

Resources Roadshow

Australian Resources Sector **An update**

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Capital

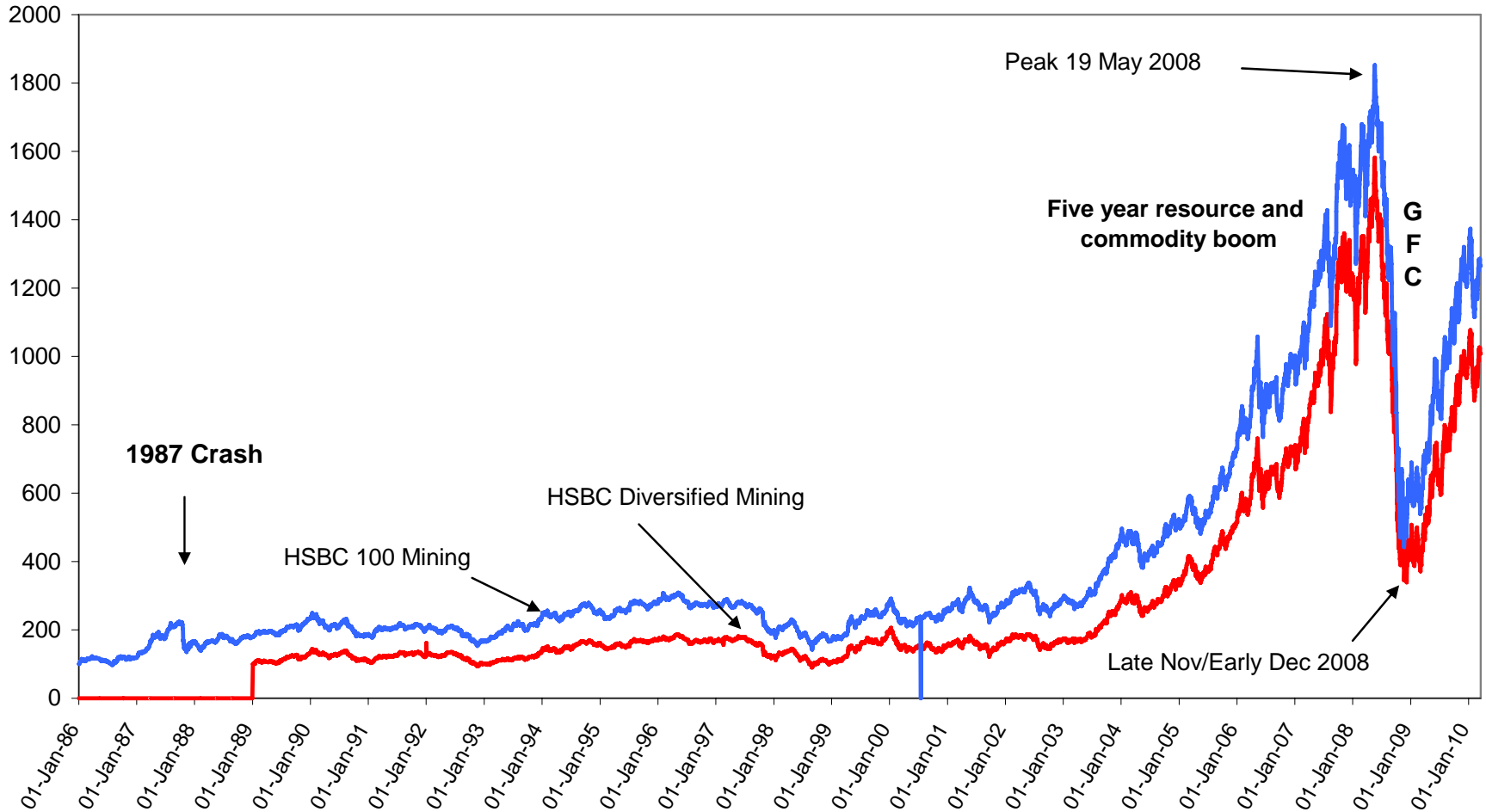
Australian Resources

- Where have we been?
- China and Wall Street – two opposing forces
- Bulk negotiations
- Gold
- Alternative demand – electric cars
- Summary

Australian Resources

- ❑ Where have we been?

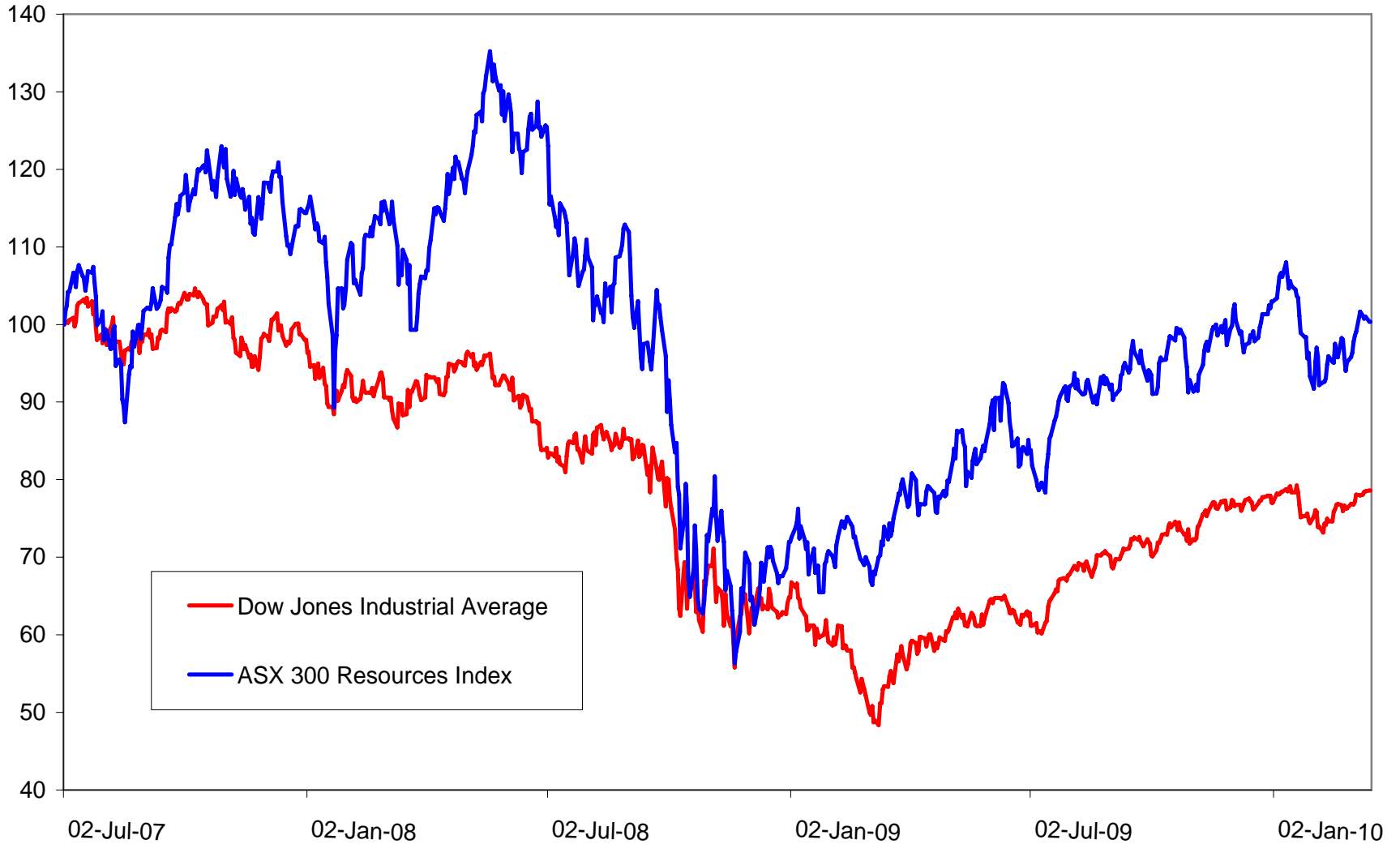
Global Mining Indices in US\$ terms (HSBC Diversified Mining and HSBC 100 Mining)



Let us not forget the 9 times increase during the 2002-2008 Resources Boom
(US\$ basis)

Indexed to 100
as at 1 July 2007

Dow Jones Industrial Average and ASX 300 Resources Index

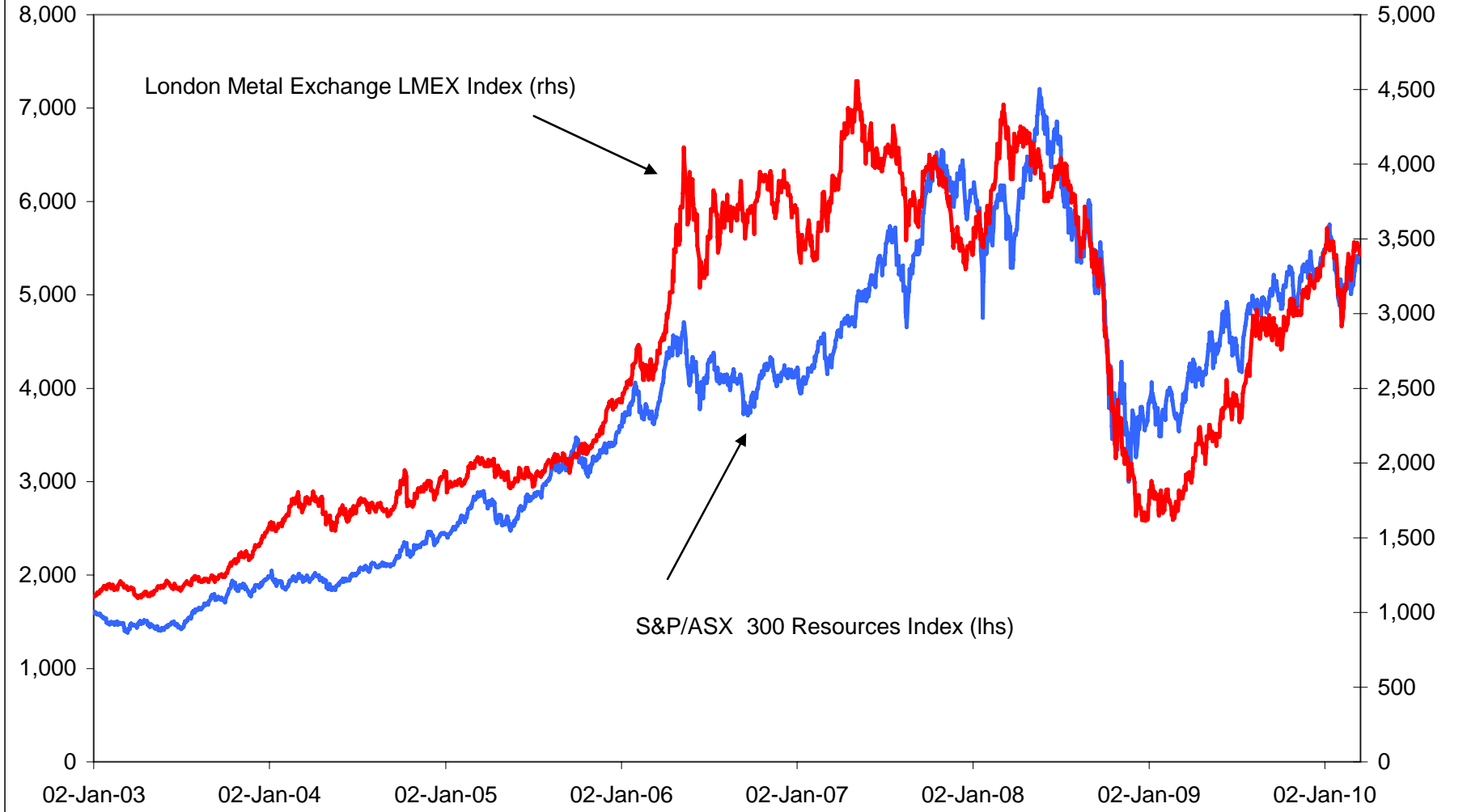


**S&P/ASX 300 Resource Index has outperformed the
Dow Jones Industrial Average**

Australian Resource Shares and Base Metal Prices

Resource Share Index

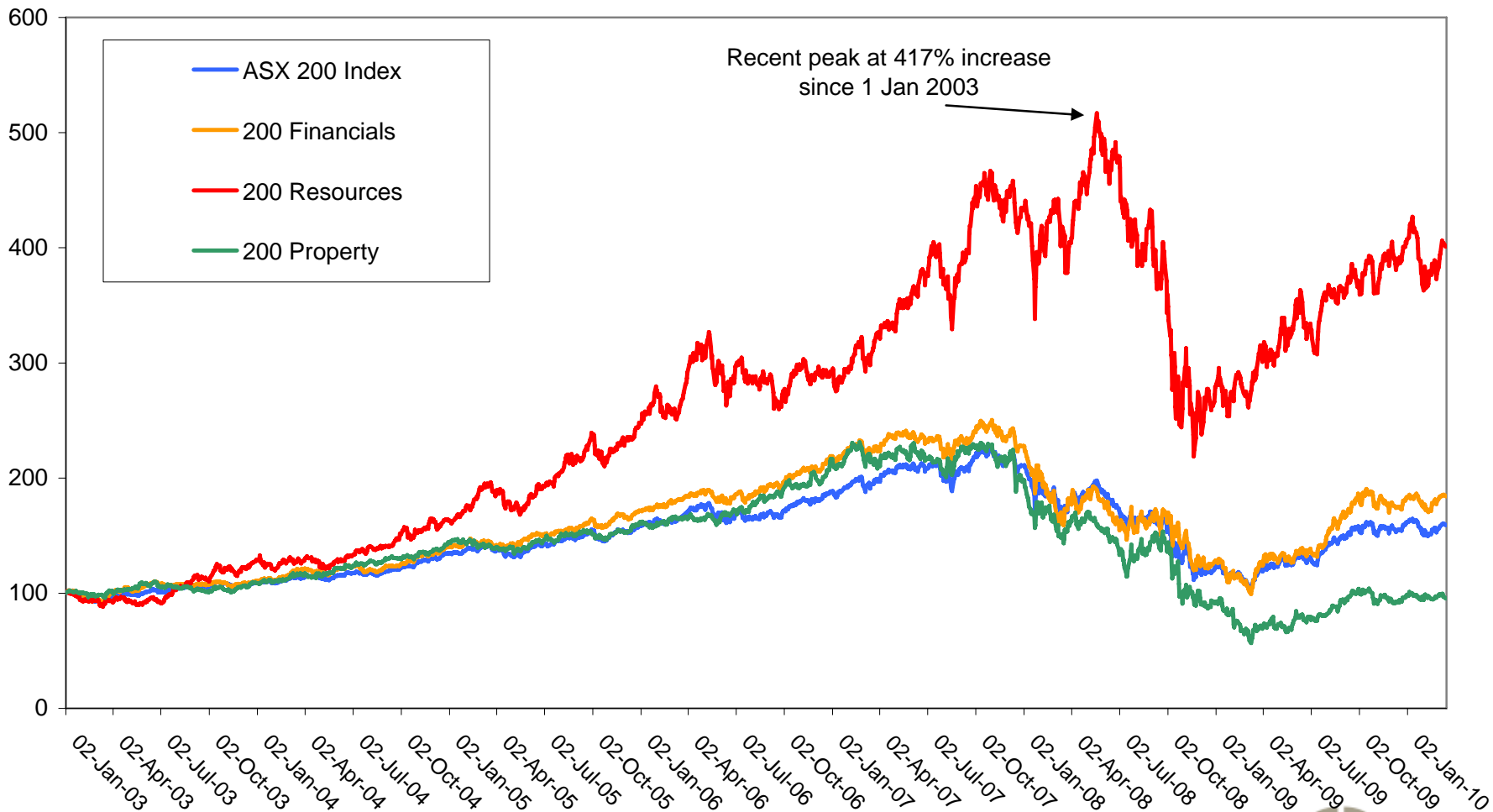
Base Metal Price Index



S&P/ASX 300 Resource Index has generally tracked base metal prices



ASX 200 Resources and Financials (Banks)



Why would you not invest in resources?



Australian Resources

- ❑ Where have we been?
- ❑ **China and Wall Street – two opposing forces**

What have been the concerns?

- US

 - Volatile markets**

 - Double dip recession**

 - High unemployment**

 - Home sales, etc**

- China

 - Higher than expected growth – inflationary risks**

 - Housing bubble**

 - Export growth dependent on western world growth**

Recent Outcome

- **Enhanced volatility in the resources sector**
- **US – downbeat economic news leads to Wall Street falling**
- **China – higher than expected growth rates leads to increases in commodity prices**

Out of all the market sectors – the resource sector is likely to be the most volatile give these contrasting themes

More Positive Sentiment on China

- **At the weekend, Chinese Premier Wen Jiabao noted:**

Risks of double dip recession, hence reluctance to aggressively reduce stimulatory measures

Target growth of 8% for 2010

Concern at inflation

- **However, the comments are encouraging given risk of China stalling its economy from measures to curb growth and inflation**

- **Yesterday, World Bank announced forecasts for China**

Growth at 9.5%

Inflation increase will not be a concern

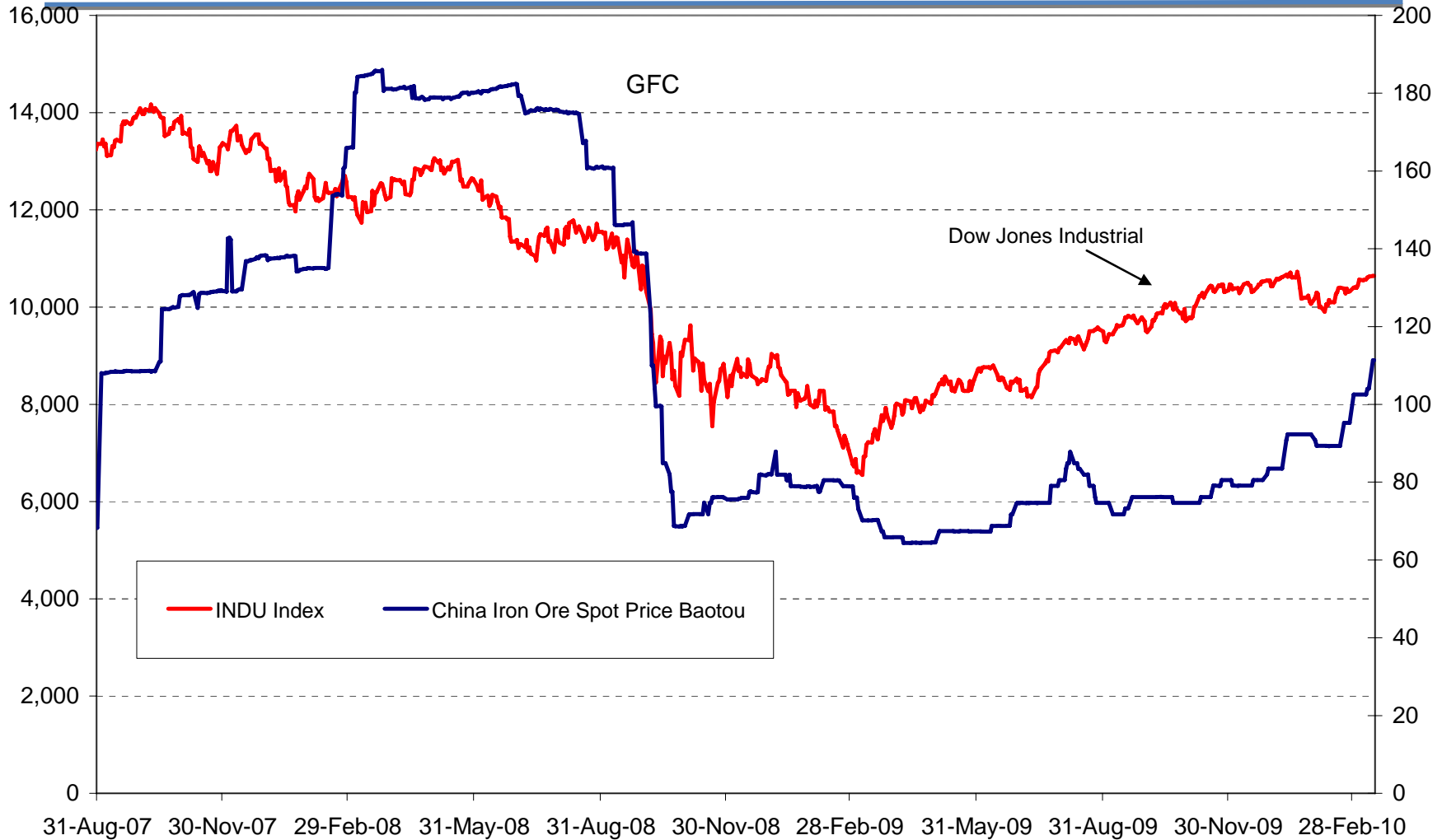
Exports will grow and partly offset deceleration in Gov't investment

Overall, positive sentiment towards China's economic management

Commodity versus Financial Markets

Dow Jones Industrial
Average Index

Iron Ore Prices (US\$/t)



Recently there has been more decoupling of commodity prices from the vagaries of Wall Street

Australian Resources

- ❑ Where have we been?
- ❑ China and Wall Street – two opposing forces
- ❑ **Bulk negotiations**

Bulks Negotiations

	JFY 2008	JFY 2009	1Q JFY 2010	
Iron ore	144	60	114	90%
Coking coal	300	125	200	60%
Thermal coal	125	70	90	29%

- Last year defaults on contract prices (free option game)
- BHP & Vale pushing for Quarterly Price for all commodities
- Quarterly prices settled for coal
- Opening gambit is by Vale to Japanese for 90% increase in iron ore prices on 12 month basis (softer prices for quarterly pricing contracts)
- Rio Tinto seeking to restore relations with China may offer 'softer' 12 month contract

Where is the upside?

- Initial modest rerating across sector including BHP and RIO
- Increasing impression that commodity pricing is being dislocated from Wall Street (but never totally!)
- However diversification within these companies means they are largely index plays
- Real beneficiaries emerging producers with good projects
 - Increased capacity to raise funding to bring new projects on-stream
- Recommendation is a portfolio of companies with high quality long mine life projects with management capable of delivering.

Australian Resources

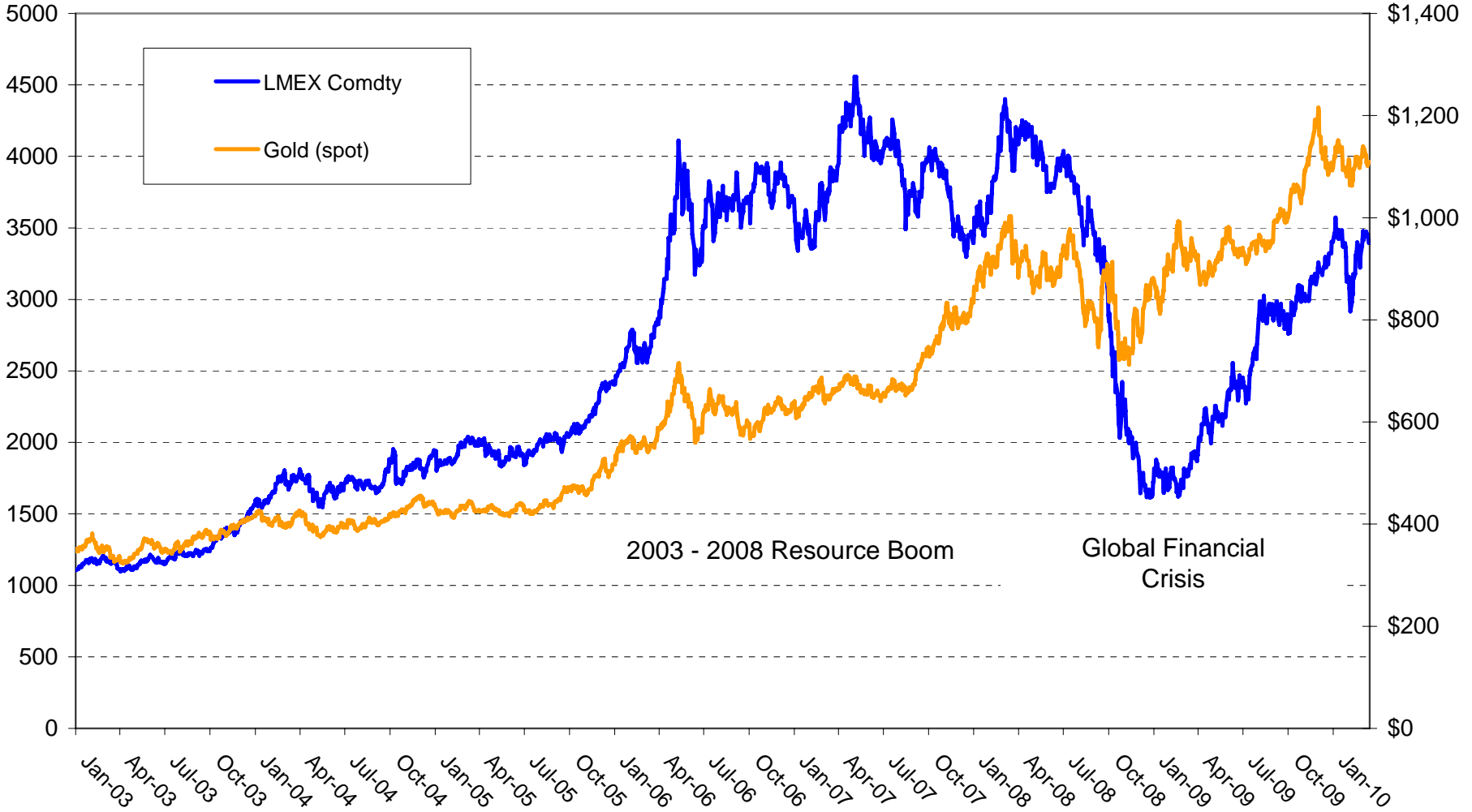
- ❑ Where have we been?
- ❑ China and Wall Street – two opposing forces
- ❑ Bulk negotiations
- ❑ **Gold**

Base Metal prices and the Gold Price

Index

Gold price (US\$/oz)

(base metal prices)



Gold followed base metal prices through the resources boom but for some different reasons

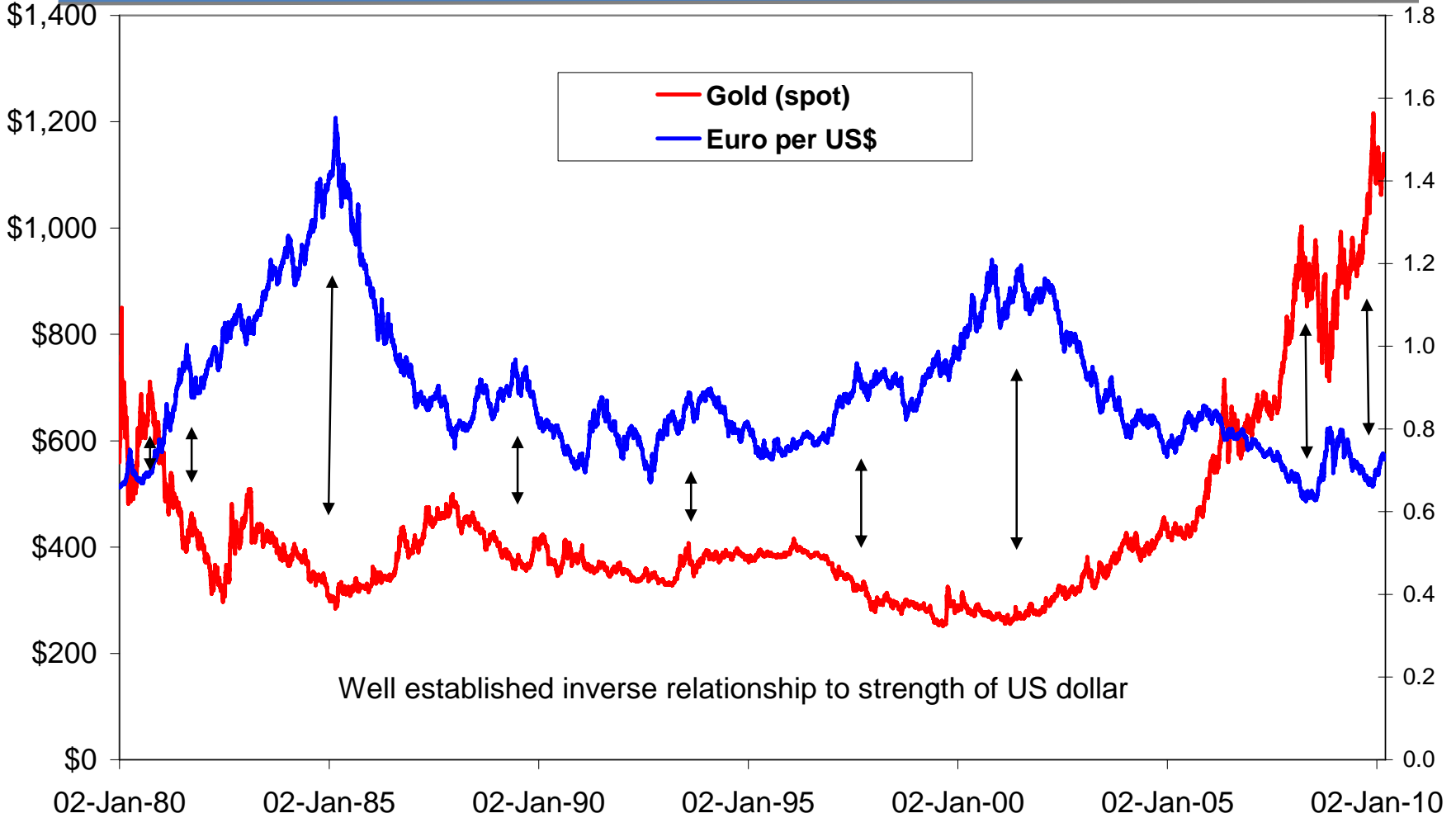


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Gold Price and US\$ per Euro since 1980

Gold Price (US\$)

Euro per US\$

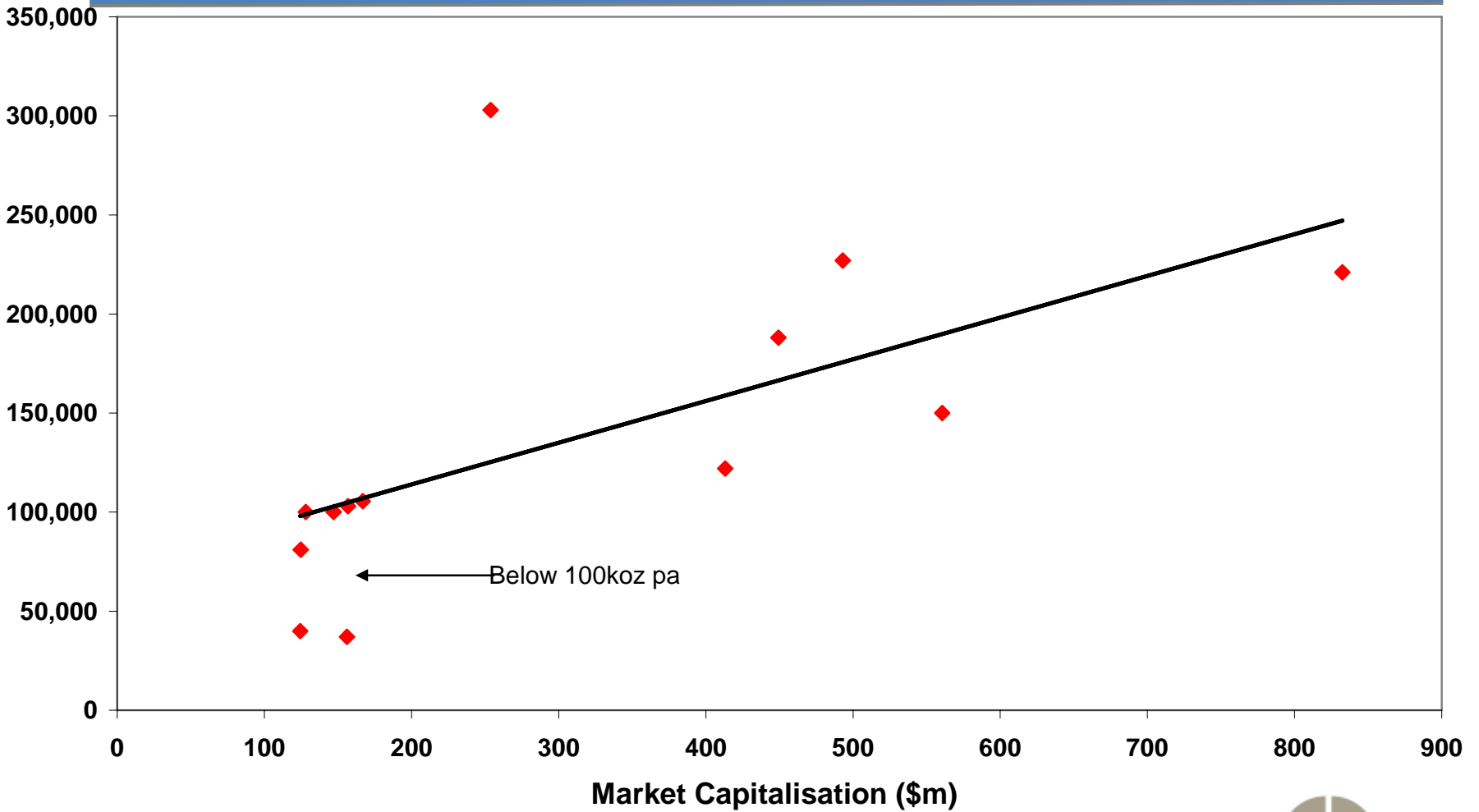


Well established inverse relationship to strength of US dollar

US dollar dependent on both the US economy and EU

Gold Sector Valuations

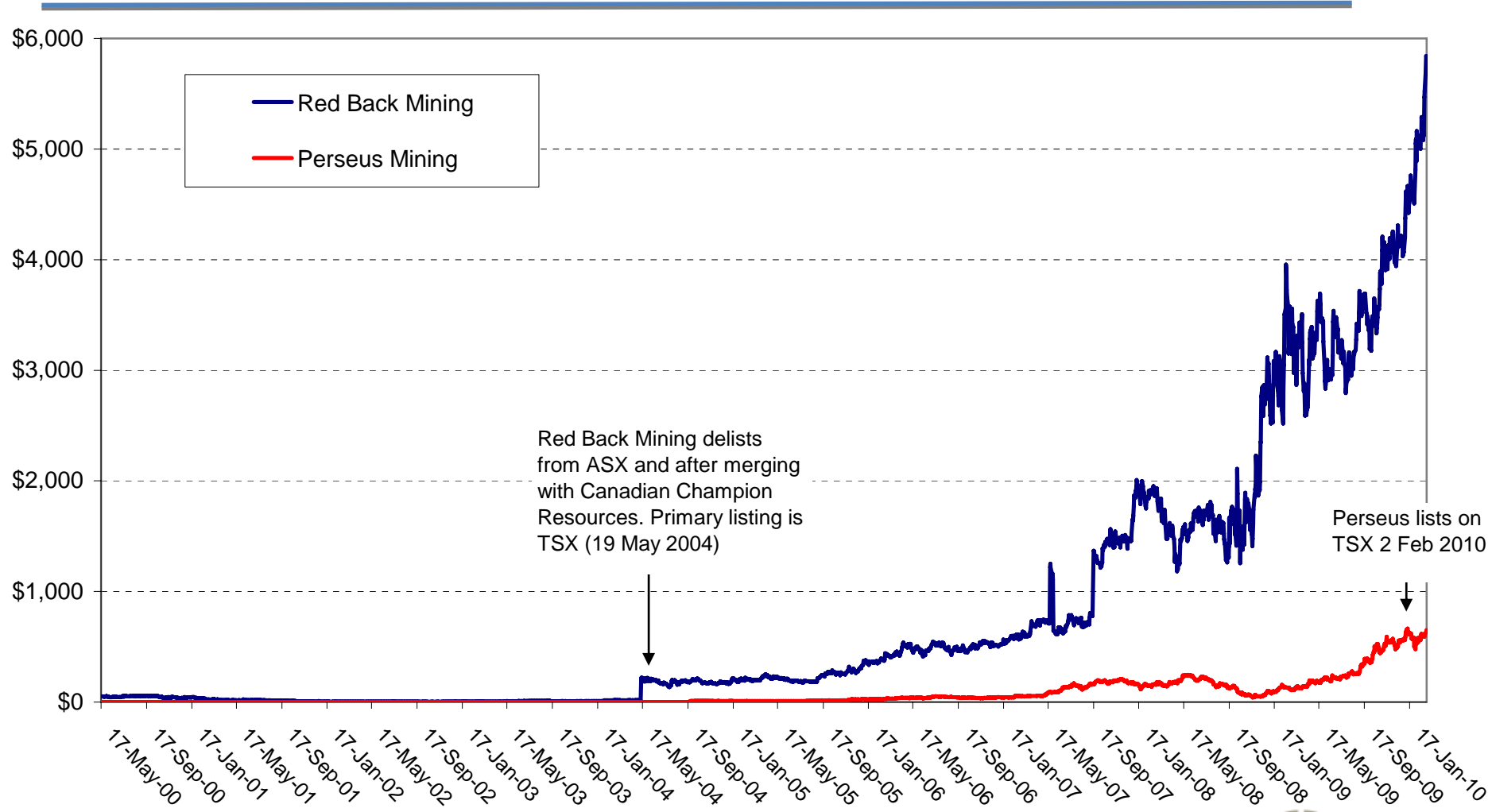
Gold production
(oz pa)



Above production rates of 100,000oz pa, market capitalisations increase rapidly

Redback Mining and Perseus Mining

Market Capitalisation
(converted to A\$m at spot
fx rates)



Redback produced 350koz in 2009 and this will increase to +450koz in 2010

Perseus is planning to produce 300koz in 2012 and 400koz in 2013



Australian Resources

- ❑ Where have we been?
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- ❑ Gold
- ❑ **Alternative demand – electric cars**

Strong US incentive to reduce reliance on oil

- The US is the world's largest consumer of oil
- The 2002-2008 resources boom highlighted the risk of rising oil prices with increasing energy demand from the emerging economies including China.
- Increasing concern with global climate change and CO₂ emissions and need to be seen to do 'something'.

Key developments in the US

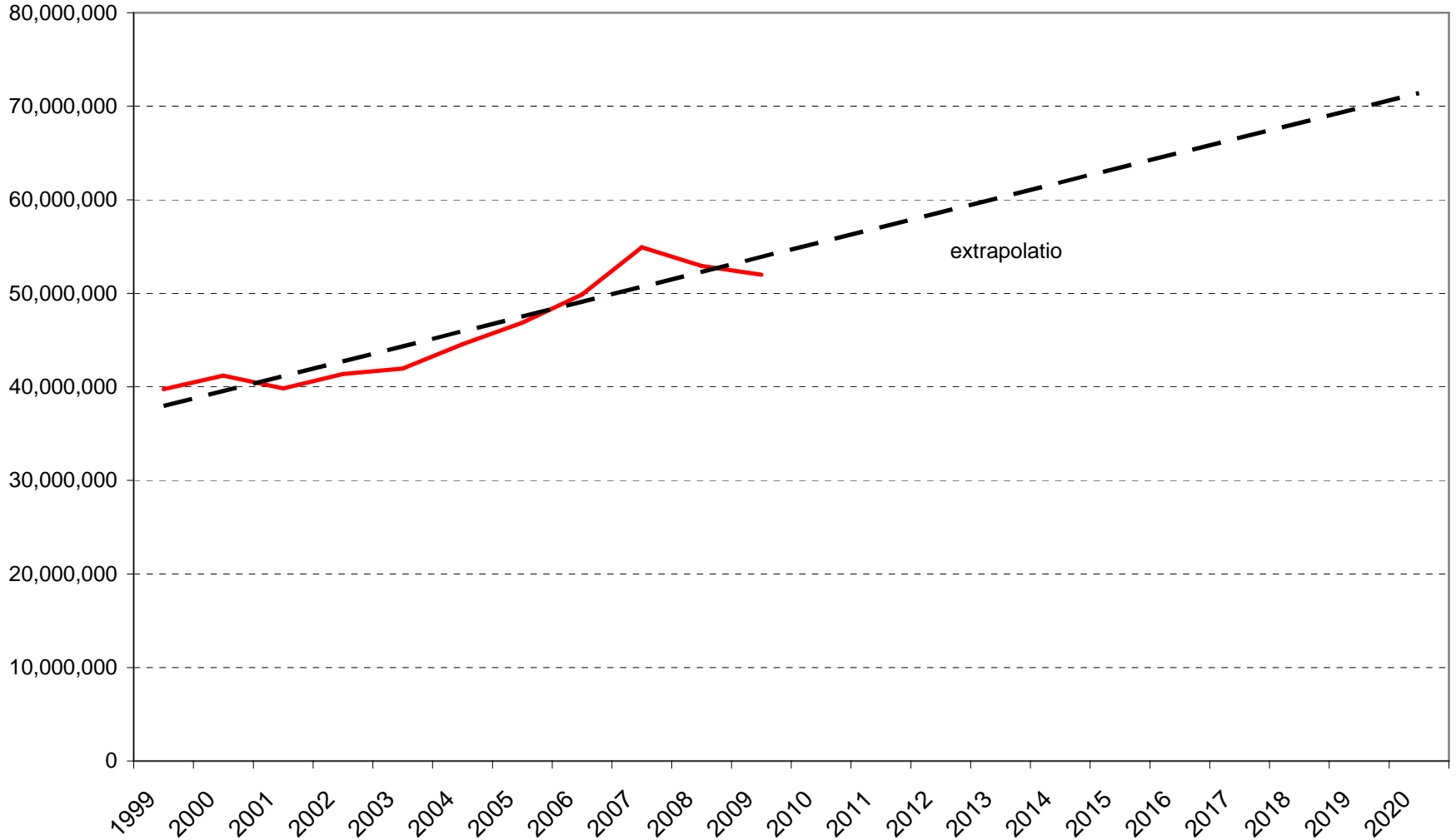
- First mass-market electric cars are expected late 2010 (e.g. Nissan - Leaf, 5 passenger, range of 150km).
- The California Public Utilities Commission co-ordinating utilities, automakers and charging station.
- Residents of San Francisco, Portland, Oregon, and San Diego rapidly embracing the technology.
- San Francisco - target 60 charging stations installed in public garages by end of 2010; 1000 more available across the Bay Area in 2011
- Part of an Obama US\$200m stimulus package was the permitting of the installation of 13,000 charging stations around cities in Oregon, Washington, California, Arizona and Tennessee over the next few years.

Real driver – operating costs

- Estimated running costs of 1.5 cents (A\$) per km in comparison to approximately 12.5 cents (A\$) per km for petrol.
- Typical upfront electric car battery costs: \$12,000
- A 240-volt charging unit would cost a household around \$1,500.
- The link is Government price and tax incentives which can directly influence the preferences of car purchasers.
- It is important to recognise that many North American's are used to plugging in cars in parking places in the northern cooler areas (avoid radiator/engine block freezing)

World Car Production

Annual production of vehicles



Forecast 70 million cars produced annually worldwide in 2020

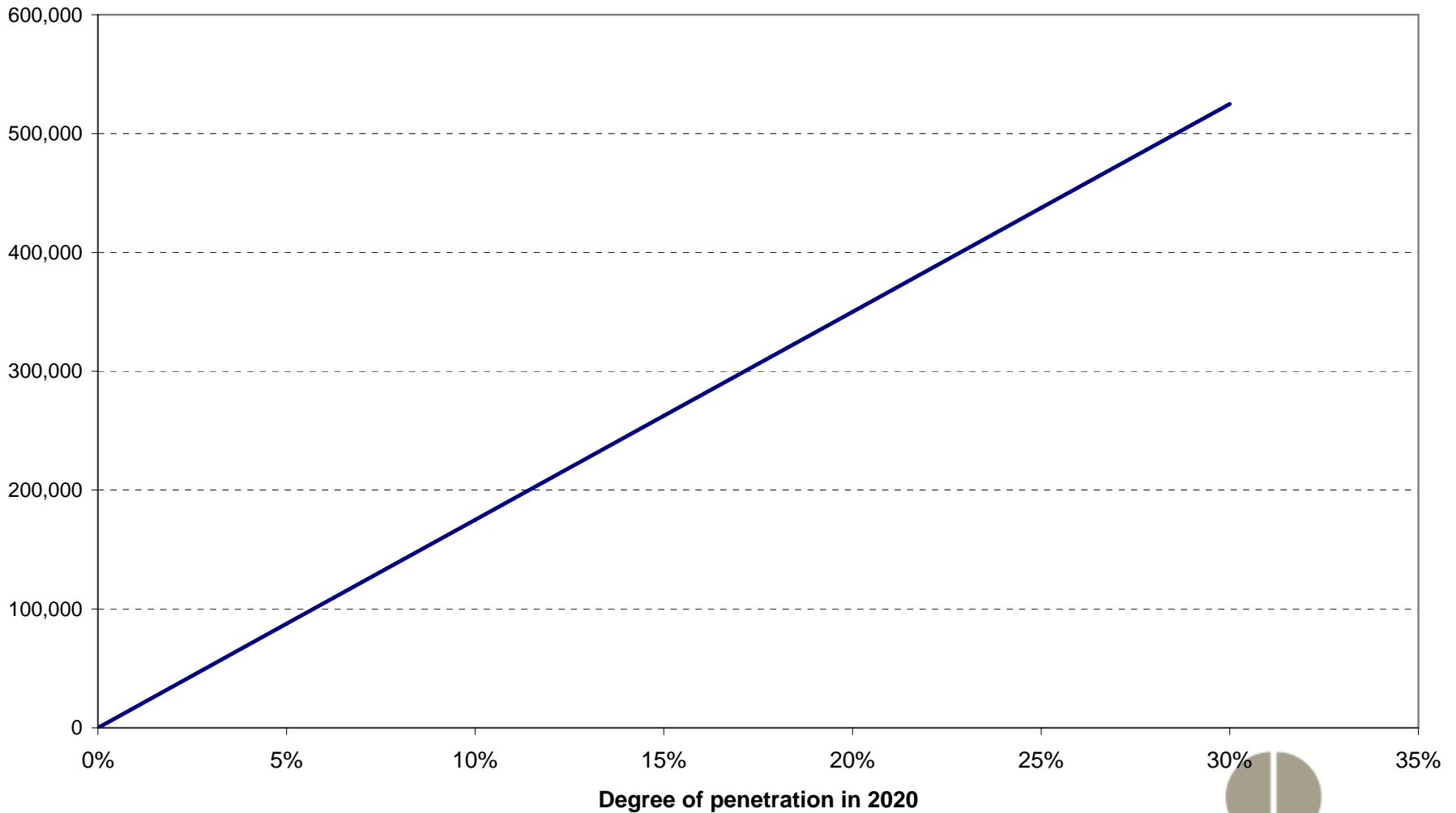


Copper market impact

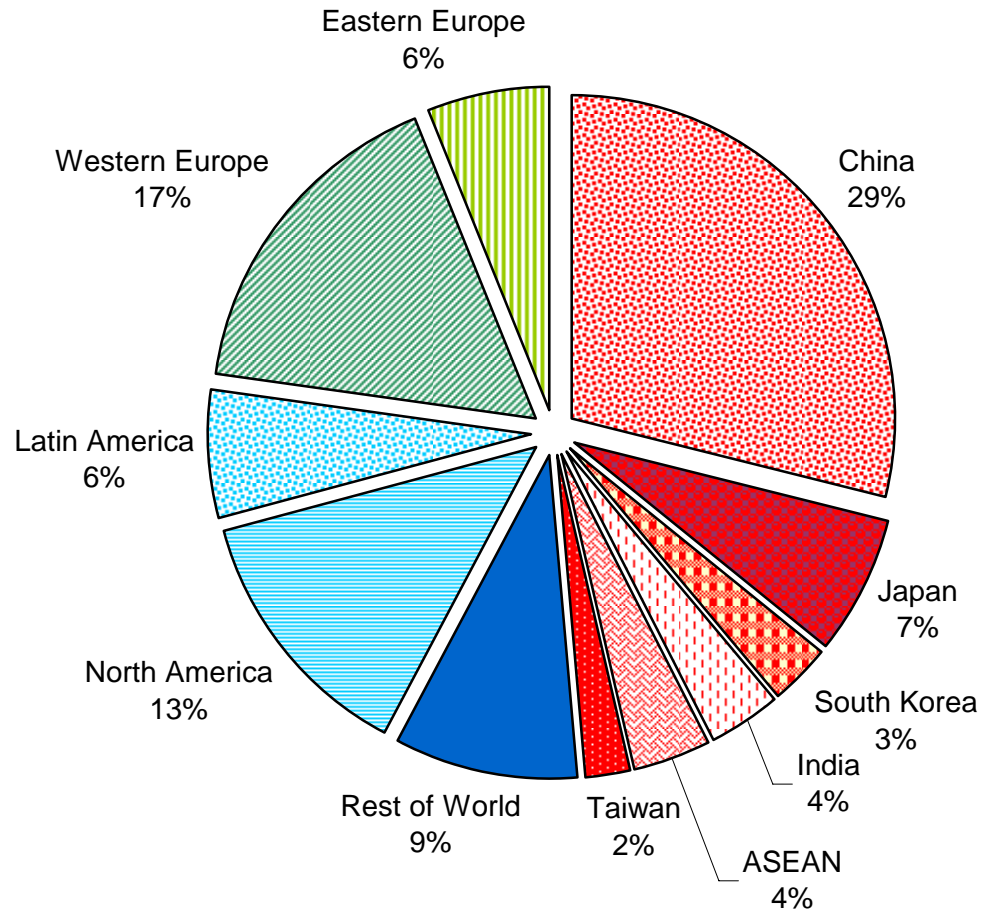
- Conventional vehicles average about 22- 28 kg of copper and copper alloys.
- Electric vehicles and hybrid vehicles use approximately twice as much copper as a conventional vehicle.

Copper Usage versus % Electric Car Production

Copper usage (tonnes pa)



2008 Copper Usage by Region



Copper usage dominated by Asia

Copper market

- The current copper market is around 24 million tonnes per annum
- Additional demand at say a 20% penetration is only 1% – 2% of the current copper market.
- However ‘sentiment’ will be strong given non-Chinese demand.
- Similar experience with lithium and lithium batteries.

Summary

- Volatility reflecting contrasting factors: US economy versus Chinese growth
- Chinese cautious about contracting domestic demand
- World bank upbeat on China's economic management
- Bulk price increases will support new projects - positioning
- Gold is attractive as hedge but will participate in higher commodity prices
- Electric cars indicate scope for unanticipated commodity demand.