)	153%		-82%	-175%	181%	32%	176%	36%	42%	67%	-3%				
EPS CAGR (%) - off FY12 earnings				-175%	-191%	-7%	22%	24%	27%	32%	27%				
DPS (NOK)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.77	1.30	1.38				
Payout ratio (%)	55%	22%	124%	-166%	206%	156%	57%	41%	30%	30%	33%				
PRODUCTION (kt)															
Primary Aluminium	1417	1980	1985	1944	1941	1941	1941	1941	1941	1941	1941				
Metal markets (Remelt production)	628	665	549	517	537	537	537	537	537	537	537				
Rolled Aluminium products	946	930	909	941	974	979	984	989	994	999	1004				
Extrusion production	530	536	517	519	522	524	527	530	532	535	538				
Alumina	5807	5827	5793	5377	5703	5732	5760	5789	5818	5847	5876				
Power (TWh)	8.1	9.6	10.3	10.8	10.7	10.5	10.5	10.5	10.5	10.5	10.5				
Copper Eq Production	939.8	1051.4	1032.0	1027.1	1039.8	1041.3	1070.1	1125.5	1146.1	1147.8	1149.7				
Copper Eq. CAGR (%) - off FY12 production				-0.47%	0.37%	0.30%	0.91%	1.75%	1.76%	1.53%	1.36%				
REVENUE (NOK Mn)															
Primary Aluminium	31726	34720	26690	23279	23507	23245	25911	27408	29061	33772	35216				
Metal markets	43873	48724	39663	37790	34030	32637	36542	38798	41387	48188	50021				
Rolled Aluminium products	21180	21530	20396	20647	19539	19616	22526	24697	26889	31941	33224				
Extrusion production	19405	20084	0	0	0	0	0	0	0	0	0				
Bauxite/Alumina	0	14471	13265	13351	13398	14410	15916	19175	21437	25357	26311				
Power	7054	6393	4707	6308	5811	5612	5625	5621	5635	5301	5299				
Internal revenue/Corp./Share of equity/Othr	-47521	-48515	-40141	-35980	-30905	-29982	-32461	-34543	-36167	-41964	-44082				
Total Revenue	75717	97407	64580	65395	65380	65538	74059	81156	88242	102595	105989				
Underlying EBIT															
Bauxite and Alumina	0	461	-791	-1056	-1552	-1337	-958	-305	512	2651	2787				
Primary Metal	727	1187	314	1422	1260	716	2646	3560	4606	7196	7487				
Metal Markets	219	267	209	594	409	359	401	436	470	560	587				
Rolled Products	864	212	640	627	681	398	457	501	545	647	673				
Extruded Products	450	-49	0	0	0	0	0	0	0	0	0				
Energy	1430	948	1460	1657	1033	1245	1249	1246	1257	1194	1184				
Other and eliminations	-692	224	-672	-501	-121	-36	-56	-20	15	99	121				
Underlying EBIT	2998	3250	1160	2743	1710	1345	3739	5417	7404	12347	12839				

Source: Deutsche Bank estimates, Company Data



Investment Thesis: Norsk Hydro

Outlook

Hydro is a fully integrated aluminium producer with power generating, alumina refining, aluminum smelting and aluminium processing operations. Its recent acquisition of the Brazilian aluminium, alumina and bauxite assets from Vale has shifted its balance from naturally short alumina (neutral when including long-term offtake agreements) to naturally long. The company is in the process of integrating them into its business. Once done, the bauxite and alumina assets offer significant growth options to Hydro. The company is in the process of finalising the commissioning of its major greenfield smelter in Qatar. Although aluminium inventories are at record levels, aluminium prices initially rose as investment demand soaked-up surplus capacity. However, the price has subsequently declined, and the outlook over the next few quarters looks very tough. The physical supply and demand imbalance has left producers (including Norsk Hydro) cautious about committing to further production growth in aluminium, but it is clearly keen to grow its upstream businesses. With the stock trading in line with our valuation and limited catalysts on the horizon, we rate the shares Hold.

Valuation

Our price target is in line with our net present value of the company's cash flows and also in line with the sector at the moment. Our key variables are: beta 1.40, risk-free rate (10-year) 4.0%, equity risk premium 6.0%, credit risk premium 2.5%, and CAPM discount rate 12.4%. Our WACC of 10.0% reflects cost of equity (post tax) 12.4%, cost of debt (pre tax) 6.5%, gearing target 30%, and effective tax rate 30%.

Risks

Key upside/downside risks include significant changes in the aluminium price and Norwegian Kroner from our expectations. Delivery of a smoothly commissioned Qatalum smelter running at the targeted cost of <US\$1600/t is also a risk as failure to deliver capacity as planned would be a significant dampener to the view of Norsk Hydro as a smelter developer. The company also needs to start delivering operating profits from its Upstream businesses in Brazil.



Model updated: 24 July 2014

Running the numbers

Europe

Belgium

Metals & Mining

Nyrstar NV

Reuters: NYR.BR

Bloomberg: NYR BB

Hold

Price (2 Sep 14) EUR 3.15

Target Price EUR 3.11

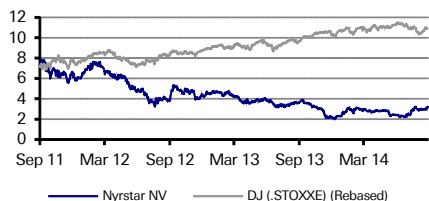
52 Week range EUR 2.03 - 3.86

Market Cap (m) EURm 488
USDm 641

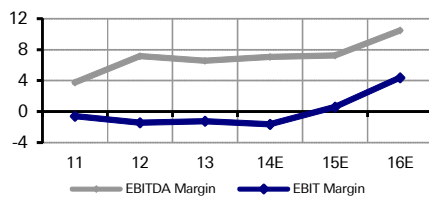
Company Profile

Nyrstar is the global leader in zinc smelting (~10% market share) with assets in Europe, Australia, the US and JVs in Asia. It also owns and operates a lead smelter in Australia, has a 50% interest in a lead recycling business in Australia and generates a small amount of its earnings from downstream zinc businesses in Asia and France. The company was formed in late 2007 through the combination of these assets from Zinifex (Australia) and Umicore (Belgium). The company's largest sensitivities in order are; the Eur/USD exchange rate, the LME zinc price and the Zinc treatment charge (the benchmark price is negotiated annually).

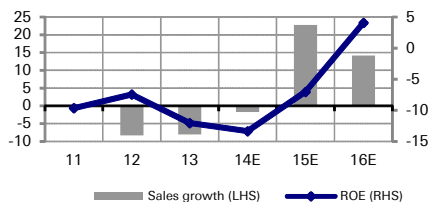
Price Performance



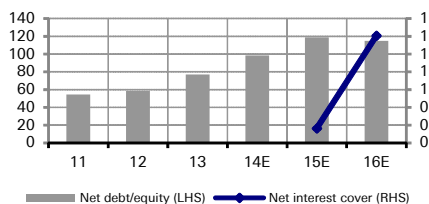
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (EUR)	-0.50	-0.55	-0.94	-0.62	-0.35	0.22
Reported EPS (EUR)	-0.62	-0.57	-0.71	-0.64	-0.35	0.22
DPS (EUR)	0.16	0.16	0.00	0.00	0.00	0.10
BVPS (EUR)	7.9	7.1	5.7	5.2	5.8	6.2
Weighted average shares (m)	149	162	158	155	156	156
Average market cap (EURm)	1,306	849	564	488	488	488
Enterprise value (EURm)	1,948	1,463	1,439	1,488	1,774	1,803

Valuation Metrics

	2011	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	nm	nm	nm	nm	nm	14.4
P/E (Reported) (x)	nm	nm	nm	nm	nm	14.4
P/BV (x)	0.77	0.63	0.41	0.61	0.54	0.51
FCF Yield (%)	nm	9.2	18.8	nm	nm	nm
Dividend Yield (%)	1.8	3.1	0.0	0.0	0.0	3.2
EV/Sales (x)	0.6	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	15.5	6.6	7.8	7.6	7.2	4.4
EV/EBIT (x)	nm	nm	nm	nm	89.0	10.6

Income Statement (EURm)

	2011	2012	2013	2014E	2015E	2016E
Sales revenue	3,348	3,070	2,824	2,774	3,405	3,887
Gross profit	126	203	221	196	246	408
EBITDA	126	220	185	196	246	408
Depreciation	145	218	220	238	226	238
Amortisation	0	46	0	3	0	0
EBIT	-20	-44	-35	-46	20	170
Net interest income/(expense)	-56	-91	-99	-110	-122	-141
Associates/affiliates	1	-1	1	-1	2	2
Exceptionals/extraordinaries	-24	0	0	0	0	0
Other pre-tax income/(expense)	2	27	0	1	0	0
Profit before tax	-95	-110	-134	-155	-100	31
Income tax expense	8	-14	-11	-38	-39	-7
Minorities	0	-3	0	0	-1	-1
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-103	-92	-122	-117	-60	38
DB adjustments (including dilution)	19	4	-40	8	0	0
DB Net profit	-84	-89	-163	-109	-60	38

Cash Flow (EURm)

	2011	2012	2013	2014E	2015E	2016E
Cash flow from operations	127	290	299	113	135	245
Net Capex	-899	-212	-193	-298	-560	-274
Free cash flow	-772	78	106	-185	-425	-29
Equity raised/(bought back)	474	0	12	5	0	0
Dividends paid	-25	-26	-24	0	1	0
Net inc/(dec) in borrowings	409	-34	21	102	325	50
Other investing/financing cash flows	-39	0	0	0	0	0
Net cash flow	48	18	115	-77	-99	21
Change in working capital	0	163	206	-32	-62	-63

Balance Sheet (EURm)

	2011	2012	2013	2014E	2015E	2016E
Cash and other liquid assets	177	188	292	269	307	329
Tangible fixed assets	1,717	1,730	1,772	1,831	2,165	2,201
Goodwill/intangible assets	166	133	10	10	10	10
Associates/investments	80	67	46	46	46	46
Other assets	1,326	1,383	1,110	1,145	1,310	1,419
Total assets	3,466	3,502	3,231	3,302	3,838	4,005
Interest bearing debt	896	869	962	1,064	1,389	1,439
Other liabilities	1,252	1,436	1,388	1,430	1,538	1,598
Total liabilities	2,147	2,304	2,350	2,494	2,927	3,037
Shareholders' equity	1,314	1,161	870	808	911	967
Minorities	4	0	0	0	0	0
Total shareholders' equity	1,319	1,161	870	808	911	967
Net debt	718	680	669	795	1,082	1,110

Key Company Metrics

	2011	2012	2013	2014E	2015E	2016E
Sales growth (%)	nm	-8.3	-8.0	-1.8	22.8	14.2
DB EPS growth (%)	na	-9.3	-72.0	33.9	44.6	na
EBITDA Margin (%)	3.8	7.2	6.6	7.0	7.2	10.5
EBIT Margin (%)	-0.6	-1.4	-1.2	-1.6	0.6	4.4
Payout ratio (%)	nm	nm	nm	nm	nm	40.9
ROE (%)	-9.7	-7.5	-12.1	-13.4	-7.0	4.1
Capex/sales (%)	6.8	8.0	6.8	10.8	16.4	7.1
Capex/depreciation (x)	1.6	1.1	0.9	1.3	2.5	1.2
Net debt/equity (%)	54.5	58.6	77.0	98.4	118.7	114.8
Net interest cover (x)	nm	nm	nm	nm	0.2	1.2

Source: Company data, Deutsche Bank estimates

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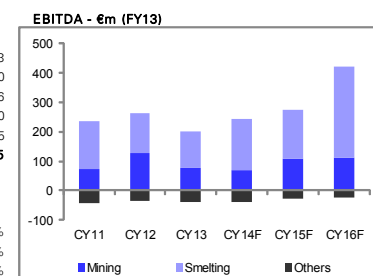
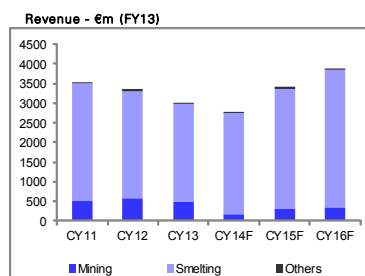
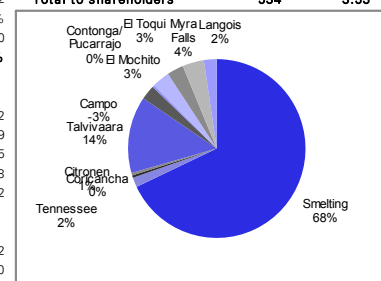
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Figure 55: Nyrstar Operational and Financial Summary Data

FX/COMMODITY ASSUMPTIONS	CY11	CY12	CY13	CY14F	CY15F	CY16F	CY17F	CY18F	CY19F	CY20F	Valuations (FY14)	€m	€/Share
Gold (US\$/Oz)	1570	1671	1413	1257	1163	1150	1125	1200	1598	1654	Smelting	1403	9.27
Silver (US\$/Oz)	35.2	31.3	23.9	20.0	19.8	19.0	18.8	20.0	24.6	25.4	Mining		
Copper (USc/lb)	400	361	334	309	302	295	327	340	340	352	Tennessee	36	0.24
Zinc (USc/lb)	99	89	88	94	105	108	112	115	120	124	Coricancha	-9	-0.06
Lead (USc/lb)	109	94	98	96	104	105	107	108	112	115	Citronen	10	0.06
EUR/USD	1.06	1.29	1.32	1.33	1.21	1.10	1.10	1.10	1.10	1.10	Talvivaara	289	1.91
AUD/USD	1.03	1.04	0.97	0.92	0.91	0.89	0.85	0.82	0.80	0.80	Campo	-54	-0.36
											Contonga/ Pucarrajo	7	0.05
											El Mochito	67	0.44
											El Toqui	62	0.41
											Myra Falls	80	0.53
											Langois	48	0.32
											Total operations	1939	12.82
											Corp	-230	-1.52
											Less net debt	-990	-6.54
											Investments	67	0.44
											Unfunded Pension Liabilities	-73	-0.48
											Restoration provisions	-179	-1.18
											Total to shareholders	534	3.53
KEY FINANCIAL METRICS													
Profit After Tax (US\$M)	-106	-95	-196	-115	-56	37	63	88	155	160			
Cash Generated for Operations (US\$M)	127	290	299	118	140	246	352	351	417	429			
Capex (incl. expl) and divestments (US\$M)	899	212	193	298	560	274	218	218	224	230			
Dividend (US\$M)	25	26	24	0	-1	-1	15	31	31	31			
Net Cash Flow (US\$M)	6	14	117	-19	43	22	119	102	163	168			
Net Debt / (Cash) - US\$M	718	675	591	712	993	1021	902	800	637	468			
Gearing (ND/E - %)	54%	58%	68%	80%	99%	97%	80%	66%	47%	31%			
ROE (%)	-8%	-8%	-22%	-13%	-6%	4%	6%	7%	11%	11%			
ROA (%)	-3%	-3%	-6%	-3%	-1%	1%	2%	2%	3%	3%			
EPS (USc)	-0.55	-0.55	-0.82	-0.61	-0.32	0.22	0.36	0.50	0.89	0.92			
EPS Change (%)	-159%	1%	-49%	25%	48%	168%	68%	39%	76%	3%			
DPS (USc)	0.16	0.16	0.00	0.00	0.00	0.10	0.20	0.20	0.20	0.20			
Payout ratio (%)	-29%	-29%	0%	0%	0%	46%	55%	40%	23%	22%			
Production - Mining													
Zinc - kt	209	311	284	306	306	314	311	325	506	512			
Lead - kt	7.8	16.2	14.2	16.0	17.6	17.6	17.6	17.6	32.9	32.9			
Copper - kt	7.7	13.5	12.3	13.4	14.1	13.5	12.2	12.2	12.2	10.5			
Gold - Koz	49.7	94.4	75.3	68.1	73.6	73.6	72.7	72.7	72.7	71.8			
Silver - Koz	3674	5517	4747	5093	5188	4939	4939	5007	5552	5552			
Production - Smelting													
Zinc - kt	1,125	1,084	1,088	1,089	1,073	1,072	1,082	1,082	1,082	1,082			
Lead - kt	211	158	179	184	200	188	250	250	250	250			
Copper - kt	4	3	4	4	4	6	8	8	8	8			
Gold - Koz	22	56	62	64	64	75	100	100	100	100			
Silver - Koz	18,564	13,749	13,321	13,749	14,148	16,881	24,116	24,116	24,116	24,116			
Revenue - €m													
Mining	516	582	502	177	312	356	362	387	417	436			
Smelting	2,989	2,732	2,478	2,579	3,057	3,495	3,893	4,006	4,296	4,443			
Others	36	36	36	36	36	36	36	36	36	36			
Total	3541	3351	3017	2792	3405	3887	4291	4430	4749	4915			
EBITDA - €m													
Mining	72	129	76	70	109	113	93	115	165	167			
Smelting	166	135	124	172	166	309	360	377	419	426			
Others	-42	-35	-40	-39	-28	-22	-15	-15	-15	-15			
Total	196	229	160	202	246	400	438	477	569	578			
Capex - €m													
Mining - sustaining capex	99	108	106	114	110	100	100	100	102	103			
Mining - Growth capex	30	18	0	0	0	0	0	0	0	0			
Smelting - sustaining capex	87	92	90	101	110	114	118	118	122	126			
Smelting - Growth capex	25	21	15	80	190	60	0	0	0	0			
Others	8	5	5	5	5	5	5	5	5	5			
Total	249	244	216	300	415	279	223	223	229	235			
EBITDA (%)													
Mining	14%	22%	15%	40%	35%	32%	26%	30%	40%	38%			
Smelting	6%	5%	5%	7%	5%	9%	9%	9%	10%	10%			
Others	-117%	-97%	-111%	-109%	-78%	-61%	-42%	-42%	-42%	-42%			
Total	6%	7%	5%	7%	7%	10%	10%	11%	12%	12%			



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Nyrstar

Outlook

Nyrstar is the largest producer of zinc metal in the world and is in the process of backward integration (DBe: 35% integrated by the end of 2013). We see three key positives for the stock: (i) transformation of the Port Pirie smelter is continuing as planned with a target for the completion of the final investment case at end 2013 (delayed); (ii) refinancing of debt has been initiated to lengthen the group's maturity profile, and specifically to replace the 2009 convertible bonds which mature in 2014, and (iii) Nyrstar entered into three prudent zinc, gold and silver hedges. The zinc hedge will not be renewed, a positive in our view given that we expect an improvement in prices. We have a Hold recommendation on valuation.

Valuation

Key variables in our net present value (NPV) estimate are: beta 1.40, risk-free rate (10-year) 4.0%, equity risk premium 6%, credit risk premium 2.5%, and CAPM discount rate 12.4%. Our WACC of 10.0% reflects cost of equity (post tax) 12.4%, cost of debt (pre-tax) 6.5%, gearing target 30%, and effective tax rate 30%.

Risks

Nyrstar is highly leveraged to the zinc price and the Euro, consequently differences in these values from our expectations are the biggest risk factors to our earnings and valuation expectations. On the cost side, Nyrstar's failure to reduce costs at the Tennessee mines and higher than expected power costs are also risks to the downside while a better than expected resolution at Talvivaara offers upside risk.



Model updated: 27 August 2014

Running the numbers

Emerging Europe

Russia

Metals & Mining

Polymetal

Reuters: POLYP.L

Bloomberg: POLY LN

Hold

Price (2 Sep 14) GBP 534.50

Target Price GBP 555.00

52 Week range GBP 477.30 - 769.00

Market Cap (m) GBpm 2,251

USDm 3,740

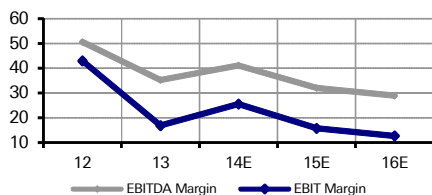
Company Profile

Polymetal International is the holding company of Polymetal, a leading Russian gold and silver miner. In 2010, Polymetal was the fourth largest gold producer in Russia by production volume and its largest silver producer, ranked eighth worldwide. Polymetal produced 810koz of gold equivalent in 2011 at six operating assets and targets a 73% organic growth in gold equivalent output by 2014.

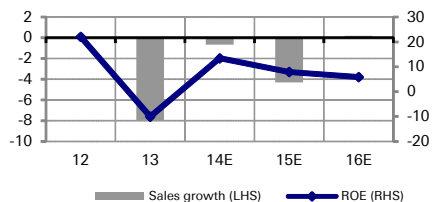
Price Performance



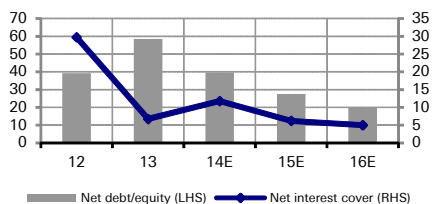
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014E	2015E	2016E
DB EPS (USD)	1.13	0.30	0.66	0.40	0.31
Reported EPS (USD)	1.10	-0.51	0.64	0.40	0.31
DPS (USD)	0.81	0.09	0.19	0.11	0.08
BVPS (USD)	5.6	4.6	4.5	4.7	4.9
Weighted average shares (m)	383	386	421	421	421
Average market cap (USDm)	6,088	4,420	3,740	3,740	3,740
Enterprise value (USDm)	6,888	5,427	4,456	4,244	4,112

Valuation Metrics

	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	14.1	37.8	13.5	22.4	29.0
P/E (Reported) (x)	14.5	nm	13.8	22.4	29.0
P/BV (x)	3.39	2.05	1.96	1.90	1.81
FCF Yield (%)	2.8	3.2	9.4	8.1	4.0
Dividend Yield (%)	5.1	0.8	2.2	1.2	0.9
EV/Sales (x)	3.7	3.2	2.6	2.6	2.5
EV/EBITDA (x)	7.3	9.0	6.4	8.2	8.8
EV/EBIT (x)	8.7	18.9	10.3	16.6	19.9

Income Statement (USDm)

	2012	2013	2014E	2015E	2016E
Sales revenue	1,854	1,707	1,695	1,622	1,625
Gross profit	1,149	829	1,002	706	659
EBITDA	938	601	696	519	470
Depreciation	142	238	264	264	264
Amortisation	0	76	0	0	0
EBIT	796	287	433	256	206
Net interest income/(expense)	-27	-43	-37	-41	-41
Associates/affiliates	-2	-2	0	0	0
Exceptionals/extraordinary	-21	-310	-6	0	0
Other pre-tax income/(expense)	-95	-90	-40	2	2
Profit before tax	651	-158	350	216	167
Income tax expense	223	40	102	63	49
Minorities	7	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	421	-198	248	153	118
DB adjustments (including dilution)	10	315	6	0	0
DB Net profit	431	117	254	153	118

Cash Flow (USDm)

	2012	2013	2014E	2015E	2016E
Cash flow from operations	541	462	606	548	375
Net Capex	-372	-319	-254	-245	-226
Free cash flow	169	142	352	303	149
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-77	-316	-63	-91	-17
Net inc/(dec) in borrowings	-149	213	271	0	0
Other investing/financing cash flows	-584	8	-6	0	0
Net cash flow	-640	47	553	213	132
Change in working capital	-212	0	35	111	-7

Balance Sheet (USDm)

	2012	2013	2014E	2015E	2016E
Cash and other liquid assets	19	66	619	832	963
Tangible fixed assets	2,206	2,095	1,946	1,928	1,890
Goodwill/intangible assets	115	31	30	30	30
Associates/investments	45	39	37	37	37
Other assets	1,254	1,025	1,122	950	960
Total assets	3,638	3,255	3,754	3,777	3,880
Interest bearing debt	864	1,111	1,373	1,373	1,373
Other liabilities	622	356	476	436	439
Total liabilities	1,486	1,467	1,849	1,810	1,812
Shareholders' equity	2,152	1,787	1,905	1,968	2,068
Minorities	0	0	0	0	0
Total shareholders' equity	2,152	1,787	1,905	1,968	2,068
Net debt	845	1,046	754	541	410

Key Company Metrics

	2012	2013	2014E	2015E	2016E
Sales growth (%)	nm	-8.0	-0.7	-4.3	0.2
DB EPS growth (%)	na	-73.1	117.4	-39.7	-22.8
EBITDA Margin (%)	50.6	35.2	41.1	32.0	28.9
EBIT Margin (%)	42.9	16.8	25.5	15.8	12.7
Payout ratio (%)	73.6	nm	32.6	30.0	30.0
ROE (%)	22.1	-10.1	13.4	7.9	5.9
Capex/sales (%)	21.4	18.7	15.0	15.1	13.9
Capex/depreciation (x)	2.8	1.3	1.0	0.9	0.9
Net debt/equity (%)	39.3	58.5	39.6	27.5	19.8
Net interest cover (x)	29.7	6.7	11.8	6.2	5.0

Source: Company data, Deutsche Bank estimates

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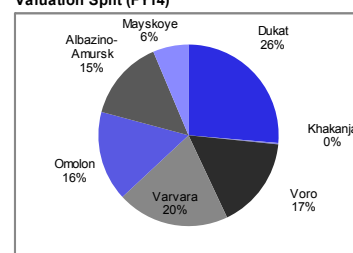
anna.mulholland@db.com



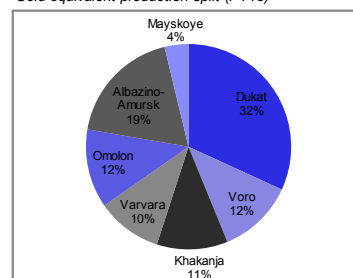
Figure 56: Polymetal Operational and Financial Summary Data

Commodities Assumptions	FY12a	FY13a	FY14e	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e	NPV (FY14)	US\$m	US\$/share	GBP/share
Gold (US\$/oz)	1,671	1,413	1,257	1,163	1,160	1,135	1,211	1,612	1,668	Dukat	924	2.20	1.42
Silver (US\$/oz)	31	24	20	20	19	19	20	25	26	Khakanja	-8	1.37	0.88
Copper (US\$/tonne)	7,954	7,356	6,820	6,652	6,559	7,265	7,568	7,566	7,831	Voro	575	-0.02	-0.01
										Vanara	703	1.20	0.78
										Omolon	565	0.53	0.34
										Albazino-Amursk	507	1.34	0.87
										Mayskoye	223	1.67	1.08
										Entreprise Value	3,489	8.29	5.35
										NPV premium/discou	1.4		
										DB NPV	4,885	11.60	7.48
										NPV other capex	-465	-1.10	-0.71
										NPV of corp costs	-254	-0.60	-0.39
										(Net debt) / net cash	-587	-1.40	-0.90
										Minority interest	0	0.00	0.00
										Invest, assoc's & loan	37	0.09	0.06
										Fair value	3616	8.59	5.54
KEY FINANCIAL METRICS													
Total Net Profit (US\$m)	421	198	248	153	118	91	169	547	637				
Cash Flow from Operations (US\$m)	541	462	606	548	375	361	391	635	833				
Capex, net of divestments (US\$m)	397	319	254	245	226	203	179	177	171				
Dividends (US\$m)	77	316	63	91	17	31	39	107	178				
Free Cash Flow (US\$m)	144	142	352	303	149	158	212	459	662				
Net Debt/(Cash) (US\$m)	1,037	1,046	830	587	428	297	135	-160	-630				
Headline Basic Eps (US\$)		0.30	0.64	0.36	0.28	0.22	0.40	1.30	1.51				
EPS (US\$)	1.10	0.51	0.62	0.36	0.28	0.22	0.40	1.30	1.51				
ESP Change (%)		-147%	-222%	-42%	-23%	-23%	86%	224%	17%				
EPS CAGR (% from 2012)		-147%	-25%	-31%	-29%	-28%	-15%	2%	4%				
Total DPS (US\$)	0.81	0.09	0.19	0.11	0.08	0.06	0.12	0.39	0.45				
Payout Ratio (%)	74%	-18%	31%	30%	30%	30%	30%	30%	30%				
Gold Equivalent Production (Koz)													
Dukat	356	409	481	415	408	412	430	400	400	# shares (mn)			421.1
Voro	157	154	146	170	157	157	157	153	138	WACC			9.0%
Khakanja	162	144	86	105	66	67	67	-	-				
Vanara	135	132	106	132	155	154	153	155	156				
Omolon	172	159	200	207	218	228	235	210	253				
Albazino-Amursk	78	238	219	207	251	251	251	288	288				
Mayskoye	-	48	129	139	151	151	141	164	181				
Total Gold Equivalent Production	1,060	1,284	1,366	1,376	1,407	1,420	1,433	1,371	1,415				
Gold share in GE Production	55%	63%	56%	58%	60%	59%	58%	61%	60%				
TCC/oz sold													
Dukat (SE)	12.1	11.6	10.1	10.9	11.1	11.2	11.3	11.3	11.2				
Voro	506.0	503.0	469.5	506.2	513.6	518.7	521.3	521.3	518.7				
Khakanja	615.0	756.0	883.3	952.3	966.2	975.8	980.7	-	-				
Vanara	795.0	791.0	722.7	779.1	790.5	798.4	802.4	802.4	798.4				
Omolon	892.0	879.0	693.7	747.9	758.8	766.4	770.2	770.2	766.4				
Albazino-Amursk	739.0	790.0	745.0	803.2	814.9	823.1	827.2	827.2	823.0				
Mayskoye	-	957.0	970.0	943.3	957.1	966.6	971.5	971.5	966.6				
Gr. Unit Cash cost (US\$/GE oz)	690.0	745.0	659.5	733.6	750.9	756.1	758.1	771.3	772.4				
- change yoy		8%	-11%	11%	2%	1%	0%	2%	0%				
Gr. AISC (US\$/GE oz)	1,058	1,087	945.1	985.1	1,002	988.9	972.6	980.2	967.3				
- change yoy		3%	-13%	4%	2%	-1%	-2%	1%	-1%				
Capex (US\$m)													
Growth (US\$m)	145.0	54.0	-	-	-	-	-	-	-				
Dukat	49.0	37.0	44.7	13.4	27.4	27.7	29.1	29.3	29.1				
Voro	11.0	8.0	6.4	9.5	8.1	8.2	8.2	8.0	7.1				
Khakanja	20.0	14.0	6.9	11.0	6.4	6.6	6.6	-	-				
Vanara	16.0	21.0	13.9	16.2	15.4	15.5	15.5	15.5	15.5				
Omolon	40.0	22.0	15.3	23.2	23.2	22.7	23.5	21.0	25.2				
Albazino-Amursk	-	36.0	22.4	23.2	26.6	24.8	24.9	28.6	28.5				
Mayskoye	-	-	30.2	18.4	18.7	17.5	16.4	19.2	21.0				
Total Sustaining	136	138	140	115	126	123	124	122	126				
Corporate & exploration	76.0	65.0	71.0	80.0	50.0	40.0	30.0	30.0	20.0				
Capitalised stripping & interest	75.0	97.0	54.0	50.0	50.0	40.0	25.0	25.0	25.0				
Total Capex	432	354	265	245	226	203	179	177	171				

Valuation Split (FY14)



Gold equivalent production split (FY13)



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Polymetal

Outlook

Polymetal aims to grow production by 9% between 2013-16 to 1.4m gold equivalent ounces, whereafter output levels off. The majority of the group's mines are in the lower half of the cost curve, providing some breathing room in the low gold price environment. We note that Polymetal has accumulated additional "3rd generation" assets to extend the life and growth of its operations and is also continually assessing M&A opportunities. The company will need to deliver an extension to its reserve base from developing organic and/or acquired resources and this carries execution and value-destruction risk. Hold.

Valuation

We derive our TP from a sum-of-the-parts life-of-mine DCF model. We apply a 9% WACC based on a targeted capital structure of 60% equity and 40% debt. We estimate the cost of equity at 9.8% and apply a 1.4 exit multiple.

Risks

Key risks include silver and gold prices significantly higher/lower than our expectation as well as Russian macroeconomic factors such as ruble appreciation/depreciation. Management risks are concentrated around the company's ability to deliver on the development of the Amursk processing hub as well as its ability to integrate newly acquired deposits. Other risks include changes in fiscal regimes and/or mining legislation. 90% of Polymetal's assets are in Russia, with the residual 10% in Kazakhstan.



Model updated: 26 August 2014

Running the numbers

Emerging Europe

Russia

Metals & Mining

Polyus Gold

Reuters: PGIL.L

Bloomberg: PGIL LN

Hold

Price (2 Sep 14) GBP 190.50

Target Price GBP 206.00

52 Week range GBP 182.75 - 210.00

Market Cap (m) GBpm 5,776

USDm 9,597

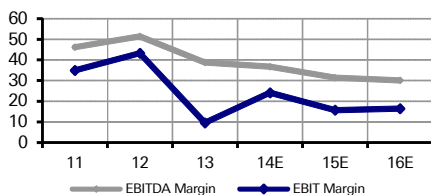
Company Profile

Polyus Gold is Russia's largest gold producer and 10th-largest globally. It is also among the top 5 international gold companies by reserves. It has four operating mines in Siberia and the Far East of Russia and a number of greenfield and brownfield projects at different stages of development. It has a highly ambitious production plan to quadruple its gold production in six years via its enormous reserve base. Polyus Gold was spun off from Norilsk Nickel on 1 January 2006.

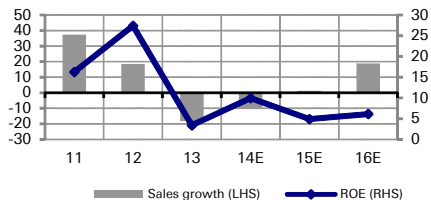
Price Performance



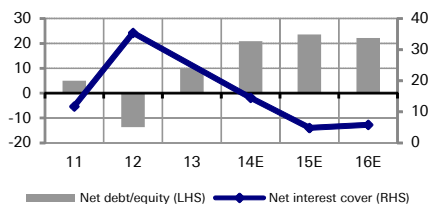
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	0.19	0.32	0.20	0.13	0.06	0.08
Reported EPS (USD)	0.15	0.31	0.04	0.12	0.06	0.08
DPS (USD)	0.06	0.08	0.05	0.03	0.02	0.02
BVPS (USD)	0.9	1.4	1.2	1.3	1.3	1.4
Weighted average shares (m)	3,032	3,032	3,032	3,032	3,032	3,032
Average market cap (USDm)	na	9,889	9,633	9,597	9,597	9,597
Enterprise value (USDm)	na	9,466	10,255	10,376	10,541	10,536

Valuation Metrics

	2011	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	na	10.2	15.7	24.8	49.1	37.6
P/E (Reported) (x)	na	10.6	72.0	25.3	49.1	37.6
P/BV (x)	0.00	2.41	2.71	2.44	2.36	2.25
FCF Yield (%)	na	2.5	nm	nm	nm	0.8
Dividend Yield (%)	na	2.4	1.6	1.0	0.5	0.7
EV/Sales (x)	nm	3.3	4.4	4.9	5.0	4.2
EV/EBITDA (x)	nm	6.5	11.4	13.4	15.8	13.8
EV/EBIT (x)	nm	7.7	46.2	20.5	31.5	25.4

Income Statement (USDm)

	2011	2012	2013	2014E	2015E	2016E
Sales revenue	2,403	2,848	2,329	2,102	2,129	2,531
Gross profit	1,362	1,636	1,145	959	831	945
EBITDA	1,110	1,465	903	772	668	761
Depreciation	168	196	209	257	333	346
Amortisation	103	37	472	8	0	0
EBIT	839	1,232	222	506	334	415
Net interest income/(expense)	-71	-35	7	-35	-69	-71
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-2	41	4	43	5	5
Profit before tax	765	1,238	234	515	270	348
Income tax expense	207	257	91	111	59	77
Minorities	89	51	9	26	15	16
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	469	930	134	379	195	255
DB adjustments (including dilution)	103	37	480	8	0	0
DB Net profit	572	966	614	387	195	255

Cash Flow (USDm)

	2011	2012	2013	2014E	2015E	2016E
Cash flow from operations	765	992	420	602	471	484
Net Capex	-341	-747	-1,347	-704	-580	-405
Free cash flow	424	244	-928	-102	-108	79
Equity raised/(bought back)	-589	0	0	0	0	0
Dividends paid	-99	-172	-320	-34	-49	-64
Net inc/(dec) in borrowings	560	-417	856	229	-150	0
Other investing/financing cash flows	34	646	238	-35	5	3
Net cash flow	331	302	-153	58	-302	18
Change in working capital	-137	-192	-283	-47	-67	-131

Balance Sheet (USDm)

	2011	2012	2013	2014E	2015E	2016E
Cash and other liquid assets	657	960	809	566	264	282
Tangible fixed assets	2,456	2,684	3,532	3,887	4,133	4,191
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	67	94	50	392	392	392
Other assets	1,038	1,851	1,318	1,378	1,471	1,690
Total assets	4,219	5,589	5,709	6,222	6,260	6,555
Interest bearing debt	799	348	1,206	1,447	1,297	1,297
Other liabilities	590	771	549	560	586	674
Total liabilities	1,388	1,120	1,755	2,007	1,883	1,971
Shareholders' equity	2,595	4,186	3,679	3,926	4,075	4,269
Minorities	235	283	275	290	302	316
Total shareholders' equity	2,831	4,469	3,954	4,216	4,377	4,585
Net debt	141	-612	397	881	1,033	1,015

Key Company Metrics

	2011	2012	2013	2014E	2015E	2016E
Sales growth (%)	37.4	18.5	-18.2	-9.7	1.3	18.9
DB EPS growth (%)	72.3	68.8	-36.5	-37.0	-49.4	30.7
EBITDA Margin (%)	46.2	51.4	38.8	36.7	31.4	30.1
EBIT Margin (%)	34.9	43.3	9.5	24.1	15.7	16.4
Payout ratio (%)	36.0	25.0	113.1	25.0	25.0	25.0
ROE (%)	16.2	27.4	3.4	10.0	4.9	6.1
Capex/sales (%)	14.3	26.3	57.8	33.5	27.2	16.0
Capex/depreciation (x)	2.0	3.8	6.4	2.7	1.7	1.2
Net debt/equity (%)	5.0	-13.7	10.0	20.9	23.6	22.1
Net interest cover (x)	11.7	35.4	nm	14.5	4.8	5.8

Source: Company data, Deutsche Bank estimates

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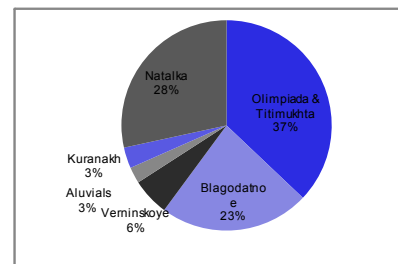
anna.mulholland@db.com



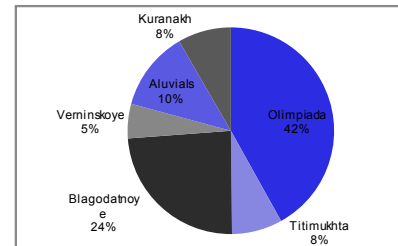
Figure 57: Polyus Gold Operational and Financial Summary Data

Commodities Assumptions	FY12A	FY13A	FY14F	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F	NPV (FY14)	US\$m	US\$/sh	GBP/sh
Gold (US\$/oz)	1,671	1,413	1,257	1,163	1,150	1,125	1,200	1,598	1,654	Olimpiada & Titimukhta	4701	1.55	1.00
Silver (US\$/oz)	31	24	20	20	19	19	20	25	25	Blagodatnoe	2925	0.96	0.62
Gas Oil (Diesel) (US\$/tonne)	673	700	732	688	643	679	703	727	753	Verninskoye	733	0.24	0.16
Steel (US\$/tonne)	790	700	618	536	572	585	598	619	640	Aluvials	315	0.10	0.07
										Kuranakh	409	0.13	0.09
										Natalka	3602	1.19	0.77
KEY FINANCIAL METRICS										Total	12684	4.18	2.70
Net Profit (US\$m)	930	134	379	195	255	169	279	910	942	Net corp SG&A	-1954	-0.64	-0.42
Cash Flow from Operations (US\$m)	992	420	602	471	484	461	568	1303	1316	(Net debt)/net cash	-579	-0.19	-0.12
Capex and Divestments (US\$m)	747	1347	704	580	405	389	282	290	272	PLGL minority interest	-565	-0.19	-0.12
Dividend Paid (US\$m)	172	320	34	49	64	42	70	227	236	Investments & associates	94	0.03	0.02
Free Cash Flow (US\$m)	242	-928	-102	-108	79	73	286	1012	1044	Fair value PLGL	9680	3.19	2.06
Net Debt/(Cash) (US\$m)	-612	397	579	731	713	680	460	-330	-1152	No. of shares (million)		3032	
Headline EPS (USc)	32	4	12	6	8	6	9	30	31	WACC		9.1%	
EPS (USc)	30.66	4.41	12.49	6.45	8.42	5.56	9.20	30.00	31.08				
EPS Change	98.2%	-85.6%	182.9%	-48.4%	30.7%	-34.0%	65.4%	226.2%	3.6%				
EPS CAGR (% from 2012)		-85.6%	-36.2%	-40.5%	-27.8%	-28.9%	-18.2%	-0.3%	0.2%				
Total DPS (USc)	10.6	1.1	3.3	1.6	2.1	1.4	2.3	7.5	7.8				
Payout Ratio	34%	24%	27%	25%	25%	25%	25%	25%	25%				
FCF yield			-1.0%	-1.1%	0.8%	0.7%	2.8%	9.9%	10.2%				
Production (Koz)													
Olimpiada	653	691	694	698	698	698	698	698	678				
Titimukhta	117	131	98	133	133	133	133	133	133				
Blagodatnoye	401	395	390	435	458	470	470	470	470				
Verninskoye	46	89	141	185	267	292	292	292	292				
Aluvials/Sands washing	214	205	147	160	160	160	160	160	160				
Kuranakh	138	138	140	143	156	155	154	152	151				
Kazakh Gold	109	0	0	0	0	0	0	0	0				
Natalka	0	0	0	24	273	273	437	547	538				
Total Refined Gold Production	1678	1650	1611	1778	2145	2180	2343	2451	2422				
Cash Costs (US\$m)													
Olimpiada & Titimukhta	0	581	531	581	616	648	679	712	720				
Blagodatnoye	196	189	180	206	231	248	261	273	283				
Verninskoye	28	78	117	151	227	260	273	286	296				
Aluvials/Sands washing	183	181	125	139	146	154	161	169	175				
Kuranakh	133	149	140	139	151	158	164	171	176				
Kazakh Gold	79	0	0	0	0	0	0	0	0				
Natalka	0	0	0	17	149	157	266	352	363				
Group Cash Cost (US\$m)	620	1178	1093	1234	1521	1625	1804	1963	2012				
Gr. Unit Cash Cost (US\$/oz)	691	714	678	694	709	746	770	801	831				
Capex (US\$m)													
Maintenance	75	58	60	63	108	117	102	115	117				
Olimpiada	60	23	28	20	10	10	5	5	0				
Titimukhta	50	24	20	20	10	10	0	0	0				
Blagodatnoye	43	45	32	40	20	20	10	10	10				
Verninskoye	123	70	32	80	40	30	20	20	10				
Aluvials/Sands washing	20	10	24	20	10	0	0	0	0				
Kuranakh	15	30	8	2	2	2	0	0	0				
Kazakh Gold	23	0	0	0	0	0	0	0	0				
Natalka	300	800	360	230	100	100	50	50	50				
Total Expansionary	634	1002	504	412	192	172	85	85	70				
Exploration	38	60	140	100	100	100	95	90	85				
Total Capex	747	1120	704	575	400	389	282	290	272				

Valuation Split (FY13)



Capex Split (FY13)



Source: Deutsche Bank estimates, Company Data



Investment Thesis- Polyus

Outlook

Polyus Gold International is the UK-based parent company of JSC Polyus Gold, the largest gold producer in Russia and one of the 10 largest gold producers globally, with 1.68moz of gold output in 2012. We forecast that Polyus can deliver solid production growth of 7% per annum (compound) from 2012-15e. We think the group's lower-cost source of future production growth, the Natalka project, should afford the stock a premium to peers but this has recently been delayed in the light of persistent lower gold prices. In our target price we reflect only moderate (9%) growth in costs over the next three years, and a 30% premium to NAV. Given our view of balanced risk and reward, we have a Hold recommendation.

Valuation

We value Polyus Gold using a sum-of-the-parts DCF model with life-of-mine for individual deposits. We apply a 9.1% nominal real WACC based on a targeted capital structure of 75% equity and 25% debt. We estimate cost of equity at 9.8% using beta of 0.5x (an historical average), an equity risk premium of 7.5% (the average for the Russian metals & mining companies) and a risk free rate of 6% (in line with the Russian sovereign debt yield). We use an 8% cost of debt and apply an effective tax rate of 22%. We apply a 1.3x P/NAV multiple, which captures Polyus' pure play gold growth profile but also the breadth of its reserve base and the potential to monetize it beyond the projects currently included in our DCF model.

Risks

Key risks stem from gold prices, cost inflation and the Rouble/US dollar rate being higher or lower than we expect. Operational risks are concentrated around management's ability to deliver on growth projects, especially the most ambitious ones, such as Natalka, which accounts for more than 25% of our valuation for Polyus. Other risks include any changes in fiscal regime and/or mining legislation. The company has also said that it targets a merger with a global gold major at some point.



Model updated: 02 September 2014

Running the numbers

Europe

United Kingdom

Gold

Randgold

Reuters: RRS.L

Bloomberg: RRS LN

Hold

Price (2 Sep 14) GBP 4,991.00

Target Price GBP 5,000.00

52 Week range GBP 3,608.00 - 5,235.00

Market Cap (m) GBpm 4,602

USDm 7,646

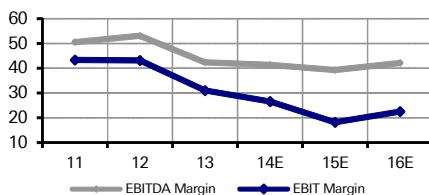
Company Profile

Randgold Resources is a gold exploration and mining company focusing on prospective regions in West Africa and the Congo Craton. The company currently has three operating mines and one low-grade stockpile processing facility in Mali and the Cote d'Ivoire, producing c.750koz of gold in 2011F. The company plans to ramp up its newly commissioned mines and grow the portfolio to five mines producing c.1.2Moz of gold by 2014.

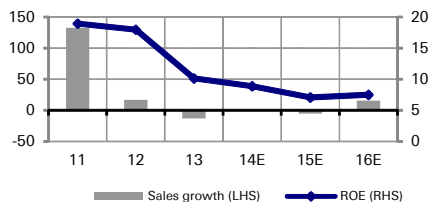
Price Performance



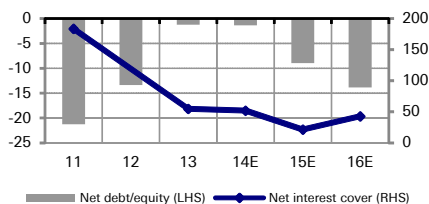
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	4.09	4.65	3.00	2.84	2.40	2.70
Reported EPS (USD)	4.09	4.65	3.00	2.84	2.40	2.70
DPS (USD)	0.40	0.50	0.50	0.52	0.54	0.56
BVPS (USD)	23.9	28.5	31.2	33.3	35.2	37.3
Weighted average shares (m)	92	92	92	92	92	92
Average market cap (USDm)	8,360	9,332	7,089	7,646	7,646	7,646
Enterprise value (USDm)	7,975	9,122	7,227	7,823	7,597	7,442

Valuation Metrics

P/E (DB) (x)	22.3	21.9	25.6	29.2	34.5	30.7
P/E (Reported) (x)	22.3	21.9	25.6	29.2	34.5	30.7
P/BV (x)	4.28	3.39	2.01	2.49	2.36	2.22
FCF Yield (%)	1.5	nm	nm	1.4	4.3	3.7
Dividend Yield (%)	0.4	0.5	0.7	0.6	0.7	0.7
EV/Sales (x)	7.1	6.9	6.3	6.7	6.9	5.8
EV/EBITDA (x)	14.0	13.0	14.9	16.3	17.6	13.9
EV/EBIT (x)	16.3	16.1	20.4	25.3	37.9	25.9

Income Statement (USDm)

Sales revenue	1,127	1,318	1,145	1,164	1,103	1,275
Gross profit	620	735	536	524	478	582
EBITDA	570	700	485	481	433	537
Depreciation	82	132	131	172	232	250
Amortisation	0	0	0	0	0	0
EBIT	488	568	355	309	201	287
Net interest income/(expense)	-3	1	-6	-6	-9	-7
Associates/affiliates	0	0	54	90	124	104
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	485	569	348	303	191	280
Income tax expense	52	58	77	78	48	84
Minorities	57	80	47	51	44	50
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	377	432	278	264	223	251
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	377	432	278	264	223	251

Cash Flow (USDm)

Cash flow from operations	570	494	445	392	529	459
Net Capex	-448	-561	-728	-283	-200	-177
Free cash flow	122	-67	-283	109	330	282
Equity raised/(bought back)	19	14	1	2	0	0
Dividends paid	-18	-62	-73	-104	-60	-77
Net inc/(dec) in borrowings	0	15	0	50	0	0
Other investing/financing cash flows	-1	0	2	0	0	0
Net cash flow	122	-100	-353	57	270	205
Change in working capital	0	0	0	0	0	0

Balance Sheet (USDm)

Cash and other liquid assets	488	387	38	95	365	570
Tangible fixed assets	1,279	1,742	1,458	1,530	1,497	1,424
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	7	4	2	3	3	3
Other assets	759	994	1,879	2,092	2,056	2,170
Total assets	2,533	3,127	3,377	3,719	3,920	4,167
Interest bearing debt	0	15	0	50	50	50
Other liabilities	238	327	319	267	260	283
Total liabilities	238	342	319	317	310	333
Shareholders' equity	2,188	2,620	2,879	3,071	3,244	3,443
Minorities	110	166	179	224	269	318
Total shareholders' equity	2,298	2,786	3,058	3,295	3,513	3,762
Net debt	-488	-373	-38	-45	-315	-520

Key Company Metrics

Sales growth (%)	132.6	17.0	-13.1	1.6	-5.2	15.5
DB EPS growth (%)	310.7	13.6	-35.5	-5.2	-15.4	12.3
EBITDA Margin (%)	50.6	53.1	42.4	41.3	39.2	42.1
EBIT Margin (%)	43.3	43.1	31.0	26.5	18.2	22.5
Payout ratio (%)	9.7	10.6	16.6	18.2	22.3	20.6
ROE (%)	18.9	18.0	10.1	8.9	7.1	7.5
Capex/sales (%)	39.7	42.7	63.6	24.3	18.1	13.9
Capex/depreciation (x)	5.5	4.3	5.6	1.6	0.9	0.7
Net debt/equity (%)	-21.2	-13.4	-1.2	-1.4	-9.0	-13.8
Net interest cover (x)	183.4	nm	54.8	51.9	21.5	42.7

Source: Company data, Deutsche Bank estimates

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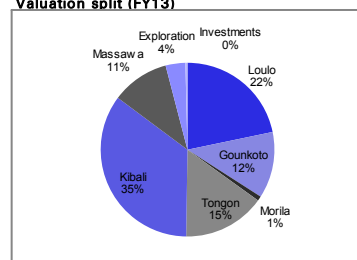
anna.mulholland@db.com



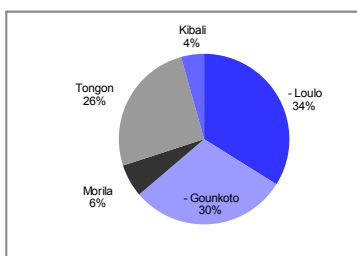
Figure 58: Randgold Operational and Financial Summary Data

FX/Commodities Assumpti	FY10A	FY11A	FY12A	FY13A	FY14F	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F	NPV(FY13)	US\$m	US\$ps	£ps
Silver (US\$/Oz)	20.2	35.2	31.3	23.9	20.0	19.8	19.0	18.8	20.0	24.6	25.4	Loulo	1551	16.7	10.8
Gold (US\$/Oz)	1226	1570	1671	1413	1206	1163	1150	1125	1200	1598	1654	Goukoto	882	9.5	6.1
Copper (US\$/Oz)	343	400	361	334	309	302	295	327	340	340	352	Morila	60	0.6	0.4
Zinc	98	99	89	88	94	105	108	112	115	120	124	Tongon	1093	11.7	7.6
Lead	98	109	94	98	96	104	105	107	108	112	115	Kibali	2493	26.8	17.3
												Massawa	766	8.2	5.3
												Exploration	264	2.8	1.8
												Investments	27	0.3	0.2
KEY FINANCIAL METRICS															
Total Income (US\$m)	137	429	508	324	316	288	300	262	309	585	415	Total Operations	7136	76.7	49.5
Cash Flow from Operations(US	108	570	494	445	392	529	459	551	553	731	752	Corp / unallocated	-156	-1.7	-1.1
Capex and divestments (US\$m)	411	448	561	728	283	200	177	257	231	225	235	Net (Debt)/Cash	44	0.5	0.3
Dividend (US\$m)	15	18	62	46	91	50	52	53	55	57	59	Total	7024	75.5	48.7
Acquisitions (US\$m)	-24	0	0	0	0	0	0	0	0	0	0				
Free Cash Flow (US\$m)	519	1,018	1,055	1,173	675	729	636	807	784	957	987				
Net Debt (US\$m)	366	488	373	38	44	315	520	739	979	1,380	1,802				
EPS (USc)	1.14	4.12	4.71	3.02	2.87	2.42	2.72	2.37	2.80	5.29	3.75				
EPS Change (%)		261%	14%	-36%	-5%	-16%	12%	-13%	18%	89%	-29%				
EPS CAGR (%)				-36%	-22%	-20%	-13%	-13%	-8%	2%	-3%				
DPS (USc)	0.20	0.40	0.50	0.50	0.52	0.54	0.56	0.58	0.60	0.62	0.64				
Payout ratio (%)	18%	10%	11%	17%	18%	22%	21%	25%	21%	12%	17%				
Production (Koz)															
- Loulo	317	208	220	308	397	433	466	459	447	388	374				
- Goukoto	0	138	284	272	311	241	215	213	213	195	142				
Loulo - Goukoto complex	317	346	503	580	708	674	681	671	660	583	515				
Morila	95	100	81	57	53	61	51	25	15	0	0				
Tongon	28	250	210	234	235	275	287	281	281	281	281				
Kibali	0	0	0	40	218	296	288	284	284	284	284				
Massawa	0	0	0	0	0	0	141	195	195	189	176				
Total	440	696	794	910	1215	1306	1447	1456	1435	1336	1256				
Cash Costs (US\$/oz)															
- Loulo	712	1009	781	788	687	669	627	652	689	822	881				
- Goukoto	0	536	706	680	560	616	584	493	510	584	794				
Loulo - Goukoto complex	712	821	738	704	631	650	613	601	631	742	857				
Morila	669	782	759	793	574	528	626	1214	1161	0	0				
Tongon	459	557	772	829	837	681	655	686	708	734	760				
Kibali	0	0	0	464	599	580	601	607	632	655	678				
Massawa	0	0	0	0	0	0	662	624	626	671	740				
Group Avg. Cash Cost	699	716	735	715	663	635	624	632	651	712	778				
EBITDA (US\$m)															
Loulo	140	110	190	194	218	213	244	217	229	301	289				
Goukoto	0	155	272	200	211	132	122	134	147	198	122				
Morila	54	79	73	37	28	39	27	-2	-5	0	0				
Tongon	4	274	189	134	96	132	142	123	138	243	251				
Kibali	0	0	0	31	139	172	158	147	161	267	277				
Massawa	0	0	0	0	0	0	75	98	112	175	161				
Total	199	617	724	596	691	689	766	717	782	1184	1100				
Capex (US\$m)															
Loulo	88	73	300	185	100	60	62	64	67	69	71				
Goukoto	70	70	20	20	40	40	40	45	40	30	30				
Morila	3	2	2	32	4	2	2	1	1	0	0				
Tongon	175	80	20	37	25	20	21	21	22	23	24				
Kibali	23	90	260	350	155	78	53	50	26	27	28				
Massawa	16	16	0	10	0	0	0	25	50	50	55				
Others	5	5	10	10	0	0	0	0	0	0	0				
Total	380	336	612	644	324	200	177	207	206	199	208				

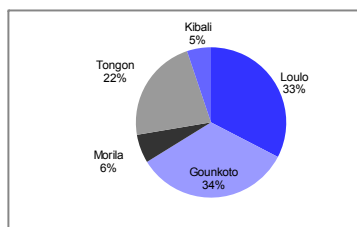
Valuation split (FY13)



Production split (FY13)



EBITDA split (FY13)



Source: Deutsche Bank estimates, Company Data



Investment Thesis - Randgold

Outlook

Randgold has a strong exploration and operational track record in Africa, particularly West Africa. The discovery of Gounkoto in Mali together with Randgold's 45% share of the newly-commissioned Kibali mine (a JV with AngloGold Ashanti) put the company in a good position to grow volumes by 10% CAGR over the next five years. Randgold's development from open pit to underground miner throughout 2013 was by no means a smooth ride, the slower-than-expected ramp-up of the Yalea and Gara underground mines at the company's flagship Loulo operation being a good example. We believe management has learnt from the teething issues however, and that Randgold still has a good quality mix of assets with increasing grades and declining costs. The portfolio of reserves is stress-tested down to US\$1000/oz gold, for a 20% IRR. This should mean Randgold can generate higher margins and return on capital than peers. We expect a declining gold price through to end 2017e however and therefore Randgold is fairly and fully valued on our estimates. Hold.

Valuation

We derive our 12-month TP from a DCF model of life of mine cash flows. We use a long-term gold price of US\$1,300/oz and a WACC of 5% (based on a risk-free rate of 4%, a market risk premium of 6%, a beta of 0.3x and a 30% target gearing). We apply a 0.9x exit multiple to our NPV to derive our TP. Although the company has superior growth potential and a good exploration track record, we apply the 10% discount to factor in some political and delivery risks around the Kibali project in the DRC.

Risks

Key risks include higher-or lower-than-expected gold prices, higher-than-expected costs, particularly labour inflation and an appreciation of the Euro, or higher-than-expected cost savings. The ongoing transition of the flagship Loulo mine to an underground operation poses some risks as the company does not have a lengthy track record in underground mining.



Model updated: 29 August 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

Rio Tinto

Reuters: RIO.L

Bloomberg: RIO LN

Buy

Price (2 Sep 14) GBP 3,236.50

Target Price GBP 4,650.00

52 Week range GBP 2,957.50 - 3,627.50

Market Cap (m) GBPm 59,942
USDm 99,590

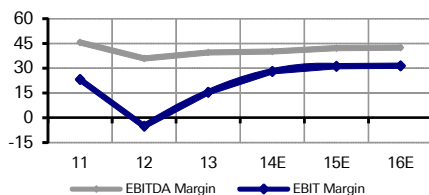
Company Profile

Rio Tinto is a global diversified mining company with interests in aluminum, borax, coal, copper, diamonds, gold, iron ore, titanium dioxide feedstock, uranium and zinc. Its key mining operations are located in Australia, New Zealand, South Africa, South America, the United States, Europe, and Canada. Rio Tinto's management structure is based primarily on six principal global products businesses: Aluminium, Diamonds, Copper, Energy (coal and uranium), Industrial Minerals, and Iron Ore supported by worldwide exploration and technology groups.

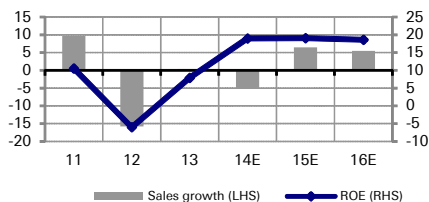
Price Performance



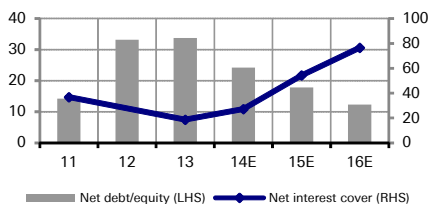
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (USD)	8.06	5.01	5.50	5.33	5.47	5.79
Reported EPS (USD)	3.02	-1.61	1.97	4.95	5.47	5.79
DPS (USD)	1.45	1.67	1.92	2.26	2.53	2.72
BVPS (USD)	28.0	25.3	24.8	27.6	30.0	32.4
Weighted average shares (m)	1,923	1,852	1,852	1,852	1,852	1,852
Average market cap (USDm)	120,258	94,549	91,212	99,590	99,590	99,590
Enterprise value (USDm)	122,950	117,000	110,477	116,904	114,208	111,577

Valuation Metrics

	2011	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	7.8	10.2	9.0	10.1	9.8	9.3
P/E (Reported) (x)	20.7	nm	25.0	10.9	9.8	9.3
P/BV (x)	1.73	2.25	2.27	1.95	1.79	1.66
FCF Yield (%)	6.4	nm	2.6	5.9	7.2	7.7
Dividend Yield (%)	2.3	3.3	3.9	4.2	4.7	5.0
EV/Sales (x)	2.0	2.3	2.2	2.4	2.2	2.0
EV/EBITDA (x)	4.4	6.4	5.5	6.0	5.2	4.8
EV/EBIT (x)	8.7	nm	14.0	8.6	7.1	6.5

Income Statement (USDm)

Sales revenue	60,537	50,967	51,171	48,629	51,768	54,604
Gross profit	28,094	17,872	19,858	19,940	21,908	23,216
EBITDA	27,635	18,275	20,234	19,505	21,845	23,232
Depreciation	3,817	4,441	4,791	4,714	5,698	6,053
Amortisation	9,766	16,410	7,531	1,142	0	0
EBIT	14,052	-2,576	7,912	13,649	16,147	17,179
Net interest income/(expense)	-382	-160	-425	-502	-298	-225
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-10	-7	0	0	0	0
Other pre-tax income/(expense)	-456	168	-3,982	358	-360	-360
Profit before tax	13,214	-2,568	3,505	13,505	15,489	16,594
Income tax expense	6,439	429	2,426	4,105	4,802	5,144
Minorities	939	-14	-2,586	206	528	687
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,826	-2,990	3,665	9,194	10,160	10,763
DB adjustments (including dilution)	9,723	12,293	6,552	714	0	0
DB Net profit	15,549	9,303	10,217	9,908	10,160	10,763

Cash Flow (USDm)

Cash flow from operations	20,030	9,368	15,078	13,803	15,138	15,945
Net Capex	-12,335	-17,575	-12,720	-7,944	-7,936	-8,288
Free cash flow	7,695	-8,207	2,358	5,859	7,203	7,657
Equity raised/(bought back)	-5,504	1,474	0	0	0	0
Dividends paid	-2,236	-3,038	-3,322	-3,784	-4,504	-4,943
Net inc/(dec) in borrowings	4,208	7,888	2,122	-5,237	-1,499	-1,193
Other investing/financing cash flows	-4,773	-666	1,756	1,553	260	260
Net cash flow	-610	-2,549	2,914	-1,609	1,460	1,781
Change in working capital	347	401	557	540	-81	-195

Balance Sheet (USDm)

Cash and other liquid assets	9,670	7,082	10,216	8,624	10,084	11,866
Tangible fixed assets	64,967	75,131	70,827	75,838	77,815	79,791
Goodwill/intangible assets	16,142	9,402	6,770	7,468	7,108	6,748
Associates/investments	12,428	7,966	6,406	6,180	6,180	6,180
Other assets	16,338	17,992	16,806	15,810	16,585	17,283
Total assets	119,545	117,573	111,025	113,920	117,773	121,868
Interest bearing debt	18,121	26,343	28,271	23,158	21,659	20,466
Other liabilities	41,785	32,915	29,425	30,749	31,327	31,693
Total liabilities	59,906	59,258	57,696	53,907	52,986	52,159
Shareholders' equity	52,539	46,865	45,886	51,053	55,564	60,142
Minorities	6,669	11,156	7,616	8,960	9,223	9,567
Total shareholders' equity	59,208	58,021	53,502	60,013	64,787	69,709
Net debt	8,451	19,261	18,055	14,534	11,575	8,600

Key Company Metrics

Sales growth (%)	9.7	-15.8	0.4	-5.0	6.5	5.5
DB EPS growth (%)	14.1	-37.9	9.8	-3.0	2.5	5.9
EBITDA Margin (%)	45.6	35.9	39.5	40.1	42.2	42.5
EBIT Margin (%)	23.2	-5.1	15.5	28.1	31.2	31.5
Payout ratio (%)	47.9	nm	97.0	45.5	46.1	46.7
ROE (%)	10.5	-6.0	7.9	19.0	19.1	18.6
Capex/sales (%)	20.4	34.5	25.3	18.5	15.3	15.2
Capex/depreciation (x)	3.2	4.0	2.7	1.9	1.4	1.4
Net debt/equity (%)	14.3	33.2	33.7	24.2	17.9	12.3
Net interest cover (x)	36.8	nm	18.6	27.2	54.3	76.5

Source: Company data, Deutsche Bank estimates

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Figure 59: Rio Tinto Operational and Financial Summary Data

FX/COMMODITIES (Nominal)	CY10A	CY11A	CY12A	CY13A	CY14F	CY15F	CY16F	CY17F	CY18F	CY19F	CY20F	NPV (HD14)	US\$M	US\$/sh	GBP/Sh
AUDUSD	0.92	1.03	1.04	0.97	0.92	0.91	0.89	0.85	0.82	0.80	0.80	Aluminium	27,273	14.73	9.50
Iron ore - lump (US\$/t) - CIF	137	181	136	144	116	106	102	100	107	110	114	Copper	21,571	11.65	7.51
Iron ore - fines (US\$/t) - CIF	122	189	128	132	104	96	90	89	95	98	102	Diamonds	988	0.53	0.34
Aluminium (US\$/lb)	0.89	1.09	0.93	0.86	0.82	0.86	1.00	1.09	1.18	1.39	1.44	Minerals	7,224	3.90	2.52
Bauxite (US\$/t) - FOB	35	20	20	40	48	55	56	55	55	57	59	Energy	5,880	3.17	2.05
Copper (US\$/lb)	3.43	4.00	3.61	3.34	3.09	3.02	2.85	3.27	3.40	3.40	3.52	Iron Ore	99,845	53.91	34.78
Thermal Coal (US\$/t) - contract	91	122	101	93	85	83	88	91	94	105	108	Investments	0	0.00	0.00
Coking Coal (US\$/t)	195	289	210	159	130	135	155	160	170	184	191	Corporate (HO, pensions, expl)	(13,293)	(7.18)	(4.63)
Uranium (US\$/lb) - term	61	63	53	55	49	56	58	61	65	67	68	Net Debt	(14,534)	(7.85)	(5.06)
Rutile (US\$/t)	689	1,045	2,341	1,190	945	1,035	1,125	1,164	1,262	1,306	1,352	TOTAL	134,955	72.87	47.01
Zircon (US\$/t)	911	1,893	2,180	1,218	1,120	1,268	1,368	1,489	1,649	1,603	1,659	WACC (nominal)	9.0%	Shares	1,852M
Gold (US\$/oz)	1,226	1,570	1,671	1,413	1,257	1,163	1,150	1,125	1,200	1,598	1,654				
KEY FINANCIAL METRICS															
Underlying Earnings (US\$M)	13,901	15,549	9,303	10,217	9,908	10,160	10,763	10,602	13,115	14,192	14,593				
EPS (USc)	709	809	503	553	533	547	579	571	706	764	785				
EPS Change (%)	157%	14%	-38%	10%	-4%	3%	6%	-1%	24%	8%	3%				
EPS CAGR (%) - off CY13 earnings					-4%	-1%	2%	1%	5%	6%	5%				
DPS (USc)	108	145	167	192	226	255	272	286	313	338	355				
Payout ratio (%)	15%	18%	33%	35%	42%	46%	47%	50%	44%	44%	46%				
CASH FLOW															
Operating Cash Flow (US\$M)	18,191	20,030	9,368	15,078	13,803	15,138	15,945	16,055	18,763	19,855	20,423				
Capex (US\$M)	(4,591)	(12,335)	(17,575)	(12,944)	(8,993)	(7,936)	(8,288)	(8,195)	(6,090)	(5,949)	(6,358)				
Acquisitions and Divestments (US\$M)	2,880	(6,480)	(716)	1,998	1,309	260	260	260	-	-	-				
Free Cash Flow (US\$M) - before dividends	16,480	1,215	(8,923)	4,132	6,119	7,463	7,917	8,120	12,933	13,906	14,075				
Dividend (US\$M)	(1,754)	(2,236)	(3,038)	(3,322)	(3,784)	(4,504)	(4,943)	(5,207)	(5,432)	(6,035)	(6,518)				
Free Cash Flow (US\$M) - before debt	14,726	(1,021)	(11,961)	810	2,335	2,959	2,974	2,912	7,501	7,871	7,557				
Free Cash Flow yield (%)				4.1%	6.0%	7.3%	7.8%	8.0%	12.7%	13.7%	13.8%				
BALANCE SHEET AND RETURNS															
Net Debt (US\$M)	4,284	8,451	19,261	18,055	14,534	11,575	8,600	5,688	(1,813)	(9,684)	(17,241)				
Gearing (ND/E - %)	7%	14%	36%	30%	22%	17%	12%	7%	-2%	-10%	-17%				
ROE (%)	27%	28%	19%	22%	20%	19%	19%	17%	20%	19%	19%				
ROA (%)	21%	23%	6%	11%	14%	15%	16%	15%	19%	20%	21%				
PRODUCTION															
Copper - refined (kt)	393	334	279	300	297	262	294	294	294	278	278				
Copper - mined (kt)	678	520	549	632	611	635	699	729	815	754	740				
Iron ore (Mt) - attributable	179	192	199	203	231	279	307	314	331	346	346				
Iron ore (Mt) - Pilbara (100%) - production	224	231	239	251	281	333	364	371	388	403	403				
Iron ore (Mt) - Pilbara (100%) - sales	223	225	233	244	288	338	364	371	388	403	403				
Iron ore (Mt) - Global (100%)	239	245	253	266	297	354	387	394	411	426	426				
Coal - Hard and Semi soft coking (Mt)	12.1	11.7	11.4	11.9	11.1	13.9	13.9	13.9	13.9	13.9	13.9				
Coal - Thermal (Mt)	61.1	20.1	20.6	22.7	18.9	15.8	15.8	15.8	15.8	15.8	15.8				
Bauxite (Mt)	33.1	35.4	39.4	43.2	40.7	43.3	43.7	43.7	43.7	43.5	43.5				
Alumina (Mt)	9.1	8.9	10.0	9.3	7.7	7.8	8.0	8.3	8.4	8.5	8.5				
Aluminium (Mt)	3.8	3.8	3.5	3.6	3.3	3.4	3.5	3.5	3.5	3.3	3.3				
Uranium (kt)	5.2	3.2	4.3	3.6	2.1	3.4	3.9	3.9	3.9	3.9	3.9				
Diamonds (Mcts)	13.8	11.7	13.3	16.0	15.5	21.4	23.0	23.0	22.7	22.9	22.8				
Gold (koz)	766	662	288	333	442	489	509	431	758	521	381				
Titanium dioxide feedstock (kt)	0	0	1,595	1,622	1,539	2,007	2,016	2,016	2,016	2,016	2,016				
Copper Eq Production (Mt)	7.5	7.2	7.2	7.4	7.5	8.4	8.9	9.0	9.4	9.3	9.3				
Copper Eq CAGR (%)					0.8%	6.5%	6.5%	6.5%	4.9%	3.9%	3.3%				
COSTS															
Absolute (US\$M)	35,262	36,260	35,131	32,692	31,086	33,718	34,855	35,793	37,100	40,041	41,347				
Unit costs (US\$/lb Cu Eq) - incl. royalties	2.13	2.27	2.22	2.00	1.89	1.82	1.77	1.80	1.79	1.94	2.01				
Change in unit costs (%)		6.7%	-2.3%	-9.7%	-5.7%	-3.7%	-2.9%	1.6%	-0.5%	8.7%	3.7%				
REVENUE (US\$M)															
Aluminium	3,378	14,422	12,170	12,560	11,899	13,051	14,104	14,218	14,684	15,152	15,658				
Copper	7,782	7,634	6,661	5,916	6,072	6,242	6,827	6,991	8,846	8,265	8,506				
Diamonds	682	727	741	852	810	1,032	1,080	1,079	1,068	1,124	1,153				
Minerals	2,795	2,927	3,315	3,341	3,138	3,744	4,085	4,218	4,455	4,641	4,791				
Energy	5,652	7,327	5,783	5,454	4,241	4,233	4,788	4,927	5,159	5,599	5,787				
Iron Ore	23,582	29,475	24,279	25,994	25,022	25,934	26,295	26,303	29,959	31,349	32,550				
Others (includes associates and JVs)	877	-1,975	-1,982	-2,949	-2,558	-2,487	-2,576	-3,027	-3,231	-3,353	-3,368				
Total	44,748	60,537	50,867	51,268	48,624	51,768	54,604	54,710	60,942	62,746	65,077				
CONSOLIDATED CAPEX (US\$M)															
Growth															
Aluminium	401	987	1,756	1,551	1,294	1,200	0	0	0	0	0				
Copper	454	2,863	3,264	1,702	721	804	1,031	1,210	772	153	408				
Diamonds	151	385	627	236	128	10	225	165	0	0	0				
Minerals	0	730	732	274	72	37	0	0	0	0	0				
Energy	496	927	1,324	237	272	100	80	40	42	44	47				
Iron Ore	1,246	2,480	4,722	4,104	2,663	1,600	2,200	1,900	200	0	0				
Total Growth Capex	2,748	8,371	12,425	8,105	5,151	3,761	3,538	3,315	1,015	197	455				
Sustaining Capex	1,843	3,964	5,150	4,694	3,837	4,185	4,752	4,880	5,076	5,752	5,903				
Total Capex	4,591	12,335	17,575	12,944	8,988	7,936	8,288	8,195	6,090	5,949	6,358				
EBITDA (US\$M)															
Aluminium	442	2,287	1,360	1,894	2,389	3,189	3,750	3,659	3,837	4,258	4,471				
Copper	4,503	3,394	1,736	1,750	2,572	2,590	3,053	2,853	4,344	3,849	3,945				
Diamonds	158	160	103	257	248	329	357	353	369	403	407				
Minerals	527	546	555	828	884	837	1,036	1,140	1,343	1,445	1,420				
Energy	2,299	2,232	1,193	906	345	635	1,074	1,238	1,496	2,020	2,106				
Iron Ore	16,526	20,507	15,675	17,442	15,521	15,446	15,121	14,897	17,602	18,112	18,550				
Others (includes associates and JVs)	-453	-501	-4,542	-1,568	-1,10										



Investment Thesis –Rio Tinto

Outlook

Rio Tinto has a very high-quality suite of assets that are generally: low operating cost, long life, expandable, located in low-risk countries (Australia, North America, Europe) and considered premium quality relative to the sector, offering above-average returns and operating margins. Rio has very effectively strengthened its balance sheet, with growth firmly back on the agenda, with the key growth project being the expansion of the Pilbara iron ore assets from 225Mtpa to 355Mtpa and then onto 450mtpa. We believe Rio Tinto looks undervalued on most metrics (peer comparison, P/E multiples, DCF valuation), and we rate the stock a Buy.

Valuation

We value Rio Tinto using discounted cashflow analysis of each of its assets (9.0% WACC, CoE 11.2%, CoD 5.5%, RFR 4.0%, ERP 6.0%, beta 1.2). Our target is set in line with our valuation using life of mine cashflows.

Risks

Key risks to our view include movements in iron ore, copper, coal and aluminium prices away from those that we currently forecast and a significantly different A\$ than we currently assume. With earnings for the group strongly biased to iron ore and copper (60-75% combined of operating earnings) production levels, prices for those commodities are an important consideration: a 10% change in iron ore price could lead to ~9% change in earnings for Rio Tinto specifically, on our estimates. Liquidity is no longer an issue for the company in our view with balance sheet gearing firmly below the typical 20%-30% range.



Model updated: 01 September 2014

Running the numbers

Europe

United Kingdom

Metals & Mining

Vedanta Resources

Reuters: VED.L

Bloomberg: VED LN

Buy

Price (2 Sep 14) GBP 1,060.00

Target Price GBP 1,250.00

52 Week range GBP 775.00 - 1,194.00

Market Cap (m) GBpm 2,893
USDm 4,806

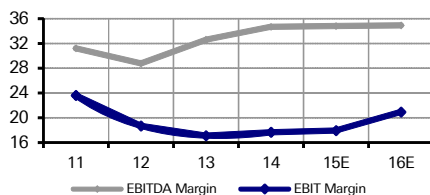
Company Profile

Vedanta Resources Ltd. mines and processes a variety of metals (copper, zinc and aluminium), with its core operations being domiciled in India. Since its listing in London in late 2003, the company has diversified its exposure by both metal and geography mostly via acquisition; Iron ore, power and oil in India, copper in Zambia and zinc in Southern Africa and Ireland.

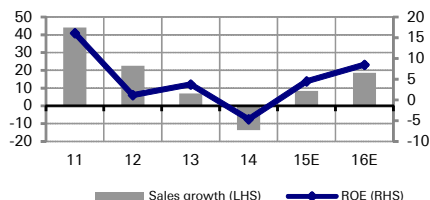
Price Performance



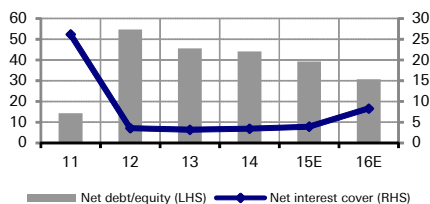
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Mar

Financial Summary

	2011	2012	2013	2014	2015E	2016E
DB EPS (USD)	2.52	1.40	1.37	0.34	0.61	1.12
Reported EPS (USD)	2.70	0.22	0.62	-0.71	0.61	1.12
DPS (USD)	0.52	0.55	0.58	0.61	0.67	0.74
BVPS (USD)	20.1	17.1	16.1	14.7	13.2	13.6
Weighted average shares (m)	272	273	273	273	273	273
Average market cap (USDm)	9,796	6,556	4,635	4,528	4,806	4,806
Enterprise value (USDm)	23,953	34,404	31,028	30,225	29,832	28,606

Valuation Metrics

P/E (DB) (x)	14.3	17.2	12.4	49.3	28.6	15.7
P/E (Reported) (x)	13.3	111.6	27.5	nm	28.6	15.7
P/BV (x)	1.90	1.15	0.95	1.02	1.33	1.29
FCF Yield (%)	nm	nm	18.7	21.9	18.1	29.8
Dividend Yield (%)	1.4	2.3	3.4	3.7	3.8	4.2
EV/Sales (x)	2.1	2.5	2.1	2.3	2.1	1.7
EV/EBITDA (x)	6.7	8.5	6.3	6.7	6.1	4.9
EV/EBIT (x)	8.9	13.1	12.1	13.2	11.9	8.2

Income Statement (USDm)

Sales revenue	11,427	14,005	14,990	12,945	14,038	16,648
Gross profit	3,567	4,026	4,888	4,491	4,888	5,813
EBITDA	3,567	4,026	4,888	4,491	4,888	5,813
Depreciation	869	1,408	2,323	2,203	2,371	2,328
Amortisation	0	0	0	0	0	0
EBIT	2,698	2,618	2,565	2,288	2,517	3,485
Net interest income(expense)	-103	-735	-806	-668	-640	-420
Associates/affiliates	0	-138	0	0	0	0
Exceptionals/extraordinary	89	0	-42	-502	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,683	1,745	1,717	1,118	1,877	3,065
Income tax expense	650	517	40	129	431	1,030
Minorities	1,263	1,169	1,508	1,185	1,275	1,724
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	771	60	169	-197	171	311
DB adjustments (including dilution)	8	327	-206	290	0	0
DB Net profit	779	387	375	93	171	311

Cash Flow (USDm)

Cash flow from operations	1,910	1,904	3,100	3,178	3,041	3,532
Net Capex	-2,491	-2,796	-2,233	-2,187	-2,170	-2,101
Free cash flow	-581	-893	867	990	871	1,431
Equity raised/(bought back)	-128	2,354	-784	-2,839	0	0
Dividends paid	-57	-364	-411	-508	-569	-895
Net inc/(dec) in borrowings	2,025	7,245	115	298	0	0
Other investing/financing cash flows	-1,563	-7,525	210	-120	0	0
Net cash flow	-304	818	-2	-2,179	302	537
Change in working capital	-347	-267	10	630	64	-147

Balance Sheet (USDm)

Cash and other liquid assets	7,796	6,885	7,982	8,938	9,623	10,849
Tangible fixed assets	17,190	34,598	33,121	31,044	30,837	30,610
Goodwill/intangible assets	174	17	17	125	119	113
Associates/investments	345	812	1,046	1,653	1,653	1,653
Other assets	3,395	3,622	3,786	3,615	3,571	4,210
Total assets	28,900	45,935	45,950	45,374	45,802	47,435
Interest bearing debt	9,753	16,955	16,593	16,871	16,871	16,871
Other liabilities	5,468	10,572	11,885	10,528	10,462	10,955
Total liabilities	15,221	27,527	28,478	27,400	27,333	27,826
Shareholders' equity	5,649	4,651	4,398	4,010	3,612	3,718
Minorities	8,030	13,769	14,463	13,964	14,857	15,892
Total shareholders' equity	13,679	18,419	18,861	17,975	18,469	19,609
Net debt	1,957	10,070	8,611	7,933	7,249	6,022

Key Company Metrics

Sales growth (%)	44.1	22.6	7.0	-13.6	8.4	18.6
DB EPS growth (%)	49.9	-44.6	-1.8	-75.5	82.9	82.0
EBITDA Margin (%)	31.2	28.7	32.6	34.7	34.8	34.9
EBIT Margin (%)	23.6	18.7	17.1	17.7	17.9	20.9
Payout ratio (%)	18.3	251.2	93.9	nm	107.2	64.8
ROE (%)	16.1	1.2	3.7	-4.7	4.5	8.5
Capex/sales (%)	21.8	20.0	14.9	16.9	15.5	12.6
Capex/depreciation (x)	2.9	2.0	1.0	1.0	0.9	0.9
Net debt/equity (%)	14.3	54.7	45.7	44.1	39.2	30.7
Net interest cover (x)	26.2	3.6	3.2	3.4	3.9	8.3

Source: Company data, Deutsche Bank estimates

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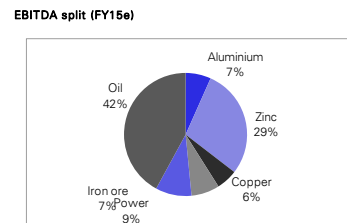
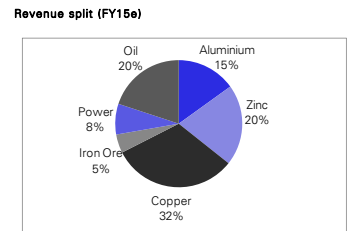
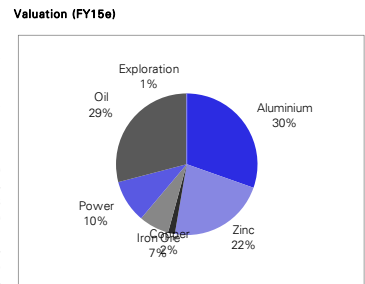
Figure 60: Vedanta Operational and Financial Summary Data

VEDANTA OPERATIONAL AND FINANCIAL SUMMARY DATA

FX/COMMODITY ASSUMPTIONS	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F	NPV (FY15e)	US\$M	US\$/Sh	GBP/Sh
INR/USD	47.08	45.50	48.88	54.33	59.44	60.45	64.00	64.00	64.00	64.00	64.00	Aluminium	9158	32.98	21.28
Copper (US\$/lb)	2.77	3.78	3.85	3.57	3.23	3.05	3.00	3.03	3.30	3.40	3.43	Zinc	6733	24.25	15.64
Aluminium (US\$/lb)	0.85	1.02	1.06	0.91	0.82	0.83	0.89	1.02	1.11	1.23	1.41	Copper	461	1.66	1.07
Zinc (US\$/lb)	0.88	0.99	0.95	0.89	0.88	0.96	1.08	1.12	1.15	1.20	1.24	Iron Ore	2080	7.49	4.83
Lead (US\$/lb)	0.90	1.02	1.03	0.96	0.96	0.97	1.04	1.06	1.07	1.09	1.13	Power	2946	10.61	6.85
Iron Ore - fines (US\$/t)	58.24	129.61	135.74	103.92	107.19	83.89	83.72	81.94	88.17	91.15	94.21	Oil	8759	31.54	20.35
Oil Brent (US\$/bbl)	69.94	87.38	114.72	110.24	107.55	110.46	110.74	111.02	108.68	112.48	112.48	Explorations and prospects	0	0.00	0.00
												Synergies	0	0.00	0.00
												Corporate and other operations	-126	-0.45	-0.29
KEY FINANCIAL METRICS												Minorities	-16352	-58.88	-37.99
Underlying Income (US\$M)	547	715	387	363	93	170	311	540	503	465	638	Net Debt	-7969	-28.70	-18.51
Operating Cash flow (US\$M)	1,548	1,998	2,123	3,357	3,524	3,424	4,222	4,909	5,050	4,997	5,445	TOTAL	5690	20.49	13.22
Capex (US\$M)	(2,547)	(2,809)	(2,796)	(2,306)	(2,185)	(2,170)	(2,101)	(1,244)	(808)	(863)	(908)	NPV discount			5%
Dividend (US\$M)	25	31	(144)	(154)	(163)	(186)	(205)	(225)	(248)	(273)	(300)				
Acquisitions															
Free Cash Flow (US\$M) - before debt and equity	(3,355)	(2,513)	(6,593)	113	(1,839)	871	1,431	2,914	3,428	3,262	3,539	Target price			12.50
Net Debt/(Net Cash) (US\$M)	919	1,957	10,070	8,616	7,920	7,249	6,022	3,333	154	(2,836)	(6,074)	WACC (nominal)	10.9%	Shares	278M
Gearing (ND/E - %)	8%	14%	55%	49%	44%	39%	31%	16%	1%	-12%	-23%	Valuation (FY15e)			
ROE (%)	13%	14%	1%	5%	-5%	5%	8%	13%	12%	10%	13%	Exploration	1%		
ROA (%)	7%	9%	6%	6%	5%	5%	7%	8%	8%	8%	9%	Oil	29%		
EPS (USc)	186	252	140	131	34	61	112	198	181	168	230	Aluminium	30%		
EPS Change (%)	0.56	0.36	-0.45	-0.06	-0.74	0.82	0.83	0.77	-0.08	-0.07	0.37	Power	10%		
EPS CAGR (%) - off FY12 earnings				-6%	-51%	-24%	-5%	7%	4%	3%	6%	Iron Ore	7%		
DPS (USc)	45	52	55	58	61	67	74	81	89	98	108	Copper	2%		
Payout ratio (%)	0.21	0.19	2.55	1.02	-0.86	1.10	0.66	0.42	0.49	0.59	0.47	Zinc	22%		
PRODUCTION															
Alumina (kt)	805	706	928	528	459	1133	2500	3600	4500	4500	4500				
Aluminium (kt)	534	644	669	773	795	881	1369	1839	2294	2294	2294				
Zinc - mined (kt)	815	1194	1190	1200	1180	1138	1219	1389	1383	1297	1146				
Zinc - refined (kt)	653	1018	1049	963	998	977	949	954	956	958	760				
Lead (kt)	109	214	269	288	267	257	251	241	211	211	211				
Silver	6	6	8	13	11.2	11	15	16	15	15	14				
Copper - mined (kt)	126	131	112	205	199	178	181	184	183	207	205				
Copper - refined (kt)	507	520	525	568	472	505	594	644	644	644	644				
Iron ore - fines (twet volume) (kt)	21400	21100	15777	3800	1500	7819	10290	10290	10290	10290	10290				
Pig Iron (kt)	265	282	251	308	440	440	440	440	440	440	440				
Coke (kt)	277	289	252	332	340	340	340	340	340	340	340				
Power (MWhr)	0	3394	5642	8749	9429	14639	18740	23430	19223	19223	19223				
Oil (Mboe)	0	13	16	56	83	85	95	88	90	84	79				
Copper Eq Production	924	1109	1265	1935	2459	2980	3257	3360	3399	3255	3228				
Copper Eq CAGR (%) - off FY12				53%	39%	33%	27%	22%	18%	14%	12%				
REVENUE (US\$M)															
Aluminium	914	1,572	1,873	1,921	1,785	2,118	3,007	4,412	5,895	6,239	7,115				
Zinc	1,652	2,372	3,207	3,061	2,857	2,902	3,309	3,613	3,668	3,583	3,378				
Copper	3,812	5,253	5,914	5,734	4,676	4,474	4,925	5,295	5,743	5,910	5,962				
Iron Ore	1,222	1,980	1,690	443	267	669	673	637	634	669	693				
Power	1	339	458	576	622	1,099	1,006	1,261	973	973	1,007				
Oil	-	-	883	3,223	3,093	2,801	3,729	3,368	3,316	3,356	3,200				
Corp./Other/Captive power plants	331	(88)	(20)	33	(355)	(26)	-	-	-	-	-				
Total Revenue	7,017	9,856	12,132	13,069	11,160	11,919	13,641	14,174	14,334	14,492	14,240				
EBITDA (US\$M)															
Aluminium	155	258	183	214	287	326	201	585	967	1,190	1,889				
Zinc	983	1,322	1,611	1,460	1,358	1,406	1,756	1,960	2,003	2,016	1,929				
Copper	318	681	686	476	354	273	311	269	290	217	181				
Iron ore	673	1,174	721	84	(24)	364	393	356	367	389	403				
Power	-	138	122	215	168	463	438	579	453	453	469				
Oil	(3)	-	713	2,440	2,347	2,056	2,714	2,369	2,238	2,278	2,167				
Other/Corp/Captive power plants	171	(6)	(9)	(1)	(0)	1	-	-	-	-	-				
Total	2,296	3,507	4,026	4,888	4,491	4,888	5,813	6,118	6,317	6,543	7,038				
EBITDA Margins (%)															
Aluminium	17%	16%	10%	11%	16%	15%	7%	13%	16%	19%	27%				
Zinc	60%	56%	50%	48%	48%	48%	53%	54%	55%	56%	57%				
Copper	8%	13%	12%	8%	8%	6%	6%	5%	5%	4%	3%				
Iron ore	55%	59%	43%	19%	-9%	54%	58%	56%	58%	58%	58%				
Power	0%	41%	27%	37%	27%	42%	44%	46%	47%	47%	47%				
Oil	nm	nm	81%	76%	76%	73%	73%	70%	67%	68%	68%				
Total	33%	36%	33%	37%	40%	41%	43%	43%	44%	45%	49%				
CAPEX (US\$M)															
Aluminium	2,270	1,371	905	517	165	295	317	129	129	132	136				
Zinc	300	297	510	323	391	173	183	120	115	112	109				
Copper	150	429	532	349	207	180	180	174	158	164	169				
Iron Ore	150	250	260	128	44	323	60	60	60	60	40				
Power	935	396	859	646	658	1,463	161	161	46	46	51				
Oil	473	-	31	424	1,069	1,260	1,200	600	300	350	404				
Total Capex	2,008	1,372	2,193	1,869	2,369	3,398	1,784	1,115	679	731	772				

Source: Deutsche Bank estimates, Company data

Source: Deutsche Bank estimates, Company Data





Investment Thesis - Vedanta

Outlook

Vedanta's planned group restructuring was completed in 2H13 calendar, with the court clearance of Sterlite's merger into Sesa Goa. This was an important step in simplifying the group's structure, reducing the scope for future conflict between majority and minority shareholders. Post the merger of Sterlite and Sesa, we see the group's buyout of the Indian government's stakes in HZL and Balco as critical for maximising cash fungibility across all group entities and expect progress on this in the next 12 months. Beyond this, management has set three near-term priorities for improvement for the group: an iron ore mining re-start, bauxite sourcing in India, and Copper Zambia development. We expect all of these areas to show improvement in 2015. Buy.

Valuation

Our price target is set at a 5% discount to our DCF valuation, to reflect some of the inherent delivery risks within Vedanta's growth plan. Our DCF valuation (10.9% WACC - cost of equity 13%, post-tax cost of debt 6.1% and target gearing 30%: RFR 4.0%, ERP 6%) is calculated using life of mine cash flow analysis.

Risks

Key downside risks include lower metal prices than we expect, sustained strength in the Indian rupee, higher import duties, slower execution of projects and the slow or non-receipt of government permits for the alternative bauxite mines in Orissa and the Lanjigarh refinery expansion programme. The company has a large capex program which may require further debt funding or capital raising, either at the Sterlite or Vedanta level.



Research Contribution

The authors of this report wish to acknowledge the contribution made by Vikram Subramanian, an employee of Irevna, a division of CRISIL Limited, a third-party provider, to Deutsche Bank, of offshore research support services.



Appendix 1

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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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Notes:

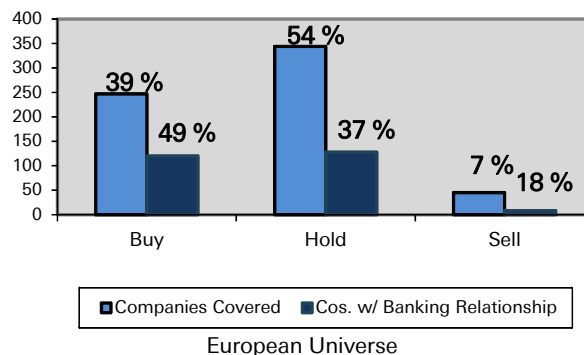
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