**FIRST CUT STOCK STUDY**

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| ***COMPANY NAME*** Rio Tinto | ***TICKER*** RIO |
| ***DATE OF STUDY*** October 19, 2011 | ***PRICE*** $50.94 |
| ***PREPARER OF STUDY*** Linda Hunt |  |

***Discuss why you consider this company to be a high quality, growth company that should be considered for inclusion in MicNOVA'a portfolio. Include comments on historical sales and EPS growth, pre-tax profit margins, return on equity and debt.***

***How does the company make money?*** They are one of the world's largest diversified mining companies (iron ore, energy, industrial minerals, aluminum, copper, diamonds and gold.) They have five divisions:

* Iron Ore unit--40% revenue in 2010--is second largest producer of iron ore globally and accounts for 20% of traded iron ore. Key iron ore assets are in Western Australia (9 mines.)
* Aluminum unit--25% revenue in 2010--following the acquisition of Alcan in 2007. They are the largest aluminum producer in the world. They own bauxite mines (the mineral that is refined to make aluminum) in Australia, Brazil, Ghana, and Guinea.
* Energy division comprises the group's coal activities (thermal and coking coal) as well as uranium--9% of 2010 revenues
* Copper unit--5% of 2010 revenues--is the fourth largest copper producer in the world accounting for 6% of global production. They have major mines in Chile and the United States. Gold production is also included within the Copper division.
* Diamonds and Minerals unit--5% of 2010 revenues--is smallest but most diverse. They are the third largest supplier of diamonds globally and its mineral activities include borates, talc, and titanium dioxide feedstock.
* They also have a number of other activities (e.g. nickel, potash, and lead) that are by products of its key commodities. These products together with the non-aluminum activities acquired with Alcan (Engineered Products) are incorporated in the Other Operations division and accounted for 9% of 2010 sales.

***Is it the best in the industry? Does it have a competitive advantage*? M**ain competitors in copper are Chile's state-owned copper company Corporacion Nacional del Cobre de Chile, BHP Billiton Ltd., Freeport McMoran Copper & Gold, Grupo Mexico, Southern Copper Company, Teck Resources and Xstrata. Main competitors in iron ore are BHP Billiton and Vale (These three account for about 75% of the seaborne trade in iron ore.)

Main competitors in the aluminum market are Alcoa Inc., Aluminum Corp. of China (Chinalco), BHP

Billiton, United Company RUSAL, and Vale S.A. Main competitors for seaborne metallurgical coal are Anglo American, Teck Resources and Xstrata.

 RIO does not stand out as the best in the industry but their diversification is definitely an asset. Morningstar gives BHP an advantage largely due to some concerns over higher operating costs at RIO. The company has announced a strategic review of assets in France, Germany, and the United Kingdom.

***What is the projected growth rate for sales?***  8.0%

***Why did you select this rate? Discuss from where future growth will come*.** Value Line projects sales at 5.5% but both Manifest Investing and Standard & Poor's project higher rates. The historical growth rate is 27.8 so I feel the 8% is conservative.

***What is the projected growth rate for earnings per share?***  8.0%

***Why did you select this rate?*** Value Line projects 18.5% which is too high a rate over the sales. I prefer to keep earnings growth no higher than sales. Value Line may by counting on cost cutting which RIO is focused on but there are too many variables: cost of raw materials; labor costs; high valuation of Austrian dollar. Historical earnings growth rate is 27.2%

***What is the projected high P/E?***  15.0

***Why did you select this value?*** The projected average P/Es are 9.0 (Value Line) and 10.0 (Manifest Investing). The spread between high and low P/Es shows a lot of volatility for this company. An average of 10 for the spread seems reasonable.

***What is the projected low P/E?***  5.0

***Why did you select this value?*** See comment above.

***What is the projected low price?***  $17.50

***Why did you select this value?*** I chose the "forecasted low price" that was derived from my very conservative low P/E and forecasted earnings. Looking at the low prices during the recent recession this choice seems reasonable.

***At the current price the stock is a (check one*)**  X **Buy \_\_\_\_\_Hold \_\_\_\_\_\_Sell**

***At the current price the upside downside ratio is***  3.5  **to 1**

***Projected compounded rate of return***  29.2

***Your recommendation is to*:**

 X **Buy** I would only recommend buying if the other stocks presented do not stand out as better choices. Currently, the stock price is near the 52-week lows so is a good valuation. With a dividend of over 3% return it could be a good non-core holding.

 **\_\_\_\_\_\_\_\_Place on Watch List**

***Explain*:**  I recommend as a speculative investment in an industry that has a lot of uncertainty. Mining for base metals is a highly capital-intensive business requiring large sums of money to explore for deposits and construct mines once deposits have been discovered. Since the early part of this century, mining costs have risen dramatically. Risks in mining are numerous, and long-term survival and profitability require deep pockets which RIO has--strong free cash flow. It is also a highly competitive business with concentration in a few large companies, the result of mergers.

 China was the largest market 28% of sales. Other key markets include Japan (16% of 2010 sales)

and United States (15%). As long as the demand remains strong in these areas, RIO will do well.