

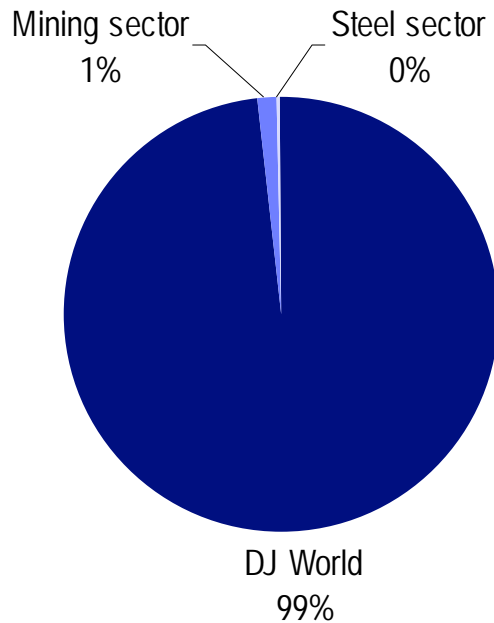
Fundamental Analysis of the Resources Sector

Chris Baker, Senior Resources Analyst,
Colonial First State

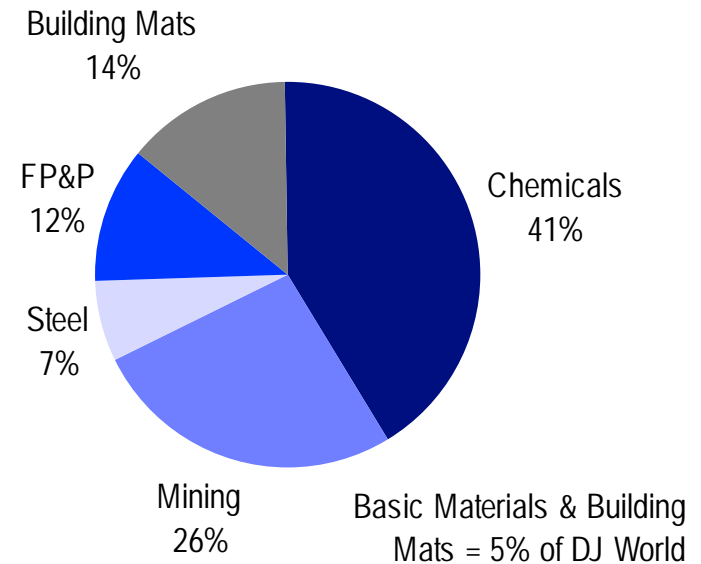
AIA Melbourne Investors' Conference
November, 2003

What comprises the Resources Sector globally?

Mining as a percentage of the Dow Jones World Index



As % of the DJ Basic Materials Index



Mining has become a very small asset class within global equities

- The entire market capitalisation of the world's mining companies totals around US\$350bn is finally bigger than #1 Microsoft (but it took a few years!).
- The entire market capitalisation of the world's gold sector was once just a little more than the size of Caterpillar which supplies them earthmoving equipment (US\$25bn).
- At US\$80bn the aggregate gold sector now larger than Time Warner but smaller than Coca Cola.

The Mining Sector in an Australian Context

- The mining sector once made up 40% of the All Ordinaries Index
- The total basic materials sector now makes up around 19% of the S&P200 (with mining at around 15%).

RIP: BHP Ltd, CRA, Pasminco, MIM, Normandy, Comalco, Metana, ACM, Western Metals, Aberfoyle, Homestake Australia, Plutonic, Delta Gold, Goldfields, Renison, Pancon.....and this list goes on!

Fundamental Analysis of the Resources Sector

- Why invest in resources?
- The cyclical nature of the resources sector
- An overview of commodities
- An example of company analysis
- How we manage a global resource fund at Colonial First State.

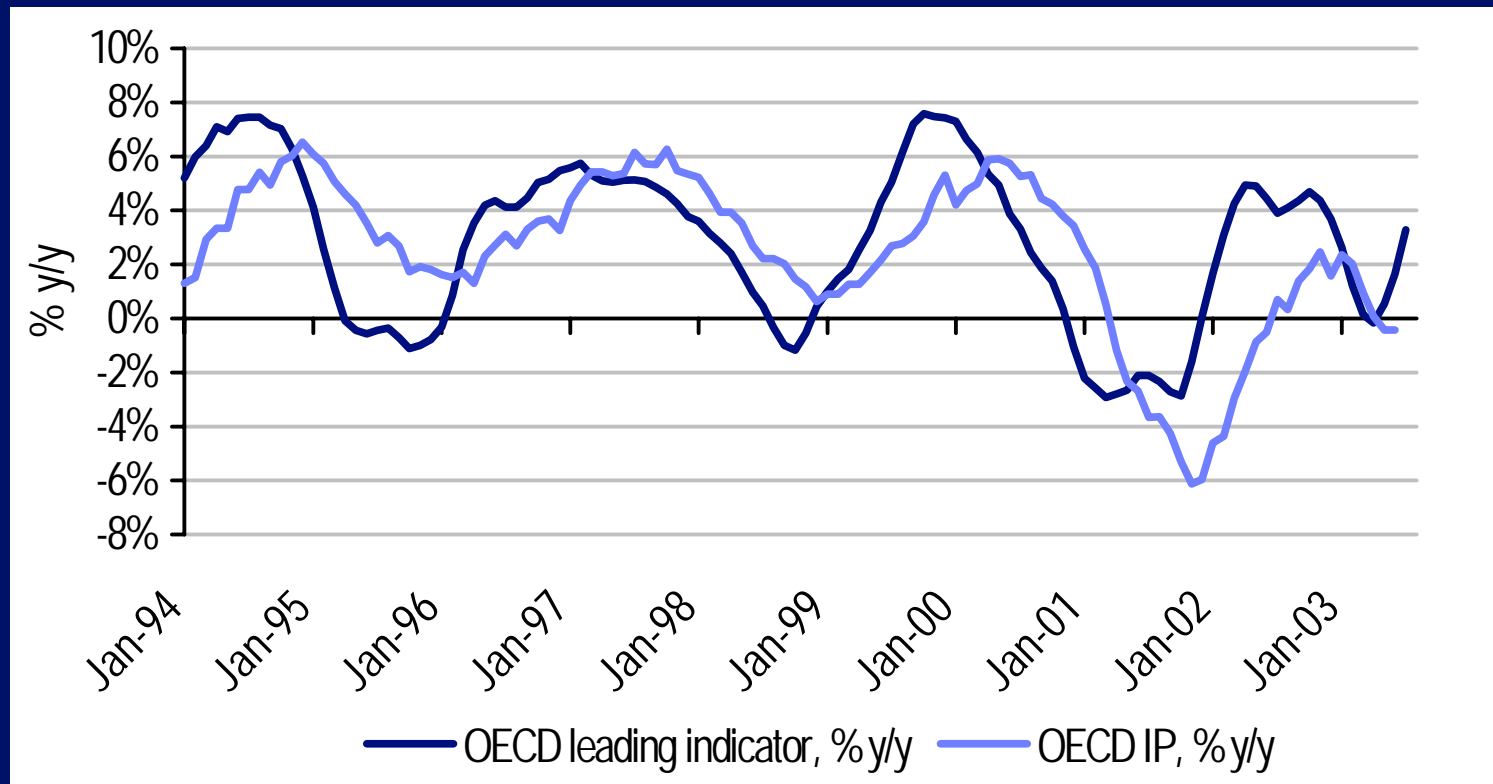
Why invest in Resources?

The Resource sector is a useful diversifier in portfolios...

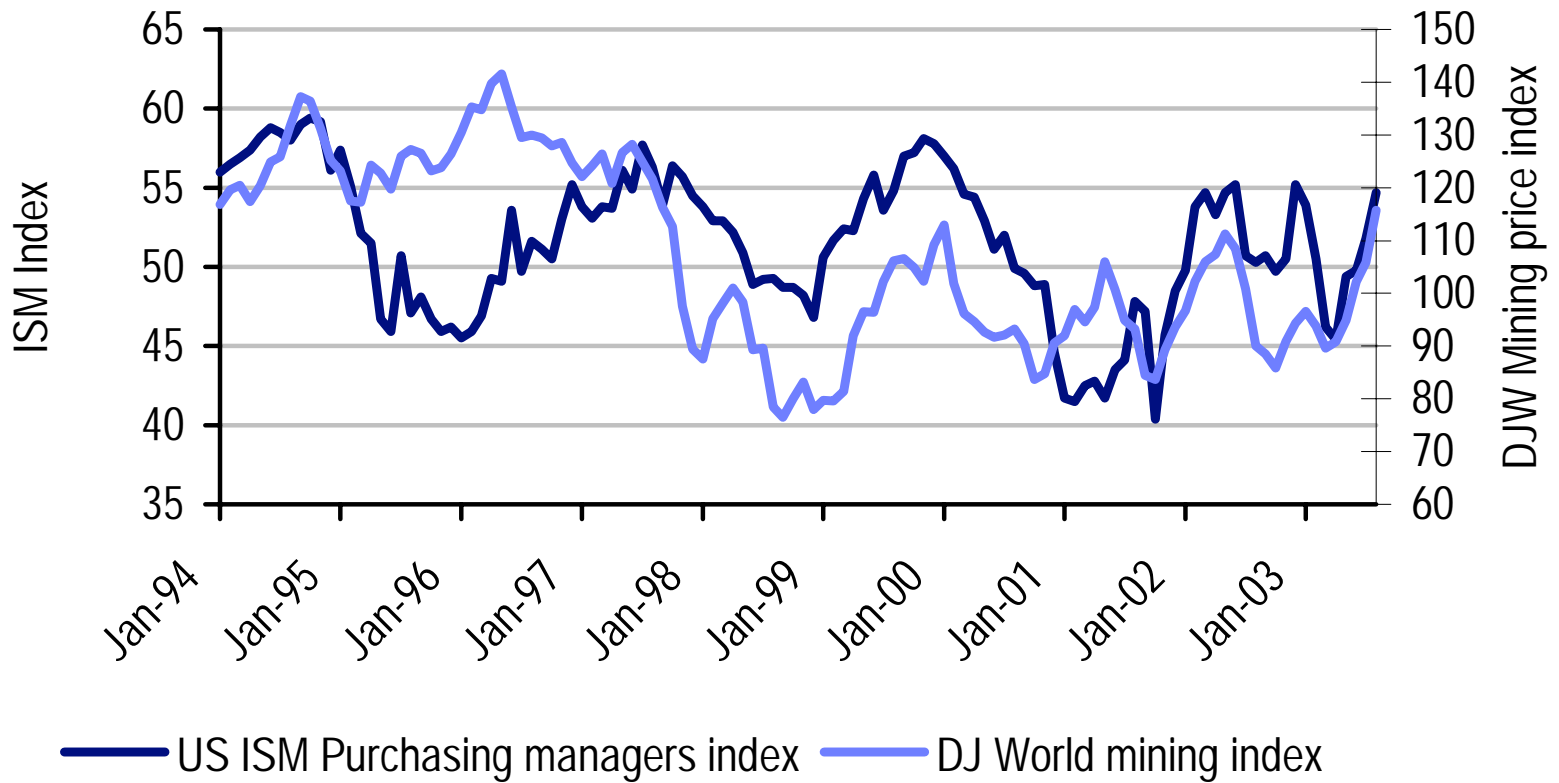
Correlation	Global shares	Europe ex-UK	Global Resources	Global Bonds
Global shares (MSCI World)	1	0.91	0.61	0.25
Europe ex UK (MSCI Europe ex UK)	0.91	1	0.49	0.23
Global Resources (HSBC Global Mining)	0.61	0.49	1	0.30
Global Bonds (Citigroup WGBI Weighted)	0.25	0.23	0.30	1

...and it's a great sector for stock picking.

The cyclical nature of the global economy...



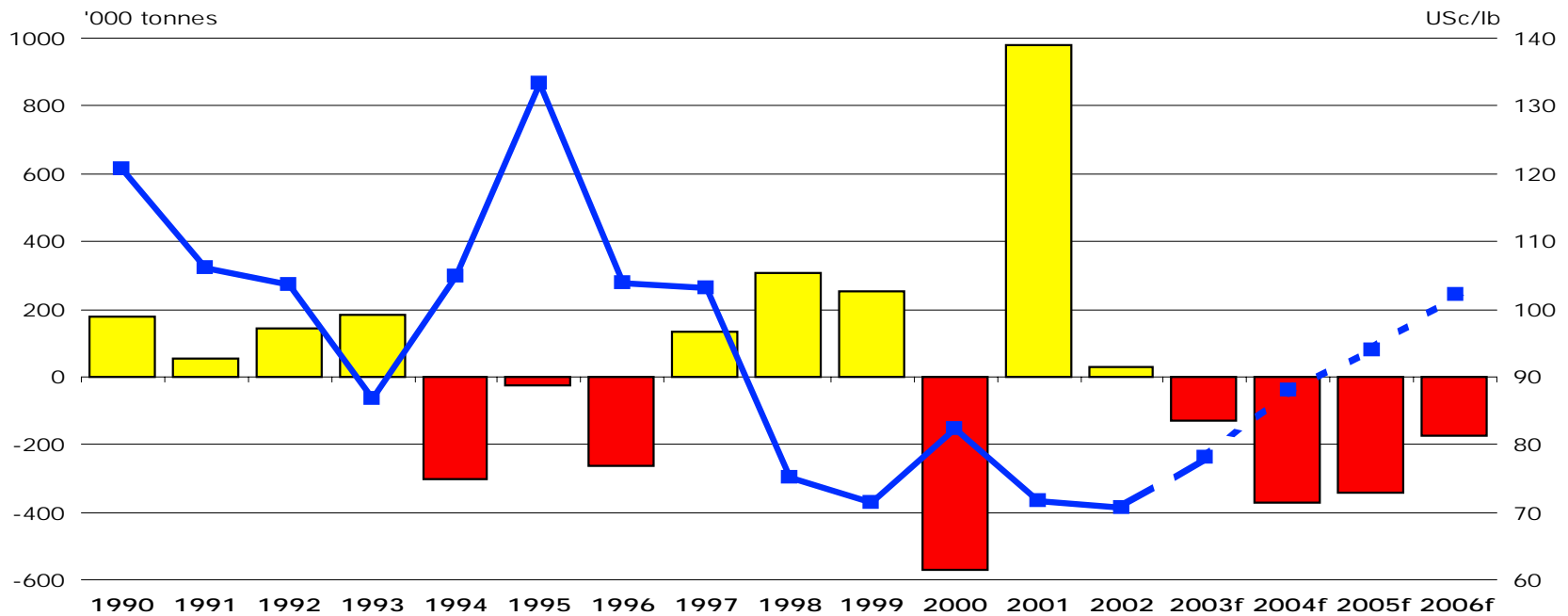
...generates a cyclical resources sector



Commodity prices: supply and demand issues

Copper

Copper: Eastern World Supply/Demand Balance and Price, from 1990

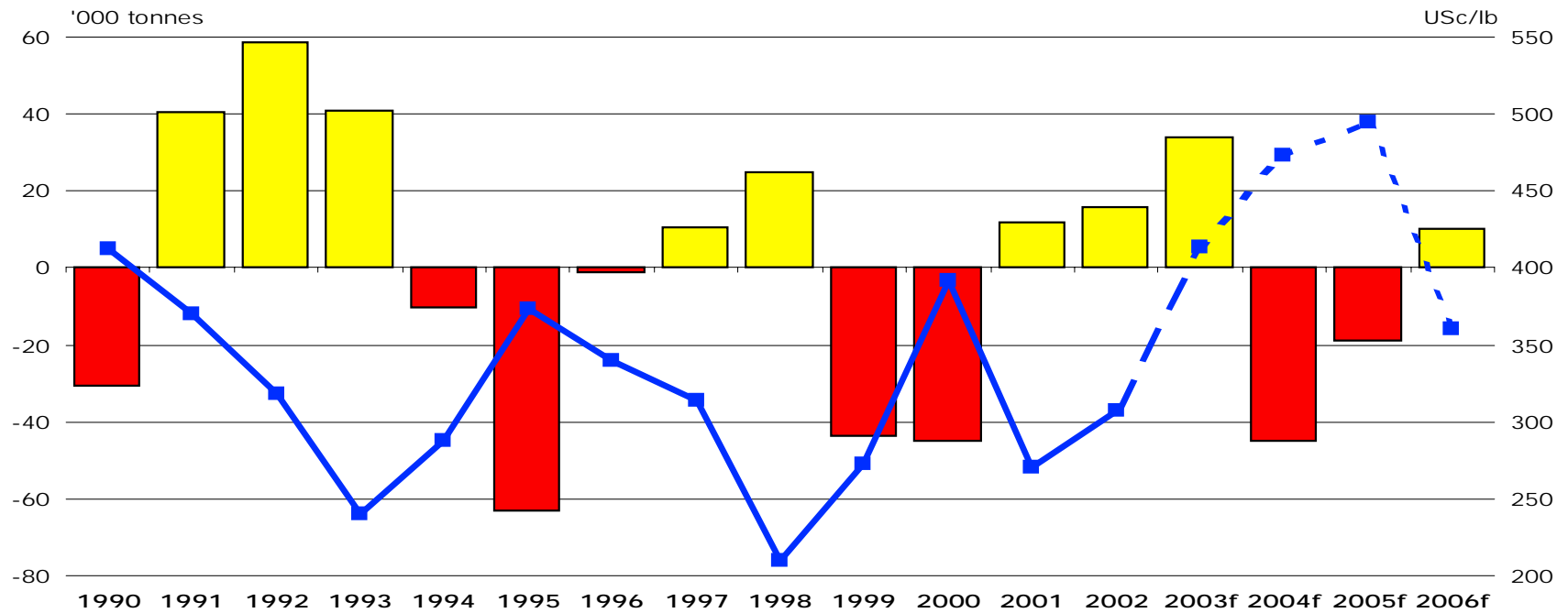


Source: CRU International; GSJBW Research; Eastern World Balance (LHS) — Average Annual Price (US\$/lb; RHS)

Commodity prices: supply and demand issues

Nickel

Nickel: Eastern World Supply/Demand Balance and Price, from 1990

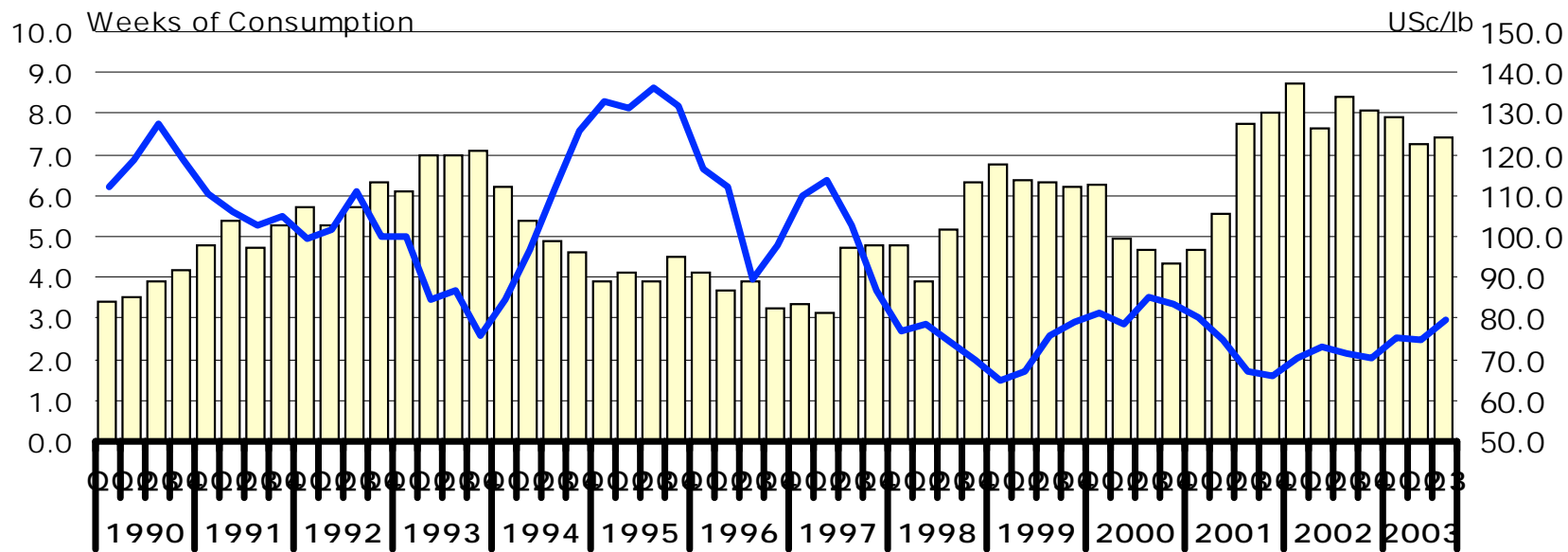


Source: CRU International; GSJBW Research; Eastern World Balance (LHS) Average Annual Price (US\$/lb; RHS)

Inventories: the role of the LME in shaping metal prices

Copper

Copper: Quarterly Inventories and Prices



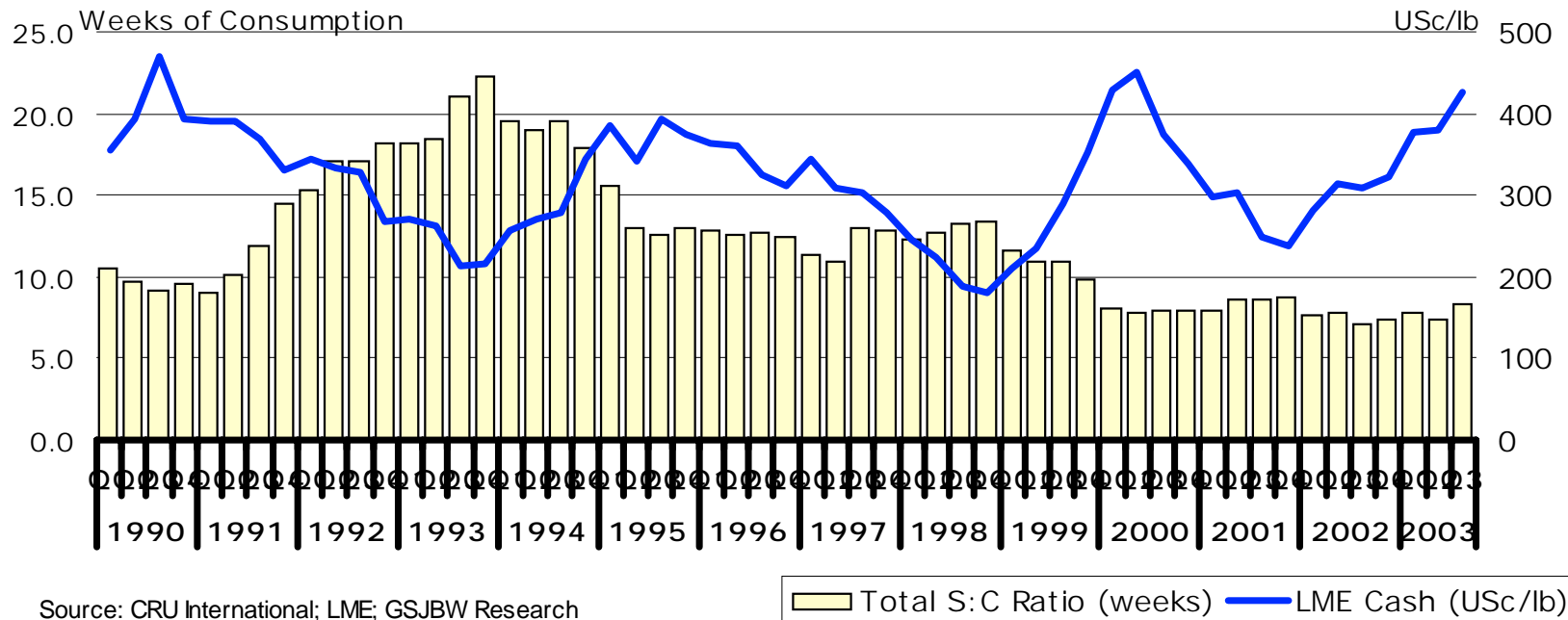
Source: CRU International; LME; GSJBW Research

Ratio (weeks) Nominal LME c/lb

Inventories: the role of the LME in shaping metal prices

Nickel

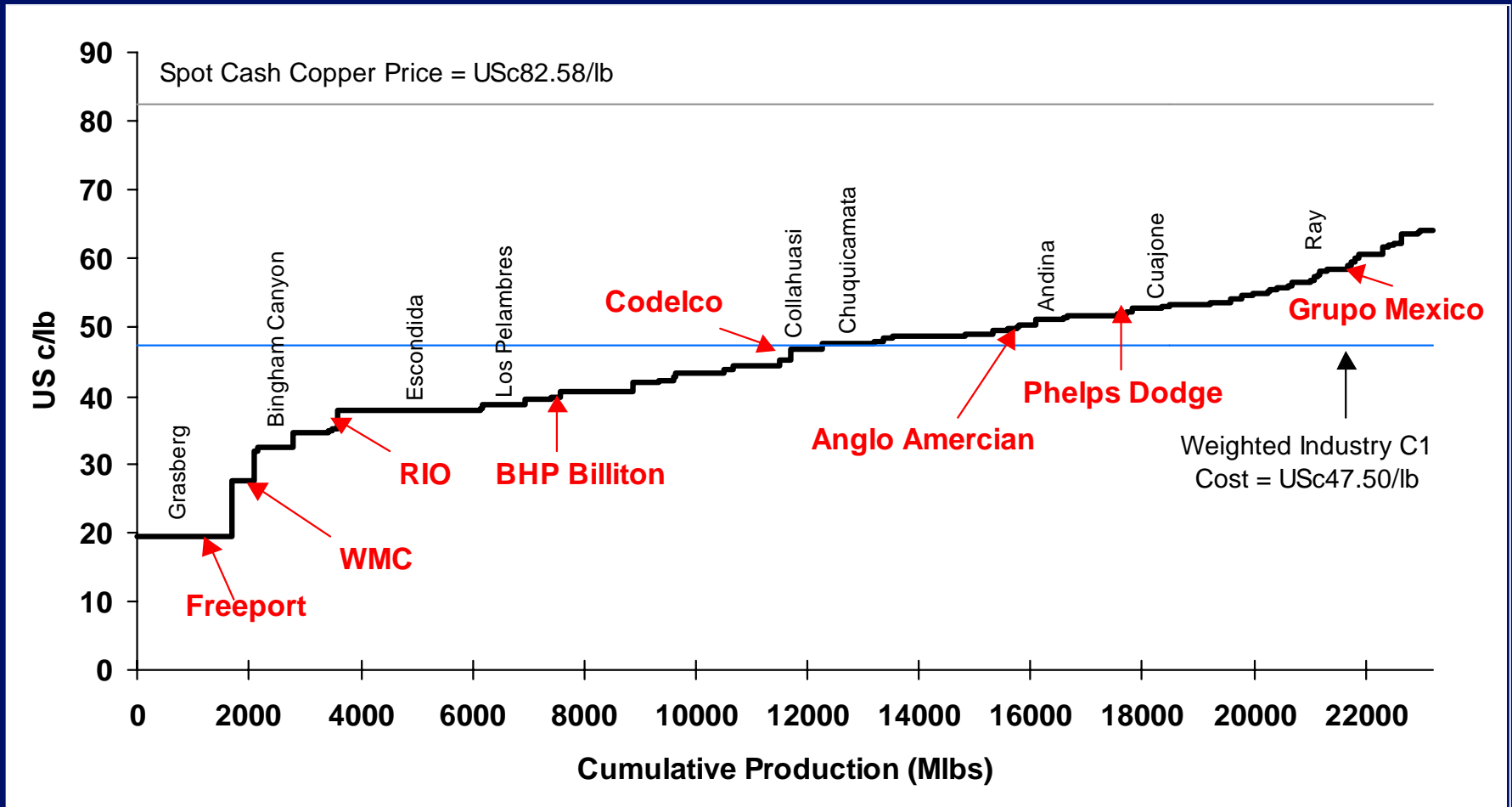
Nickel: Quarterly Inventories and Prices



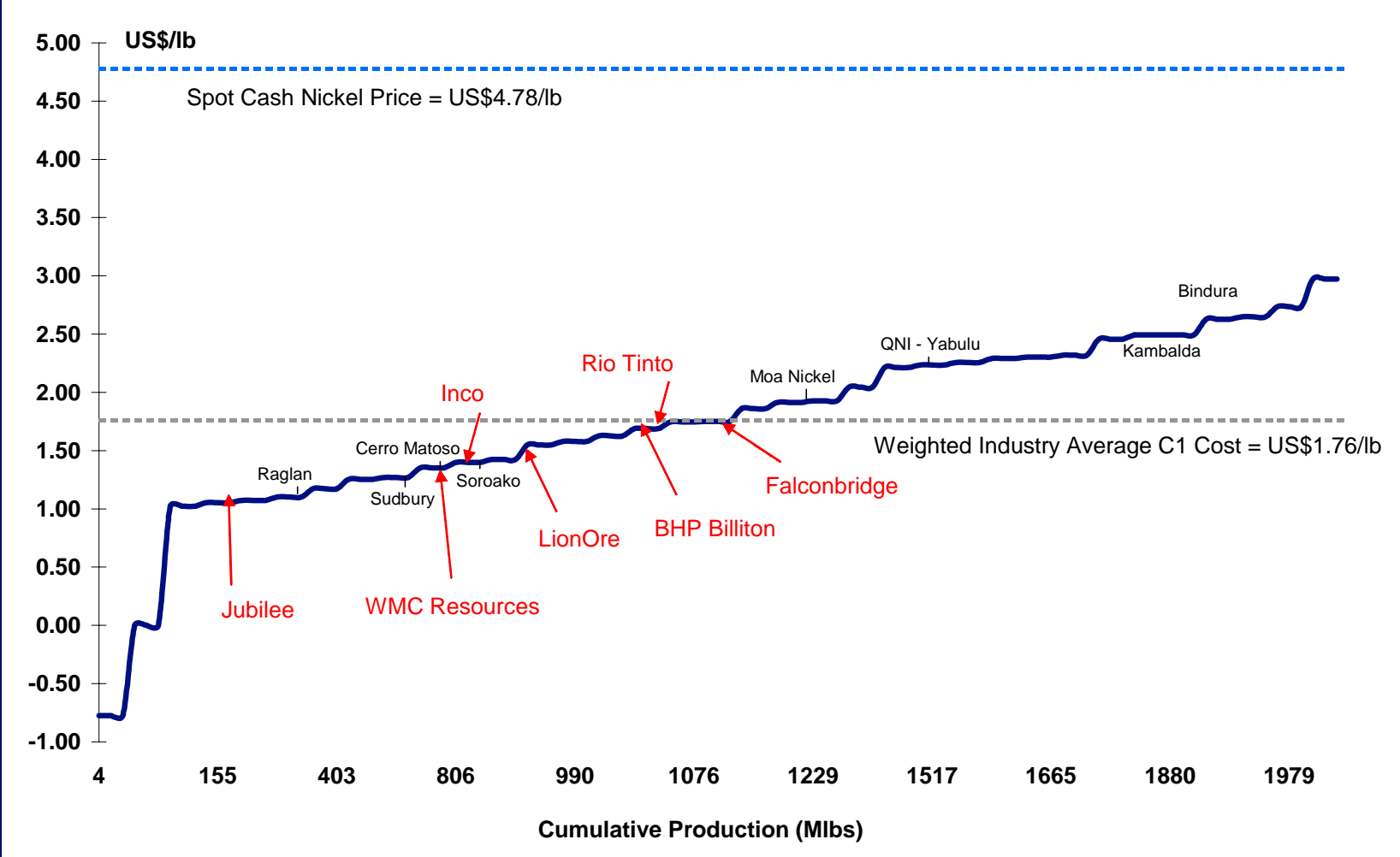
The ultimate long term determinant of commodity prices – the cost curve

- The risk of the economic cycle can be mitigated by focusing on the “right end” of the cost curve
- In good times, low cost producers enjoy high margins, produce strong cashflows which can be reinvested into new production
- In bad times, the high cost producers ultimately moderate supply and curtail metal price declines
- In this environment, low cost producers suffer margin squeeze, but can survive, and use a weak market for M&A opportunities

Examples of cost curves - Copper

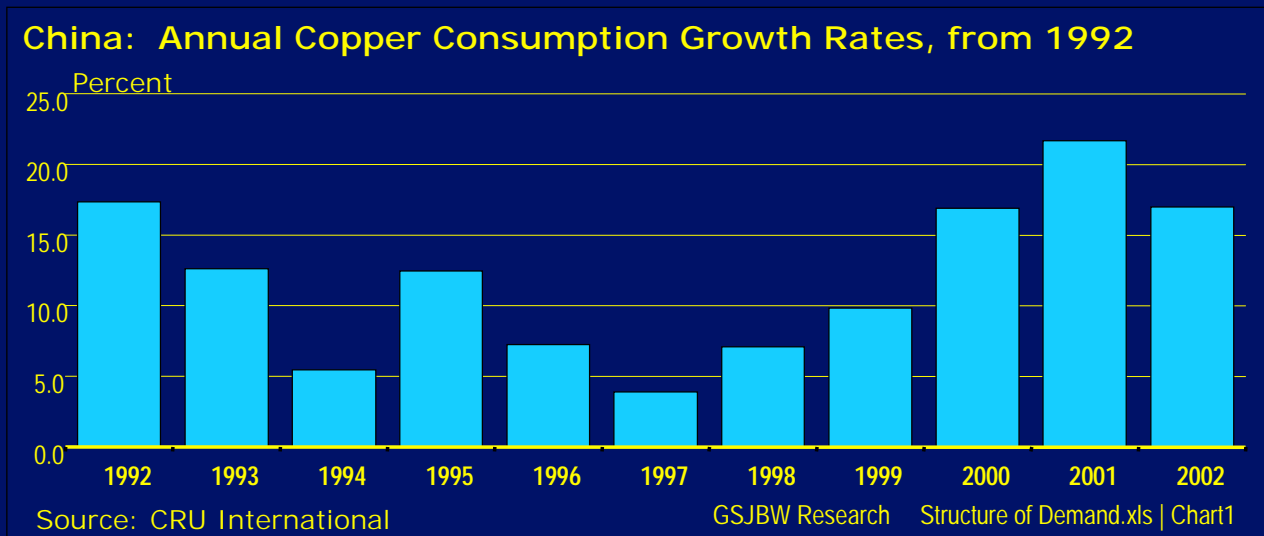


Examples of cost curves - Nickel



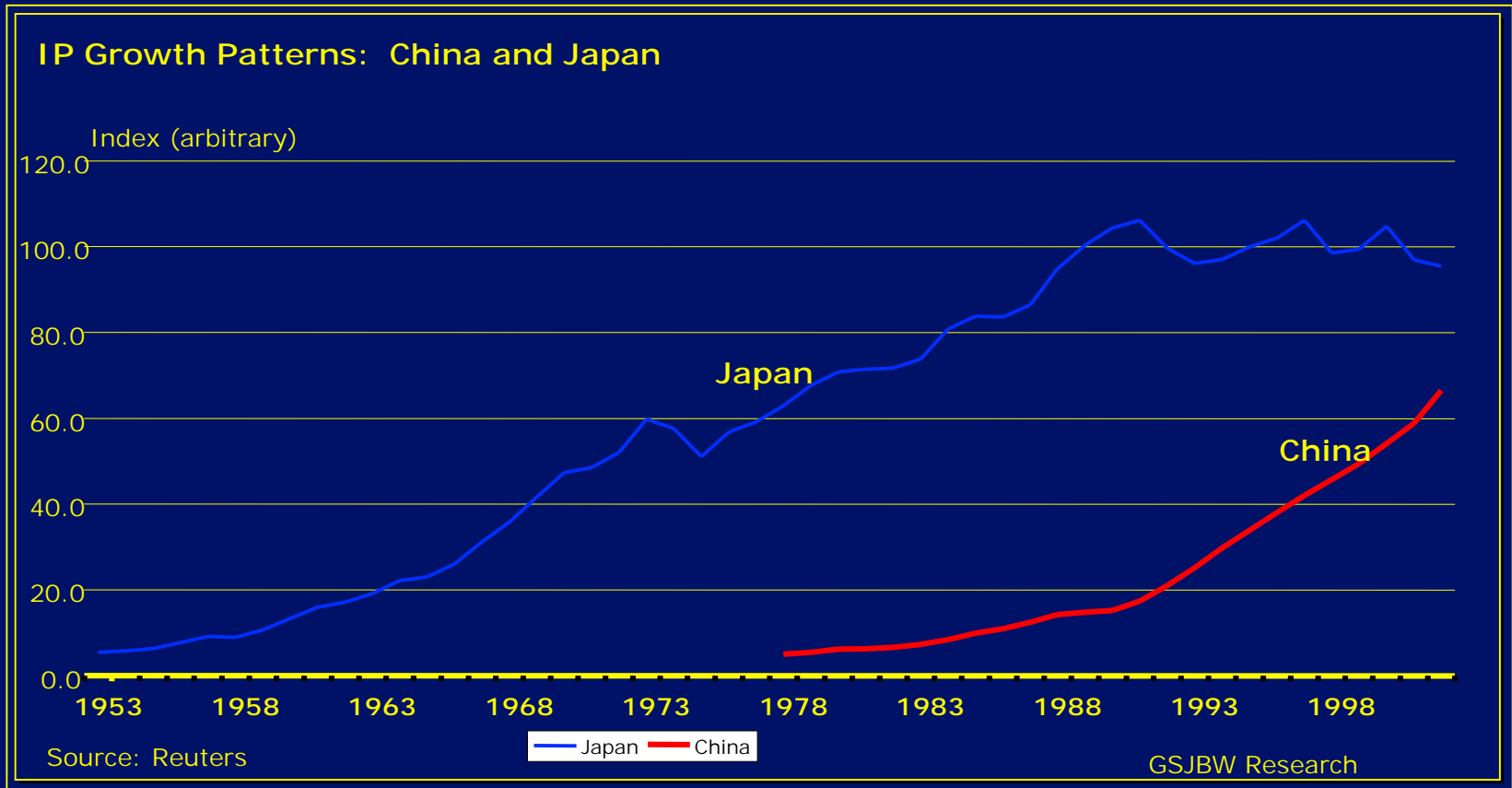
And what of China?

Now the largest consumer of copper in the world.



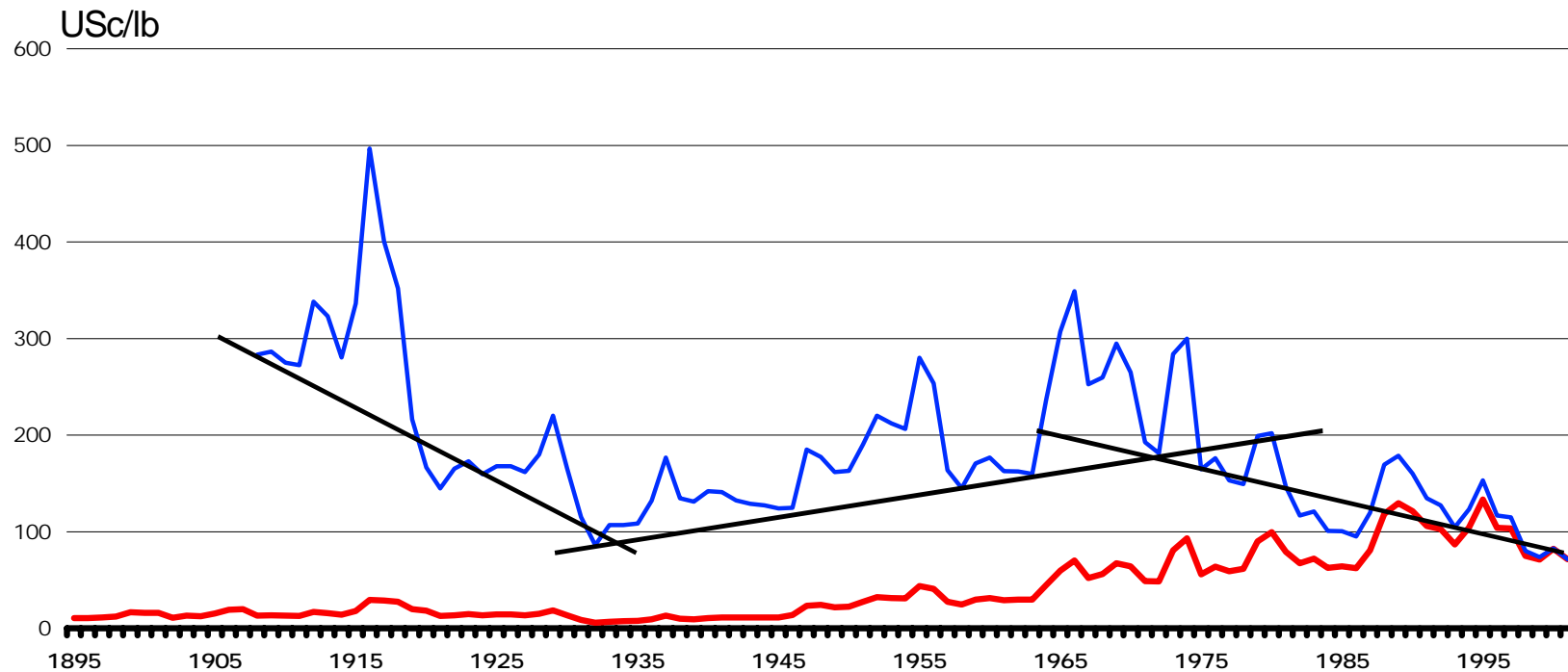
And what of China?

Another Japan?



Are we about to start another “up cycle”?

Copper Prices in Real (2002) and Nominal Terms, from 1895



Source: US Geological Survey; CRU International

— Nominal copper price (LHS) — Copper - Real

GSJBW Research

Commodities and companies with a China flavour

- Iron Ore CVRD, Rio Tinto, BHP
- Alumina Alumina Ltd
- Copper Antofagasta, WMC Resources
- Nickel Inco, Lionore
- Platinum Impala Platinum, Aquarius
- Oil & Gas CNOOC, COSL



How do we forecast the cycle at CFS?

What is our
secret weapon?

Our secret weapon



The CFS Global Resource approach to the resources cycle

- We don't predict the commodity price cycle since:
 - Forecasting world industrial production (IP) is unreliable and,
 - Commodity prices all fall over time
- The *quality* of the asset is the key investment parameter
- The *cash cost of production* is a more reliable investment tool

The CFS Global Resource approach to the resources cycle

- We do NOT try to predict commodity prices
- Focus on low cost, quality stocks
- Strong risk control and compliance culture
- Industry experience
- Risk adjusted returns
- Lots and lots of site visits

NOW TO THE JUICY STUFF...

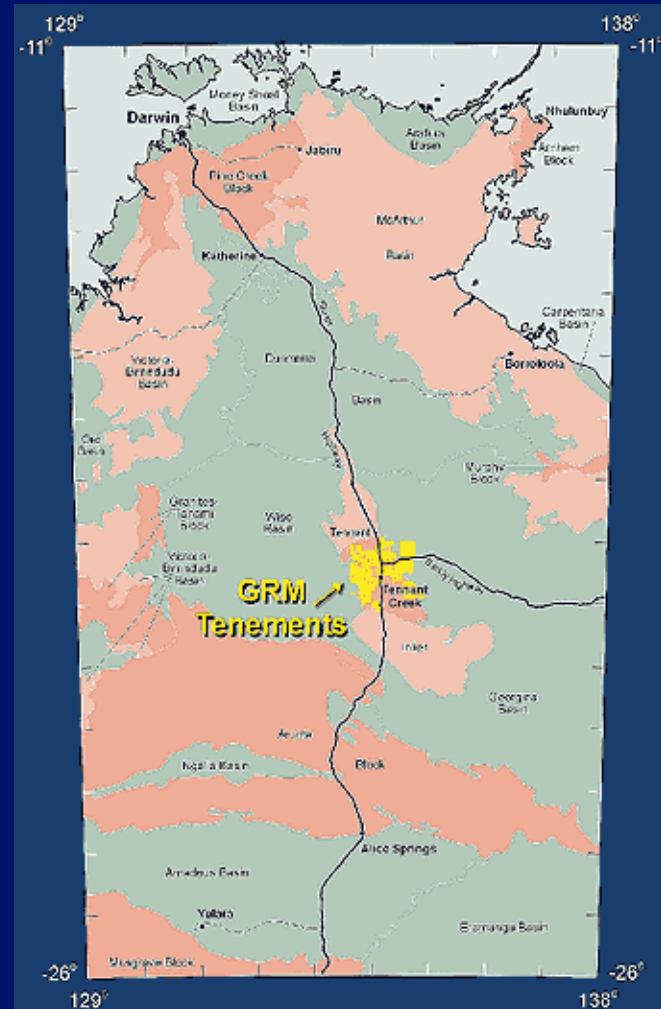
Company analysis – an example of one of our investments in the gold sector

- Giants Reef – an emerging Australian Gold producer
- GTM has focussed on the exploration potential of the Tennant Creek area since its listing in the early 1990's
- It acquired equity in the Chariot discovery from Normandy, and progressively aggregated over 80% of the mineral tenements in the region
- But GTM lost its way: right idea, wrongly implemented. Capital base blew out.
- Board was reinforced.
- In 2002 the company re-focused on developing the Chariot project.

GTM: a focus on the Tennant Creek Goldfield

The Tennant Creek Goldfield

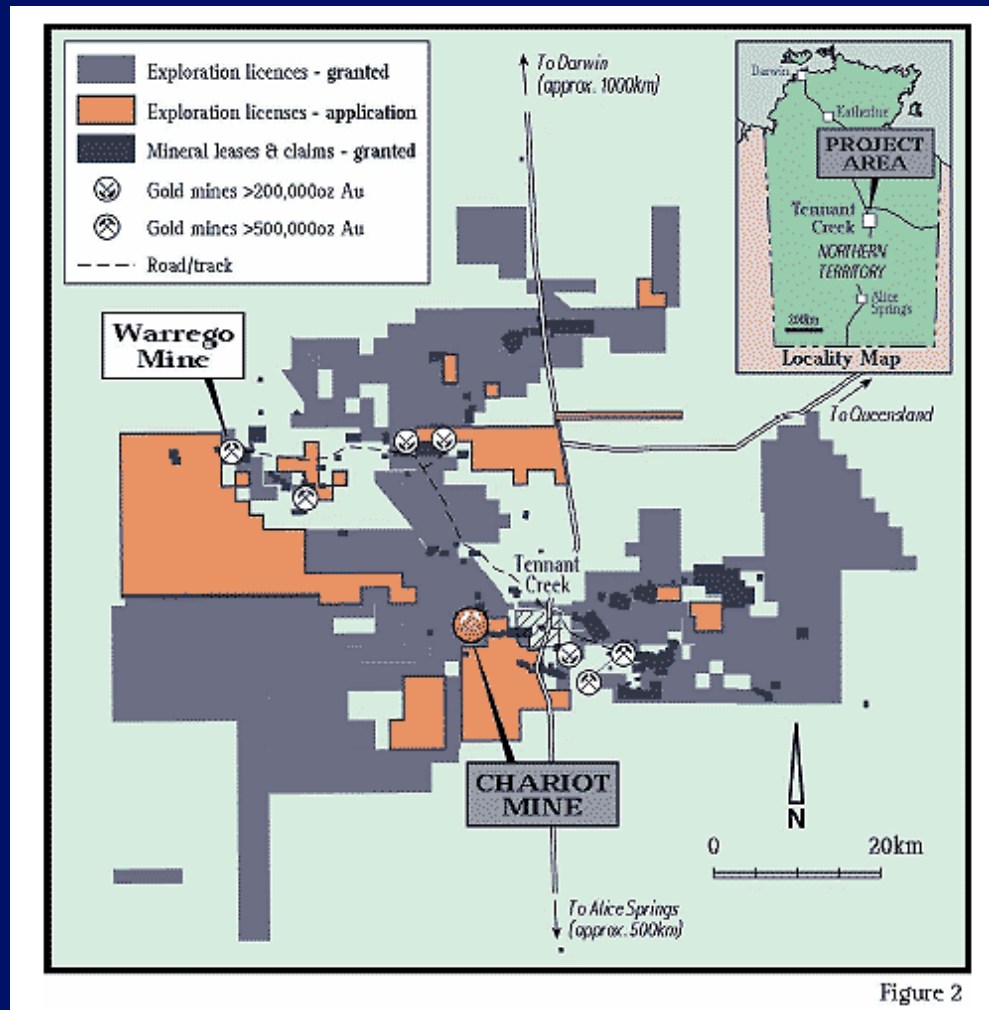
- One of Australia's most prolific gold (and copper) fields
- Historic production likely to have been over 5 million ounces
- Major mines include Warrego, Juno, Gecko, Argo, Peko, TC8, Nobles Knob, White Devil
- A company making province: Peko Wallsend / Aussie Devils



What attracted us to Giants Reef?

- The Tennant Creek area has a long history high grade gold production. Ore bodies tended to be small tonnage but high grade (typically 1-2oz/t).
- The Chariot deposit was a late discovery with a resource of around 400,000 tonnes at a grade of 2/3 ounce (for around 260,000 ounces of contained gold).
- GTM had done a good job aggregating tenements and had bought the Warrego treatment plant.
- The company was moving toward a more operational, rather than exploration focus.
- The view that the exploration potential of Tennant Creek is far from exhausted.

GTM: a focus on the Tennant Creek Goldfield



Chariot Reserves and Resources

Resources (or what might be there):

- 404,000 tonnes at 18-21g/t = 234 to 273,000 ounces

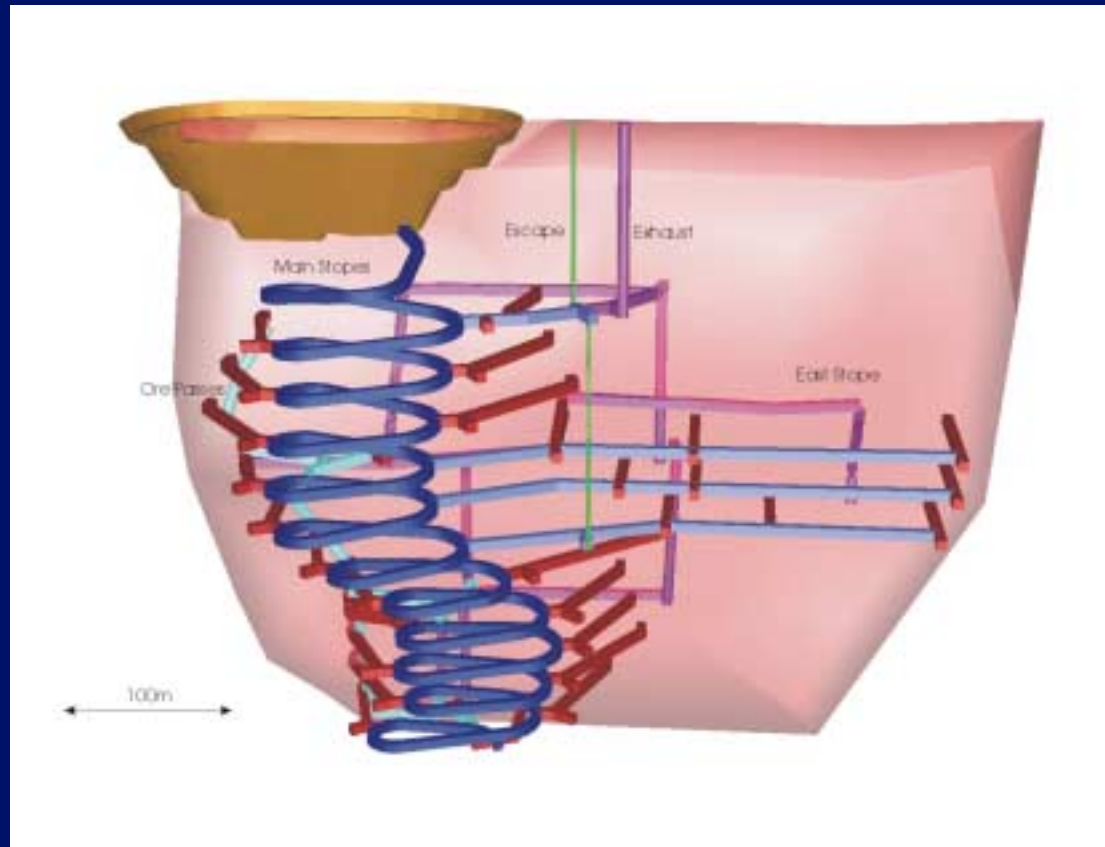
Resources express the level of confidence the geologist has in the orebody (measured, indicated and inferred)

Reserves (or what might be extractable):

- 407,000 tonnes at 15.1g/t = 198,000 ounces

Reserves express the proportion of resources which can be extracted economically (proven and probable)

The Chariot Mine Plan



Kicking the tyres



Kicking the tyres



What can Chariot produce?

(YE December)	2004	2005	2006	
Mill thru'put (tonnes)	30,000	130,000	130,000	A
Grade (g/t)	9	15	20	B
Met. Recovery (%)	90%	92%	93%	C
Gold production (ounces)	7,814	57,685	77,749	=A x B x C / 31.1
Company guidance (ounces)	11,700	50,700	66,000	

Source: CFS estimates

P/E analysis of Giants Reef

Revenue	580	A\$/oz
Cash costs	250	A\$/oz
Depreciation	100	A\$/oz
Royalty	40	A\$/oz
Total costs	390	A\$/oz
Margin	190	A\$/oz

Source: GTM

Gold production	77,000	oz
Pretax margin	190	\$/oz
Pretax profit	14.6	A\$m
Tax @ 30%	4.4	A\$m
NPAT	10.2	A\$m
Number of shares on issue	781	m*
Earnings/share	1.3	A\$cents
Share price	9	A\$cents
P/E	6.9	x

(*undiluted for options)

Source: CFS

GTM valuation parameters

Price/Earnings multiple = 6.9x (at 9c share price)

Price/Cashflow multiple = 5x

EV/EBITDA* = 4x

NPV** = 6 cents/share

* *EV/EBITDA: enterprise value, ie market capitalisation + net debt / earnings before interest, tax and D&A.*

** *Net present value of company cashflows for a 5 year mine life, \$350/oz gold price, currency at 65c, employing a 10% discount rate*

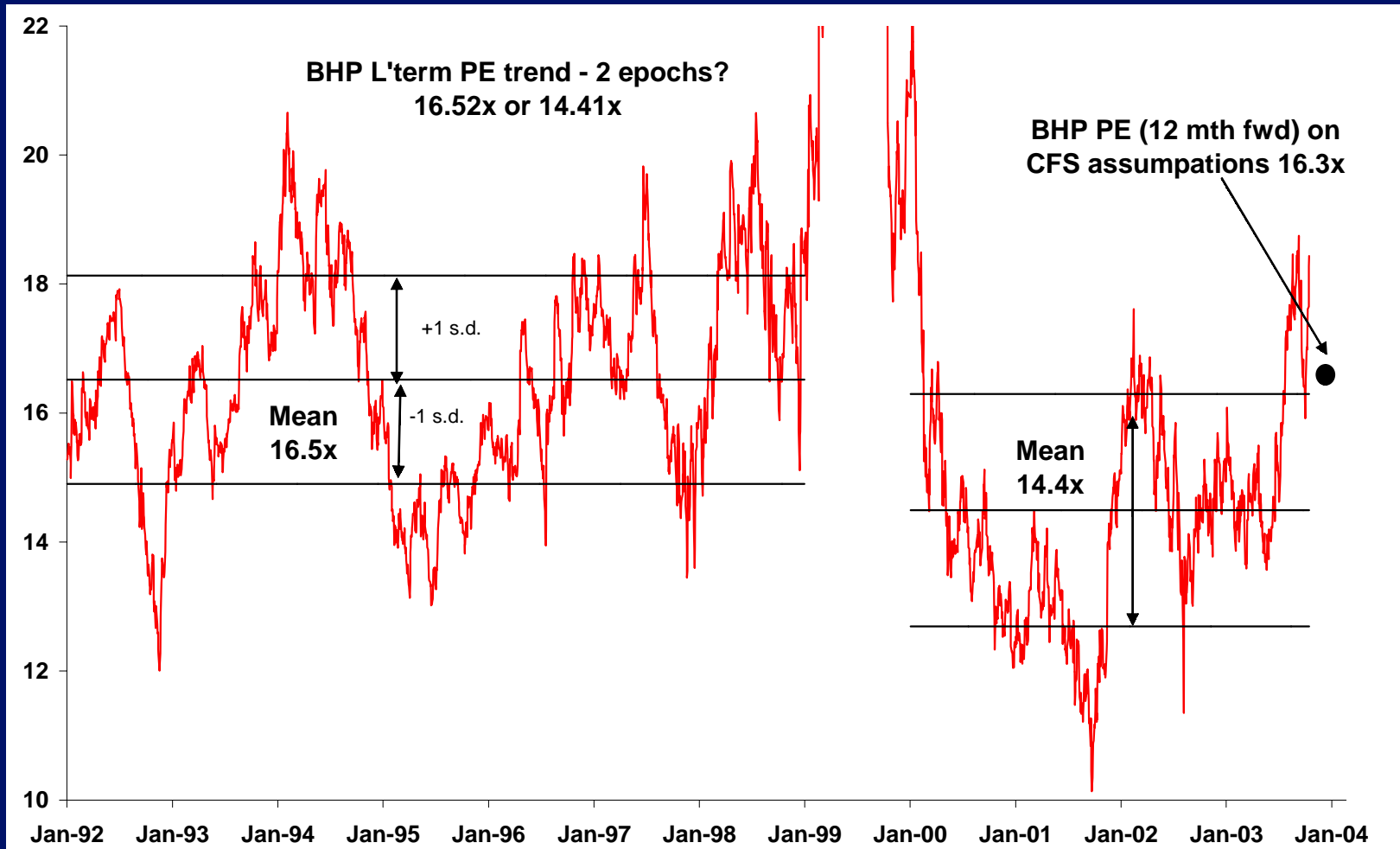
[NOTE – This analysis should not constitute a recommendation regarding an investment in Giant's Reef]

We can do the same thing with BHP, Rio Tinto, WMC Resources, Alumina....but it is more complex

BHP's divisions:

- Petroleum
- Aluminium
- Base Metals
- Carbon Steel Materials
- Diamonds and Specialty Products
- Energy Coal
- Stainless Steel Materials

How does BHP stack up at the moment?



Stock picking in CFS Global Resources

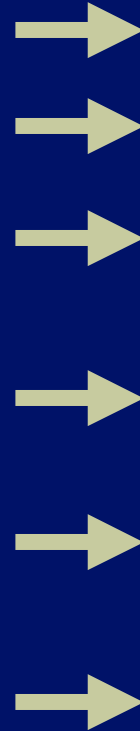
What we look for in companies

- Low cost, long life assets
- Management quality
- Above average growth prospects
- Strong balance sheets
- Reasonable valuations

Company Selection

Our Basic Tenets

- Commodity prices fall over time
- Orebodies are a non-renewable asset
- Cyclical commodity price downturns precipitate margin squeeze
- Motivated management translates to successful companies
- Scarcity of new projects globally restricts organic growth
- High ROIC generally equates to high market valuation premium



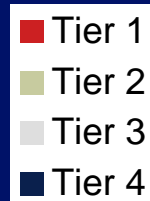
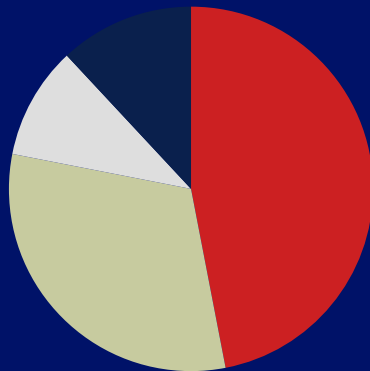
Our Focus

- Focus on low cost producers
- Focus on long life operations
- Focus on companies whose balance sheets can withstand tight margins
- Focus on companies which have financially motivated management
- Focus on companies that can deliver manageable growth
- Focus on efficient use of capital

Stock specific guidelines

- Cash costs of production in lower half of world operating costs
- Real EPS growth over 3 years greater than 5% pa
- Net Debt to Equity ratio less than 50%
- Interest Cover greater than 3X
- Improving Price/Operating Cashflow Ratio

Global Resources Portfolio Construction



80% comprise Tier 1 & 2 stocks

Low Risk



High Risk

Tier 1 companies

Highest quality resource companies, with a strong track record of consistent earnings growth and above average shareholder returns. They are generally large companies and all have “world class” resources.

Tier 2 companies

Established companies. Unlike Tier 1, they may not be leaders in their areas of activity. Earnings may not be as secure as Tier 1 and are usually more cyclical in nature.

Tier 3 companies

Single project or smaller companies with a limited track record

Tier 4 companies

Companies with little or no earnings. Exploration stocks.

Ten Largest Holdings: 49% of the total

Company	Portfolio	Country of Listing	Activity
BHP Billiton Plc	10.5	UK/South Africa	Diversified
Rio Tinto Limited	8.1	Australia/UK	Diversified
Alumina Limited	6.8	Australia	Metals
Companhia Vale do Rio Doce	6.2	United States	Diversified
Alcan Inc	4.1	Canada	Metals
Harmony Gold	2.8	South Africa/US	Metals
Western Oil Sands	2.7	Canada	Energy
Alcoa Inc	2.7	United States	Metals
Impala Platinum	2.6	South Africa	Other
Kinder Morgan	2.5	United States	Energy
Total	48.9%		

As at April, 2003

Team Structure

Chief Investment Officer

Global Resources

*/**

David Whitten	Head of Global Resources	22/6
Dr Joanne Warner	Portfolio Manager	10/6
Dr Chris Baker	Senior Analyst	15/3
Todd Warren	Analyst	4/7

International
Equities
Teams

Australian
Equities
Teams

51 years of investment experience

* Years of investment experience

** Years with the firm

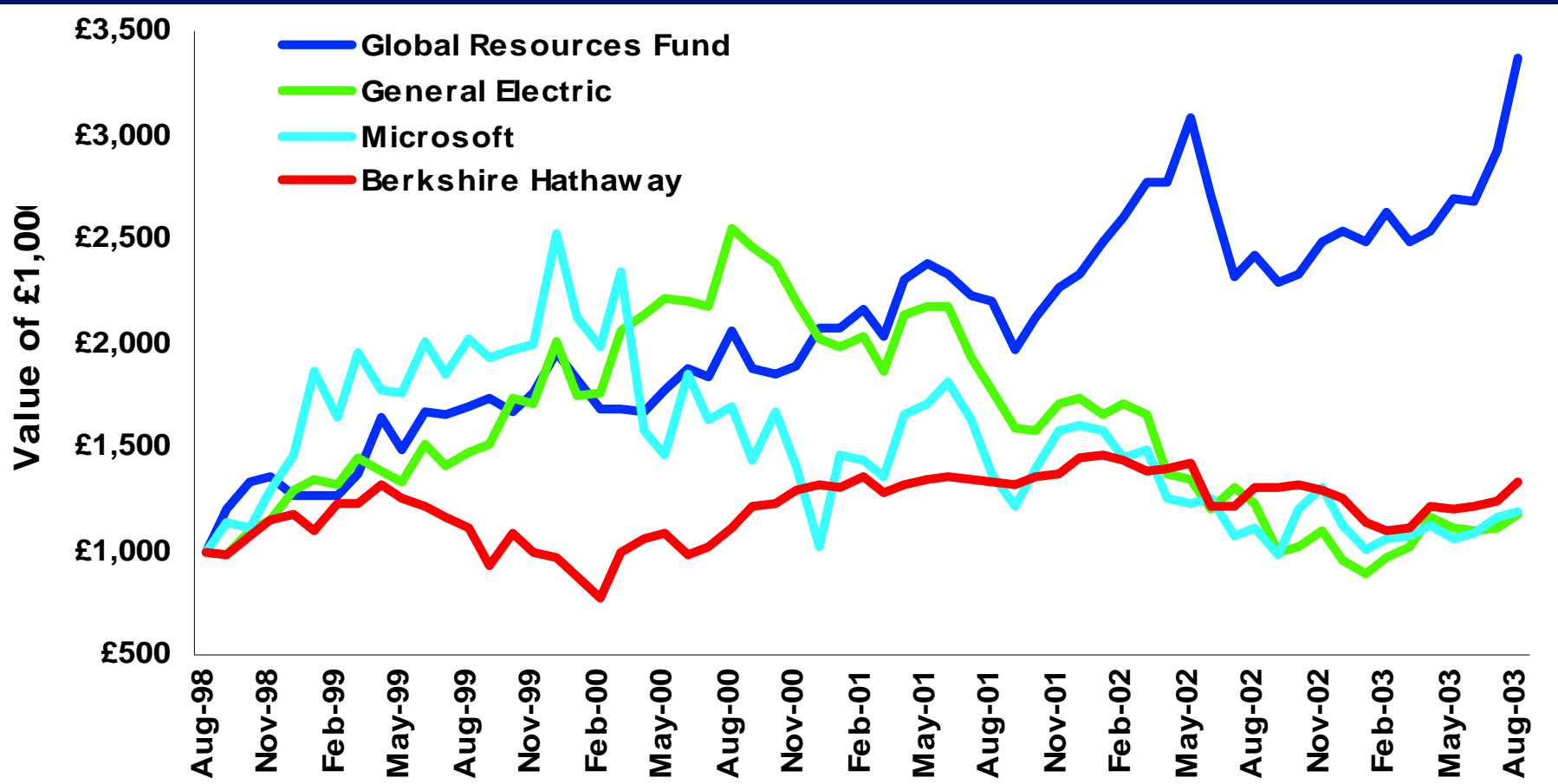
Performance to 30 September 2003

Compound annual returns (A\$)

	1 Yr	2 Yrs	3 Yrs	4 yrs	5 yrs
Fund AUD	25.6%	18.7%	17.6%	17.5%	19.2%
Index	17.1%	6.8%	7.1%	5.9%	10.8%

All returns in A\$ after fees for Wholesale Global Resources Fund. Source: Colonial First State Investments Ltd

What's wrong with resources anyway?



Source: Bloomberg, Colonial First State. All data in £. 5 year data to 31/8/2003