

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Rio Tinto plc

British-Australian mining company Rio Tinto has a long history. Copper was already being mined in the Bronze Age, and later by Phoenicians and Romans, at Minas de Riotinto in southern Spain. The Rothschild family, together with other investors, bought the state mines in 1873, the year Rio Tinto was founded. After having abandoned coal mining two years ago, the multinational company now primarily produces iron ore in addition to copper, bauxite and diamonds. In 2019, 327 million tonnes were extracted from the two mining areas in Australia and Canada. In the coming years the annual production capacity will increase to 360 million tonnes. The coronavirus crisis has had virtually no effect on demand for high-quality ore with the highest iron content, which is the intermediate product for the most important commodity of our civilisation: steel. The world consumes 2 billion tonnes of steel every year. This is driven mainly by the construction industry in China, which absorbs around 50% of Rio Tinto's production. Market price is driven by demand. The average price in 2019 was USD 86 per tonne. It has now risen to USD 100 per tonne. This affects steel producers, which have limited ability to pass on this important cost factor to customers. But Rio Tinto is the winner in the value chain. Automation and the digitalisation of the mining industry have reduced production costs to just USD 14 per tonne. The earnings leverage is tremendous.

In 2019, the operating cash flow margin was 47%. The iron ore segment generated USD 11.4 billion, or 77% of the group's total operating cash (table).

in billions USD	2019	2018	2017	2016	2015
Operative cashflow	14.9	11.8	13.9	8.5	9.4
Free cashflow	9.2	7.0	9.5	5.8	4.8
ROCE	24%	19%	18%	11%	9%

In spite of having a capital-intensive business model, Rio Tinto generates a huge level of free cash flow and very high operating margins in relation to total capital employed (ROCE). As we outlined in our May 2018 investment report when we first introduced Rio Tinto, this development is due to CEO Jean-Sébastien Jacques, the French-British bi-national who, after many years of restructuring, is now closely monitoring the group's capital. Goodwill and debts are nowhere to be found in the balance sheet. Profitability comes before volume. Every project must meet demanding return targets and be in line with the concept of rational capital allocation. This includes the fact that a large part of the profit is distributed to shareholders via dividends and share buybacks – USD 36 billion since 2016 alone. This corresponds to around 40% of the current market capitalisation. We view Rio Tinto as an equity bond with fluctuating coupons and permanent cash value protection. The earnings yield is an attractive 10%.

Sincerely yours



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