INDUSTRY TIMELINESS: 30 (of 98)

Stocks of companies in *Value Line's* Metals & Mining (Diversified) Industry have fallen substantially of late. It appears that can be traced largely to the recent sharp decline in metals prices, given concerns about the health of the global economy. Indeed, there is uncertainty surrounding the resolution of the sovereign-debt crisis in Europe, with trouble in Greece taking center stage at the moment. To further complicate matters, relatively high unemployment and softness in the housing industry have persisted in the United States, causing some to believe that a new recession is plausible. These equities are particularly vulnerable to this kind of news because metals play such a vital role in economic development. It is important to mention, however, that the markets, as a whole, have been struggling these days.

In spite of all that, our long-term outlook on this sector remains positive. That's based partially on our belief that China, India, Brazil and other developing nations will continue to rise in prominence. In fact, the middle class in those countries is expanding at a healthy rate. Anticipated infrastructure requirements in Japan, caused mainly by the March earthquake and tsunami, should also support demand for metals. Too, we think that President Obama's $447 billion jobs plan, which includes upgrades to such things as schools, bridges, and railways, would help. But it remains to be seen whether the proposal will be approved, at least in its present form, by a bitterly divided Congress.

Aluminum

Alcoa, the industry leader, posted much improved earnings during the first half of 2011, compared to the same period last year. That was attributable partly to higher realized prices for aluminum. Furthermore, the company enjoyed better demand across key end markets, including commercial transportation and industrial turbine. But results for the period were constrained, to a certain extent, by a weaker U.S. dollar and a rise in energy costs. Nevertheless, we believe that *Alcoa* will generate share net of $1.10 in 2011, a more than fourfold jump from the $0.25 tally last year. Other aluminum producers stand to perform better, as well. Our 3- to 5-year outlook on the light-weight metal remains positive, as demand from countries undergoing industrialization stands to grow nicely during that time frame.

Copper

Prices for the red metal have dropped sharply, from a high of more than $4.50 a pound earlier this year, to around $3.00 a pound recently. That stems partially from global economic concerns, given the aforementioned difficulties in the United States and Europe. Even so, pricing remains considerably above the $1.26-a-pound level in late 2008, when the financial crisis was raging. Indeed, supporting factors for copper continue to include limited supplies from existing mines and the absence of significant new development projects. Moreover, the tremendous damage inflicted on Japan's infrastructure by the earthquake and tsunami ought to require substantial quantities of copper (and other metals). All told, it appears that earnings for companies in the industry will rise nicely in 2011.

Miners have boosted their capital spending budgets to capitalize on the generally favorable operating environment. *Freeport-McMoRan*, for example, is focusing on such major projects as underground development initiatives at the Grasberg complex (the world's biggest copper mine in terms of recoverable reserves) and construction activity at the Climax mine. Meanwhile, *Southern Copper* resumed production at its Buenavista mine last year. Adding that facility's 180,000-ton annual capacity to the mix, copper output stands to rise approximately 26% in 2011.

Conclusion

Our Metals & Mining (Diversified) universe is now ranked in the top third of all industries covered by *Value Line*, in terms of Timeliness. What's more, some of these equities offer appealing price-recovery potential at their present quotations. Even so, interested parties are advised to examine the individual reports before committing funds, given that prospects will vary depending on the commodities produced and the industries served.

Frederick L. Harris, III

Composite Statistics: Metals & Mining (Diversified) Industry

2007	2008	2009	2010	2011	2012		14-16
140083	181302	144486	173041	***190000***	***207000***	Sales ($mill)	***240000***
34.6%	32.6%	28.3%	39.8%	***46.0%***	***52.0%***	Operating Margin	***58.0%***
8133.5	11471	11366	12458	***13500***	***14500***	Depreciation ($mill)	***18000***
31728	25135	16436	35893	***43000***	***50000***	Net Profit ($mill)	***60000***
28.4%	34.2%	36.1%	30.5%	***33.0%***	***35.0%***	Income Tax Rate	***37.0%***
22.6%	13.9%	11.4%	20.7%	***22.6%***	***24.2%***	Net Profit Margin	***25.0%***
12622	3216.0	28741	38175	***42000***	***46000***	Working Cap'l ($mill)	***49000***
65637	63108	63143	50122	***49000***	***51500***	Long-Term Debt ($mill)	***60000***
107313	98699	133205	162254	***177000***	***191000***	Shr. Equity ($mill)	***218000***
19.0%	16.6%	9.2%	17.6%	***19.5%***	***21.5%***	Return on Total Cap'l	***22.0%***
29.6%	25.5%	12.3%	22.1%	***24.5%***	***26.0%***	Return on Shr. Equity	***27.5%***
23.4%	17.0%	7.7%	16.7%	***19.0%***	***21.0%***	Retained to Com Eq	***22.5%***
24%	36%	39%	24%	***30%***	***35%***	All Div'ds to Net Prof	***40%***
11.6	17.3	18.4	12.1	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	***15.0***
.62	1.04	1.23	.78			Relative P/E Ratio	***1.00***
2.0%	2.0%	2.1%	2.0%			Avg Ann'l Div'd Yield	***2.5%***