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Industry View
No Rating

LatAm Basic Materials

China's Growth to Moderate; Appetite for Materials to Continue

Our field trip to China led us to believe that while the country's economic growth will slowdown, it is unlikely that the metal-intensity of its growth will change materially in the next few years.

What's new: We spent last week in China with a group of Latin American investors meeting companies and talking to consultants. We had the opportunity to see the contrasts of the rapidly developing nation during our field trip. On one end, the impressive build out of the last decade is still ongoing in both Shanghai and Beijing. On the other end, Zibo and Dongying (second tier cities), in Shandong province, where people's living standards are clear evidence of China's emerging economy status and offer potential future demand for natural resources.

Economy: Expected GDP growth of 8–9% in 2011 to decelerate from unsustainably high levels, but remain robust. Despite consumption gaining importance as the driver of GDP growth, investment will lead the economy over the next few years, with social housing offsetting most—if not all—of the decline in private construction.

Steel: Expect steel production growth of 5–10% in 2011 with capacity utilization of ~92%. Steel demand will continue to expand, but at a slower clip than during 2003–2007. Baosteel said that 50% of Chinese listed steel companies lost money in 3Q10, and yet Wuhan believes steel prices might come down before they rise.

Iron ore: Iron ore prices expected to decline to \$120–\$150/t in 2011, as Indian exports normalize. With cash cost for Chinese material ranging from \$75–135/t, all iron ore producers are profitable at current ore prices.

Pulp: Chinese buyers will remain opportunistic. Local production costs ~US\$600/t for hardwood; US\$700/t for softwood. Softwood market is tighter than hardwood. Government is supporting local plantations in an effort to reduce imported fiber dependency.

Copper: Chinese copper demand to grow 8% in 2011. According to the 12th 5-year plan, the government plans to invest RMB400B per year on average into power grid.

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China Materials Field Trip: Key Takeaways

Economic Outlook: growth to slowdown but to remain strong led by investment

- Dragonomics (economics research) thinks China is still in early days of structural shift toward a more consumption-oriented economy and expects investment to remain the main driver of GDP growth for the next 5 to 10 years.
- Investment in China is supported by a low "FAI stock per capita" that is comparable to that of Japan in the 50's and the US in the 20's. Energy generation, transmission and distribution were used as examples of areas where further investments are needed.
- Spending in social housing will underpin total investment in the coming years, as the government tries to restructure the housing supply to ease the shortage of low-end houses and reduce the surplus of high-end houses
- They estimate a 50M house shortage in urban areas, which is compounded by the creation of 6M new households every year.
- Despite the positive fundamentals, Dragonomics expects GDP growth to slow down in 2011 to 8-9% and the contribution of investment to this growth to decline from ~60% in 2010 to 40-50%; they see 1Q as the weakest quarter next year and expect three more interest rate hikes - one in December and two in 1H11.

Property Market: real demand is the main driver; social housing a big support of growth

- Most developers and consultants we met had a positive view of the property investment cycle in China. A real estate broker thinks the current high property price in Beijing will continue as supply is short of demand.
- Property demand in Beijing is mainly driven by real demand, perhaps 80:20 for the mix of real demand vs. speculation. In addition, the real estate broker we met sees less speculation in Beijing than in Shanghai or in Guangzhou.
- The companies we visited expect social housing to lend support to the construction market - and hence GDP growth.
- The largest challenge for local governments to build social housing is financing, so they tend to build social housing only in tier 1 cities, where the local governments are wealthier. Also, local governments are not necessarily motivated to lose the premium from selling land at a higher price for market-based housing.

Exhibit 1

A Typical Social Housing Complex in Beijing



Source: Morgan Stanley Research

Steel: most Chinese mill losing money on high input costs; steel output to grow 5-10% in 2011

- Chinese steel producers are struggling due to high raw material costs and 50% of the 33 listed steel companies in the country lost money in 3Q10 (and these are supposed to be the more efficient players).
- The consensus view in China is for crude steel production to grow 5%-10% in 2011 (MSe +6.7%) with domestic consumption sectors (e.g. auto, appliance) gaining relevance relative to construction.
- Some bullish market participants, however, forecast steel output growth of 10% next year.
- Domestic steel prices are expected to go down on higher output and weak export markets.
- Property developers confirmed that social projects' steel and cement intensity usage is the same as in high-end developments.
- According to a consultant, steel demand from social housing is unlikely to offset completely the decline in consumption from private real estate.
- China's largest engineering & construction contractor believes capex/t in China is RMB4,000-5,000 for crude steel capacity and the construction time of a steel mill is 18months.
- Total steel capacity in China to reach 700-750Mtpy in '11.

Iron Ore: spot prices driven by Indian exports to average \$120-\$150/t; supply to respond

- Iron ore prices should come down in early 2011 with the normalization of Indian exports, but they should remain around \$120 to \$150/t for the year.
- Supply of domestic iron ore is increasing, as the cash cost for Chinese miners ranges from RMB500-900/t (vs, current spot prices of RMB1,000/t); so currently even the most inefficient iron ore producers are making money and local supply growth is likely to accelerate.
- Domestic Chinese iron ore production (adjusted to international grades) is ~310Mtpy, but it could decline to 180Mpy if we saw iron ore falling anywhere close to \$60/t.
- The size of iron ore spot market in China is ~300Mtpy, with steel companies accounting for 60% and traders 40%.
- According to a leading steelmaker, for any blast furnace with capacity greater than 4,000m³, it makes economic sense to use higher grade ore such as Vale's.
- Another large steelmaker believes current iron ore price is unreasonable. Besides supply conditions underpinning the price, the big number of iron ore traders in China reduces transparency of the market.

Pulp & Paper: Chinese buyers to remain opportunistic; government trying to develop local plantations to reduce import dependency

- The Chinese paper companies we visited have good and big machines with state-of-the-art European technology.
- They are still dependent on imported pulp, but the government's efforts to develop domestic plantations, if successful, may reduce pulp imports in the long-term.
- Pulp production costs of the companies we met are around US\$600/t for hardwood and US\$700/t for softwood.
- While a producer mentioned the harvest cycle for some of its plantations is 3 to 5 years, we find it hard to believe.
- Regarding the Chinese paper market, one of the companies we met continues to see tightness in white board paper while they see oversupply in fine magazine paper and newsprint. In addition, they believe white board paper (higher quality) is going to substitute cartonboard (lower quality) due to consumption trends.
- In terms of newsprint, a leading producer thinks demand in China will suffer due to the proliferation of internet usage, and while it has posted 13% annual growth in the past few

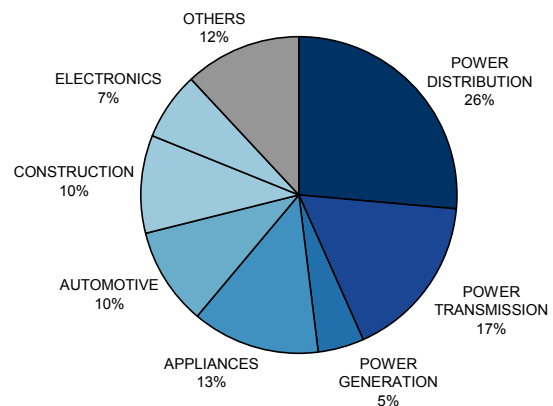
years, it is now growing very little if at all. However, they think supply will be tight as the government has restricted the approval of new capacity for newspaper early this year.

Copper: China will remain a net importer; power grid investment main demand driver

- Antaika (research institute) is positive on copper and thinks the commodity has best fundamentals among all the base metals. In their view, China will be a copper importer for the next few years. In terms of demand, Antaika forecasts 8% growth in 2011 vs. 13% in the past five years.
- The institute believes investments in the power grid (48% of copper demand) in the next few years will drive copper consumption growth due to under-investment into power grid system in western China. In 2008-2010, annual investment into power grid was RMB288B, RMB378B and RMB330B, respectively. According to the 12th 5-year plan, the government plans to invest RMB400B per year on average into power grid.
- For home appliance (13% of demand), Antaika thinks demand will be strong for the next five to ten years. For the automotive sector (10% of demand), they estimate output growth of 13-15% next year.
- The current rising spot TC/RC (to ~US\$90/t) is mainly due to Chinese copper smelters shutting down to meet the country's energy conservation target for 2010. In Antaika's view, the TC/RC will come down next year as copper smelters restart. They predict that contract TC/RC will be negotiated at around US\$50-60/t.
- Cash cost of smelters in China is around \$60/t, excluding by-products.

Exhibit 2

China's Copper Demand Breakdown



Source: Antaika, Morgan Stanley Research

Cement: 8-10% demand growth in 2011; capacity utilization to rise

- CNBM (leading cement producer) remains positive on industry fundamentals. They are looking for 8-10% demand growth in 2011 (social housing to offset slow down in commodity housing), while supply growth is only 5% due to closures of Vertical Kiln capacity.
- CNBM thinks the power cut will continue next year though it will be implemented on to a lesser extent. Also, they think pricing will soften in 2H Nov as power cut has eased.
- In contrast to CNBM, cement consultant Digital Cement thinks no power cuts will take place next year (this is in line with what we heard in other meetings). They see cement prices for next year at levels similar to those in 1H10, when there was no power cut. In addition, they expect some pressure in cement pricing in 1H11, as 200Mt in capacity additions this year start to ramp up.
- Digital cement forecasts demand growth of 7-8% in 2011, underpinned by 20% growth in FAI. They project growth from property due to strong demand and shortage of houses. They believe that price caps will be applied if cement price rises above Rmb600/t.
- At Hubei Province, current capacity stands at 93Mtpy – 85M NSP (modern capacity) and 8M vertical kiln. Government plans to shutdown the vertical kilns by 2012 and there is no NSP capacity addition coming online, resulting in a 4Mt reduction in both 2011 and 2012 to ~89M and 85M, respectively.
- Demand in Hubei will continue to grow at 8%pa, driven by rural area construction which is expected to expand by 10%pa due to ongoing urbanization trends. In addition, the company believes demand in Hubei has not peaked yet, as per capita consumption is 1.2ton, compared to 1.7ton in Zhejiang where the demand has already peaked. They expect to see Hubei demand to peak when consumption per cap reaches 1.5ton.
- There were no power cuts in Hubei province, so management thinks there is less impact to pricing upon the lifting of power cut. Regarding price caps implemented by the government in Fujian and Hainan, they think it is specific to those two provinces, as the price there has increased too quickly to high levels. On the other hand, prices in Hunan remain low, as no power cuts took place in that region.
- Any capacity expansion will come via M&A, as the Chinese government has restricted building new capacity since September 2009.

Thermal Coal: balanced market expected in 2011 and 2012

- A leading coal producer said the demand and supply is balanced in 2010, and expects the market will remain balanced for 2011 and 2012. Also, NDRC caps the total raw coal capacity to be 3.8Bt by 2015, vs. 3.3Bt now.
- The company hears the 2011 contract price could be capped, but they have not received any notice from the government. The price cap would be applied to power generation industry only, not to steel or cement, and not applied on spot prices.
- The government also plans to construct power plants in western China and a long-distance power grid to bring the power to Eastern China, in order to alleviate the coal transportation bottleneck.

Company specific feedback

Vale

- The company is currently selling 13–13.5Mt of iron ore per month in China, up from 9Mt early in 2010, with close to 30% the company's sales going to the spot market; they could sell up to 200Mtpy in the country if they had the capacity.
- Export restrictions in India are underpinning current spot prices; but they would decline to ~\$135/t when Indian export supply normalizes in early 2011.
- Vale expects the global iron ore market to balance around 2014-15, when new supply hits the market in Brazil and Australia.
- In China, equipment costs are 50-60% lower than traditional suppliers, which may push iron ore capex costs down if Western producers start using Chinese suppliers.
- The company sees crude steel production in China increasing by 45Mt in 2011 to 670Mt.
- Vale said that while iron ore port inventories are reported between 70-75Mt, close to 15Mt are pig iron material that does not go into steel production.
- The distribution center in Malaysia is key for Vale's strategy in Asia as it will allow the company to be more flexible and reach smaller clients in more counties; expected cost of unloading, mixing and reloading material is \$3/t

Wuhan Steel

- Wuhan's greenfield expansion plans are limited due to government restrictions and lack of iron ore. However, the company will issue equity to buy its parent company's 40Mtpy steel business, which has plans to expand to 60Mtpy via acquisitions and new projects overseas (this includes 5Mtpy project at LLX's Acu Port, which they say is on moving along on schedule).
- Wuhan's plans for their Brazilian steel project is to sell into the local market, which are very negative news for local Brazilian flat steel producers.
- Management said that according to government regulations, steel companies can not expand capacity unless they shut down their obsolete capacity. They estimate the cost of a new steel facility (slab, HRC and CRC) at RMB4,000-5,000, which seems very low, but then again it is China.
- 70-80% of iron ore Wuhan's iron ore needs come from imports. The company intends to reduce its dependency on foreign third-party material by doing JVs with ore producers (similar to the one with MMX).
- While management did not comment on why Wuhan did not subscribe to the recent MMX equity offering (in connection with SK transaction), sources here in Hubei suggested the reason was the subscription price was too high for Wuhan. The source also commented Wuhan only wanted iron ore, but not steel plants. The construction of 5Mtpy steel plant in Brazil was just to help them to get the MMX shares.
- According to the company, iron ore resources in China are very large and local output is growing with higher prices. However, domestic material has a lot of impurities (e.g. sulphur) that makes it unattractive for steel companies. They mentioned the cost of iron ore at their own mines is RMB200-300/t, but the marginal cost is RMB500/t (these numbers seem low and we think are on a ROM basis)
- Wuhan forecasts Chinese steel output of 620-640Mtpy in 2010 and of 650Mtpy in 2011, implying less than 5% growth we heard in previous meetings. Steel capacity in the country is pegged at 700Mtpy today and expected to rise to 750Mtpy in 2011, out of which 100Mtpy represents overcapacity. According to management, Chinese steel output will grow at lower rates than it has in recent years.
- Management expects steel per capita consumption in China to peak at 500-700Kg and production to top out at 750Mtpy. They also forecast a shift from construction driven demand to more consumption oriented sectors like auto and appliances.

- Management is optimistic on auto demand and expects Chinese auto industry to produce 20M units in 2011, up from 17M in 2010 (+17% vs Baosteel forecast of +10%), surpassing the highest level ever reached by US. They think when the GDP per cap reach US\$3000, auto demand accelerates. Also, auto ownership in China is not high enough because of the high saving rate for medicine and retirement. The average price of a car is ~RMB100,000 and most Chinese would buy cash.
- Whilst there is no power cut in Wuhan, the company confirms the power cut situation in Shandong, Hebei and Henan has recently eased.

BBMG - The largest social housing company in Beijing

- The US\$6bn company is very bullish on social housing and they think the overall construction activities from property in China will continue to grow. For example, according to govt 12-5year plan, they target to construct 30mn units in 5 years, and hence 6mn units per annum. Assuming 80sqm per unit, this represents 480mn sqm construction, vs 800-900mn sqm construction activities on average over the last ten years (although 800-900 seems too low given MS floor space under construction estimate of 3.3bn).
- In the next few years, they believe the property market in Beijing will be split into two segments - the market-based and social housing. More and more people (low to mid-income families) will live in social housing, while at the same time, the prices of market-based residential housing (for high-income families) will continue to go up due to strong real demand.
- They think the cement demand will still be strong, and they still see growth from all three segments, namely property, infrastructure and rural area construction. And for rural, govt targets to increase the urbanization ratio from 45% to 60%, which will take place in the next 10-15 years, a long term demand driver for cement.

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Morgan Stanley's 2011 Outlook for China

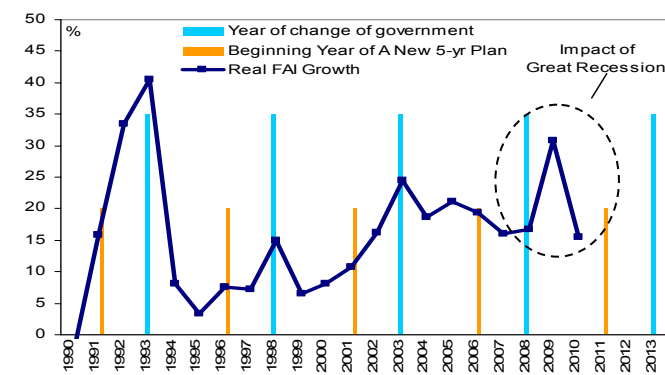
Our China economist, Qing Wang, in his 2011 outlook forecasts Chinese GDP growth at 9% and CPI at 4.5%. On the demand side, Qing forecasts an uplift over the next few years in fixed asset investment (FAI), which would be consistent with the run-up to the end of a change in government within China. Qing notes:

China's FAI cycle tends to be influenced by China's political cycle, as FAI tends to accelerate in the run to change of government. Experience since the early 1990s suggests that China's investment cycle tends to coincide with the cycle of change of governments – at both central and local levels – which takes place very five years. If this pattern persists, FAI growth in China appears poised to enter an upturn phase in the next two years through early 2013, when the next change of government is due to take place.

Qing is also forecasting a very strong social housing build-out, with construction of 9.1m units in 2011 and 6.2m units in 2012. We expect this lift in social housing will offset most – if not all – of any weakness in private residential real estate.

Exhibit 3

China: Political-cycle-driven FAI Cycle



Source: CEIC, Morgan Stanley Research

Exhibit 4

Aggressive Construction Targets

	avg. sqm	2011		2012	
		# of units (mn)	Floor Space (sqm, mn)	# of units (mn)	Floor Space (sqm, mn)
Non-Commodity		7.3	365	5.0	250
Public Rental	50	5.5	275	3.8	190
Low-Rent Housing	50	1.8	90	1.2	60
Commodity - Economic Housing	70	1.8	126	1.2	84
TOTAL		9.1	491	6.2	334

Source: Morgan Stanley Research

Exhibit 5

China: Forecasts of Key Macroeconomic Indicators

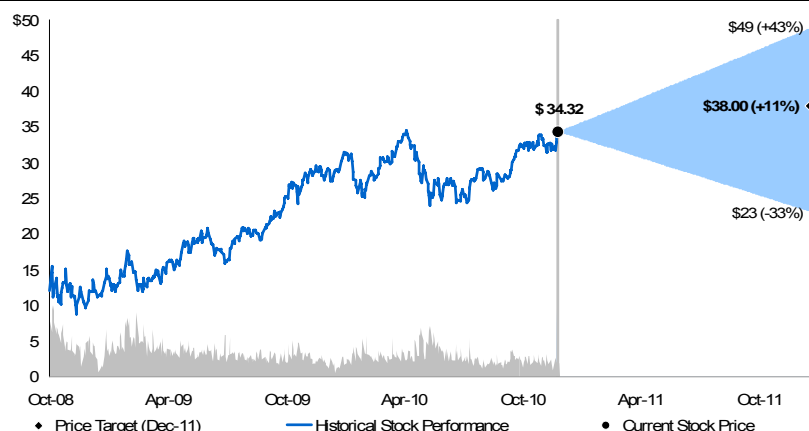
	2008	2009	2010E	2011E
Growth Rate (YoY, %)				
GDP	9.6	9.1	10.2	9.0
Consumption	8.6	8.4	9.8	10.0
GCF	11.0	20.5	12.0	10.0
Mining	15.4	7.7	7.3	6.0
Manufacturing	14.8	16.7	13.1	15.0
Real estate	8.3	13.2	21.0	16.0
Infrastructure	8.6	30.5	7.3	2.7
Other	11.6	26.5	5.0	3.6
Net exports (Cont, ppt)	0.8	-3.7	-0.2	-0.6
Contribution to growth (ppt)				
GDP	9.6	9.1	10.2	9.0
Consumption	4.2	4.1	4.7	4.8
GCF	4.6	8.7	5.6	4.7
Mining	0.3	0.2	0.1	0.1
Manufacturing	1.9	2.2	1.9	2.2
Real estate	0.9	1.4	2.3	1.9
Infrastructure	1.1	4.0	1.1	0.4
Other	0.4	1.0	0.2	0.1
Net exports	0.8	-3.7	-0.2	-0.6
Exports (% of GDP)	17.3	-15.9	29.5	15.0
Imports (% of GDP)	18.4	-11.3	36.0	18.0
Trade balance (in US\$bn)	297	198	191	179
% of GDP	6.5	3.9	3.2	2.4
CPI (%)	5.9	-0.7	3.2	4.5

Source: CEIC, Morgan Stanley Research

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Vale (VALE.N, \$34.32, Overweight, Price Target \$38)

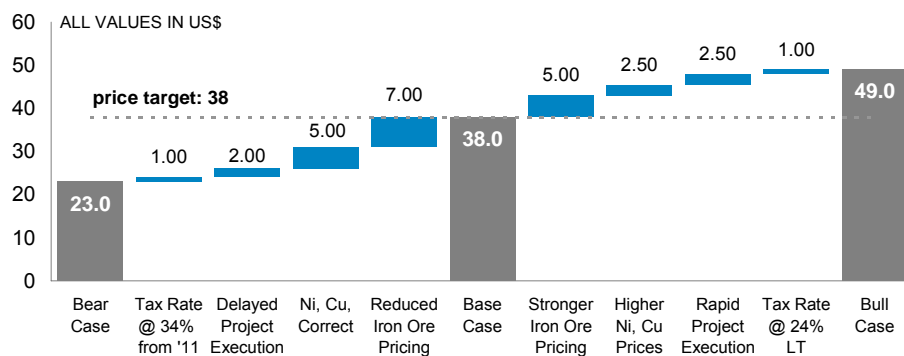
Cheap Exposure to a Tight Iron Ore Market; a Call on China Growth



Source: FactSet (historical chart data), Morgan Stanley Research estimates

Price Target \$38			Our year-end 2011 price target is determined by the average of our DCF and multiple valuation applying a 8x P/E multiple to our 2012E EPADR.
Bull Case \$49	Fe (CIF)	Accelerated growth; higher long-term iron ore price.	A stronger rebound in growth of European economy and supply constraints drive higher short-term and long-term iron ore prices, as we believe the marginal cost of production is above our current long-term pricing forecast. Vale's efficient fiscal structure and tax incentives remain in place throughout the forecasting period. Rapid completion of growth projects.
	2010: \$124/t		
	2011: \$155/t		
	2012: \$154/t		
	LT: \$76/t		
Base Case \$38	Fe (CIF)	Quarterly iron ore pricing system here to stay.	Chinese steel production remains strong, driven by FAI growth and social housing construction, resulting in healthy demand for iron ore. Effective tax rate stable at 24% through 2015 and rises to 34% thereafter as incentives expire. Company delivers future growth projects with six months delay.
	2010: \$122/t		
	2011: \$135/t		
	2012: \$140/t		
	LT: \$61/t		
Bear Case \$23	Fe (CIF)	Economic slowdown in DM derails the EM infrastructure story.	Lower global economic growth results in lower-for-longer commodity prices. Effective tax rate rises to 34% after 2010, as incentives expire faster than expected. Growth projects face further delays and cost inflation.
	2010: \$119/t		
	2011: \$115/t		
	2012: \$119/t		
	LT: \$46/t		

Bear-to-Bull: All Eyes on China, With Upside Driven by Iron Ore Prices



Source: Morgan Stanley Research estimates

Investment Thesis

- Vale offers an undemanding valuation and exposure to iron ore, one of our favorite commodities. We expect Vale to accelerate its portfolio of attractive organic growth, with focus in iron ore, copper, coal and fertilizers.
- Although we expect a meaningful step-up in Capex budget in the next three years, we think Vale will be able to generate attractive returns too, with 25–30% ROE in that period.
- We are constructive on the iron ore industry. Despite a modest 6Mt surplus in the market in 2010, developments in 2011–12 are more positive, driven by continued growth in Chinese and other emerging markets steel production. We see deficits of 17Mt in 2011 and 6Mt in 2012.

Key Value Drivers

- Vale benefits from a low production cost relative to the industry. This supports above-average operating margins and cash flow generation, especially in iron ore and nickel.
- Attractive growth projects will support future earnings growth and cash flows.

Potential Catalysts

- Positive:** Chinese steel production growth resumes post the energy saving effort of 3Q10 and 4Q10..
- Positive:** Board approval on Serra Sul and Apolo; obtaining environmental licenses for Carajás 130Mtpy.
- Negative:** buyers default on quarterly pricing system in 4Q10.

Where We Could Be Wrong

- China reduces iron ore imports, by ramping-up domestic production.
- European fiscal issues result in lower steel production and iron ore demand in the continent.
- Commodity pricing profiles significantly lower than our base case.

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Exhibit 6

Vale – Financial Summary

Key Assumptions	2008	2009	2010E	2011E	2012E
Shipments					
Iron Ore - m tonnes	264	229	248	284	303
Pellets - m tonnes	32	18	37	38	41
Nickel - k tonnes	275	223	170	264	314
Copper - k tonnes	321	216	198	358	471
Alumina - k tonnes	4,219	5,246	5,622	0	0
Aluminum - k tonnes	546	495	445	0	0

Realized Price					
Iron Ore (\$/t)	67.4	55.9	99.1	117.8	124.4
Pellets (\$/t)	131.9	78.6	151.3	160.3	161.9
Nickel (\$/lb)	9.90	6.80	9.94	10.75	11.20
Copper (\$/lb)	2.97	2.45	3.15	3.60	3.80
Alumina (\$/t)	350.7	227.1	289.1	317.8	372.2
Aluminum (\$/lb)	1.27	0.77	0.97	0.98	1.15

Segment Information	2008	2009	2010E	2011E	2012E
EBITDA Breakdown					
Ferrous Minerals	13,382	7,885	21,058	27,167	30,768
Non Ferrous Minerals	3,738	1,084	1,629	3,854	5,182
Aluminum	688	44	505	0	0
Logistics	416	220	328	338	323
Others	281	(344)	(96)	(47)	(47)

Indebtedness - \$m	2008	2009	2010E	2011E	2012E
Short Term Debt	710	2,982	3,158	3,803	5,947
Long Term Debt	17,535	20,650	20,253	19,372	16,299
Total Debt	18,245	23,632	23,411	23,175	22,246
Net Debt	5,606	12,592	13,935	17,780	19,311
Total Debt/EBITDA	0.99	2.66	1.00	0.74	0.61
Net Debt/EBITDA	0.30	1.42	0.59	0.57	0.53
Debt / Equity	41%	39%	31%	26%	21%
Net Debt / Equity	12%	21%	18%	20%	18%

Valuation Metrics	2008	2009	2010E	2011E	2012E
Diluted Shares (m)	5,043	5,329	5,341	5,353	5,353
P/E	4.3	28.7	11.3	8.3	7.3
P/BV	1.4	2.7	2.5	2.1	1.8
EV/EBITDA	3.5	17.1	7.8	6.0	5.0
ROE	40%	13%	28%	30%	29%
Dividend/Share	0.57	0.52	0.56	1.20	1.16
Dividend Payout Ratio	22%	52%	19%	30%	25%
Dividend Yield	4.7%	1.8%	1.7%	3.5%	3.4%
FCF Yield	12.2%	-0.9%	2.6%	0.7%	5.2%

Earnings Sensitivity - \$m	2008	2009	2010E	2011E	2012E
US\$/R\$ +1% move	(83)	(20)	(5)	(63)	(79)
Iron Ore +1%	171	90	194	263	288
Copper Price +US\$1c/lb	7	3	3	6	8
Nickel + US\$10c/lb	58	35	30	46	53
Aluminum +US\$1c/lb	12	8	8	0	0
Alumina + US\$10/t	40	37	44	0	0

FX Rate Assumption	2008	2009	2010E	2011E	2012E
USD / BRL (EOP)	2.34	1.74	1.65	1.70	1.73
USD / CAD (EOP)	1.21	1.03	1.10	1.14	1.15

Income Statement - \$m	2008	2009	2010E	2011E	2012E
Net Revenues	37,426	23,311	42,396	54,649	64,392
Cost & Expenses	(22,678)	(17,254)	(21,913)	(26,594)	(31,815)
EBIT	14,748	6,057	20,483	28,054	32,577
Depreciation & Amortization	2,807	2,722	2,942	3,257	3,650
EBITDA, adjusted	18,505	8,889	23,425	31,311	36,226
EBITDA Margin	49%	38%	55%	57%	56%
Net Financial Expenses	(1,163)	(1,177)	(1,949)	(1,608)	(1,633)
FX/Derivatives Gain (Loss)	(448)	2,203	738	(286)	(178)
Other Income (Expenses)	80	40	(143)	0	0
Pre-Tax Profit	13,217	7,123	19,128	26,160	30,766
Equity Result	794	433	943	1,406	1,623
Income Taxes	(535)	(2,100)	(4,019)	(5,565)	(7,265)
Effective Tax Rate	4%	29%	21%	21%	24%
Minority Interest	(258)	(107)	(99)	(201)	(297)
Net Income	13,218	5,349	15,954	21,800	24,826
Normalized EPADR	2.80	1.01	3.00	4.07	4.64

Balance Sheet - \$m	2008	2009	2010E	2011E	2012E
Cash & Marketable Securities	12,639	11,040	9,475	5,395	2,935
Accounts Receivable	3,204	3,120	6,442	7,392	8,937
Inventories	3,896	3,196	5,352	5,623	6,727
PP&E	49,329	68,810	81,904	97,149	108,012
Investments in JVs	2,408	4,585	5,051	5,839	12,348
Goodwill	1,898	2,313	3,249	3,249	3,249
Other Assets	6,557	9,215	15,703	15,737	15,786
Total Assets	79,931	102,279	127,176	140,383	157,995
Short Term Debt	710	2,982	3,158	3,803	5,947
Payables & Accruals	2,852	3,173	4,724	5,458	6,531
Tax Liabilities	557	297	799	890	1,089
Long Term Debt	17,535	20,650	20,253	19,372	16,299
Deferred Taxes	4,005	5,755	8,651	8,460	8,341
Other Liabilities	9,225	8,925	13,827	13,827	13,827
Minority Interest	2,491	3,562	3,533	3,734	4,031
Shareholders Equity	42,556	56,935	72,232	84,838	101,929
Total Liabilities + Equity	79,931	102,279	127,176	140,383	157,995

Cash Flow - \$m	2008	2009	2010E	2011E	2012E
Net Income	13,218	5,349	15,954	21,800	24,826
Minority Interest	258	107	99	201	297
Depreciation & Amortization	2,807	2,722	2,942	3,257	3,650
Equity Result	(794)	(433)	(943)	(1,406)	(1,623)
Dividends Received	513	386	700	914	1,055
Working Capital	(707)	1,304	(1,395)	(429)	(1,428)
FX Gain/Loss	1,263	(2,563)	(453)	286	178
Other Non-Cash Adjustments	556	264	119	(191)	(119)
Cash from Operations	17,114	7,136	17,023	24,432	26,837
Capex & Investments	(9,100)	(10,043)	(11,522)	(22,373)	(21,934)
Acquisitions & Divestitures	134	(1,346)	(5,592)	1,000	0
Other Investment Activities	(2,435)	(1,770)	3,516	0	0
Cash from Investing	(11,401)	(13,159)	(13,598)	(21,373)	(21,934)
Net Change in Borrowings	559	2,471	1,044	(472)	(1,083)
Dividends	(2,850)	(2,771)	(3,000)	(6,450)	(6,207)
Issuances (Repurchases)	11,438	925	319	0	0
Other Financing Activities	(143)	0	(59)	0	0
Cash from Financing	9,004	625	(1,696)	(6,922)	(7,290)
Translation & Other Items	(5,432)	2,360	454	(218)	(74)
Change in Cash	14,717	(5,398)	1,729	(3,863)	(2,387)

Source: Company data, Morgan Stanley Research

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Total	2,807		958		

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Industry Coverage: Latin America Metals & Mining

Company (Ticker)	Rating (as of)	Price* (12/03/2010)
Carlos De Alba		
Compania de Minas Buenaventura S.A. (BVN.N)	U (08/18/2010)	US\$53.17
Grupo Mexico (GMEXICO.B.MX)	++	M\$44.06
MMX Mineracao e Metalicos S.A. (MMXM3.SA)	E (10/06/2010)	R\$12.69
Southern Copper Corp. (SCCO.N)	++	US\$44.46
Vale (VALE.N)	O (08/25/2009)	US\$34.32
Bruno Montanari		
Magnesita Refratarios S.A. (MAGG3.SA)	E (09/08/2010)	R\$10.29

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