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CREDIT SUISSE

SECTOR REVIEW

12 October 2006
Global
Metals & Mining

Equity Research

OVERWEIGHT

Credit Suisse Copper Dinner

Air of Confidence

- Credit Suisse hosted its first Copper dinner last night in London drawing to a close a very positive and busy LME week.
- We conducted a poll of 12 mining executives, 20 investors and 2 consultancies and found consensus for next year is $6,500 per tonne which is well below the current spot of $7,500 per tonne. Looking further out, the majority of attendees believe that we are in a stronger for longer copper cycle. Their biggest concern was not a slowdown in US housing starts (28% vote) but rather the impact of the current Chinese credit tightening (56% of vote).
- On the ground, it appears that European demand continues to strengthen and is supporting downstream prices which should help Cumerio offset some of the weakness in TC/RC terms.
- Chinese restocking remains the wild card and was quandary to many of our participants. Our economist Dong Tao believes that once the current credit tightening is lifted, a major restocking cycle in copper could occur. Participants last night speculated that the size of this restocking could be between 200,000-400,000 tonnes and may add 2% to global demand next year.
- Infrastructure remains the key to longer term demand. China's new rail and underground spending programme in the next five years could be bigger than the combined spending of the rest of the world total investment in the last 20 years in our view.
- India has announced a $350 billion infrastructure spending programme. At current growth in Indian copper demand of 16% pa, we expect the country's demand for copper to increase from 4% of global consumption to 10% by 2010.
- Overall, the dinner was a good reminder that conditions remain very supportive of higher prices. Supply remains constrained, inventories are low and Chinese restocking could lead to demand surprises next year.
- Our number 1 copper pick is Kazakhmys (Price Target £15). Copper represents c35% of BHP's FY 2006 operating profit and c53% of Rio's first half 2006 earnings. Given today's 21 year valuation lows, these names could be set for a continued rally.

research team

Jeremy Gray
Research Analyst
44 20 7888 3316
jeremy.gray@credit-suisse.com

Eily Ong
Research Analyst
44 20 7883 8489
eily.ong@credit-suisse.com

Ephrem Ravi
Research Analyst
44 20 7883 8517
ephrem.ravi@credit-suisse.com

Hannah Kirby
Research Analyst
44 20 7888 1088
hannah.kirby@credit-suisse.com

Executive Summary

Credit Suisse hosted its first Copper dinner last night in London drawing to a close a very positive and busy LME week. We conducted a poll and found consensus for next year is $6,500 per tonne which is well below the current spot of $7,500 per tonne. Looking further out, the majority of attendees believe that we are in a stronger for longer copper cycle. Their biggest concern was not a slowdown in US housing starts but rather the impact of the current Chinese credit tightening

Mining executives at the dinner are bullish on the general outlook for the copper market with one believing that the current deficit could continue out until 2010. They reiterated that there are still delays in production, driven by the ongoing shortage of skilled labour, difficulties in getting shovels, trucks and tyres etc. On demand, Europe seems to be the surprise story for 2006 which partly explains why LME inventory in Europe is at a low level. This could be good news for Cumerio and help to partly offset their lower TC/ RC terms for next year.

In terms of the much talked about Chinese destocking of the 200,000 tonnes strategic stockpile, there are still no signs of restocking. Our economist Dong Tao believes that once the current credit tightening is lifted, a major restocking cycle in copper could occur. Participants last night speculated that the size of this restocking could be between 200,000-400,000 tonnes and may add 2% to global demand next year. Infrastructure remains the key to longer term demand. China's new rail and underground spending programme in the next five years could be bigger than the combined spending of the rest of the world total investment in the last 20 years. To put this into perspective, China will build more than 30 Jubilee lines by 2011!

India has announced a $350 billion infrastructure spending programme. At current growth in Indian copper demand of 16% pa, we expect the country's demand for copper to increase from 4% of global consumption up to 10% by 2010.

Some executives commented that they are looking closely into investment in the Democratic Republic of Congo (DR Congo), a region rich in copper, cobalt, uranium and diamonds to name but a few of the resources found there. However, one mentioned that a prerequisite for them would be at least two years of stability post the forthcoming Presidential elections. Another mining executive who is already operating in the region is relaxed on the political situation and very upbeat on the copper market. Interestingly, there are extensive infrastructure programs in the region over next few months to bring production to the market more quickly.

Copper Poll

At the end of the dinner, we conducted a copper poll amongst the attendees. mining executives, consultancies and investors.

The general consensus is that a Chinese credit squeeze is the biggest risk to copper demand in 2007, followed by the US housing market slowdown.

The majority of our guests believe that management should devote excess free cash flow to M&A deals, to increase market share and growth opportunities. Our guests expect to see a higher level of gearing moving forwards, of c30% on the balance sheet compared to current level of c10%.

The rapid growth in the Chinese economy has brought increasing concerns as to the sustainability of their copper demand. Half of our guests view China as a long term story that will have bumps along the way, while some believe that the Chinese economy will peak after the Beijing's Olympics in 2008.

The poll also found that industry participants continue to move too slowly to build new capacity, seeing them as "victims of the past - a la Magma Copper in 1996" syndrome, this explanation was followed by the potential fear of market reaction.

The majority of our guests believe that we are in a stronger for longer copper cycle and will sustain a long term price of $1.50/ lb– while we believe the market is currently pricing in $1.20/ lb for our copper names.

Investors expressed the view that LME base metals prices breaking out to new highs and significant M&A activity will be the wake up call to the mining sector, though the majority believe that the fear that the cycle has peaked is the key factor holding back mining shares this year, despite booming metal prices.

One investor in the mining space commented that the copper market is too focused on quarterly performance and that the sector is now too influenced by short term day traders. He commented that India could be the next exciting emerging market and that, with their new $350 billion of infrastructure spending, it would be a matter of time before India moves from 4% to 10% of global metals demand.

In summary, we believe the evening was a great reminder that the mining world is in a better position than the market is currently worrying about. Demand is still healthy, supply is constrained and China will come back into the market – and we expect that there will be upgrades across the board to earnings into 2007 as the market adjusts upwards their price expectations. Kazakhmys remains our top copper pick. Stripping out the £1.60 of cash and the £1.40 of Eurasian option value, the group is on just a 2007E PE multiple of 4.7x on a mark to market basis.

Companies Mentioned *(Price as of 11 Oct 06)*

BHP Billiton (BLT.L, 948.00 p, OUTPERFORM, TP 1600.00 p, OVERWEIGHT)
Cumerio (CUMR.BR, Eu16.87, NEUTRAL, TP Eu22.00, OVERWEIGHT)
Kazakhmys Plc (KAZ.L, 1143.00 p, OUTPERFORM, TP 1500.00 p, OVERWEIGHT)
Rio Tinto Limited/PLC (RIO.L, 2575.00 p, OUTPERFORM, TP 4000.00 p, OVERWEIGHT)

Disclosure Appendix

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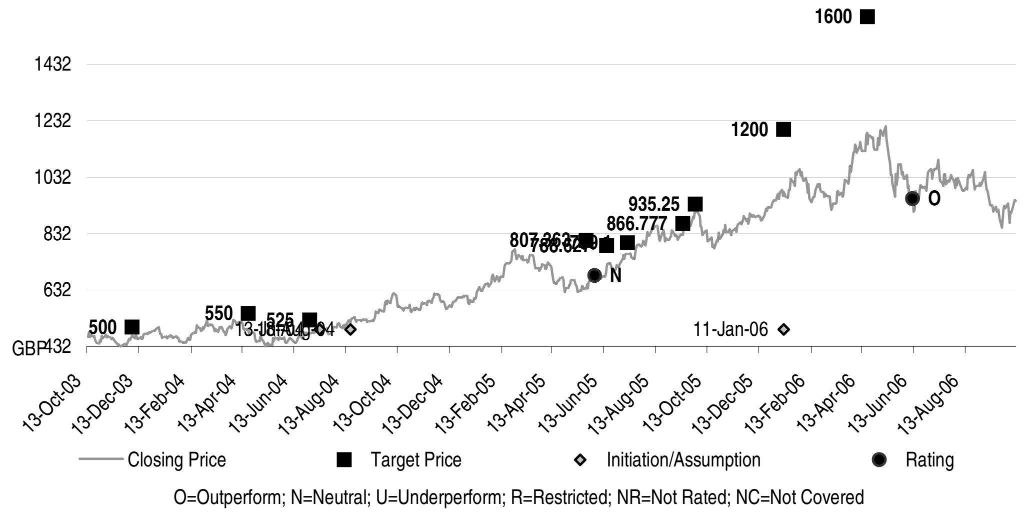
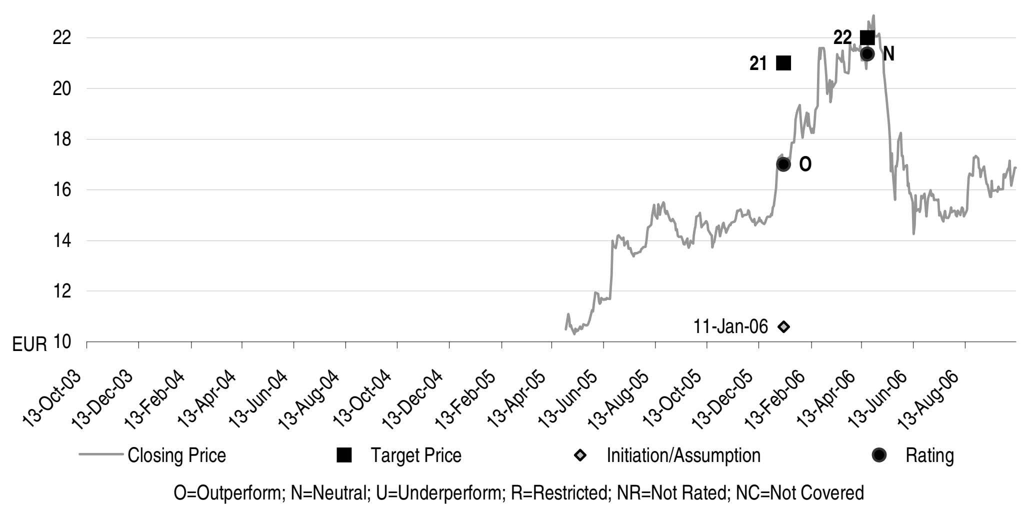
3-Year Price, Target Price and Rating Change History Chart for BLT.L



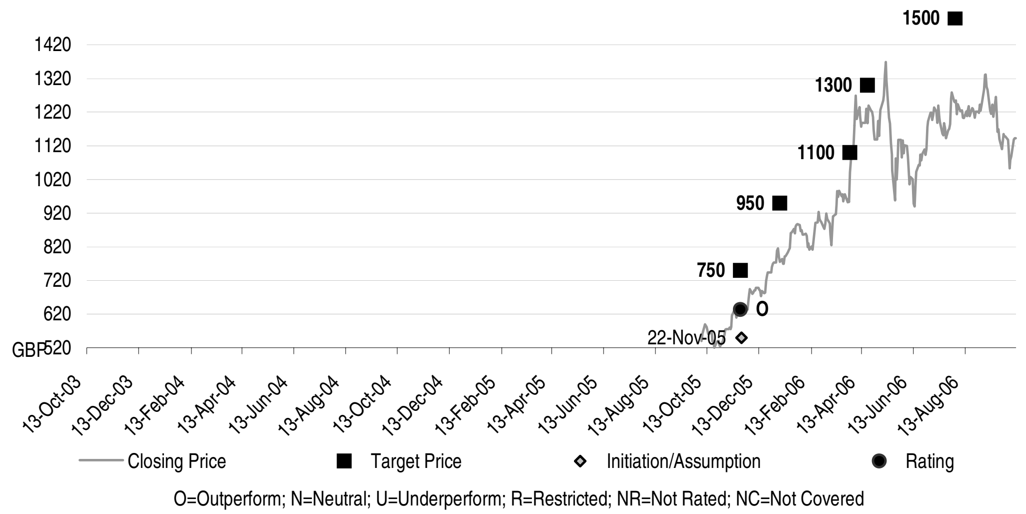
BLT.L Date	Closing Price Price (p)	Target Price Price (p)	Rating	Initiation/ Assumption
05-Dec-03	470.5	500		
20-Apr-04	491.5	550		
01-Jul-04	477	525		
13-Jul-04				X
18-Aug-04				X
23-May-05	638	807.363		
02-Jun-05	683.5		NEUTRAL	
16-Jun-05	716	788.627		
11-Jul-05	760	799.1		
14-Sep-05	827	866.777		
29-Sep-05	907.5	935.25		
11-Jan-06	978.5	1200		X
20-Apr-06	1,148.5	1600		
12-Jun-06	955.5		OUTPERFORM	

3-Year Price, Target Price and Rating Change History Chart for CUMR.BR



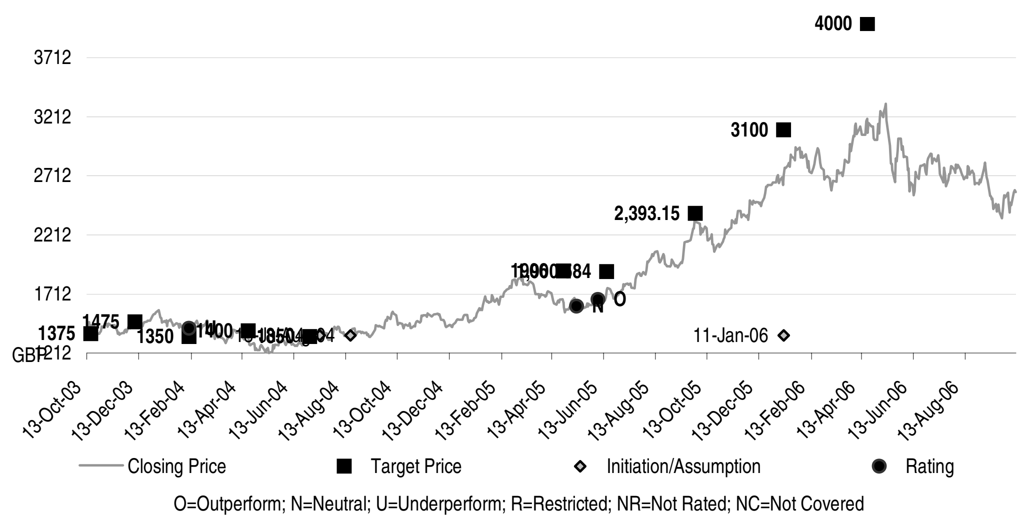
CUMR.BR Date	Closing Price Price (EUR)	Target Price Price (EUR)	Rating	Initiation/ Assumption
11-Jan-06	17	21	OUTPERFORM	X
20-Apr-06	21.36	22	NEUTRAL	

3-Year Price, Target Price and Rating Change History Chart for KAZ.L



KAZ.L Date	Closing Price Price (p)	Target Price Price (p)	Rating	Initiation/ Assumption
21-Nov-05	633	750	OUTPERFORM	
22-Nov-05				X
06-Jan-06	775	950		
30-Mar-06	1042	1100		
20-Apr-06	1188	1300		
01-Aug-06	1249	1500		

3-Year Price, Target Price and Rating Change History Chart for RIO.L



RIO.L Date	Closing Price Price (p)	Target Price Price (p)	Rating	Initiation/ Assumption
17-Oct-03	1450	1375		
08-Dec-03	1452	1475		
08-Feb-04	1386	1350	UNDERPERFORM	
20-Apr-04	1341	1400		
01-Jul-04	1318	1350		
13-Jul-04				X
18-Aug-04				X
26-Apr-05	1638	1906		
12-May-05	1608		NEUTRAL	
06-Jun-05	1664		OUTPERFORM	
16-Jun-05	1745	1,900.584		
29-Sep-05	2318	2,393.15		
11-Jan-06	2719	3100		X
20-Apr-06	3075	4000		

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Method: P/E, EV/EBITDA, DCF
Risks: Economic environment, commodity prices, currencies
Price Target: (12 months) for (CUMR.BR)
Method: A combination of DCF and multiples
Risks: Movements in commodity prices, exchange rate fluctuations, operational and political risks
Price Target: (12 months) for (KAZ.L)
Method: Earnings Multuiples based valuation
Risks: Political Risk, Production Risk. Copper Cycle Risk, Corporate Governance Risk
Price Target: (12 months) for (RIO.L)
Method: Mainly P/E, also EV/EBITDA, FCF, dividend yield
Risks: Economic environment, commodity prices, currencies.

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