



GLENCORE

**Materials
JERSEY**

Buy **GBP** **132.15**
Price Target **GBP** **200.00**
Upside **51.3%**

Sector Opinion =
Shock therapy should not leave investors unmoved

Codes	Risk	R1
ISIN JE00B4T3BW66		
Reuters GLEN.L	S&P	BBB
Bloomberg GLEN:LN	S&P outlook	
Valoren 12964057	Moody's	
Style Value	Beta (2.5 years)	1.26
SRI rating Negative	Volatility (1 year)	43.1%

Market data	M GBP
Market capitalization	17,294
Free float	14,354
Volume (yearly average / day)	115.30
Weight FTSE 100	0.0%
MSCI Sector	4.5%

Shareholders	
Other partners	23.0%
Ivan Glasenberg	8.3%
Qatar IA	8.2%
Blackrock	5.3%
Daniel Maté	3.2%
Aristotelis Mistakidis	3.1%

Calendar	
Fiscal year end	31-Dec
Ex-dividend date	23-Apr-2015
Dividend payment	21-May-2015
Next earnings publication	04-Nov-2015

Share data	GBP	2014	2015e	2016e
EPS		18.56	5.02	12.54
EPS change (%)			-73.0	149.9
PER		7.1	26.3	10.5
Dividend		11.04	12.30	0.00
Yield (%)		8.4	9.3	0.0

Sources: Thomson Reuters IBES, BNP Paribas Wealth Management, Exane BNP Paribas

Corporate data	M USD	2014	2015e	2016e
Sales		221,073	171,370	163,911
EBITDA		12,764	9,573	10,517
EBIT		6,706	3,057	4,682
Net income		4,285	1,139	2,976
EBITDA margin (%)		5.8	5.6	6.4
Net margin (%)		1.9	0.7	1.8

Sources: Thomson Reuters IBES, BNP Paribas Wealth Management, Exane BNP Paribas

Balance sheet	M USD	2014
Net debt		49,838
Net debt / EBITDA		3.90x
Enterprise Value (EV)		98,357
Free Cash Flow		411
Free cash flow yield (%)		1.5

Sources: Thomson Reuters IBES, BNP Paribas Wealth Management, Exane BNP Paribas

Stock recommendation
We like Glencore's option value in base metals (copper, zinc), repositioning on the cost curves (ramp-up of new projects) and cash flow buffer (marketing division). Credit market woes are the main risk on the stock, but the company is no longer in denial and has responded with a convincing debt reduction package.

The USD10.2bn de-risking package
Amid macro fears/aggressive shorting activity, Glencore responded by announcing a USD7.7bn debt reduction and an underwritten USD2.5bn equity issuance that has just been placed at GBP125 through an ABB (85% to existing shareholders). The moves should put credit metrics at 3.3x Debt/EBITDA and the FFO/Debt at 27% versus 4.2x and 21% before at m-to-m prices (using S&P metrics). The EPS dilution would be 4% in FY15e and 7% in FY16e on our numbers, but fresh money is starting to de-risk the case. A recovery story

The execution of the debt reduction package starting with this equity issuance is meant to fight the run on credit and allay fears about the absolute level of debt and access to refinancing. The next step could be the streaming transaction aimed at selling forwards some of the gold and silver production. Suspending loss-making operations represents a first step towards restoring equity investors' confidence. The group must then deliver on marketing earnings and demonstrate further resilience, as well as progress on costs through better numbers to lower the 45% EV/EBITDA discount to peers on industrial assets.

EBITDA cut by 20% in FY16e and FY17e
We had already adjusted our FY15e numbers close to m-to-m, hence the minimal EBITDA change (-2%). The 14% and 13% cut to our FY16e and FY17e copper price assumptions have taken the biggest toll this time, before coal (-11%) and nickel (-21%). The gap between USD8.5bn EBITDA m-to-m that we have based our valuation on vs our USD10.5bn central case is only USD2bn, as we think more production cuts like 325kt annualised in copper (DRC, Zambia) will have to take place, most likely in copper and nickel.

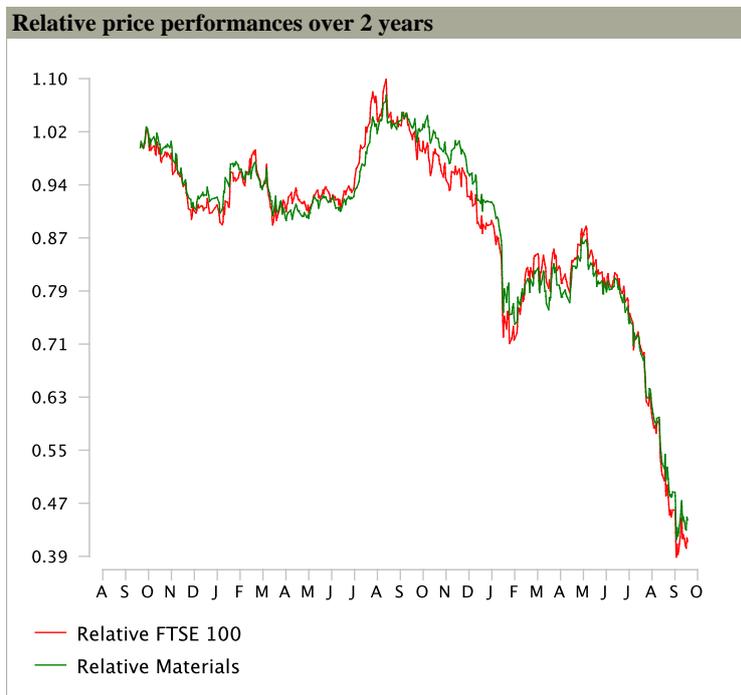
Target price at GBP2
At m-to-m prices and using a P/E of 9.3x for the marketing division, the implied EV/EBITDA multiple on industrial assets would stand at 4.5x FY16e. With its valuation implying a c.45% discount on EV/EBITDA for industrial versus peers in spite of the group's base metals exposure, we believe that the stock has been excessively punished. We recommend Buy as we believe that there is potential for significant equity value to be unlocked through "management by owners".

Stock recommendation issued by BNP Paribas Wealth Management using data provided by Exane BNP Paribas. Target price and comments provided by Exane BNP Paribas

Geographical breakdown	Activity breakdown		
Asia	39%	Metal and minerals	72%
Europe	32%	Energy products	14%
Americas	21%	Agricultural products	14%
Oceania	4%		
Africa	4%		

(of Sales) (of Sales)

Business description
Glencore took over Xstrata in May 2013, a deal which saw the world's largest metal trader gaining control of Xstrata's mining and industrial assets (34%-owned previously). This created the world's largest thermal coal exporter (5th in coking coal), the 3rd largest copper producer, the largest producer of zinc and ferrochrome and the 4th largest producer of nickel. GlencoreXstrata is the world's largest trader and marketer of seaborne thermal coal (estimated market share of 28%), the leading marketer of copper (50% share of the addressable market), zinc (60% market share), alumina (38% market share), aluminium (22%), cobalt (23%), ferrochrome (16%) and nickel (14%). The group is headquartered in Switzerland and employs c.190,000 people.



Performance (%)		1 week	1 month	3 months	1 year	2 years	3 years	4 years	5 years	1st-jan
Absolute		-0.6%	-22.3%	-51.4%	-62.6%	-60.3%	-64.2%	-70.8%		-55.3%
Relative /	FTSE 100	-1.1%	-17.7%	-47.5%	-59.0%	-57.8%	-65.9%	-74.7%		-52.7%
	MSCI Sector	0.2%	-14.5%	-43.1%	-56.4%	-54.7%	-59.1%	-69.5%		-50.8%
High - low 12 months	GBP	357.64 - 122.80								

Sources : Thomson Reuters Datastream, MSCI

Consensus analysis		Dec-15e	Dec-16e		
EPS estimates: revision rate since	1 month (%)	-28.6	-32.1	Consensus recommendation	Buy <i>(1 to 5: 1 = strong buy; 5 = sell)</i>
	3 months (%)	-31.7	-37.6		
	6 months (%)	-49.4	-30.0		

Sources: Thomson Reuters IBES

Valuation	Fiscal year end	Opinion	Market capitalization M EUR	PER		EV/EBITDA		P/NAV		
				Avg. 5 y	Current	Next	Current	Next	Current	Next
GLENCORE	31-Dec	+	23,737	17.9	26.3	10.5	10.3	9.4	1.1	1.1
Peer group										
ANGLO AMERICAN	31-Dec	=	14,149	10.4	13.1	14.0	11.0	10.1	0.9	0.8
BHP BILLITON	30-Jun	=	82,129	11.5	42.3	27.0	14.7	12.5	1.8	1.9
RIO TINTO	31-Dec	=	58,623	8.4	14.2	12.2	10.8	8.9	1.7	1.7
Average										
Peers (weighted average)				10.2	29.0	20.2	12.9	10.9	1.7	1.7
Peers (arithmetical average)				10.1	23.2	17.7				
FTSE 100				12.8	15.1	13.9				
MSCI Materials				15.5	16.0	14.1				
Premium / (Discount)										
Peers (weighted average)				75.0%	-9.2%	-47.8%	-20.0%	-14.3%	-32.6%	-37.6%
Peers (arithmetical average)				77.2%	13.5%	-40.5%				
FTSE 100				39.8%	75.0%	-24.2%				
MSCI Materials				15.4%	64.2%	-25.2%				

Sources : Thomson Reuters Datastream IBES, BNP Paribas Wealth Management, Exane BNP Paribas, MSCI

Latest data available



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