Rio Tinto PLC

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23:49 17 Feb 2021

What will the world's major mining companies do with all their cash?

In some ways, it's a Janus-faced sector.

The Roman god with two heads that looked in opposite directions would look down on the modern mining industry and smile with recognition.

That's not just because mining is currently grappling with two opposing tendencies: 1.) the unnerving possibility that ESG issues may wreak havoc across the sector, and 2.) the huge amounts of cash that are now building up as the boom times roll around again.

As well as being two faced, Janus was also the god of transition, and there's no question that the mining sector is currently undergoing a profound transition. Just look at the homepage for Rio Tinto's (LON:RIO) website - it's all about urban sustainability, robotics, athletics, and aerospace. Not a mention as you land on the site anywhere of mining, and it's only when you scroll down, past the story that says aluminium is good for blueberries that you get any idea of what the company actually does.

And what it does is dig huge pits in the ground at immense profit, occasionally causing huge environmental and social damage as it goes.

How much this new window dressing will work is open to question. After all, we live in a world that's constantly and desperately on the hunt for big narratives and that thinks it's found one in saying that mining companies are evil.

But the one saving grace for the sector now is that times are good.

Both Rio Tinto and BHP Billiton (LON:BHP)(ASX:BHP), on many metrics the world's biggest miners, have announced bumper results this week, including bumper cashflow and record dividends. Their share prices are also riding high.

So far so good.

A high share price and a high dividend can usually be taken as a sign of rude health as far as listed companies go.

And yet, even allowing for the gains of the past 12 months, as government stimulus money has poured into the global economy and created huge demand for all the things that the miners sell, when it comes to yield, the re-rating still looks underdone.

Recent analysis by Citigroup showed that the mining sector yields on average just over 6%, as against the broader market, which yields just over 3%.

That suggests either that the mining sector remains undervalued relative to the wider market, or that mining sector dividends are likely to drop.

Price: 5854

Market Cap: £94.77 billion

1 Year Share Price Graph

Share Information

Code:		RIO
Listing:		LSE
52 week	**High**	**Low**
	6561	**2954**
Sector:		**Mining**
Website:		**www.riotinto.com**

Company Synopsis:
Rio Tinto is a leading international mining group that finds, mines and processes the earth's mineral resources. The Group's major products include aluminium, copper, diamonds, energy products, gold, industrial minerals (borates, titanium dioxide, salt and talc), and iron ore. Its activities span the world but are strongly represented in Australia and North America.

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The second option looks unlikely at the moment, given that iron ore mining is performing so strongly that Rio Tinto has just delivered its highest free cash number for the past decade, and BHP isn't far behind.

Which leaves the first option, that the sector is undervalued. But Rio Tinto shares are at a 35-year high and BHP shares are only a sniff away from their 2011 all-time high.

Can it be that the mining sector is beginning to have something in common with the tech sector that it so wants to emulate in its marketing messaging? Is it likely that all-time share price highs for the mining sector will be the norm for the foreseeable future, as the cash keeps rolling in?

Thinking along these lines led Robert Friedland recently to speculate that the boom that's now developing in mining will be bigger even than the last one which took place in the early 2000s.

Whether or not that's true, the question now becomes: what will the miners do with all this new cash. Already, they've signposted that a significant part of it is going back to shareholders. That will be welcome, given the way the sector mismanaged the gains of the last boom by undertaking a series of overpriced and cash-based acquisitions.

Acquisitions of explorers will be on the agenda, though, as will in-house exploration. And perhaps the miners will take a lead from some of junior peers like Tirupati Graphite (LON:TGR) and start moving up the value chain in green technology to create more vertically integrated businesses.

And perhaps too, real funds will be directed towards ESG, to ensure that public relations calamities like Juukun Gorge and actual human tragedies like Samarco never happen again.

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