

KUMBA

Record exports have shareholders smiling

KUMBA IRON ORE LIMITED

An Anglo American subsidiary involved in the exploration, extraction, beneficiation and sale of iron ore to the international market.

Financial year-end: 31 December

Final results: 2 February

RECOMMENDATION



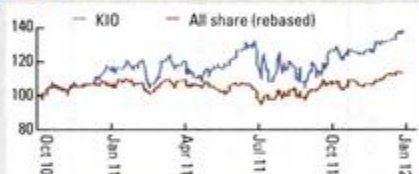
Target price: R576 Upside: 4,5%

I-Net Bridge analysts' consensus: Hold

RISK



PERFORMANCE



Market cap:	R177 712m
Forward PE (FY12):	8,6
Current price:	R552
1-year high:	R554 low: R414

Key indicators (FY11)

Heps:	R53,13
Div/share:	R44,20
PE ratio:	10,4
Total revenue:	R48 553m
Attributable revenue:	R17 042m
Total assets:	R34 413m
Equity:	R20 592m

much of the risk, and when other factors work in its favour, the effect is a shareholder-pleasing set of numbers.

Driven by record export sales, revenues were up 25% in the year to end-December while attributable earnings grew 19% to R17bn. Headline earnings improved 19% to R53,13/share, supporting a final dividend of R22,50/share, resulting in a full-year dividend of R44,20/share. That brings the total dividend for the year to R44,10/share, representing a payout ratio of 83% on headline earnings and a mouthwatering dividend yield of 8%.

The company is highly cash-generative – operations generated cash flows of R32,6bn in the year to end-December, which were used to pay for taxes (R7bn), capex (R5,8bn), dividends (R17,8bn) and R1,7bn for the unwinding of the first phase of the empowerment scheme. The second phase will vest in five years' time from November 2011. Despite these huge cash outflows, the company ended the year in net cash position, reflecting the strength of the balance sheet.

Kumba is geared to increase supply following the ramping up of the Kolomela mine. It is expected that the mine will produce between 4Mt and 5Mt in 2012, growing to 9Mt from 2013. This should add about 8% to export sales volumes in 2012. Domestic sales will depend on the up-take by ArcelorMittal,

The global economic uncertainty tends to blur the prospects for iron ore demand. Short-term prospects remain under pressure but the long-term outlook is positive on the back of strong demand from China and other fast-growth emerging economies. And export prices have stabilised after a dramatic fall between September and December 2011.

On the legal front, things are looking positive for Kumba, though there are a few more hurdles in its path.

The High Court on 21 December ruled in favour of Kumba, setting aside the awarding of the 21,4% Shishen prospecting rights to Imperial Crown Trading (ICT) and giving Sishen Iron Ore exclusive rights to the mining order. However, the Department of Mineral

Resources and ICT have both submitted applications for leave to appeal this judgment.

Kumba and ArcelorMittal have agreed to extend their interim pricing agreement, whereby Kumba supplies iron ore to Amsa's inland plants at \$70/tonne free-on-rail and at \$50/tonne delivered to the Saldanha plant until end-July 2012. The two companies have also agreed to postpone price arbitration, until the final resolution on the 21,4% Sishen mining rights dispute.

In a separate case, the company still faces a legal overhang. It is defending a claim by Lithos Corporation amounting to \$421m for damages relating to the Faleme iron ore project. The trial has been postponed indefinitely.

This is a company in a strong financial position enjoying strong earnings growth, but the market has factored that into the share price, which is trading just below Intellidex's discounted cash-flow valuation of R576/share. **IM**

GLOBAL FIXED capital investment drives demand for steel, which in turn supports iron ore sales. Because Kumba's earnings are so dependent on the global economic cycle, a number of variable factors affect earnings – exchange rates, export prices, sales volumes and operating costs.

This places Kumba in the medium- to high-risk category, but the company's strong balance sheet effectively negates