

RIO TINTO LIMITED (RIO)

1 AUGUST 2018

RESULTS	Half Year 2018	Half Year 2017	CHANGE
Consolidated Revenues (US\$m)	19,914.0	19,319.0	+3.1%
Bloomberg Consensus (US\$m)	21,461.0		
Net Debt (US\$m)	5,229	3,845	+36.0%
Underlying EBITDA (US\$m)	9,198.0	9,042.0	+1.7%
Bloomberg Consensus (US\$m)	9,618.0		
Underlying Earnings (US\$m)	4,416.0	3,941.0	+12.1%
Interim Dividend (A\$)	1.7084	1.3772	+24%

Rio Tinto (RIO) earnings fall short of consensus on rising costs

- **Rio Tinto (RIO)** reported a slightly underwhelming set of half year results after market close on Wednesday 1 August, pushing its shares lower in both the UK and on the ASX. While the 12.1% lift in Underlying Earnings to US\$4.4bn was largely in-line with Bloomberg consensus, revenue and EBITDA fell short of market hopes partly on higher costs over the six months to 30 June.
- **Cost inflation** (lifting costs) has been an area of focus in this result. According to RIO, higher energy prices and a lift in the cost of raw materials negatively impacted EBITDA by approximately US\$500m over the half.
- Its **iron ore business** remained the major contributor to earnings, representing 70 per cent of underlying EBITDA although profits from the sale of the commodity only edged higher by 1% when compared to a year ago. Shipments of the metal rose by nine per cent, however were partially offset by higher costs. This included a lift in diesel and energy costs, more expensive labour and an increase in cyclical maintenance work. Underlying earnings from its **aluminium and copper & diamonds** operations also improved.
- **Capital expenditure (CAPEX)** was reiterated for FY18 and FY19 with CAPEX raised by approximately US\$500m for FY20. CAPEX of US\$5.5bn is targeted for 2018 before lifting by an additional US\$500m in 2019. In recent months the company said it expects to spend a minimum of US\$2.2bn on replacement mines in coming years. Its Koodaideri iron ore development in WA has received initial funding of US\$146m with construction flagged to potentially start in 2019 should RIO decide to progress with the project.
- RIO will pay eligible investors a slightly below Bloomberg consensus A\$1.7084 per share **interim dividend** on 20 September. The miner will trade ex-dividend (the key date that determines payment eligibility) on 9 August. While the dividend was below Bloomberg's surveyed analyst expectations, it announced significant total capital returns to investors. **RIO is set to distribute more than US\$7bn to shareholders** when taking into account the sale of assets (including the divestment of a number of coal mines and aluminium operations) and a US\$1bn increase in its share buyback programme. The timing of these capital returns are yet to be determined.
- Despite the significant capital returns, RIO shares have come under pressure following the result.

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