Investing in mining companies

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Agenda

- People
- Prospects and projects
- BEE credits, BEE representatives
- Resources and reserves
- Value curve
- Value drivers
- Classic valuation metrics
- Company example

Caveat Emptor

Sell when they start digging……

Mine development

People

- Essential component – often depends on a strong, visionary leader
- Critically important – people will add the value to the company
- Qualifications – mining and geology are important
- Track record – where have they come from?

Prospects and projects

- Quality of asset – how does it compare with peers' assets – ease of mining?
- Time to production – is it realistic?
- Market characteristics – the product needs a market
- Price outlook – a rising trend is good
- Cyclicality – what will the market be like when production starts?
- Progress on value curve – how much value uplift can there be?

Value curve

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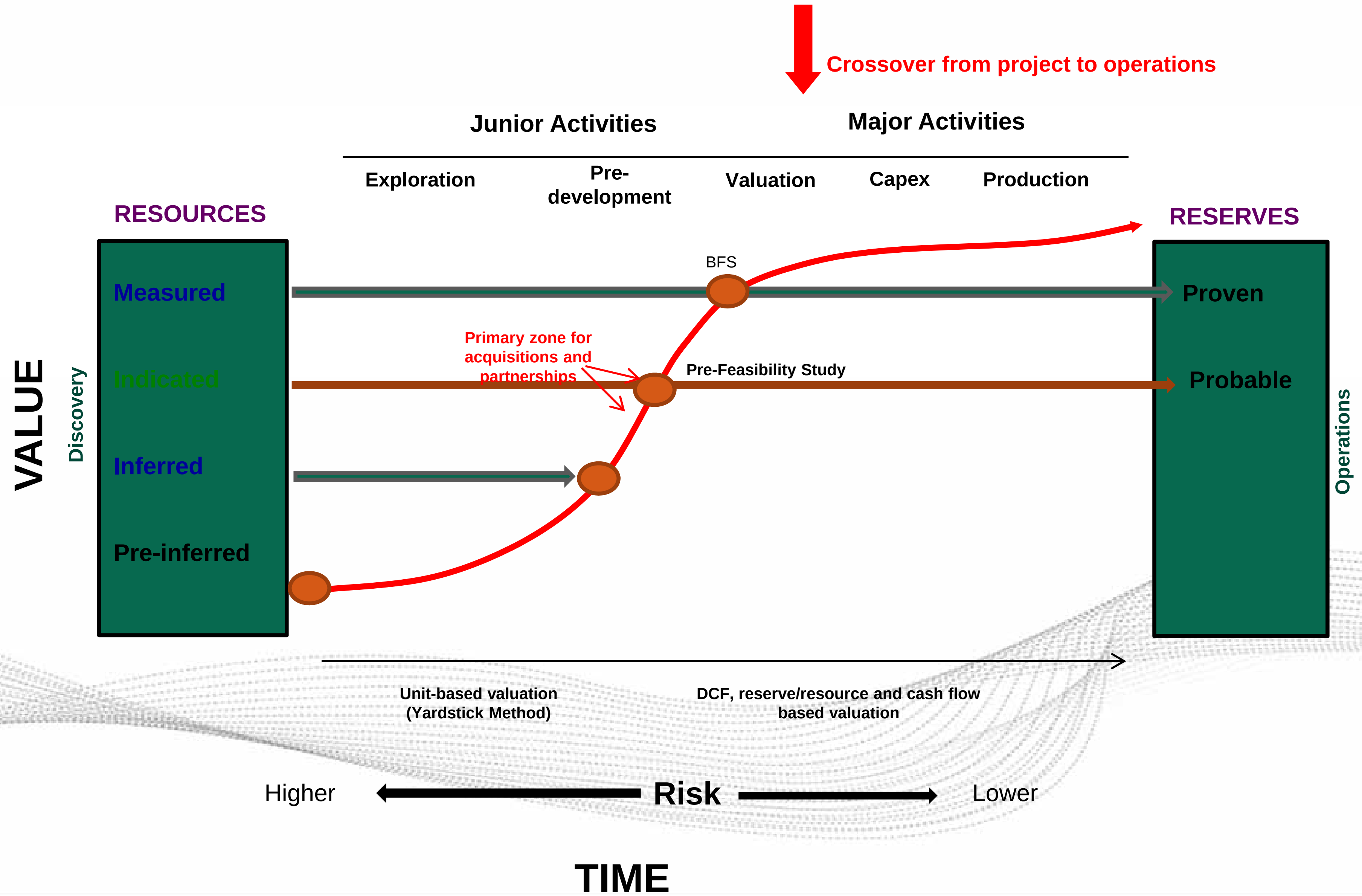

BEE credits, BEE representatives

- SA business requirement – 26% ownership baseline
- Progress – has a **deal been struck**? How is it structured?
- Characters – background

Resources and reserves

- Definitions
- Resources versus reserves
- Conversion
- Prospects for adding

Key value drivers

- Commodity prices
- Production growth
- Cost performance
- Capital expenditure

What makes a great mining company?

- Quality knowledge, talent, skill
- Quality assets
- Value proposition

Classic valuation metrics

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- **DCF** - discounted cash flow
- **Asset value**
  - EV/reserve or resource
  - EV/annual production
- **Multiples**
  - EV/EBITDA – enterprise value to earnings before interest, depreciation and amortisation
  - PE – price earnings ratio
  - NAV – net asset value
- **Margins** – EBIT and EBITDA
- **Return** on:
  - Equity
  - Capital Employed
  - Assets

Company examples

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Financial statement comparisons

Company Name	Exxaro Resource	African Rainbow	Kumba Iron Ore	Anglo American	Nmdc Ltd	Western Mining	Southern Peru C	Palabora Mining	Bhp Billiton	Mean
Home Country	South Africa	South Africa	South Africa	United Kingdom	India	China	Peru	South Africa	United Kingdom	
Market Cap (MM $US)	9,208	7,211	23,099	69,779	26,473	6,692	1,419	1,014	253,746	44,293
Forward 5-Year EPS CAGR (StarMine)	15.7	**29.2**	8.8	13.9	25.1	—	17.2	25.4	18.4	19.2
Avg Hist EPS Growth (5-Year)	7.5	43.0	**74.1**	15.6	28.7	-16.9	0.1	-7.8	19.0	18.1
P/E SmartEstimate (FY1)	7.9	11.9	8.7	8.4	18.5	**28.7**	—	4.0	9.9	12.3
EV to EBITDA (Last Year)	12.6	9.2	7.7	7.3	19.6	**27.5**	0.6	3.5	6.9	10.5
Price to Earnings (Last Year)	9.4	18.9	14.0	10.5	33.8	**45.4**	1.5	18.0	12.9	18.3
Earnings Growth Projection (StarMine) (FY1)	45.4	128.2	22.4	51.3	84.9	—	39.3	164.9	84.9	77.7
Long Term Growth	22.5	12.0	10.2	19.4	50.0	-43.0	—	18.1	**29.3**	**14.8**
EBITDA Margin % (Last Year)	23.5	35.4	57.1	39.2	**85.0**	9.5	55.7	18.7	46.3	41.2
Oper. Margin % (Last Year)	15.5	26.5	54.9	32.0	**83.4**	6.5	50.5	9.2	37.3	35.1
Pretax ROA (%) (Last Year)	22.8	11.1	**73.9**	17.8	36.4	5.7	44.7	6.7	23.4	26.9
Pretax ROE (%) (Last Year)	33.8	16.8	**174.5**	31.9	36.5	10.7	53.7	27.0	40.3	47.2
FCF to EV (%) (Current)	-0.5	1.2	0.5	3.0	3.3	0.9	**89.9**	3.2	5.3	11.9
Altman Z-Score (Last Year)	4.9	3.5	9.1	2.8	**52.1**	3.7	3.9	1.9	4.5	9.6
Net Debt to Equity (Last Year)	0.1	0.1	**0.6**	0.3	-0.9	0.3	-0.1	-0.8	0.1	0.0
Return on Adj. Net Op. Assets (%) (Last Year)	14.7	16.0	124.4	21.2	**145.7**	8.6	74.3	31.6	39.6	52.9

Other issues

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Key considerations in results:

- Price realised
- Cost/unit (tonne, ounce, kilogram)
- Production (tonne, ounce, kilogram)
- Stripping ratio
- Run-of-mine and recovery
- Pipeline inventory