



FTSE 100 Mining Giants

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The mining sector has attracted both investors and traders for years, largely due to the accelerated moves and strong dividends. However, with all stocks or sectors that present good upside potential this comes with an equal amount of risk and the mining sector is no exception. They are instrumental to global growth, to put it bluntly they dig, process and sell a variety of metals, minerals, and energy products that are essential to growth on a global scale, and inversely global growth trends are also essential to fuel moves in the sector. This makes it possibly one of the most important sectors not only for investors but also as a global proxy on growth. In 2018, the world's 40 largest publicly traded mining companies generated \$683 billion in revenue giving them the ability to pay shareholders a record \$43 billion in dividends that year. The fact that they can offer very appealing dividends and capital growth makes the sector attractive to both the income and growth investors. In this report we give an overview of the sector, highlight the main UK players as well as concerns coming into the sector.

The commodities mined generally fall into the following sectors.

- **Base Metals:** Commonly available and inexpensive metals mainly used for industrial applications. Commodities in this sector include iron ore, nickel, lead, zinc, copper, aluminium, molybdenum, and cobalt.
- **Precious Metals:** Rarer naturally occurring metals that have a higher value. The main precious metals are gold, silver, platinum, and palladium.
- **Energy Materials:** Several materials are mined out of the earth and burned to create energy. The most common is coal, however uranium (used for nuclear power) and bitumen (a tar-like substance, that's refined into crude oil) also fall into this category.
- **Minerals:** These are solid compounds found in their pure form in nature. Mined minerals include potash, talc, gypsum, calcite, quartz, diamonds, and salt.
- **Construction Materials:** Common construction aggregate materials are limestone, trap rock, sand, and granite.

Rio Tinto

Brief background

Rio Tinto is an Anglo-Australian multinational and one of the world's largest metals and mining corporations. The company was founded in 1873, when a multinational consortium of investors purchased a mine complex on the Rio Tinto, in Huelva, Spain from the Spanish government. Since then, the company has developed and grown through mergers and acquisitions. Rio's focus is mineral extraction however operations do expand into the refining of certain minerals, particularly bauxite and iron ore. The company has operations on six continents but is mainly concentrated in Australia and Canada. Rio Tinto is a dual-listed company traded on both the London Stock Exchange, and the Australian Securities Exchange. Additionally, American Depositary Shares of Rio Tinto's British branch are traded on the New York Stock Exchange giving it listings on a total of 3 major stock exchanges.

Operations and Commodities

Rio's main commodities are aluminium, copper, diamonds, gold, iron ore, and uranium as well as industrial minerals borates, titanium dioxide and salt.

Overall there's 47,000 people who work in around 35 countries across six continents including Australia and North America, and have significant businesses in Asia, Europe, Africa and South America.

Key Fundamentals

Key Fundamentals	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Revenue (\$ m)	47664	34829	33781	40030	40522
Pre-Tax (\$ m)	8927	-1087	6022	12477	17654
EPS	353.10¢	-47.50¢	256.90¢	490.40¢	793.20¢
PE	13.25	n/a	15.12	10.54	6.02
PEG	0.17	n/a	n/a	0.12	0.1
EPS Growth	77.97%	n/a	n/a	91.41%	61.75%
Dividend Cover	2.62	-0.33	1.91	2.31	2.58
Dividend Yield	2.88%	4.89%	3.46%	4.11%	6.43%

Technical Chart



Broker Ratings

17-Oct-19	UBS	Neutral	4,100.00p
16-Oct-19	Deutsche	Hold	4,450.00p
14-Oct-19	Credit Suisse	Underperform	3,820.00p
11-Oct-19	Jefferies	Buy	4,700.00p
10-Oct-19	Barclays	Underweight	3,700.00p
05-Sep-19	Deutsche	Hold	4,450.00p
22-Aug-19	Liberum Capital	Sell	3,300.00p
13-Aug-19	Barclays	Underweight	4,000.00p

Anglo American

Brief Background

Anglo American plc is a British multinational mining company based in Johannesburg, South Africa and London. The group was founded by Sir Ernest Oppenheimer in 1917 as the Anglo-American Corporation in Johannesburg, South Africa, with financial backing from the American bank J.P. Morgan and £1 million raised from UK and US sources to start the initial gold mining company. Originally the AAC, they then became the majority stakeholder in the De Beers company in 1926 Anglo American has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. The company has a secondary listing on the Johannesburg Stock Exchange. A further deal was then done in November 2011 with the Oppenheimer family to divest the remaining Oppenheimer share of De Beers, an additional 40% stake for \$5.1 billion.

Operations and commodities

It is the world's largest producer of platinum, with around 40% of world output, as well as being a major producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal. The company has operations in Africa, Asia, Australasia, Europe, North America and South America.

The company focuses on natural resources with six core businesses: Kumba Iron Ore; Iron Ore Brazil; Coal (thermal and metallurgical); Base metals (Copper, Nickel, Niobium, Phosphates); Platinum; Diamonds, through De Beers, in which it owns an 85% share.

The company had 105,000 permanent employees and 39,000 contract employees in its managed operations located in 45 countries.

Anglo American's biggest project, in recent times, was the Minas-Rio iron ore project in Brazil; it faced delays and high costs, but in December 2010 Anglo American gained a key license from the government that would allow work to start.

Key Fundamentals

Key Fundamentals	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Revenue (\$ m)	27073	20455	21378	26243	27610
Pre-Tax (\$ m)	-467	-5233	2346	4938	5461
EPS	-196.00¢	-436.00¢	124.00¢	248.00¢	280.00¢
PE	n/a	n/a	11.51	8.31	7.99
PEG	n/a	n/a	n/a	0.08	0.62
EPS Growth	n/a	n/a	n/a	100.55%	12.90%
Dividend Cover	n/a	n/a	n/a	2.43	2.8
Dividend Yield	n/a	n/a	n/a	4.95%	4.47%

Technical Chart



Broker Ratings

10-Oct-19	Deutsche	Buy	-
09-Oct-19	RBC Capital Markets	Top pick	2,350.00p
04-Sep-19	Deutsche	Top pick	2,300.00p
22-Aug-19	Liberum Capital	Sell	1,500.00p
13-Aug-19	Barclays	Equal-weight	2,000.00p
12-Aug-19	JP Morgan Cazenove	Neutral	2,230.00p
10-Jul-19	Deutsche	Buy	2,500.00p
05-Jul-19	JP Morgan Cazenove	Neutral	2,900.00p

BHP Group

BHP as it is now known was founded in 1885 in the small mining town of Broken Hill in New South Wales. By 2017 BHP ranked as the world's largest mining company, based on market capitalisation, and as Melbourne's third-largest company by revenue, which "almost tripled between 2004 and 2012". BHP in its current form emerged in 2001 through the merger of the Australian Broken Hill Proprietary Company Limited (BHP) and the Anglo-Dutch Billiton plc, this led to the formation of BHP Billiton. The Australia-registered arm of the business has a primary listing on the Australian Securities Exchange and is one of the largest companies in Australia by market capitalisation. The English-registered plc arm has a primary listing on the London Stock Exchange. In 2015, some BHP Billiton assets were then demerged and rebranded as South32, while a scaled-down BHP Billiton became BHP and, in 2018, BHP Billiton Limited and BHP Billiton Plc became BHP Group Limited and BHP Group Plc, respectively.

Operations and Commodities

BHP has mining operations in Australia, North America, and South America, and petroleum operations in the US, Australia, Trinidad and Tobago, the UK, and Algeria. The company has four primary operational units, with a developmental potash project underway as well.

The main commodities include Coal, Copper, Iron ore and Petroleum.

The firm have over 72,000 employees and contractors, globally with primary operations in Australia and the Americas. Global headquarters are in Melbourne, Australia.

Key Fundamentals

Key Fundamentals	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19
Revenue (\$ m)	44636	30912	38285	43638	44288
Pre-Tax (\$ m)	7508	-5155	10050	14604	15595
EPS	35.90¢	-120.00¢	110.70¢	69.60¢	160.30¢
PE	n/a	n/a	n/a	n/a	15.33
PEG	n/a	n/a	n/a	n/a	0.12
EPS Growth	-86.19%	n/a	n/a	-37.13%	130.32%
Dividend Cover	0.53	-4	1.33	1.06	0.71
Dividend Yield	n/a	n/a	n/a	n/a	9.18%

Technical Chart



Broker Ratings

25-Oct-19	RBC Capital Markets	Outperform	-
08-Oct-19	Bank of America	Underperform	-
30-Sep-19	Credit Suisse	Neutral	3,700.00p
04-Sep-19	Deutsche	Hold	1,750.00p
22-Aug-19	Liberum Capital	Sell	1,400.00p
22-Aug-19	JP Morgan Cazenove	Neutral	1,940.00p
10-May-19	Deutsche	Sell	1,650.00p
08-May-19	Morgan Stanley	Equal-weight	1,760.00p
22-Apr-19	UBS	Neutral	1,900.00p

Sector Concerns

Underlying commodity prices

Whilst the dividends and growth are very appealing it is also a sector that can be more vulnerable to several key catalysts, relating to underlying commodity prices and changes on a global growth scale as well. Any slowdown in global growth or indeed growth in China can have a serious impact on the underlying commodities, especially base metals used for construction such as iron ore, copper, and aluminium, this in turn has a knock-on effect on share prices. The reality is that the underlying commodity prices will have an impact on share prices, and this can be both a gift and a curse.

Commodity prices are driven purely by supply and demand and it is needless to say that an over supply in a certain commodity will undermine prices and then hit share prices as a natural result. This poses the most obvious day to day risk on the share price.

Environmental impacts

One of the more recent dramatic impacts is the ongoing and almost inevitable decline in the use of coal as the global drive for cleaner energy takes hold and utilities switch over to cleaner energy sources pressure mounts on the sector to combat climate change.

The coal industry would in fact be one of the main issues for the sector at the moment and as such we have seen some of the big players reduce exposure. Rio Tinto sold its remaining coal assets in 2018. BHP Group have also stated that exiting coal would be in its best long-term interest.

Climate change and environmental impact is also a big issue facing them right now, and the sector has a poor record in this area. Most mines as part of the process use something called a tailing pond which holds a mixture of water and waste materials from the mining process. This in itself has a major impact on local environments and with a few very high-profile dam breaches recently has also seen heavy resistance from locals regarding any new mines.

Government Regulation

The regulation in the sector from local governments can weigh on production and profitability. Regulatory changes come around from a desire that the country in which a mine may be based wants to protect the local environment, government and indeed the local population. Governments can also be concerned if they feel the country is becoming overly reliant on the exports of a single commodity. We saw an example of this in 2018 as Zambia became over reliant on copper exports which accounted for over 60% of export earnings. This in turn left the country suffering from a lack of reinvestment as it was being stripped of its natural resources and profits going into the mining companies' coffers. This has then led to new laws and reforms with governments introducing higher royalties and taxes. These can be set up without any discussion with the firms.

Summary

The sector is not without its risk and as such rewards need to be more to ensure a valid risk reward ratio for investors. When trading any mining stock fair reference needs to be taken from the underlying commodity prices (there's no point buying a silver miner if the price for silver is in a downtrend). This isn't so much of an issue if trading in the big three highlighted in the report as

they are all well diversified and mine a range of commodities. It becomes more of a concern if you are trading a stock that is just simply mining a single commodity such as Barrick Gold (Gold) or Antofagasta (Copper). Be mindful of any sector specific announcements such as GDP data, most notably from China being a core consumer of commodities. It is also a sector full of start-ups and junior miners, these are by far the riskiest part of the sector as their fate can be summed up based on the next drilling report (either good or bad) so take extra care when looking at stocks. If you have the appetite, then it can certainly be lucrative, but a strong risk appetite is required. When it comes to the AIMS market miners then a mini portfolio approach should be taken, with a range of holdings so the outcome on the portfolio is not all resting on one single stock. Diversification is key.

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