AUSTRALIA

Our top picks

Company	Rec	YE	P/NPV	PER 2013	PER 2014	PER 2015
RIO	O	Dec	0.70x	10.8x	10.1x	10.5x
BCI	O	Jun	0.84x	7.2x	4.3x	4.8x
RRL	O	Dec	0.86x	13.3x	13.5x	11.5x
BDR	O	Dec	0.79x	6.2x	4.7x	11.1x
AWC	U	Dec	0.55x	nmf	nmf	nmf
WSA	O	Jun	0.79x	nmf	83.3x	11.2x
PNA	O	Dec	0.70x	16.4x	20.0x	21.2x
WHC	O	Jun	0.67x	nmf	77.0x	17.7x

Macquarie Research, September 2013

Key Commodity Forecasts

Commodity		Spot	CY13	CY14	CY15
Fines (CFR)	US$/dmt	132	137	120	115
Coking Coal	US$/t	150	159	160	180
Thermal Coal (JFY)	US$/t	92	95	90	96
Aluminium	USc/lb	1771	1,853	1,863	1,950
Copper	USc/lb	7181	7,351	6,550	6,525
Nickel	USc/lb	14,090	15,166	15,500	17,500
Zinc	USc/lb	1843	1,940	1,988	2,150
Uranium	USc/lb	35	39	43	48
Gold	US$/oz	1,323	1,439	1,294	1,288
Platinum	US$/oz	1,425	1,493	1,575	1,819
A$/US$	USc	0.94	0.96	0.84	0.83

Macquarie Research, September 2013

Analyst(s)
Adrian Wood
+61 2 8232 8531 adrian.wood@macquarie.com
Hayden Bairstow
+61 8 9224 0838 hayden.bairstow@macquarie.com
Andrew Sullivan
+61 2 8237 6271 andrew.sullivan@macquarie.com
Mitch Ryan
+61 2 8232 0397 mitch.ryan@macquarie.com
Andrew Wackett
+61 8 9224 0867 andrew.wackett@macquarie.com
Ben Crowley
+61 8 9224 0839 ben.crowley@macquarie.com
Luke Gleeson
+61 8 9224 0866 luke.gleeson@macquarie.com
Tim Masters
+612 8232 3333 tim.masters@macquarie.com

26 September 2013
Macquarie Securities (Australia) Limited

Australian Mining

Short term pain – long term gain

Macquarie commodity and currency changes

- **Trimming the medium term outlook for several commodities…:** We have cut our medium term aluminium forecasts by an average of ~6.5% to reflect the ongoing surplus and challenges associated with clearing warehouse inventories. Elsewhere, our medium term forecasts for coking coal, nickel and uranium have also fallen by an average of 8%, 11% and 19% respectively (see "*demand thrust into supply headwinds*" – Colin Hamilton for more details). Partially offsetting this, local producers will benefit from anticipated weakness in the AUD.
- **…but getting more positive on longer term outlook for iron ore:** We have pushed up our long run iron ore prices for the first time in over two years. Our $90/t CFR China LR real forecast reflects our view that the $100/t nominal floor for iron ore will be difficult to break based on an analysis of existing and potential projects. As such, while the price profile is downward, iron ore continues to have more longevity than the market currently gives it credit for.

Value in the sector

- Despite trimming the medium-term earnings outlook for aluminium, met coal and nickel producers, we continue to see value in the Australian resources sector. Indeed, our more bullish long term iron ore price outlook sees large cap valuations rise by an average of 3.7% with ex-100 valuations rising 7% (excluding SBM which rises 127%).
  - ⇒ As a result, while our lower coking coal price outlook sees AQA downgraded (to Neutral) we retain a slight positive sector bias forecasting average TSRs of over 20% versus the wider market at 12.6% and with almost half of our resources coverage universe on Outperform ratings (versus only 20% on Underperform).
  - ⇒ Among the diversifieds, we are increasing our A$ BHP and RIO price targets by ~5% to A$43/sh and A$81/sh respectively (our GBP price targets rise ~2.5% to £22.50/sh and £42/sh whilst our BHP Rand price target remains unchanged.

Key picks

- Switching to RIO over BHP – Despite RIO's larger medium term earnings cuts, an improving longer term outlook for iron ore provides RIO with greater relative valuation support (in terms of NAV, we now see RIO trading at a 30% discount compared to BHP's 24%). What's more RIO could see greater potential momentum into the year-end if we see a seasonal iron ore re-stock in China which drives prices above our current forecasts.
- In the iron ore pure plays our key pick is BC Iron (while FMG remains on research restrictions).
- In coal we maintain our bullish call on Whitehaven, where despite cuts to our met coal forecasts we see benefits from a lower A$.
- The cuts to our medium term alumina and aluminium forecasts are expected to weigh on AWC which we expect to underperform. We continue to prefer PanAust amongst the copper names.
- We continue to see Western Areas as the best of breed in Nickel.
- The key picks in the gold sector are Regis, Beadell and Northern Star.

Key Australian mining picks

Diversified miners

- **Rio Tinto** (RIO AU / RIO LN) – Outperform rating, price target A$81.00/£42.00 (A$77.00/£41.00 previously)

Iron ore

- **BC Iron** (BCI AU) – Outperform rating, price target A$5.10 (A$4.50 previously)

Gold

- **Regis Resources** (RRL AU) – Outperform rating, price target A$4.40 (A$4.00 previously)
- **Beadell Resources** (BDR AU) – Outperform rating, price target A$1.00 (A$0.90 previously)

Coal

- **Whitehaven Coal** (WHC AU) – Outperform rating, price target A$3.00 (unchanged)

Copper

- **PanAust** (PNA AU) – Outperform rating, price target A$3.20 (unchanged)

Nickel

- **Western Areas** (WSA AU) – Outperform rating, price target A$3.70 (A$4.40 previously)

Aluminium

- **Alumina** (AWC AU) – Underperform rating, price target A$0.95 (unchanged)

Recommendation and Price Target revisions

We have made the following recommendation changes to our stock coverage.

Downgrade:

- **Aquila Resources** (AQA AU) – Downgrade to Neutral, A$2.20 price target from Outperform, A$3.50 price target previously

The new commodity deck

Fig 1 Revisions to the major commodities

Commodity		Spot	CY13	% Chg	CY14	% Chg	CY15	% Chg
Iron Ore Fines (62% CFR)	US$/dmt	132	137	6%	120	-4%	115	0%
Coking Coal (FOB)	US$/t	150	159	1%	160	-10%	180	-10%
Thermal Coal (JFY)	US$/t	92	95	0%	90	0	96	0
Aluminium	US$/t	1,771	1,853	-1%	1,863	-2%	1,950	-11%
Copper	US$/t	7,181	7,351	2%	6,550	0%	6,525	-4%
Nickel	US$/t	14,090	15,166	0%	15,500	0%	17,500	-10%
Zinc	US$/t	1,843	1,940	1%	1,988	-5%	2,150	-7%
Uranium	USc/lb	35	39	-6%	43	-19%	48	-24%
Gold	US$/oz	1,323	1,439	4%	1,294	0%	1,288	0%
Platinum	US$/oz	1,425	1,493	3%	1,575	0%	1,819	0%
A$/US$	USc	0.94	0.96	0%	0.84	-5%	0.83	-4%

Source: Bloomberg, Ux Consulting, Macquarie Research, September 2013

Iron ore: Conviction around the long term

- On the back of extensive research into the structure of the cost curve into the medium term, we have pushed up our long run iron ore prices for the first time in over two years. Our $90/t CFR China LR real forecast reflects our view that the $100/t nominal floor for iron ore will be difficult to break based on an analysis of existing and potential projects. As such, while the price profile is downward, iron ore continues to have more longevity than the market currently gives it credit for.

Met Coal and Steel: Improving from a low base

- In contrast, with Chinese supply now providing increased elasticity at the top end of the supply curve, this provides a buffer against met coal returning to $200/t in the near-medium term. We have downgraded our 2014 expectations to $160/t, with 2015-16 also reduced by 10% to $180/t FOB Australia. However, the lack of supply growth remains a differentiating factor vis a vis peers.
- With the met coal price reduced, we have also reduced steel price expectations by ~5% through the forecast period. Over this time, steel will continue to be burdened by global overcapacity, with structural and sustained increases in margins unlikely.

Aluminium: Medium term pain, in what remains a long term game

- We have revised down our aluminium price forecasts to reflect the ongoing surplus in the market that is adding to the already record level of inventory that the industry is carrying. This surplus arises not because aluminium demand has been disappointing - indeed, as leading producers are at pains to point out, global aluminium demand growth continues to outpace other industrial metals - but because of an over-expansion of primary aluminium production capacity. We expect LME aluminium prices to remain weak over the coming months (short term positioning risks aside) and have revised down our medium to long term forecasts to reflect the scale and probable timeline of the challenge in clearing the excess inventory that the industry is carrying.

Copper: Adequate supply limiting medium term upside

- Following heavy cuts to our copper forecast in July, we remain comfortable that the pick-up currently being seen in concentrate supply will lead to an increased cathode surplus in 2014. However, with the market continuing to look adequately supplied in 2015, we have lowered our expectations to $6,525/t as the need to incentivise new supply is delayed.
- As a consequence of the increased surplus and rising mine supply we forecast higher treatment and refining charges (TC/RCs) for copper concentrate. The increase in TC/RCs increases the discount concentrate producers receive to the exchange metal prices. We have increased our forecasts for TC/RCs by 14-29% through 2016.

Fig 2 Revisions to copper TC/RCs

Commodity		CY13	% Chg	CY14	% Chg	CY15	% Chg	CY16	% Chg
Copper TC	US$/t	70	0%	90	13%	100	25%	90	29%
Copper RC	USc/lb	7	0%	9	13%	10	25%	9	29%

Source: Macquarie Research, September 2013

Nickel: Stock overhang continues to drag on the short-medium term

- We have made some significant downgrades (by 10-19%) to our nickel price forecasts over the 2015-2018 period to reflect a bigger stock overhang from large surpluses in 2011-2014 and higher assumptions on Chinese and Indonesian nickel pig iron production. We maintain a strong upward trajectory in prices (from an average of $15,200/t this year to $20-24,000/t over the 2016-2018 period). The key turning point in nickel's fortunes could a ban in Indonesian nickel ore exports from January 2014. We do not believe an outright ban will take place but that they will be some disruption to supply.

Zinc and Lead: Rare SD tension providing price support

- Our medium term zinc and lead price forecasts have been adjusted to reflect the latest anticipated timing in key mine closures, expansions and start ups. In the short to medium term we continue to think that the price for lead, where the market is finely balanced, will outperform the price for sister metal zinc.

Molybdenum: In the doldrums as Chinese supply outperforms

- We have slashed our molybdenum price forecasts throughout the forecast period to reflect ongoing over-supply. We recently received confirmation that the giant Sierra Gorda mine is on track to start production in 2014 and produce at a rate of 50m lbs a year for five years. In addition, we had assumed that Chinese producers had costs in the $13-15/lb range and that this would provide price support - recent information from China indicates that producers are maintaining output in a sub-$10/lb environment. We have recued our long run price assumption from $15/lb to $14/lb to reflect a lower primary cost base.

Thermal coal: 150 million tonnes out of balance

- Our thermal coal prices have only seen minor adjustment. JFY contract expectations remain unchanged (2014: $90/t), while the FOB Newcastle and DES ARA benchmarks have been largely marked-to-market. Our average 2014 prices for the two are $85/t and $83.50/t respectively. The only structural change has been to the FOB Richards Bay price – where South African tonnes have been particularly hard hit owing to South Africa's position in the thermal market – in essence it is neither an Atlantic nor Pacific supplier. Aside from the Indian market on which it relies heavily, the balance of its production needs to price aggressively in order to attract interest from either Europe or China. It is able to do so of course with its competitive cost position, however with both basins so heavily oversupplied, prices have had to fall more than proportionally. In terms of the broader thermal market, we do not see a quick fix; seaborne supply has not been cut by high cost producers and hence the market is going through a slow process of working through the, we estimate, 150mt of oversupply.

Precious Metals: Leveraged to tapering

- In precious metals we have made only small changes to our near-term forecasts and have kept our longer-term forecasts unchanged. Gold and silver both outperformed our expectations in 3Q but we continue to believe they will rally further in 4Q as the QE tapering process is delayed. However we think these gains will not be sustained into 2014 as tapering finally occurs. Platinum also had a stronger 3Q than we expected, but we think it will fall back modestly in 4Q as supply disruptions come in lower than feared. We continue to expect a strong rally on sustained economic growth in 2014. Palladium has moved in line with our forecasts.

Uranium: Stocked up with nowhere to go

- We have made significant downgrades to our uranium price forecasts. In so doing, we establish the bottom of current market consensus across that period. Although we recognise that prices don't have much lower to go from here, as a large number of operations are cash negative, our conservative view of the upcoming price recovery is predicated on the fact that inventories across the major consumers are at record levels. In the US they are at multi-decade highs, in Japan we estimate that the stock-build since Fukushima alone will cover initial core requirements for the initial batch of 12 restart candidates, while the current strong rate of Chinese stocking will surely slow as the price recovers. Our standard S/D analysis does not see the uranium market moving out of surplus in the 5-year forecasting period; though significant delays or cancellations of current mine supply projects could provide upside risk.

Fig 3 The new Macquarie commodity price deck

Bulk Commodity Price Forecasts

Aust Iron Ore Fines (US$/dmt) CY FOB @ 62%	New	Previous	Change	US$/dmt CFR @ 62%
2012	122	122	0.0%	130.1
2013	127	120	5.6%	136.8
2014	111	116	(4.4%)	120.0
2015	106	106	(0.5%)	115.0
2016	100	100	0.0%	110.0
2017	89	89	0.0%	100.0
2018	89	89	0.0%	100.0
LT 2013$	78	68	14.5%	90.0

Aust Iron ore lump (US$/dmt) CY FOB @ 64%	New	Previous	Change	Change YoY
2012	132	132	0.0%	-23%
2013	139	133	5.1%	6%
2014	123	129	(4.6%)	-11%
2015	119	119	(0.5%)	-4%
2016	113	113	0.0%	-5%
2017	102	102	0.0%	-10%
2018	102	102	0.0%	0%
LT 2013$	93	83	12.3%	

Iron ore pellets (US$/dmt) CY FOB @ 67%	New	Previous	Change	Change YoY
2012	144	144	0.0%	-27%
2013	145	145	0.0%	1%
2014	145	145	0.0%	0%
2015	138	138	0.0%	-5%
2016	131	131	0.0%	-5%
2017	120	120	0.0%	-8%
2018	120	120	0.0%	0%
LT 2013$	107	96	11.2%	

Hard Coking Coal (US$/t) CY	New	Previous	Change	Change YoY
2012	210	210	0.0%	-27%
2013	159	157	1.1%	-25%
2014	160	179	(10.5%)	1%
2015	180	200	(10.0%)	13%
2016	180	200	(10.0%)	0%
2017	190	200	(5.0%)	6%
2018	190	200	(5.0%)	0%
LT 2013$	155	155	0.0%	

Semi-soft Coal (US$/t) CY	New	Previous	Change	Change YoY
2012	140	140	0.0%	-34%
2013	114	113	0.7%	-18%
2014	110	123	(10.5%)	-3%
2015	117	130	(10.0%)	6%
2016	117	130	(10.0%)	0%
2017	124	130	(5.0%)	6%
2018	124	130	(5.0%)	0%
LT 2013$	105	105	0.0%	

ULV PCI Coal (US$/t) CY	New	Previous	Change	Change YoY
2012	153	153	0.0%	-32%
2013	127	127	(0.3%)	-17%
2014	130	143	(9.0%)	3%
2015	137	150	(8.7%)	5%
2016	137	150	(8.7%)	0%
2017	144	150	(4.3%)	5%
2018	144	150	(4.3%)	0%
LT 2013$	120	120	0.0%	

Thermal Coal (US$/t) JFY	New	Previous	Change	Change YoY
2012	115	115	0.0%	-11%
2013	95	95	0.0%	-18%
2014	90	90	0.0%	-5%
2015	96	96	0.0%	7%
2016	95	95	0.0%	-1%
2017	95	95	0.0%	0%
2018	100	100	0.0%	5%
LT 2013$	85	85	0.0%	

Base Metal Price Forecasts

Aluminium (US$/t) CY	New	Previous	Change
2012	2,018	2,018	0.0%
2013	1,853	1,872	(1.0%)
2014	1,863	1,900	(2.0%)
2015	1,950	2,200	(11.4%)
2016	2,200	2,400	(8.3%)
2017	2,300	2,500	(8.0%)
2018	2,500	2,550	(2.0%)
LT 2013$	2,200	2,200	0.0%

Copper (US$/t) CY	New	Previous	Change
2012	7,948	7,948	0.0%
2013	7,351	7,182	2.3%
2014	6,550	6,550	0.0%
2015	6,525	6,800	(4.0%)
2016	7,525	7,525	0.0%
2017	7,875	7,875	0.0%
2018	7,875	7,875	0.0%
LT 2013$	6,504	6,504	0.0%

Lead (US$/t) CY	New	Previous	Change
2012	2060	2060	0.0%
2013	2151	2126	1.2%
2014	2225	2175	2.3%
2015	2275	2400	(5.2%)
2016	2400	2250	6.7%
2017	2250	2200	2.3%
2018	2200	2200	0.0%
LT 2013$	1,875	1,875	0.0%

Zinc (US$/t) CY	New	Previous	Change
2012	1,959	1,959	0.0%
2013	1,940	1,921	1.0%
2014	1,988	2,088	(4.8%)
2015	2,150	2,300	(6.5%)
2016	2,375	2,300	3.3%
2017	2,350	2,250	4.4%
2018	2,200	2,250	(2.2%)
LT 2013$	1,875	1,875	0.0%

Nickel (USc/lb) CY	New	Previous	Change
2012	17,521	17,521	0.0%
2013	15,166	15,191	(0.2%)
2014	15,500	15,500	0.0%
2015	17,500	19,500	(10.3%)
2016	20,000	24,000	(16.7%)
2017	22,000	27,000	(18.5%)
2018	24,000	27,000	(11.1%)
LT 2013$	24,251	24,251	0.0%

Molybdenum (USc/lb) CY	New	Previous	Change
2012	12.7	12.7	0.0%
2013	10.4	11.1	(5.8%)
2014	10.0	14.0	(28.6%)
2015	10.5	15.5	(32.3%)
2016	11.5	15.0	(23.3%)
2017	13.0	15.8	(17.5%)
2018	14.0	16.0	(12.5%)
LT 2013$	14.0	15.0	(6.7%)

Uranium (US$/lb) CY	New	Previous	Change
2012	49	49	0.0%
2013	39	42	(6.0%)
2014	43	53	(19.0%)
2015	48	63	(24.0%)
2016	53	70	(25.0%)
2017	60	70	(14.3%)
2018	70	70	0.0%
LT 2013$	60	60	0.0%

Precious Metal Price Forecasts

Gold (US$/oz) CY	New	Previous	Change
2012	1,668	1,668	0.0%
2013	1,439	1,386	3.8%
2014	1,294	1,294	0.0%
2015	1,288	1,288	0.0%
2016	1,390	1,390	0.0%
2017	1,440	1,440	0.0%
2018	1,473	1,473	0.0%
LT 2013$	1,250	1,250	0.0%

Silver (US$/oz) CY	New	Previous	Change
2012	31.1	31.1	0.0%
2013	24.4	22.9	6.4%
2014	19.4	19.1	1.3%
2015	19.3	19.3	0.0%
2016	21.3	21.3	0.0%
2017	22.3	22.3	0.0%
2018	22.9	22.9	0.0%
LT 2013$	18.0	18.0	0.0%

Platinum (US$/oz) CY	New	Previous	Change
2012	1,547	1,547	0.0%
2013	1,493	1,446	3.3%
2014	1,575	1,569	0.4%
2015	1,819	1,819	0.0%
2016	1,900	1,900	0.0%
2017	1,906	1,906	0.0%
2018	1,975	1,975	0.0%
LT 2013$	1,800	1,800	0.0%

Brent Oil (US$/bbl) CY	New	Previous	Change
2012	112	112	0.0%
2013	108	108	0.0%
2014	112	112	0.0%
2015	116	116	0.0%
2016	116	116	0.0%
2017	116	116	0.0%
2018	120	120	0.0%
LT 2013$	105	105	0.0%

AUD:USD CY	New	Previous	Change
2012	1.03	1.03	0.0%
2013	0.96	0.96	0.0%
2014	0.84	0.88	(4.6%)
2015	0.83	0.86	(3.8%)
2016	0.85	0.85	0.0%
2017	0.83	0.83	0.0%
2018	0.82	0.82	0.0%
LT 2013$	0.82	0.82	0.0%

Steel (HRC) (US$/t) CY	New	Previous	Change
2012	653	653	0.0%
2013	614	607	1.1%
2014	601	628	(4.3%)
2015	595	630	(5.6%)
2016	605	629	(3.8%)
2017	605	629	(3.8%)
2018	605	629	(3.8%)
LT 2013$	590	590	0.0%

Contacts	
Colin Hamiltor	+44 20 3037 4061
	Colin.Hamilton@macquarie.com
Duncan Hobb:	+44 20 3037 4497
	Duncan.Hobbs@macquarie.com
Ryan Belshaw	+44 20 3037 2732
	Ryan.Belshaw@macquarie.com
Matthew Turne	+44 20 3037 4340
	Matt.turner@macquarie.com
Graeme Train	+86 21 2412 9035
	Graeme.Train@macquarie.com

Source: Metal Bulletin, Bloomberg, Platts, Macquarie Research, September 2013

The large caps – near term pain but long term gain

Cuts to our medium term outlooks for aluminium, coal, nickel, uranium, copper (and even iron ore next year) weigh heavily on the large cap miners' medium term earnings forecasts. Partially offsetting this, our more optimistic view of long run iron ore prices drives equally significant valuation increases.

- ⇒ Our new forecasts put us 5.6% ahead of consensus for BHP in FY14 and 9.3% ahead of consensus for CY13 at RIO reflecting our view that the recent strength in the iron ore market will persist until the end of the year. Meanwhile, we sit a more significant 19% above consensus at FMG which means we see it paying down U$1.6bn of debt during 2014 taking gearing to 44%, which although above the target gearing ratio of 30% is nevertheless moving in the right direction quickly.
- ⇒ In terms of valuation, BHP's NAV rises 4.7% to A$47.16/sh while RIO rises 9.4% to A$88.73/sh driven almost entirely by the 12.5% increase to our long term 62% iron ore price forecast to U$90/t CFR (in real terms). Being on research restrictions, we cannot publish a valuation on FMG.
- ⇒ As a result of these changes, we are increasing our BHP and RIO price targets by ~5% to A$43/sh and A$81/sh respectively putting us at the top end of the consensus range for both. Meanwhile, we remain on restrictions at FMG.

Medium term earnings cuts for the diversifieds

Whilst we increase our 2H13 iron ore price by 14% to US$136.5/t, our 1H14 price decreases by 5.8% to US$122.5/t. This drives a material uplift in 2013 earnings and a decrease in 2014, whereas BHP and FMG's FY14 earnings changes are more tempered by an average 4.1% increase in the iron ore price over the 12 months to 30 June 2014.

- ⇒ **BHP:** After a slight rise in FY14e due to the improved iron ore price outlook over the balance of this calendar year, we cut BHP's medium term earnings forecasts by an average of ~5.5%. Specifically, BHP's FY14 forecasts increase 2.4% driven principally by the 4.1% average increase in our iron ore price over the period as well as improved 6-month outlook for copper. However, over the medium term met coal, aluminium and nickel continue to be a drag on earnings and BHP continues to rely on the strength of iron ore and petroleum (where our forecasts are unchanged, and contribute ~80% of FY15e EBIT).

Fig 4 BHP - After a slight rise in FY14e to reflect our view of a robust iron ore price over coming months, BHP's medium term earnings forecast fall by an average of ~5.5%

BHP	NPV	Price Target	NPV	Price Target	NPV	Price Target	FY14e earnings	FY15e earnings	FY16e earnings
Previous	A$45.05	A$41.00	£23.53	£22.00	R 391.55	R 350.00	14,288	15,721	17,230
New	A$47.16	A$43.00	£24.63	£22.50	R 409.94	R 350.00	14,630	15,018	16,057
Change	*4.7%*	*4.9%*	*4.7%*	*2.3%*	*4.7%*	*0.0%*	*2.4%*	*-4.5%*	*-6.8%*
Consensus		A$39.65		£21.11			13,852	15,078	15,322

Source: Macquarie Research, Bloomberg, September 2013

- ⇒ **RIO:** RIO sees a bigger uplift in CY13e of 8.6% leaving us 9% ahead of consensus (perhaps suggesting consensus may move with us should the iron ore price hold current levels until Christmas). That said, RIO's CY14e earnings fall 10.4% as we not only downgrade our CY14 Iron Ore price (-4.4%), but also Met Coal (-10.5%), Aluminium (-2.0%) and Mineral Sands (-13.0%). Should we see the same US$136.8/t average iron ore price we anticipate for 2013, RIO's CY14 earnings would increase 18.4% (US$2.0bn) to US$12.6bn.

Fig 5 RIO – While RIO sees a bigger benefit from the strong iron ore price this year, it also suffers larger medium term earnings cuts courtesy of its proportionately larger aluminium business

RIO	NPV	Price Target	NPV	Price Target	CY13e earnings	CY14e earnings	CY15e earnings	CY16e earnings
Previous	A$81.13	A$77.00	£42.37	£41.00	9,177	11,907	11,672	13,123
New	A$88.73	A$81.00	£46.34	£42.00	9,964	10,672	10,291	11,913
Change	*9.4%*	*5.2%*	*9.4%*	*2.4%*	*8.6%*	*-10.4%*	*-11.8%*	*-9.2%*
Consensus		A$73.38		£36.87	9,113	10,343	11,286	11,826

Source: Macquarie Research, Bloomberg, September 2013

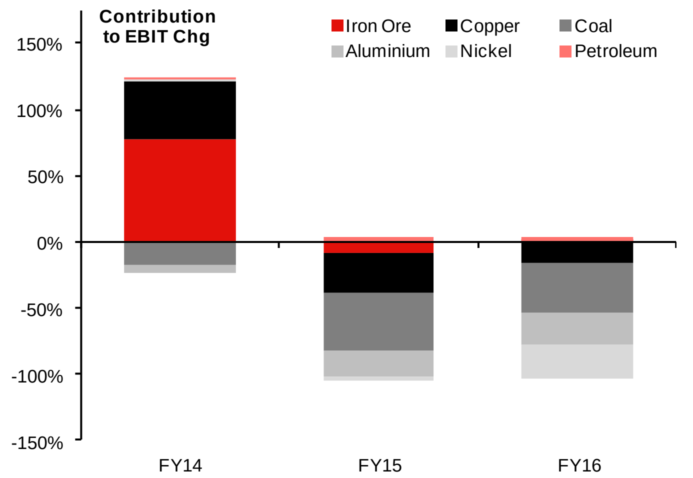
⇒ **FMG:** As a result of our revised forecasts, we are raising FMG's FY14e earnings by 9.4%, with lower interest expense and a slightly weaker AUD assumption driving a 3.7% improvement in FY15e earnings.

Fig 6 FMG's larger exposure to a robust iron ore price and falling AUD drives a 9.4% earnings upgrade in FY14

FMG		FY14e earnings	FY15e earnings	FY16e earnings
Previous	We remain on research restrictions for FMG. **Consensus target price** is A$4.90 as at 25 September 2013	3,108	3,370	3,193
New		3,400	3,496	3,198
Change		*9.4%*	*3.7%*	*0.2%*
Consensus		2,848	2,905	2,718

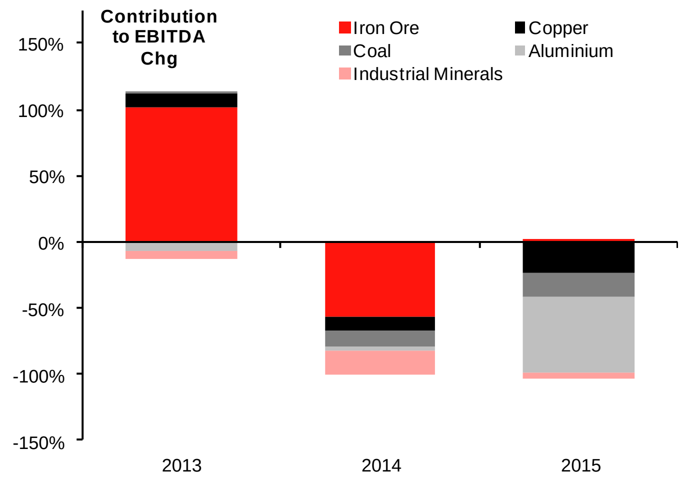
Source: Macquarie Research, FactSet, September 2013

Fig 7 Post FY13, BHP's earnings are hit by our lower aluminium, coal and nickel forecasts…



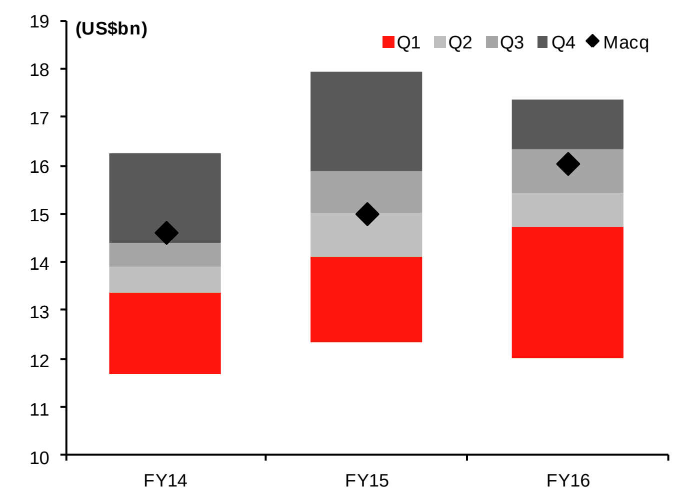
Source: Macquarie Research, September 2013

Fig 8 …RIO's proportionately larger downgrades stem from its more significant exposure to aluminium



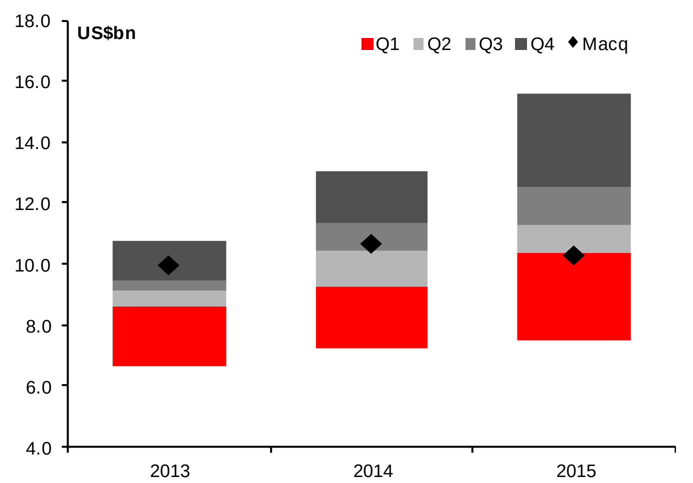
Source: Macquarie Research, September 2013

Fig 9 BHP NPAT forecasts – Macquarie vs. consensus



Source: Macquarie Research, September 2013

Fig 10 RIO NPAT forecasts – Macquarie vs. consensus



Source: Macquarie Research, September 2013

Iron ore margins to be supported by capital discipline

While the improved long term iron ore price outlook would typically bring with it added cost pressures to normalise returns, perhaps the biggest takeaway from our new analysis is that costs for the marginal Chinese producer are rising significantly faster than those in the Pilbara and that therefore longer term prices could also bring higher longer term margins for the local producers.

⇒ While the costs of Chinese iron ore production continue to rise, the Pilbara's costs will be controlled by the growing scale of operations, ongoing cost cutting efforts and a weaker AUD over the medium term. Combined these could even see cash operating costs fall in real terms (a view supported by recent guidance from RIO on the anticipated evolution of the iron ore cost curve).

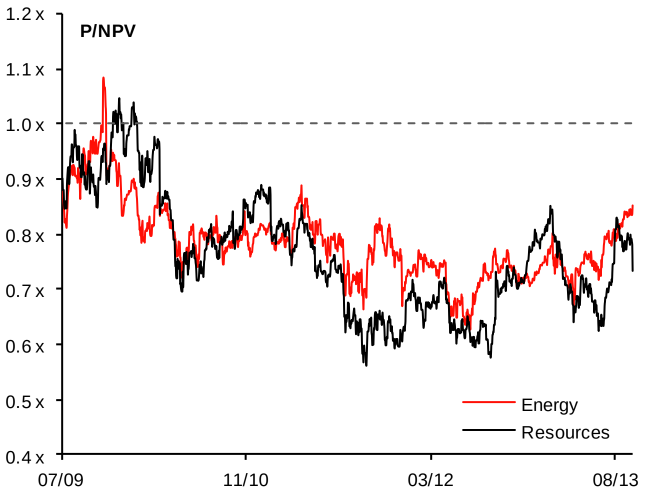
⇒ We also expect producer discipline to preserve margins. Specifically, with a long term iron ore price of U$90/t in real terms, RIO's 460 expansion and BHP's Outer Harbour would both generate respectable returns however, we continue to expect neither to be sanctioned. In part this is because of current capital restraint (with RIO still reluctant to commit to the 360 mine spend, it is difficult to envisage any meaningful momentum for 460, meanwhile BHP continues to show little interest in the Outer Harbour). These unsanctioned options towards the low end of the cost curve however are likely to discourage more marginal projects progressing and so could preserve margins for longer for the major miners.

⇒ The net result is that, under our higher long term iron ore price forecast of U$90/t, we now see BHP, RIO and FMG's EBITDA margins in the Pilbara normalising at 51%, 57% and 37% respectively in the long term environment (these are up from 47%, 53% and 31% previously and are a key driver of the valuation uplift we now see).

Miners over energy…

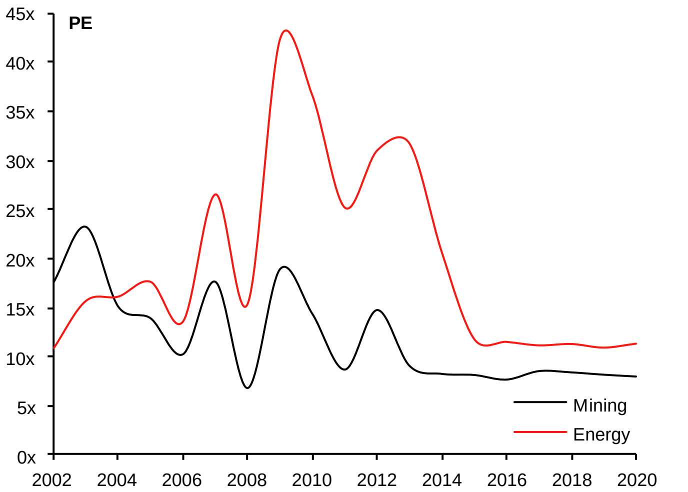
With energy having outperformed the miners by ~28% so far this year, the miners are left looking materially cheaper on both NAV and earnings multiples. While the energy stocks offer proportionately superior growth, the miners' growth trajectory is also impressive and typically comes with proportionately lower project development risk.

Fig 11 The diversified miners are trading at an average 27% discount to NAV compared to energy at an average 15% discount…



Source: Macquarie Research, September 2013

Fig 12 …meanwhile on P/E, the miners remain much cheaper however the energy sector's proportionately larger growth sees this gap close over time



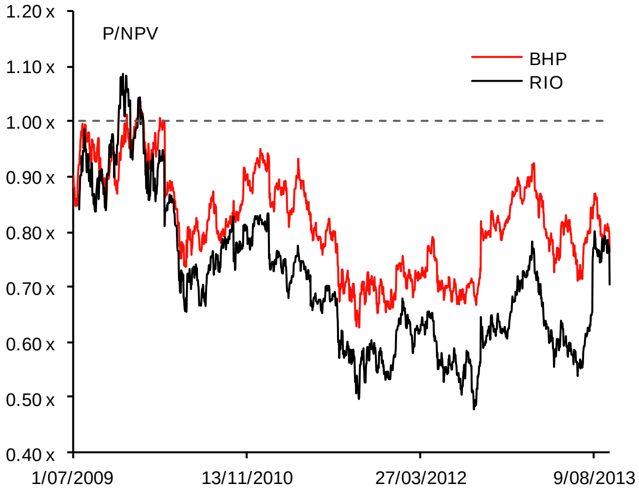
Source: Macquarie Research, September 2013

…but switching preference for RIO over BHP

While we have tended to favour BHP historically, an improving longer term outlook for iron ore provides greater valuation support for RIO as well as greater potential momentum into the year-end if we see a seasonal iron ore re-stock in China which drives prices above our current forecasts. Moreover, in terms of NAV, we now see RIO trading at a 30% discount compared to BHP's 24% and hence we are switching preference to RIO despite its more significant medium term earnings cuts.

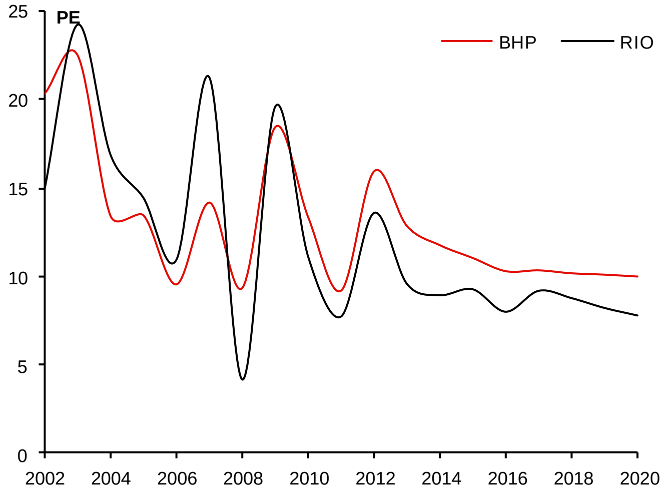
That said, we note that RIO's valuation benefits from the ~40% jump from today's aluminium prices that we expect into the long term (to over U$2,500/t from 2019 onwards). If however aluminium prices were to remain at current levels going forward, we note that BHP and RIO would essentially be trading at the same discount to NAV and hence there is still little to pick between them on valuation alone.

Fig 13 We see RIO trading at a 30% discount to NAV compared to BHP at 24%...



Source: Macquarie Research, September 2013

Fig 14 …while despite its larger medium term earnings cuts, RIO remains cheaper on P/Es going forward



Source: Macquarie Research, September 2013

Iron Ore - A brighter outlook

- Incorporating the upgrades to our iron-ore price forecasts and changes to our A$/US$ exchange rate forecasts has translated to material increases our forecast earnings for the pure play iron-ore names. We have lifted our price target for **BCI** by 13% to $5.10 and for **AGO** by 17% to $1.05. AGO's larger upgrade reflects the company's higher sensitivity to iron-ore prices.
- We have made some material upgrades to our earnings forecasts for both BCI and AGO after incorporating our new iron-ore price and A$/US$ exchange rate forecasts. BCI is currently operating at lower cash costs than AGO on an all inclusive basis, which is the key driver behind AGO seeing larger upgrades to earnings than BCI. We note that the earnings upgrades have been slightly tempered by moderate upward adjustments to our operating cost assumptions for both companies to reflect an increase in industry specific inflation in a higher commodity price environment.
- BCI remains our preferred pick of the iron-ore pure play names over AGO. While AGO's earnings outlook has improved materially and the stock now offers similar upside on a TSR basis, BCI's higher dividend yield makes the stock a more attractive, lower risk investment proposition in our view.

Coal – met prices cut with supply flex limiting the near term upside

- The impact of the changes for Whitehaven are mixed with the near term met coal products forward sold (SSCC at ~US$102/t FOB 4Q13 and PCI at US$104/t for FY14) this has been offset by the benefit of no change to the view for spot thermal pricing and the lowering of our A$ forecast in 2014 and 2015 leading to minor upgrades. We continue to see the potential for YoY earnings improvement for Whitehaven, partially as a result of lower currency, and maintain our Outperform recommendation.
- Conversely the currency changes are not enough to offset the downgrades to contracted thermal and metallurgical coal prices for Yancoal where we see downgrades to earnings of up to 30% over 2014 and 2015.
- For Aquila, cuts to the forecasts for contracted thermal and met coal impact the companies east coast portfolio. This has resulted in with Washpool being uneconomic as proposed and we have removed the project from our valuation.

Base metals – inventories building

- For the base metals, cuts to aluminium, copper, and nickel forecasts have a material impact on our earnings expectations. Our preferred picks remain AWC (Underperform) and PanAust (Outperform).
- With the overcapacity in the aluminium market likely to continue adding to the already record level of metal inventory we cannot see near term upside for AWC and maintain the Underperform recommendation. Downgrades of 8-11% for both alumina and aluminium prices 2015-17 come on the back of the surplus adding to the already record of inventory resulting in substantial downgrades in this period. The downgrades push out our view for a return to profitability by a year to 2016. We recently downgraded AWC as the proposed changes to the LME warehouse rules increase the risk to the downside for aluminium and alumina prices as reflected in our forecasts.
- The earnings forecasts for copper equities are mixed with the benefit of lower FX in 2014 and 2015 offsetting the impact of lower metal price assumptions in 2015 and increased TC/RCs from 2014 to 16. Oz Minerals, PanAust and Sandfire all produce concentrate and will see costs increase as TC/RCs rise. PanAust remains our preferred copper exposure with an Outperform recommendation.
- The cuts to our medium-term nickel prices have translated to material reductions in earnings and price targets for the pure play nickel names. WSA remains our preferred name despite cutting our price target by 16%.
- PAN and MBN, both higher cost producers see cuts of 33% and 78% to price targets respectively. IGO’s gold exposure through Tropicana insulates the downgrades, with our price target falling only 2%
- IGO and WSA’s earnings see upgrades in FY14 and FY15 due to a lower A$/US$ forecasts more than offsetting the commodity price adjustments. However the cuts to FY15 earnings reflect lower copper and nickel prices. PAN and MBN are now both expected to report earnings losses in 2014 and 2015.

Gold

- Our key picks in the Australian gold equities are **Regis Resources, Beadell Resources and Northern Star**. In the explorer space; **Papillon Resources** is a clear standout given the world class potential of the Fekola project.
- In precious metals we have made only small changes to our near-term forecasts and have kept our longer-term forecasts unchanged. Gold and silver both outperformed our expectations in 3Q but we continue to believe they will rally further in 4Q as the QE tapering process is delayed. However we think these gains will not be sustained into 2014 as tapering finally occurs – making the sector an Underperformer relative to the broader market over the medium term.
- That said the falling AUDUSD exchange rate has seen increased earnings estimates in Fy14 and FY15.
- N.B. While we use the Macquarie price deck in calculating our financials we calculate our valuations using the forward curve.
- **Forward curve update.** We have also updated our commodity forward price curves upon which we base our valuations. Since our last update the Long Term forward gold and silver price have increased ~9% and ~13%, respectively. Our target prices continue to be based on our net asset values derived utilising the prevailing forward curve prices. On average, the impact of the higher forward curve is a 9% increase in our target prices (range of 0% to 40%).
- The upward revisions to our short-medium term forecasts is seeing significant upgrades to our FY14, FY15 and FY16 earnings estimates - on average ~14% in FY14.
- In the current environment we prefer **Regis** due to its significant free cashflow generation, net cash position, organic growth profile and management track record. While at the emerging end of the market we prefer **Beadell** for its production growth profile and low costs and **Northern Star** for its operational consistency and yield of 4%. We like **Papillon** for the quality of its project, coupled with a clearly delineated timeline to delivery of first gold.
- We maintain **Newcrest** on a Neutral recommendation as we continue to see risks for production in FY14 coupled with the gold price remaining below the company’s break-even point of A$1,450/oz raising concerns over the already stretched balance sheet.

Steel

- We retain our Outperform on Arrium. From June 2013 it has been operating at a 12Mtpa run rate of iron ore sales from South Australia, and it is currently investigating opportunities to increase sales to a 13Mtpa. In addition, a softer A$ has enabled the company to put through steel price increases in its Australian Steel operations, and FY14 will benefit from ~$30m in cost savings due to the merger of ARI's Manufacturing and Distribution divisions (and subsequent reduction in headcount). Management remains focused on debt reduction, with the stretched balance sheet still the key drag on equity valuation.

Other metals

- We have not changed our Mineral Sands or Rare Earths prices forecasts. The earnings changes for Iluka and Lynas result from changes to our currency forecasts in 2014 and 2015.

Fig 15 Australian mining universe: Earnings changes

MACQUARIE	Ticker	Rec.	NPV %change	Reporting Currency	Y/E	Adjusted earnings 2013	Adjusted earnings 2014	Adjusted earnings 2015	Gross op. cash flow 2013	Gross op. cash flow 2014	Gross op. cash flow 2015
Diversified											
BHP Billiton	BHP	Outperform	5%	US$m	Jun	0%	2%	-4%	0%	1%	-3%
Rio Tinto	RIO	Outperform	9%	US$m	Dec	9%	-10%	-12%	6%	-8%	-9%
Aluminium											
Alumina Ltd	AWC	Underperform	-4%	US$m	Dec	-9%	13%	-98%	-9%	13%	-98%
Coal											
Aquila Resources	AQA	Neutral	-42%	A$m	Jun	-4%	55%	77%	-4%	69%	81%
Resource Generation	RES	DLC pending update									
Whitehaven Coal	WHC	Outperform	-2%	A$m	Jun	0%	7%	1%	0%	2%	1%
Yancoal Australia	YAL	Neutral	-13%	A$m	Dec	3%	-31%	-12%	16%	-11%	-5%
Copper											
Oz Minerals	OZL	Underperform	-4%	A$m	Dec	25%	-49%	-20%	1%	-4%	-3%
PanAust	PNA	Outperform	-3%	US$m	Dec	6%	-6%	-27%	1%	-2%	-12%
Sandfire Resources	SFR	Neutral	2%	A$m	Jun	0%	11%	3%	0%	7%	2%
Hot Chili Copper	HCH	Outperform	0%	A$m	Jun	0%	0%	0%	0%	0%	0%
Gold											
Alacer Gold	AQG	Underperform	8%	US$m	Dec	42%	1%	3%	7%	0%	1%
Ampella Mining	AMX	Underperform	70%	A$m	Dec	10%	6%	54%	51%	20%	226%
Beadell Resources	BDR	Outperform	13%	A$m	Dec	14%	1%	5%	10%	1%	4%
Chesser Resources	CHZ	Outperform	17%	A$m	Jun	0%	0%	0%	0%	0%	0%
Evolution Mining	EVN	Neutral	28%	A$m	Jun	0%	37%	25%	0%	17%	11%
Gryphon Minerals	GRY	Underperform	22%	A$m	Jun	0%	0%	-1%	0%	0%	-1%
Kingsgate	KCN	Underperform	31%	A$m	Jun	0%	47%	22%	0%	21%	11%
Lachlan Star	LSA	DLC pending update									
Newcrest Mining	NCM	Neutral	17%	A$m	Jun	0%	11%	-2%	0%	5%	0%
Northern Star	NST	Outperform	10%	A$m	Jun	0%	20%	15%	0%	11%	8%
OceanaGold	OGC	DLC pending update									
Papillon Resources	PIR	Outperform	18%	A$m	Jun	21%	1%	7%	22%	1%	7%
Perseus Mining	PRU	Outperform	25%	A$m	Jun	0%	22%	6%	0%	12%	6%
Regis Resources	RRL	Outperform	7%	A$m	Jun	0%	17%	13%	0%	11%	8%
Silver Lake Resources	SLR	Underperform	18%	A$m	Jun	0%	768%	26%	0%	32%	13%
St Barbara	SBM	Underperform	127%	A$m	Jun	0%	209%	162%	0%	22%	20%
Troy Resources	TRY	DLC pending update									
Iron Ore											
Arrium	ARI	Outperform	4%	A$m	Jun	0%	5%	5%	0%	3%	3%
Atlas Iron	AGO	Neutral	14%	A$m	Jun	0%	20%	10%	0%	6%	3%
BC Iron	BCI	Outperform	15%	A$m	Jun	0%	9%	8%	0%	7%	6%
Fortescue Metals	FMG	Research restriction		US$m	Jun	0%	9%	4%	0%	7%	3%
Nickel											
Independence Group	IGO	Neutral	-2%	A$m	Jun	0%	16%	11%	0%	9%	6%
Mirabela Nickel	MBN	Neutral	-36%	US$m	Dec	0%	0%	-3801%	0%	1%	-89%
Panoramic Resources	PAN	Outperform	-29%	A$m	Jun	0%	17%	270%	0%	11%	12%
Western Areas	WSA	Outperform	-15%	A$m	Jun	0%	154%	17%	0%	5%	6%
Other											
Iluka Resources	ILU	Underperform	3%	A$m	Dec	7%	25%	13%	1%	9%	6%
Lynas Corporation	LYC	Neutral	1%	A$m	Jun	0%	8%	9%	0%	11%	7%
PGM's											
Aquarius Platinum	AQP	DLC pending update									

Source: Macquarie Research, September 2013

Fig 16 Australian mining universe: Forecast earnings, cashflow and NPV revision

	Ticker	Rec.	NPV A$/Share	Price	Prem /(Disc)	Reporting Currency	Y/E	Adjusted earnings 2013	Adjusted earnings 2014	Adjusted earnings 2015	Gross op. cash flow 2013	Gross op. cash flow 2014	Gross op. cash flow 2015
Diversified													
BHP Billiton	BHP	Outperform	$47.16	$35.87	-24%	US$m	Jun	11,799	14,630	15,018	20,173	23,628	24,649
Rio Tinto	RIO	Outperform	$88.73	$62.10	-30%	US$m	Dec	9,964	10,672	10,291	14,420	15,567	15,414
Aluminium													
Alumina Ltd	AWC	Underperform	$1.85	$1.02	-45%	US$m	Dec	(55)	(62)	3	(55)	(62)	3
Coal													
Aquila Resources	AQA	Neutral	$2.23	$2.11	-5%	A$m	Jun	318	(27)	(39)	330	(15)	(31)
Resource Generation	RES	DLC pending update											
Whitehaven Coal	WHC	Outperform	$2.98	$2.00	-33%	A$m	Jun	(61)	27	116	(2)	84	177
Yancoal Australia	YAL	Neutral	$1.70	$0.66	-61%	A$m	Dec	(215)	110	255	43	405	605
Copper													
Oz Minerals	OZL	Underperform	$7.25	$4.34	-40%	A$m	Dec	(7)	21	81	256	342	405
PanAust	PNA	Outperform	$3.18	$2.24	-30%	US$m	Dec	76	62	59	198	188	192
Sandfire Resources	SFR	Neutral	$7.44	$6.95	-7%	A$m	Jun	88	164	157	214	254	236
Hot Chili	HCH	Outperform	$1.10	$0.44	-60%	A$m	Jun	(11)	(12)	(33)	(4)	(4)	(25)
Gold													
Alacer Gold	AQG	Underperform	$2.84	$3.21	13%	US$m	Dec	34	35	14	189	106	71
Ampella Mining	AMX	Underperform	$1.67	$0.11	-93%	A$m	Dec	(20)	(15)	(3)	(3)	(4)	1
Beadell Resources	BDR	Outperform	$1.08	$0.86	-21%	A$m	Dec	108	142	61	149	194	104
Chesser Resources	CHZ	Outperform	$1.35	$0.11	-92%	A$m	Jun	(3)	(2)	(3)	(2)	(1)	(2)
Evolution Mining	EVN	Neutral	$1.10	$0.82	-25%	A$m	Jun	44	135	118	195	253	240
Gryphon Minerals	GRY	Underperform	$1.05	$0.15	-86%	A$m	Jun	(4)	(6)	(4)	(3)	(5)	(3)
Kingsgate	KCN	Underperform	$1.98	$1.73	-13%	A$m	Jun	12	41	33	98	77	72
Lachlan Star	LSA	DLC pending update											
Newcrest Mining	NCM	Neutral	$17.26	$11.91	-31%	A$m	Jun	451	521	513	1,093	1,131	1,206
Northern Star	NST	Outperform	$1.07	$0.83	-22%	A$m	Jun	34	42	40	66	74	73
OceanaGold	OGC	DLC pending update											
Papillon Resources	PIR	Outperform	$3.26	$1.06	-68%	A$m	Jun	(6)	(9)	(34)	(6)	(9)	(34)
Perseus Mining	PRU	Outperform	$1.48	$0.56	-63%	A$m	Jun	30	23	29	50	44	54
Regis Resources	RRL	Outperform	$4.66	$4.00	-14%	A$m	Jun	146	146	171	190	213	260
Silver Lake Resources	SLR	Underperform	$1.18	$0.78	-34%	A$m	Jun	(27)	11	58	21	51	105
St Barbara	SBM	Underperform	$0.68	$0.55	-19%	A$m	Jun	11	15	10	125	153	153
Troy Resources	TRY	DLC pending update											
Iron Ore													
Arrium	ARI	Outperform	$2.28	$1.23	-46%	A$m	Jun	168	408	394	444	727	713
Atlas Iron	AGO	Neutral	$1.05	$0.86	-19%	A$m	Jun	14	100	98	139	297	332
BC Iron	BCI	Outperform	$5.10	$4.28	-16%	A$m	Jun	71	123	111	92	150	138
Fortescue Metals	FMG	Research restriction		$4.72		US$m	Jun	1,619	3,400	3,496	2,082	4,283	4,555
Nickel													
Independence Group	IGO	Neutral	$4.57	$4.10	-10%	A$m	Jun	18	80	96	51	140	162
Mirabela Nickel	MBN	Neutral	$0.43	$0.06	-86%	US$m	Dec	(123)	(74)	(41)	(91)	(30)	5
Panoramic Resources	PAN	Outperform	$1.01	$0.29	-72%	A$m	Jun	(27)	(19)	4	30	37	55
Western Areas	WSA	Outperform	$3.72	$2.94	-21%	A$m	Jun	6	7	52	89	83	129
Other													
Iluka Resources	ILU	Underperform	$9.54	$11.55	21%	A$m	Dec	49	162	327	269	388	641
Lynas Corporation	LYC	Neutral	$0.83	$0.40	-52%	A$m	Jun	(144)	(31)	102	(144)	(22)	128
PGM's													
Aquarius Platinum	AQP	DLC pending update											

Source: FactSet, Macquarie Research, September 2013, Prices as of 24 September 2013

Fig 17 Australian mining universe: Impact on multiples

MACQUARIE	Ticker	Rec.	NPV	Price	P/NPV	Y/E	PER (x)			P/GCFPS (x)		
			A$/Share				2013	2014	2015	2013	2014	2015
Diversified												
BHP Billiton	BHP	Outperform	$47.16	$35.87	0.8x	Jun	15.2	12.3	11.9	8.9	7.6	7.3
Rio Tinto	RIO	Outperform	$88.73	$62.10	0.7x	Dec	10.8	10.1	10.5	7.5	6.9	7.0
Aluminium												
Alumina Ltd	AWC	Underperform	$185	$102	0.5x	Dec	nmf	nmf	nmf	nmf	nmf	nmf
Coal												
Aquila Resources	AQA	Neutral	$2.23	$2.11	0.9x	Jun	2.8	nmf	nmf	2.7	nmf	nmf
Resource Generation	RES	**DLC pending update**										
Whitehaven Coal	WHC	Outperform	$2.98	$2.00	0.7x	Jun	nmf	77.0	17.7	nmf	24.3	116
Yancoal Australia	YAL	Neutral	$170	$0.66	0.4x	Dec	nmf	6.0	2.6	15.3	16	11
Copper												
Oz Minerals	OZL	Underperform	$7.25	$4.34	0.6x	Dec	nmf	614	16.2	5.1	3.9	3.3
PanAust	PNA	Outperform	$3.18	$2.24	0.7x	Dec	16.4	20.0	212	6.3	6.7	6.5
Sandfire Resources	SFR	Neutral	$7.44	$6.95	0.9x	Jun	11.9	6.4	6.7	4.9	4.1	4.4
Hot Chili	HCH	Outperform	$110	$0.44	0.4x	Jun	nmf	nmf	nmf	nmf	nmf	nmf
Gold												
Alacer Gold	AQG	Underperform	$2.84	$3.21	1.1x	Dec	25.3	25.1	62.3	4.6	8.2	12.3
Ampella Mining	AMX	Underperform	$167	$0.11	0.1x	Dec	nmf	nmf	nmf	nmf	nmf	19.6
Beadell Resources	BDR	Outperform	$108	$0.86	0.8x	Dec	6.2	4.7	11.1	4.5	3.5	6.5
Chesser Resources	CHZ	Outperform	$135	$0.11	0.1x	Jun	nmf	nmf	nmf	nmf	nmf	nmf
Evolution Mining	EVN	Neutral	$110	$0.82	0.7x	Jun	13.1	4.3	4.9	3.0	2.3	2.4
Gryphon Minerals	GRY	Underperform	$105	$0.15	0.1x	Jun	nmf	nmf	nmf	nmf	nmf	nmf
Kingsgate	KCN	Underperform	$198	$173	0.9x	Jun	22.3	6.4	8.0	2.7	3.4	3.6
Lachlan Star	LSA	**DLC pending update**										
Newcrest Mining	NCM	Neutral	$17.26	$11.91	0.7x	Jun	20.2	17.5	17.8	8.3	8.1	7.6
Northern Star	NST	Outperform	$107	$0.83	0.8x	Jun	10.4	8.5	8.8	5.4	4.8	4.9
OceanaGold	OGC	**DLC pending update**										
Papillon Resources	PIR	Outperform	$3.26	$106	0.3x	Jun	nmf	nmf	nmf	nmf	nmf	nmf
Perseus Mining	PRU	Outperform	$148	$0.56	0.4x	Jun	7.9	10.0	8.1	4.7	5.4	4.4
Regis Resources	RRL	Outperform	$4.66	$4.00	0.9x	Jun	13.3	13.5	11.5	10.2	9.3	7.6
Silver Lake Resources	SLR	Underperform	$118	$0.78	0.7x	Jun	nmf	316	5.8	7.9	6.5	3.2
St Barbara	SBM	Underperform	$0.68	$0.55	0.8x	Jun	213	16.6	25.2	19	16	16
Troy Resources	TRY	**DLC pending update**										
Iron Ore												
Arrium	ARI	Outperform	$2.28	$123	0.5x	Jun	9.8	4.1	4.2	3.7	2.3	2.3
Atlas Iron	AGO	Neutral	$105	$0.86	0.8x	Jun	56.7	7.8	8.0	5.6	2.6	2.3
BC Iron	BCI	Outperform	$5.10	$4.28	0.8x	Jun	7.2	4.3	4.8	5.6	3.6	3.9
Fortescue Metals	FMG	**Research restriction**		$4.72		Jun	8.5	4.1	4.0	6.6	3.2	3.0
Nickel												
Independence Group	IGO	Neutral	$4.57	$4.10	0.9x	Jun	54.3	12.4	10.4	19.4	7.1	6.1
Mirabela Nickel	MBN	Neutral	$0.43	$0.06	0.1x	Dec	nmf	nmf	nmf	nmf	nmf	9.7
Panoramic Resources	PAN	Outperform	$101	$0.29	0.3x	Jun	nmf	nmf	20.4	2.4	2.0	14
Western Areas	WSA	Outperform	$3.72	$2.94	0.8x	Jun	nmf	83.3	11.2	6.4	7.0	4.5
Other												
Iluka Resources	ILU	Underperform	$9.54	$11.55	12x	Dec	98.5	29.8	14.8	18.0	12.5	7.5
Lynas Corporation	LYC	Neutral	$0.83	$0.40	0.5x	Jun	nmf	nmf	8.7	nmf	nmf	6.9
PGM's												
Aquarius Platinum	AQP	**DLC pending update**										

Source: FactSet, Macquarie Research, September 2013, Prices as of 24 September 2013

Fig 18 Australian mining universe: Recommendations and price target changes

	Ticker	Recomm.	Price Target (A$ps) New	Old	% Change
Diversified					
BHP Billiton	BHP	Outperform	43.00	41.00	5%
Rio Tinto	RIO	Outperform	81.00	77.00	5%
Aluminium					
Alumina Ltd	AWC	Underperform	0.95	0.95	0%
Coal					
Aquila Resources	AQA	Neutral	2.20	3.50	-37%
Resource Generation	RES	DLC pending update			
Whitehaven Coal	WHC	Outperform	3.00	3.00	0%
Yancoal Australia	YAL	Neutral	0.90	0.90	0%
Copper					
Oz Minerals	OZL	Underperform	4.00	4.00	0%
PanAust	PNA	Outperform	3.20	3.20	0%
Sandfire Resources	SFR	Neutral	6.50	6.50	0%
Hot Chili	HCH	Outperform	1.03	1.03	0%
Gold					
Alacer Gold	AQG	Underperform	2.30	2.20	5%
Ampella Mining	AMX	Underperform	0.20	0.20	0%
Beadell Resources	BDR	Outperform	1.00	0.90	11%
Chesser Resource	CHZ	Outperform	0.56	0.48	17%
Evolution Mining	EVN	Neutral	0.90	0.80	13%
Gryphon Minerals	GRY	Underperform	0.30	0.30	0%
Kingsgate	KCN	Underperform	1.40	1.00	40%
Lachlan Star	LSA	DLC pending update			
Newcrest Mining	NCM	Neutral	12.70	12.70	0%
Norther Star	NST	Outperform	1.02	0.93	10%
OceanaGold	OGC	DLC pending update			
Papillon Resources	PIR	Outperform	1.50	1.50	0%
Perseus Mining	PRU	Outperform	1.10	1.00	10%
Regis Resources	RRL	Outperform	4.40	4.00	10%
Silver Lake Resources	SLR	Underperform	0.80	0.70	14%
St Barbara	SBM	Underperform	0.50	0.50	0%
Troy Resources	TRY	DLC pending update			
Iron Ore					
Arrium	ARI	Outperform	1.67	1.58	6%
Atlas Iron	AGO	Neutral	1.05	0.90	17%
BC Iron	BCI	Outperform	5.10	4.50	13%
Fortescue Metals	FMG	Research restriction			
Nickel					
Independence Group	IGO	Neutral	4.10	4.20	-2%
Mirabela Nickel	MBN	Neutral	0.13	0.60	-78%
Panoramic Resources	PAN	Outperform	0.40	0.60	-33%
Western Areas	WSA	Outperform	3.70	4.40	-16%
Other					
Iluka Resources	ILU	Underperform	9.50	9.30	2%
Lynas Corporation	LYC	Neutral	0.55	0.55	0%
PGM's					
Aquarius Platinum	AQP	DLC pending update			

Source: Macquarie Research, September 2013

Fig 19 While we have made no changes to our oil price assumptions, the lower AUD expected FY14 and FY15 results in upgrades in earnings for those that report in AUD.

Updated numbers	2013 Adj. Profit	2014 Adj. Profit	2015Adj. Profit	Valuation	2013 CFO change	Comments
WPL (U$m) – Dec YE						As a USD reporter, WPL's earnings do not benefit from translation – instead the small uplift is driven by lower domestic operating costs in USD terms as the AUD weakens. But some of this benefit is offset via WPL's AUD domestic gas contracts.
Previous	1,926	2,426	2,448	42.75	1,926	
Updated	**1,930**	**2,429**	**2,457**	**42.83**	**1,930**	
% change	*0%*	*0%*	*0%*	*0%*	*0%*	
STO (A$m) – Dec YE						AUD domestic gas sales dampen STO's revenue exposure to a weakening currency but this is offset by its greater operational leverage down the P&L. What's more, as STO's oil-price exposure grows, so too does the benefit it gains from a weaker AUD.
Previous	736	804	1,064	20.23	1,492	
Updated	**736**	**854**	**1,131**	**20.40**	**1,492**	
% change	*0%*	*6%*	*6%*	*1%*	*0%*	
OSH (U$m) – Dec YE						Like WPL, as a USD reporter OSH is less exposed to a weaker AUD. However, assuming the AUD and PNG Kina remain correlated, OSH should benefit slightly from lower operating costs in USD terms as well as lower AUD corporate overheads.
Previous	180	346	1,154	9.91	415	
Updated	**180**	**346**	**1,154**	**9.91**	**415**	
% change	*0%*	*0%*	*0%*	*0%*	*0%*	
AWE (A$m) – Jun YE						USD-denominated crude production from Tui remains exposed to currency. However an increasing East Coast domestic gas exposure reduces the impact in the LT
Previous	35	81	96	2.91	183	
Updated	**35**	**89**	**103**	**2.91**	**183**	
% change	*0%*	*10%*	*8%*	*0%*	*0%*	
BPT (A$m) – Jun YE						USD-linked crude production remains exposed to currency. High non-cash costs associated with Cooper Basin assets increases operational leverage to revenue changes.
Previous	207	256	252	1.87	297	
Updated	**207**	**277**	**272**	**1.89**	**297**	
% change	*0%*	*8%*	*8%*	*1%*	*0%*	
DLS (A$m) – Jun YE						Given the growing western flank crude production base, DLS' sensitivity to USD at the revenue line will grow over coming years. However the high margin nature of this production dilutes the impact at the bottom line.
Previous	57	73	84	1.72	117	
Updated	**56**	**80**	**90**	**1.71**	**117**	
% change	*-1%*	*9%*	*7%*	*-1%*	*0%*	
TAP (A$m) – Dec YE						Limited exposure until Manora start-up in mid-2014. However USD denominated construction costs at Manora results in higher interest costs.
Previous	-18	23	45	1.12	3	
Updated	**-18**	**25**	**46**	**1.12**	**3**	
% change	*0%*	*7%*	*1%*	*0%*	*0%*	
NXS (A$m) – Jun YE						NXS has exposure to currency through condensate production from Longtom.
Previous	-9	5	9	0.22	7	
Updated	**-9**	**6**	**9**	**0.22**	**7**	
% change	*0%*	*10%*	*7%*	*0%*	*0%*	
HZN (U$m) – Jun YE						US reporting, hence only a translation impact.
Previous	22	80	83	0.75	66	
Updated	**22**	**80**	**83**	**0.75**	**66**	
% change	*0%*	*0%*	*0%*	*0%*	*0%*	
ROC (U$m) – Dec YE						US reporting, hence only a translation impact.
Previous	52	72	59	0.99	52	
Updated	**52**	**72**	**59**	**0.99**	**52**	
% change	*0%*	*0%*	*0%*	*0.0%*	*0%*	
CVN (A$m) – Jun YE						CVN's 100% crude production is particular hard hit by the lower translation into AUD.
Previous	-5	6	14	0.24	4	
Updated	**-5**	**6**	**15**	**0.24**	**4**	
% change	*0%*	*9%*	*5%*	*0%*	*0%*	
BRU (A$m) – Jun YE						With crude production at Ungani expected to average 3,000bopd in 2014 and ramp up to 5,000bopd by the end of 2014, BRU exposure to fx is expected to growth.
Previous	-12	13	40	3.22	-7	
Updated	**-12**	**15**	**43**	**3.25**	**-7**	
% change	*0%*	*17%*	*8%*	*1%*	*0%*	

** Earnings annualised to December year end.*

Source: Macquarie Research, September 2013

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2013

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	49.80%	57.68%	48.05%	41.13%	61.75%	47.10%	(for US coverage by MCUSA, 8.12% of stocks followed are investment banking clients)
Neutral	39.85%	24.45%	42.86%	54.70%	34.42%	30.89%	(for US coverage by MCUSA, 6.60% of stocks followed are investment banking clients)
Underperform	10.35%	17.87%	9.09%	4.17%	3.83%	22.01%	(for US coverage by MCUSA, 0.00% of stocks followed are investment banking clients)

Company Specific Disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Analyst Certification:
The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Macquarie Group Ltd ABN 94 122 169 279 (AFSL No. 318062) (MGL) and its related entities (the Macquarie Group) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

General Disclaimers:
Macquarie Securities (Australia) Ltd; Macquarie Capital (Europe) Ltd; Macquarie Capital Markets Canada Ltd; Macquarie Capital Markets North America Ltd; Macquarie Capital (USA) Inc; Macquarie Capital Securities Ltd and its Taiwan branch; Macquarie Capital Securities (Singapore) Pte Ltd; Macquarie Securities (NZ) Ltd; Macquarie First South Securities (Pty) Limited; Macquarie Capital Securities (India) Pvt Ltd; Macquarie Capital Securities (Malaysia) Sdn Bhd; Macquarie Securities Korea Limited and Macquarie Securities (Thailand) Ltd are not authorized deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL) or MGL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of any of the above mentioned entities. MGL provides a guarantee to the Monetary Authority of Singapore in respect of the obligations and liabilities of Macquarie Capital Securities (Singapore) Pte Ltd for up to SGD 35 million. This research has been prepared for the general use of the wholesale clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. MGL has established and implemented a conflicts policy at group level (which may be revised and updated from time to time) (the "Conflicts Policy") pursuant to regulatory requirements (including the FSA Rules) which sets out how we must seek to identify and manage all material conflicts of interest. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account your investment objectives, financial situation or particular needs. Macquarie salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions which are contrary to the opinions expressed in this research. Macquarie Research produces a variety of research products including, but not limited to, fundamental analysis, macro-economic analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research, whether as a result of differing time horizons, methodologies, or otherwise. Before making an investment decision on the basis of this research, you need to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Clients should contact analysts at, and execute transactions through, a Macquarie Group entity in their home jurisdiction unless governing law permits otherwise. The date and timestamp for above share price and market cap is the closed price of the price date. #CLOSE is the final price at which the security is traded in the relevant exchange on the date indicated.

Country-Specific Disclaimers:
Australia: In Australia, research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947), a participating organisation of the Australian Securities Exchange. **New Zealand**: In New Zealand, research is issued and distributed by Macquarie Securities (NZ) Ltd, a NZX Firm. **Canada**: In Canada, research is prepared, approved and distributed by Macquarie Capital Markets Canada Ltd, a participating organisation of the Toronto Stock Exchange, TSX Venture Exchange & Montréal Exchange. Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are entitled to have equal access to our research. **United Kingdom**: In the United Kingdom, research is issued and

Auckland Tel: (649) 377 6433	**Bangkok** Tel: (662) 694 7999	**Calgary** Tel: (1 403) 218 6650	**Denver** Tel: (303) 952 2800	**Frankfurt** Tel: (069) 509 578 000	**Geneva** Tel: (41) 22 818 7777	**Hong Kong** Tel: (852) 2823 3588
Jakarta Tel: (62 21) 515 1818	**Johannesburg** Tel: (2711) 583 2000	**Kuala Lumpur** Tel: (60 3) 2059 8833	**London** Tel: (44 20) 3037 2000	**Manila** Tel: (63 2) 857 0888	**Melbourne** Tel: (613) 9635 8139	**Montreal** Tel: (1 514) 925 2850
Mumbai Tel: (91 22) 6653 3000	**Munich** Tel: (089) 2444 31800	**New York** Tel: (1 212) 231 2500	**Paris** Tel: (33 1) 7842 3823	**Perth** Tel: (618) 9224 0888	**Seoul** Tel: (82 2) 3705 8500	**Shanghai** Tel: (86 21) 6841 3355
Singapore Tel: (65) 6601 1111	**Sydney** Tel: (612) 8232 9555	**Taipei** Tel: (886 2) 2734 7500	**Tokyo** Tel: (81 3) 3512 7900	**Toronto** Tel: (1 416) 848 3500		

Available to clients on the world wide web at www.macquarieresearch.com and through Thomson Financial, FactSet, Reuters, Bloomberg, and CapitalIQ.

Macquarie
Equities Research

Research

Head of Equity Research

John O'Connell (Global)	(612) 8232 7544
Matt Nacard (Australia)	(612) 8232 4017

Retail/Consumer

Callum Bramah	(852) 9440 0883

Energy

Adrian Wood	(612) 8232 8531

ESG

Deana Mitchell	(612) 8232 4576

Financials

Banks

Michael Wiblin	(612) 8232 6089

Insurance & Diversified Financials

Tim Lawson	(612) 8237 7332
Bryan Raymond	(612) 8232 2740

Healthcare

Dr Craig Collie	(612) 8232 4130

Industrials

Capital Goods

John Purtell	(612) 8232 8633

Transportation / Food & Beverages

Russell Shaw	(612) 8232 7124

Infrastructure

Ian Myles	(612) 8232 4157

Chemicals, D&C, Packaging, Builders, Steel

John Purtell	(612) 8232 8633
Liam Farlow	(612) 8237 2313

Resources Leaders

Adrian Wood	(612) 8232 8531
Andrew Sullivan	(612) 8237 6271

Emerging Resources

Hayden Bairstow	(618) 9224 0838

Real Estate

Paul Checchin	(612) 8232 4197

Telcos / Media / Tourism & Leisure

Andrew Levy	(612) 8232 5165

Utilities

Ian Myles	(612) 8232 4157

Commodities & Precious Metals

Colin Hamilton (Global)	(44 20) 3037 4061
Jim Lennon (London)	(44 20) 3037 4271
Kona Haque (London)	(44 20) 3037 4334
Graeme Train (Shanghai)	(8621) 2412 9035

New Zealand

Stephen Hudson	(649) 363 1414
Warren Doak	(649) 363 1416
Andrew Levy (Telecommunications)	(612) 8232 5165

Emerging Leaders – Industrials

Adam Simpson	(612) 8232 4439
Andrew Wackett	(618) 9224 0867
Jodie Bannan	(612) 8232 2999

Quantitative

Gurvinder Brar (Global)	(44 20) 3037 4036
John Conomos (Australia)	(612) 8232 5157
Burke Lau (Hong Kong)	(852) 3922 5494

Data Services

Sheridan Duffy	(612) 8232 9786

Economics and Strategy

Tanya Branwhite (Strategy)	(612) 8232 7628
Richard Gibbs (Head of Economics)	(612) 8232 3935
Brian Redican (Aus Economics)	(612) 8232 7016
Matthew Brooks (Global)	(612) 8237 0645

Find our research at

Macquarie:	www.macquarie.com.au/research
Thomson:	www.thomson.com/financial
Reuters:	www.knowledge.reuters.com
Bloomberg:	MAC GO
Factset:	http://www.factset.com/home.aspx
CapitalIQ	www.capitaliq.com

Contact Gareth Warfield for access (612) 8232 3207

See and hear our analysts at

www.macquarie.com.au/macquariedigital

Toll free from overseas

Canada	1800 989 8159
Hong Kong	800 96 2049
Japan	0053 161 6437
New York	1888 622 7862
Singapore	800 616 1037

Email addresses

FirstName.Surname@macquarie.com

eg. john.oconnell@macquarie.com

Sales

Equities

Dan Ritchie (Australia)	(612) 8232 3124
Dave Roberton (New Zealand)	(649) 363 1498

Sales

Scott Dolling (Hong Kong)	(852) 2823 3705
Brett Dimon (London)	(44 20) 3037 4831
Brendan Waller (Melbourne)	(613) 9635 8177
Daniel Pittorino (New York)	(1 212) 231 2552
Adam Millhouse (Singapore)	(65) 6231 2888
Mike Johnson (Sydney)	(612) 8232 8518

Sales Trading

Tim Shaw (Sydney)	(612) 8232 4386
Jon Holland (Auckland)	(649) 363 1471
Mike Keen (London)	(44 20) 3037 4905
Andrew Donald (Melbourne)	(613) 9635 8270
Chris Reale (New York)	(1 212) 231 2555

Specialist Sales

Julia Thomas (Property)	(613) 9635 9323
Phil Zammit (Emerging Leaders)	(612) 8232 3122
Ben Cleary (Emerging Resources)	(612) 8232 8822

Alternative Strategies

Ben Clifford (Hedge)	(612) 8232 8822
Cameron Duncan (Converts)	(612) 8232 7405
Phil Cornet (Derivatives)	(612) 8237 2811
Kurt Dalton (Derivatives)	(612) 8232 5943
Greg Mann (Equity finance)	(612) 8232 1820
Shannon Donohoe (Stock borrow & loan)	(612) 8232 6997

Syndication

Paul Staines	(612) 8232 7781
Angus Firth	(612) 8232 4039

Fixed Income, Currencies & Commodities

Gavin Bradley (Metals & Energy)	(612) 8232 3089
Will Richardson (Currencies)	(612) 8232 3666
Sarah Milne (Fixed Income)	(44 20) 3037 4625
David Castle (Fixed Income)	(612) 8232 8300
Ian Miller (Futures)	(612) 8232 3555
Robert Gallivan (US Credit)	(1 212) 231 2356