Metals/Mining update

COMMENT

Think zinc! . . . The new iron ore?

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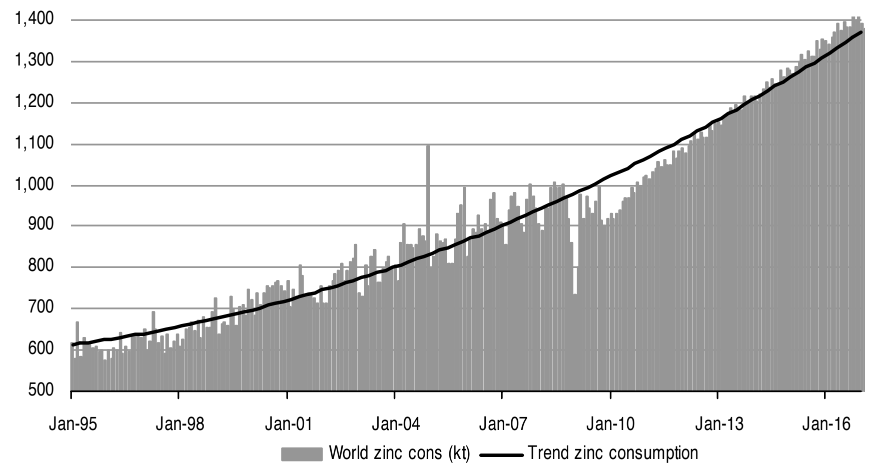
Figure 1: **Global zinc demand return to normality and trend to 2016E**



Source: WBMS, Credit Suisse estimates

- **Summary:** As demand growth moves from China to ex China, zinc is one of the commodities most cyclically levered to the ex China steel market rebound that we forecast. Structurally, the zinc story remains very bullish, in our view, as the developing world including China sees a likely exponential increase in later cycle galvanised steel capacity and output. China is also likely to increase its quantity of zinc use in galva – as its required quality of steel increases. Our analysis suggests there is a potential requirement for a 60% increase in new mine capacity by 2016 at a point in time when zinc still appears an unfashionable investment for companies.
- **Differentiation:** Unlike many houses, we link zinc demand analysis very tightly into our cyclical and structural view of global steel markets (galva is 55-60% of the demand for zinc). This gives us a strong sense of the cyclical possibilities for zinc over the next 12-18 months as well as the structural positives the market has to offer on demand as well as supply. With a very bullish structural demand story set against depleting supply, the structural story for zinc could be as strong as any metal in our view, with the added benefit that the market seems relatively unaware about the drivers which could give us this scenario (versus for e.g. copper).
- **Stock to highlight:** Within our coverage universe, Xstrata has greater exposure to zinc with brownfield and greenfield projects to augment future volumes. Lundin Mining (covered in our Toronto office) is a play on zinc and copper while HudBay Minerals Inc (covered in our Toronto office) is one of our preferred plays on zinc.

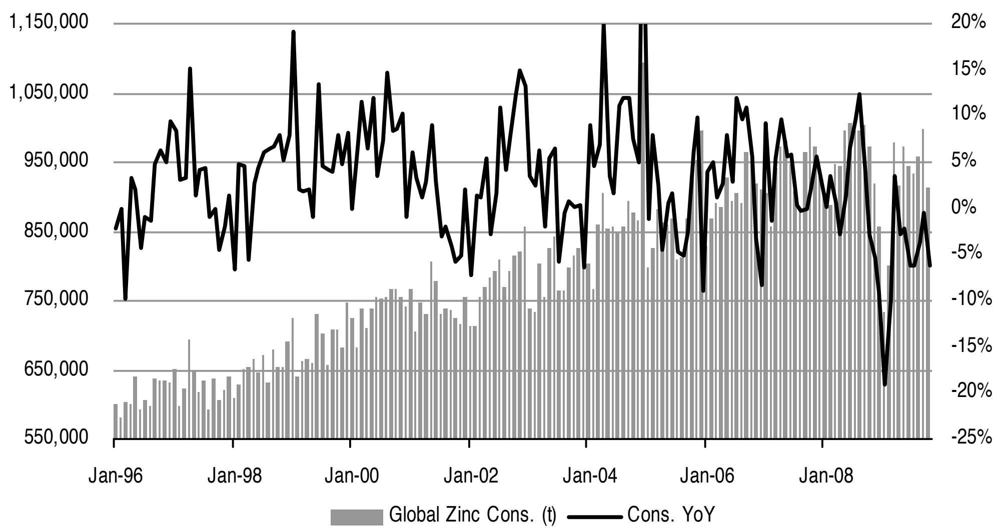
Think Zinc!

Overview

We are bullish zinc – cyclically in the next 12 months or so we believe the outlook will be driven by the rebound in ex China steel production as the likely significant restocking emerges through 2010 (see GSU #65 of 22 December 2009 for our 2010 steel market outlook). Structurally the supply story is potentially as tight as copper from 2012 onwards, but the demand story could be the strongest of any commodity give its later cycle nature of being driven by consumer not infrastructure demand. The developing world should see an exponential increase in galvanised steel capacity in the coming years as development moves from infrastructure to consumer. This should be very positive for the structural supply/demand balance of zinc.

2010 recovery. Then comes the structural story

Figure 2: **Global Zinc consumption 1996–2009 YTD**



Source: WBMS

We estimate zinc consumption likely fell from around 11.5mt in 2008 to just around 11mt in 2009. Production cutbacks in early 2009 maintained a relatively tight market although since then supply has returned faster than demand and inventory has accumulated again. Current production (Oct 2009) is annualising closer to 12mt pa, versus c 10mt per annum annualised in Jan 2009.

This excess however could be drawn down very quickly in our view if the steel restocking is as strong as we anticipate, and the speed and magnitude of the demand rebound could see zinc prices rise sharply through H2 2010 and 2011E. Buying activity amongst commodity funds may anticipate this move suggesting zinc prices could rally further ahead of the real underlying demand rebound.

The rebound we forecast in carbon steel production (and consequently galvanised steel output) should see zinc consumption of 11.6mt in 2010E and 12.6mt in 2011E, on our estimates.

1) China's consumption of galvanised sheet is far smaller than its relative total steel consumption. – cyclically (12 month view) this leaves zinc demand primarily geared to the developed world steel markets – where we see the lion's share of the demand rebound this year.

2) H1 2009 demand for and production of galvanised sheet in the developed world was down some 50% from peak levels—a decrease equivalent to more than twice that of China's total galvanised sheet consumption. The rebound in 2010 could be substantial on our analysis

3) Zinc output has so far rebounded too sharply and inventory has built. But the speed and extent of potential demand recovery could see inventory drawn down to low levels relatively quickly during 2010E. When inventory falls, prices normally rise suggesting 2010E and 2011E could be a very strong year for zinc.

4) Structurally, zinc is a very late-cycle (on a 25-year cycle view) metal, as demand for galvanised steel lags that of 'plain vanilla' steel through the early stages of a country's development.

5) The structural story for zinc should be very positive as the ex China steel market normalises, and the Chinese galvanised sheet output grows exponentially relative to its steel market, along with demand from other developing nations.

6) China also uses far less zinc on its galvanised steel (about 50%) relative to the developed world – this in our view will have to change as quality requirements increase (such as 12 year anti corrosion warranties)

7) Companies such as Xstrata (which is the global leader) still seem very reticent to invest in zinc, largely given its relatively weak legacy of demand. Few CEOs appear to be analysing the longer term prospects of zinc demand relative to supply and this in our view is very bullish.

8) As Chinese galva demand catches up with the size of its steel market at a time when there are major mine closures at the low end of the cost curve (from 2012E onwards) we would expect to see a substantial up-shift in the cost curve at the far end – similar to what we saw in iron ore in the 2001-2009 period.

9) China's zinc supply remains a wildcard in our view. But even if the quantity of zinc from China can increase, we doubt (as we also saw in iron ore) that this can be extracted at low cost. As such it is this supply that is likely to become necessary but also drive the back end of the cost curve substantially higher.

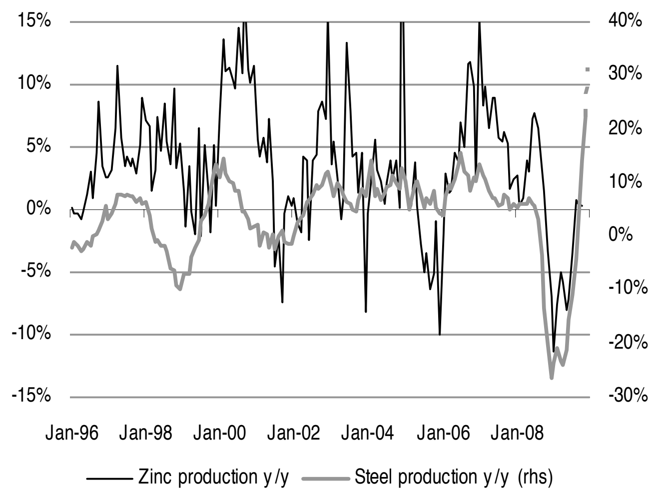
Overall, zinc could be in a *very strong structural demand position in the longer term, as Chinese and developing world galvanised steel consumption grows at an exponential rate to come into line with its underlying steel consumption*. This is against a backdrop of clearly depleting supply and seemingly limited investment from mining majors. In three to five years, zinc could be as structurally interesting as any metal in our universe. The wildcard remains whether China can support (as it cannot in iron ore) a significant increase in zinc production at the low end of the cost curve.

6mt more mine capacity required by 2016?

By 2016 our analysis suggests the world could need c 6mt more zinc mine capacity versus current capabilities – that's a c 60% increase in new mines. It is hard to believe that, with so much capex required (and so little capex apparently being spent), either there is a significant shortage of zinc in the coming years to meet demand or the back end of the zinc cost curve does not rise exponentially, as inefficient capacity is bought on piecemeal to meet struggling supply relative to demand.

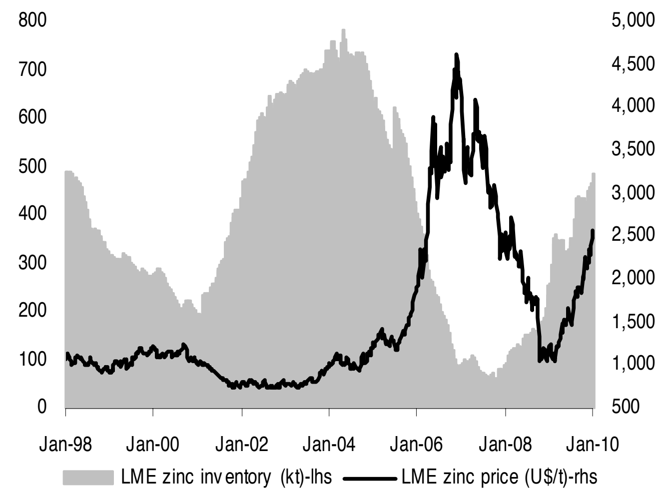
Cyclical outlook 2010-2011

Figure 3: **Zinc production versus steel production**



Source: WBMS, worldsteel, Credit Suisse estimates

Figure 4: **Zinc price versus inventory LME**



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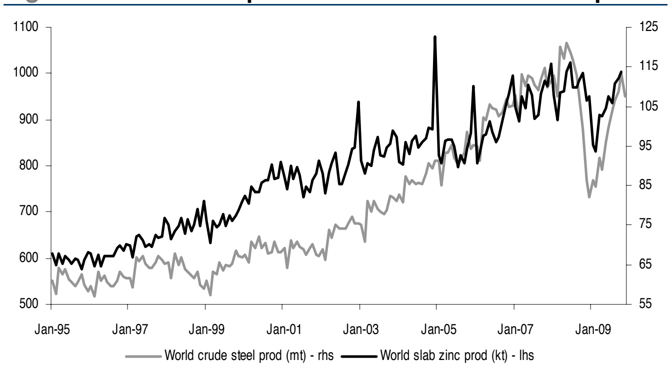
Zinc demand fell sharply from the end of 2008 to mid 2009 with the collapsing global steel market, but zinc production fell in line with carbon steel output through the back end of 2008 and early 2009.

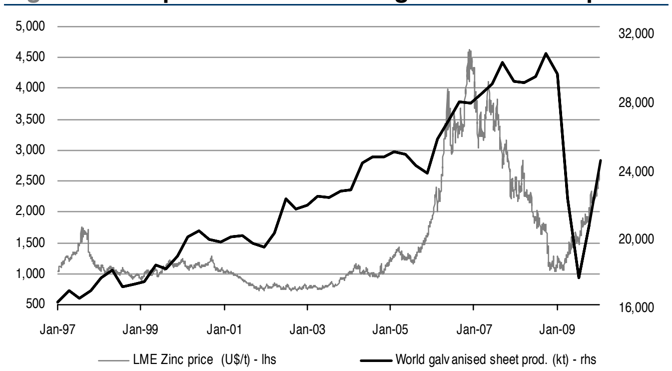
Inventory has been rising again of late as more recently zinc supply outstripped the rebound in steel output in the developed world. However this situation is likely to turn sharply in our view as we move into Q2 2010. The core driver will be the demand rebound in steel in the US, Europe and Japan which together account for around 60% of galvanised steel production.

Figure 5: **Global zinc production versus world steel prod**



Source: WBMS, © Datastream International Limited ALL RIGHTS RESERVED

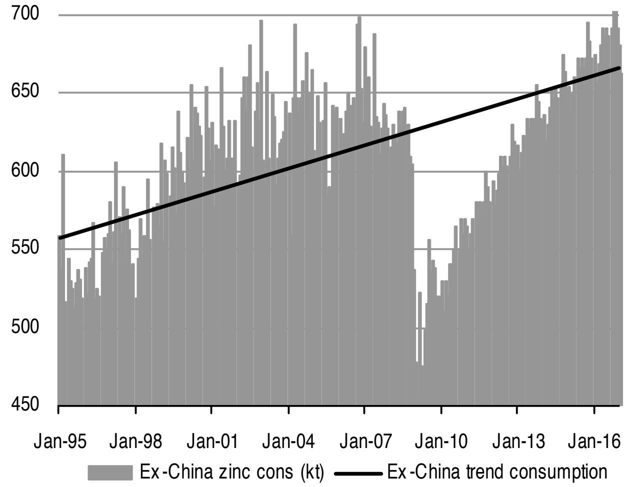
Figure 6:**Zinc prices versus world galvanised steel prod**



Source: CRU, © Datastream International Limited ALL RIGHTS RESERVED

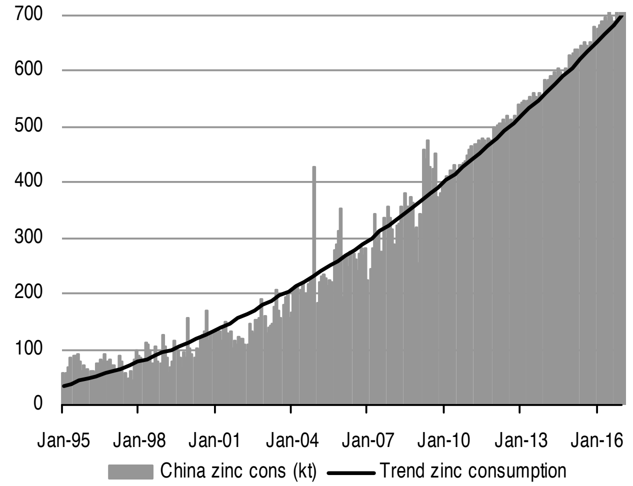
Production of zinc has reached close to all time highs again and we doubt there is much spare capacity that can be brought to the market in the relatively short term. Demand is still c 16% below former peak levels, as the steel market recovery has not yet commenced in earnest outside of China. But that is about to change in our view. Ex China zinc consumption is actually currently around 23% below peak levels – even more significant than the global total (but this is the market set for a demand rebound in our view).

Figure 7: **Ex China demand and trend**



Source: WBMS, Credit Suisse estimates

Figure 8: **China demand and trend**



Source: WBMS, Credit Suisse estimates

In 2009, ex-China zinc consumption was down some 23%, driven by the collapse in the ex China steel market. In absolute terms, zinc demand ex China has some 150kt per month below trend for much of 2009.

China's zinc consumption is up some 20% in 2009, broadly in line with apparent demand growth in steel. As such, zinc has very solid demand recovery potential from the ex China market, and we do not believe China is over-consuming zinc to the extent it is for example in copper where the demand has been much further ahead of trend relative to zinc (suggesting greater inventory build in China of copper than zinc).

Ex China should return to trend primarily as the steel market recovers through 2010–2012. adding we estimate an additional c 2mt (or c 20%) of demand to the global market. We believe the rebound in volumes ex China in 2010E will be rapid and substantial from Q2 2010 onwards driven by inventory rebuild and rising steel prices.

If we see a normalisation to trend by 2012 in the ex China steel market (in line with our steel market view), then we would expect to see around 13mt of global zinc demand in 2012. What this suggests is that the zinc market could be in deficit in H2 2010E and through 2011, with a potentially significant price spike in 2011.

If the cyclical story is bullish, we would argue the structural story is even more bullish – and perhaps more importantly not well understood by the market (unlike copper for example). Our meetings with investors last year made it clear to us that in the eyes of the market zinc is still a relatively unfashionable metal. Listening to corporates we see a similar story – that zinc is a metal not worth investing in – (which again is bullish in our view from a supply perspective.)

Structural story very strong

The structural supply-side outlook is interesting in zinc given depleting reserves and mine closures that we anticipate from 2012 onwards. The demand outlook however is the most interesting aspect for us as this we believe is not well recognised by the market.

1) Demand could go exponential

Around 70% of the global galvanised steel demand now comes from developed countries. In our view, while the developed world therefore will drive the cyclical story in zinc, the structural story will be driven by the demand growth in emerging markets, and especially China ,over the next 5-10 years. This could see the global zinc market requiring a c60% uplift in mine capacity by 2016E at a time when few companies are investing seriously in zinc. This in our view is the big driver on the structural side.

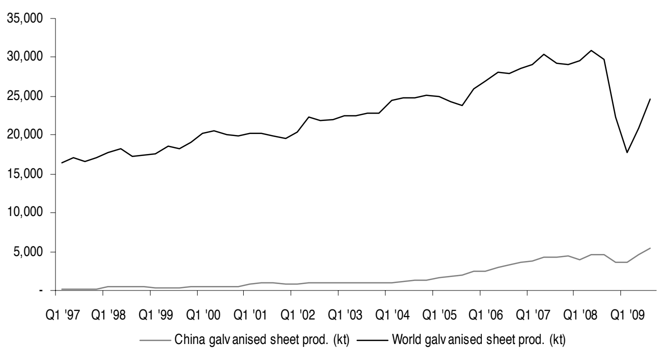
The key driver in our view will be China, which we estimate should move from 12-15% of global galvanised steel output (on a normalised basis) to 30-40% in the coming 5-10 years. This is because the early stages of a country's development tends to be driven by construction-grade long products and progresses to high quality flat steel as growth becomes more consumer driven.

As a rule of thumb, early-stage development sees a steel production mix of 60% long product, 40% flat product, with only low grade flat products produced. As a country moves from infrastructure led- to consumer-driven production, the long/flat steel split typically moves to a 40%-60% long-flat mix.

Within that transition period, more consumer-driven metal is sold (autos and white goods, for example) and buildings tend to be built increasingly as prestige symbols—out of steel and glass with lots of galvanised steel on the outside. Hence, at the later stages of development in the transition to consumer economies, steel tends to be more zinc friendly.

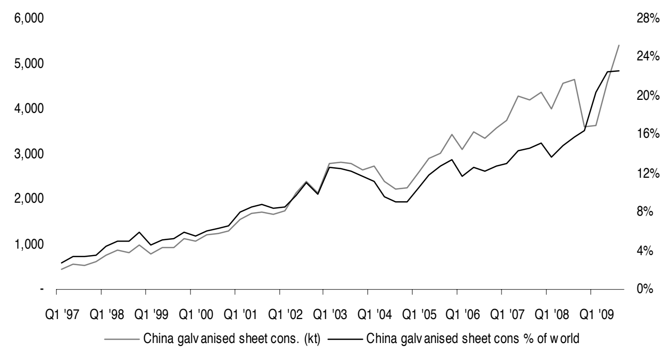
Our contacts in the steel equipment supply industry already tell us that demand for galvanising lines in China and the developing world in general is very robust.

Figure 9: Galvanised sheet production: China vs. World



Source: CRU

Figure 10: China galvanised sheet cons and % of world

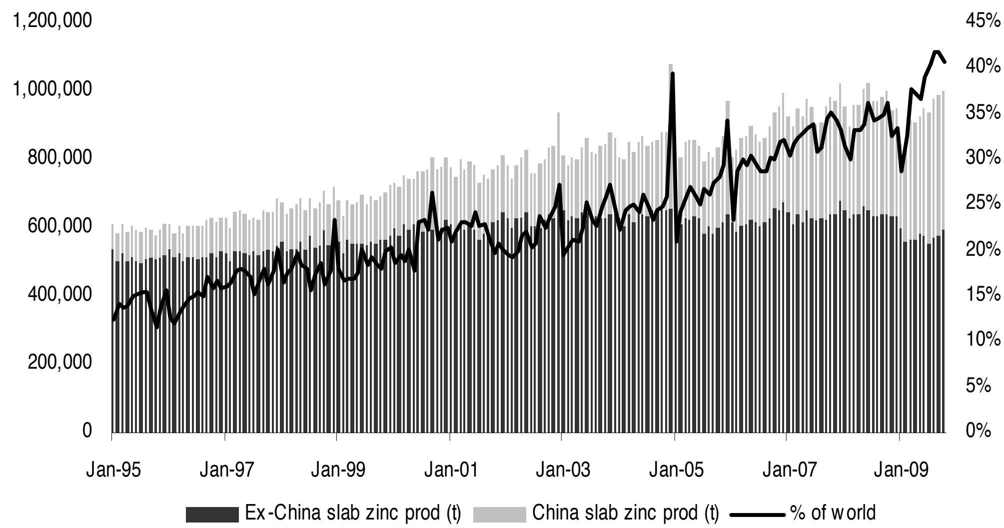


Source: CRU

On a very conservative basis we believe that China should move to close to 29% of global galvanised output by 2016, at the latest suggesting some 50mt of galvanised sheet output versus c17mt in 2008—an exponential increase versus its underlying steel production growth—bullish for zinc demand, but supply remains the risk. This could be significantly higher in our view -in the past China has surprised on the upside with steel production and iron ore consumption and it is plausible we see 60-80mt of galva capacity in that period in our view.

2) Supply

Figure 11: **China and ex China zinc production and China as % of total**



Source: WBMS

In recent years, against a relatively weak long-term demand backdrop, Chinese zinc output has also been a problem for zinc fundamentals, growing from around 20% of the total a decade ago to 35-40% last year. Although China's production capacity figures are relatively opaque, it is a common view among the miners we speak to that Chinese zinc production has the potential to increase further from here on in. The point is however that the zinc industry almost certainly will need to bring on substantial new supply to prevent a major deficit in the global zinc market. Furthermore we are sceptical that an exponential increase in zinc demand in China can be met with material quantities of low cost zinc being extracted.

We also believe that, at the margin, the Chinese zinc industry is small scale and inefficient even if the total zinc production is substantial. This does not lend itself to an exponential increase in low cost output in our view.

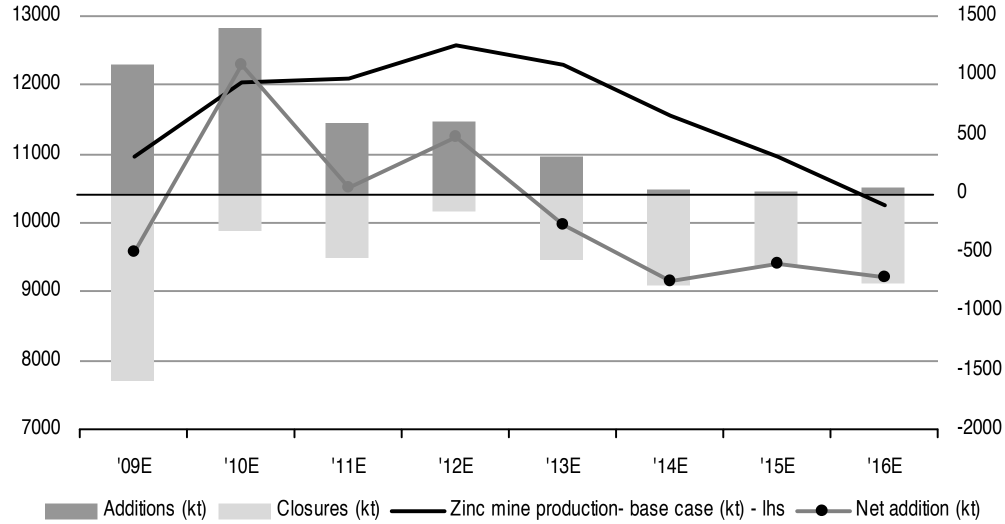
Similar to the market for thermal and met coal in China, where the domestic industry appears to be buckling under the strain of increased demand, if zinc consumption in China grows exponentially, it remains to be seen if small scale inefficient domestic zinc producers will be able to cope with significantly larger scale output at a cost that is competitive with the global market.

As such we believe there is a real likelihood that on a 5-10 year view we see a substantial steepening of the cost curve at the back end as we saw in iron ore in the first decade of the 2000s.

If China moves to become the global leader in galvanised sheet consumption, then it is likely (as we saw in iron ore) that small-scale and inefficient domestic production at the margin will be firmly at the top end of the cost curve.

What is also interesting against a bullish demand backdrop is the fact that existing mines (many of which are low cost) will see rapid depletion from 2012 onwards. The world needs new zinc mines, in our view, and CEOs will probably need to see a significant price spike to agree to fund them.

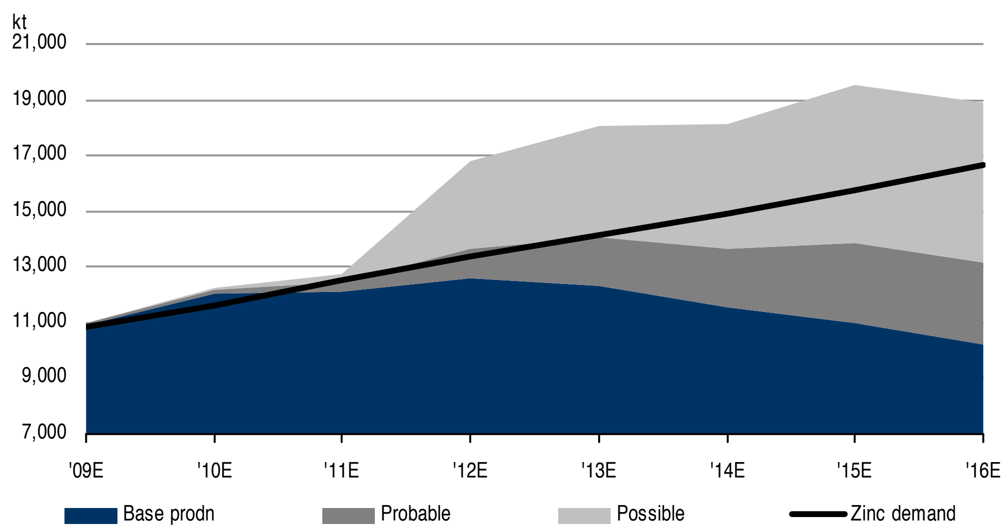
Figure 12: Zinc mines additions, closures and depletions 2009E–2020E



Source: Brook Hunt

In Figure 12, we show the likely dynamic of structured zinc supply out to 2016E. With significant closures in zinc mines from 2013E onwards, zinc production should theoretically peak in 2012E and decline fairly rapidly thereafter.

Figure 13: Structural supply/demand balance in zinc – scenario analysis



Source: Brook Hunt, Credit Suisse estimates

Relative to our demand forecasts, the zinc market should be exceptionally tight under base-case assumptions of new capacity. The base case includes known capacity increases. According to Brook Hunt, there are 2mt of new projects and expansions expected to come on stream between 2009 and 2012 and around 1mt of attrition and closure. The net effect should add c10% to the current annual mine capacity.

There is, however, significant scheduled new mine capacity that could come on line as we show in Figure 13 (probable and possible), meaning that there remains plenty of zinc mine capacity in the world to fulfil even bullish demand forecasts. In the current environment, with mining juniors struggling for funding and the majors extremely cautious, we probably need to see a huge price spike in zinc before capex projects are funded or fundable.

Zinc may therefore one day return to oversupply—there is plenty of the metal in the ground to meet even our most bullish demand assumptions. But it is the one metal (other than copper) where we see a need for new capacity to be built, and to entice CEOs to build that capacity, we will probably need to see a price spike first.

As we have noted above, China remains the wildcard on the supply side and could be the big swing factor on supply, but it remains to be seen whether the domestic infrastructure around zinc output can support large-scale low-cost zinc output that competes (as it would have to in order to keep prices low) with the lower ends of the global cost curve.

Zinc usage in galva –China is below global average

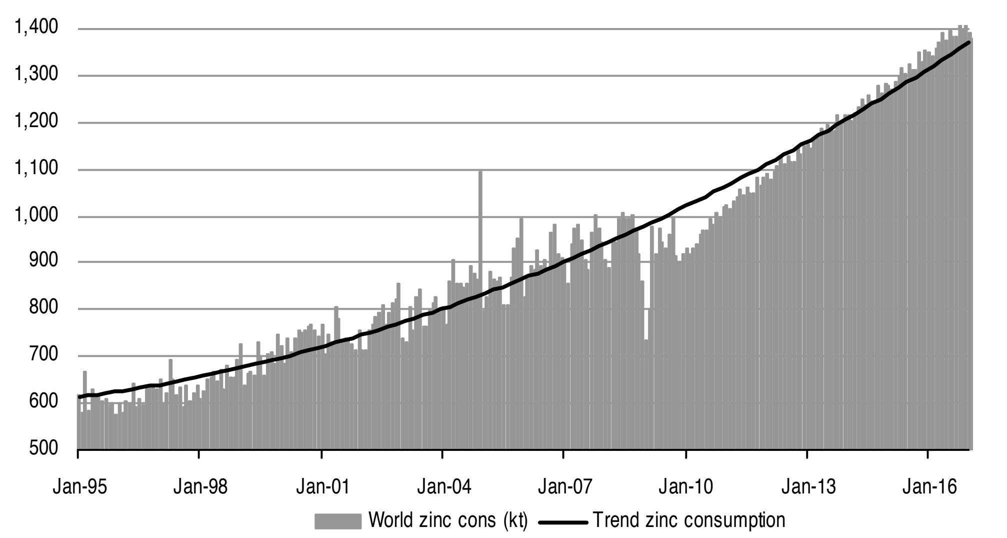
It is also worth noting that on top of a likely exponential demand for the volume of galvanised steel a further potential positive wildcard is the quantity of zinc that China will use on each tonne of steel sheet going forward.

Currently China uses around 50% of the quantity of zinc on each tonne of galvanised sheet relative to its developed world counterparts – largely in our view because the galvanised sheet market is relatively small and in its infancy, and as such quality considerations are relatively low versus say Japan or Europe.

This however will likely change in our view as quality needs improve, and long term anti corrosion warranties are issued on cars and other external steel structures such as construction.

Long term supply / demand balance—needs new capacity badly

Figure 14: Global zinc demand return to normality and trend to 2016E



Source: WBMS, Credit Suisse estimates

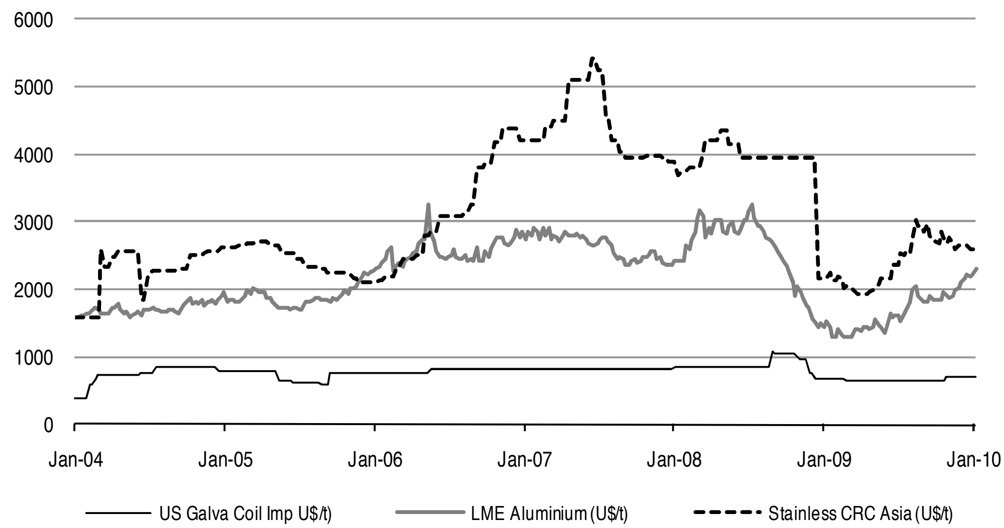
There are not many metals for which we think the world needs new capacity, but zinc is an exception, and the clear extent to which new capacity is needed (based on our demand estimates) suggests there will need to see a price spike to incentivise CEOs to spend capex on zinc mines.

In the doldrums and out of favour for years, we believe the market and investors have forgotten that zinc is a very late-cycle metal, driven largely by galvanised steel consumption, which only occurs at an exponential growth rate at the later stages of a country's development.

What China has already done on the demand side for steel in general and iron ore and copper - is likely to happen to zinc over the next five to ten years, in our view. On the supply side it appears companies appear reticent to invest – and this in our view is a potentially lethal cocktail for a spike in the zinc price in the coming years.

Substitution

Figure 15: **Galvanised steel price relative to aluminium and stainless CRC**



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Investors will always rightfully query the substitution risk – although it is possible to substitute galva for stainless steel and or aluminium, the relative price means that even with a potentially spike in the zinc price this would remain uneconomic. Therefore the zinc price could see a major rally and there should still be no underlying demand destruction for galvanised steel given the relative spreads of the substitution products relative to galva.

Stocks to highlight

XTA is the largest single zinc producer in the world and the diversified miner with the greatest zinc exposure. The purer play, listed in Toronto, is Lundin Mining, covered by Ralph Profiti in our Toronto office which has a combination of zinc and copper while HudBay Minerals Inc (covered in our Toronto office) is one of our preferred plays on zinc.

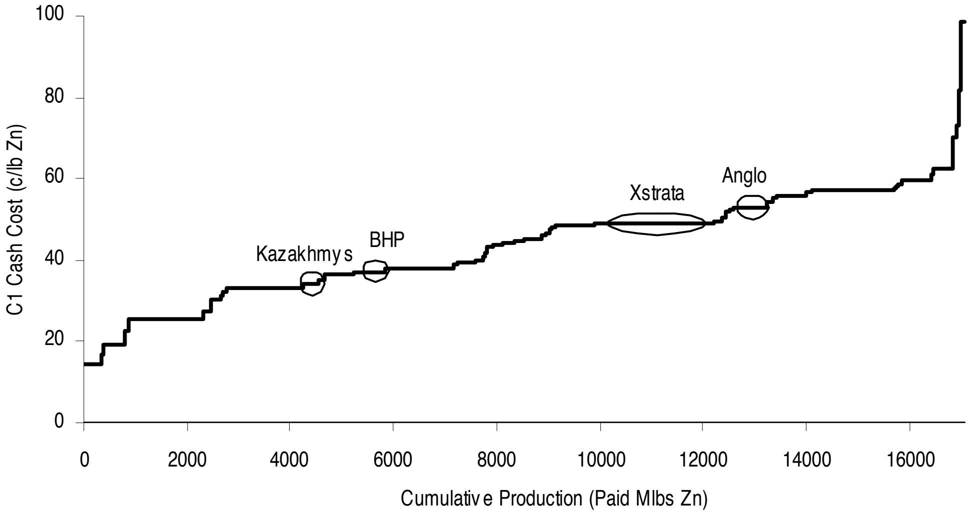
Figure 16: **Zinc supply/demand balance (demand inferred from steel demand)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Crude steel production (mt)	834	887	945	1,045	1,113	1,228	1,327	1,303	1,189	1,371	1,495	1,582	1,655	1,725	1,799	1,874
China Galvanised steel cons (kt)	6,633	8,424	11,021	9,619	11,919	13,500	16,590	16,826	19,182	22,059	25,368	29,173	33,549	38,582	44,369	51,025
Ex-China Galvanised steel cons (kt)	71,830	77,185	78,820	89,280	86,495	95,949	99,635	94,847	79,671	87,639	96,402	104,115	110,361	115,880	121,673	127,757
Total galvanised steel cons (kt)	78,464	85,609	89,840	98,899	98,414	109,450	116,224	111,673	98,853	109,698	121,771	133,288	143,911	154,461	166,043	178,782
as % of total finished steel prodn	10.3%	10.6%	10.4%	10.4%	9.7%	9.8%	9.6%	9.4%	9.1%	8.8%	9.0%	9.3%	9.6%	9.8%	10.1%	10.5%
Galvanised cons growth	-0.4%	9.1%	4.9%	10.1%	-0.5%	11.2%	6.2%	-3.9%	-11.5%	11.0%	11.0%	9.5%	8.0%	7.3%	7.5%	7.7%
Growth in other zinc cons	-0.4%	3.6%	3.9%	6.8%	3.1%	5.2%	2.5%	-2.0%	7.0%	3.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Zinc consumption for galvanised steel	4,923	5,101	5,299	5,659	5,836	6,137	6,290	6,164	5,456	6,055	6,721	7,357	7,943	8,525	9,164	9,868
Other uses	4,028	4,173	4,335	4,630	4,775	5,022	5,147	5,043	5,396	5,558	5,836	6,011	6,191	6,377	6,568	6,765
Zinc consumption (kt)	**8,951**	**9,274**	**9,634**	**10,289**	**10,611**	**11,159**	**11,437**	**11,207**	**10,852**	**11,612**	**12,557**	**13,367**	**14,134**	**14,902**	**15,733**	**16,633**
% growth yoy	0%	4%	4%	7%	3%	5%	2%	-2%	-3%	7%	8%	6%	6%	5%	6%	6%
Mine prod capacity (kt) Brooke Hunt base case	**9,142**	**9,096**	**9,576**	**9,568**	**9,921**	**10,316**	**10,902**	**11,444**	**10,953**	**12,047**	**12,101**	**12,572**	**12,305**	**11,554**	**10,956**	**10,244**
Surplus capacity / implied prodn cuts (kt)	**191**	**-178**	**-58**	**-721**	**-690**	**-843**	**-534**	**237**	**101**	**435**	**-455**	**-796**	**-1,829**	**-3,348**	**-4,777**	**-6,389**

Source: Brook Hunt, worldsteel, CRU, Credit Suisse estimates

Industry cost curve

Figure 17: Zinc: Industry cost curve



Source: Brook Hunt

The cost curve suggests that zinc prices should move in the range of US$0.60/lb to above US$1.00/lb in a tight market. We forecast a very tight market for zinc in 2011–12. Beyond that, the price should leave the cost curve and (for a while, at least) move to a level where CEOs can be persuaded to fund even the most high-cost projects. We could see a significant price spike in zinc from 2011 onwards, although the equity as well as the traded commodity market will probably price this in some time before then, in our view.

Companies Mentioned *(Price as of 08 Jan 10)*
Anglo American plc (AAL.L, 2897.00 p, OUTPERFORM [V], TP 3000.00 p, OVERWEIGHT)
BHP Billiton (BLT.L, 2115.50 p, NEUTRAL [V], TP 2150.00 p, OVERWEIGHT)
HudBay Minerals Inc (HBM.TO, C$14.83, OUTPERFORM [V], TP C$19.00)
Kazakhmys Plc (KAZ.L, 1499.00 p, OUTPERFORM [V], TP 1270.00 p, OVERWEIGHT)
Lundin Mining Inc (LUN.TO, C$4.89, OUTPERFORM [V], TP C$5.50)
Xstrata Plc (XTA.L, 1246.50 p, OUTPERFORM [V], TP 1300.00 p, OVERWEIGHT)

Disclosure Appendix

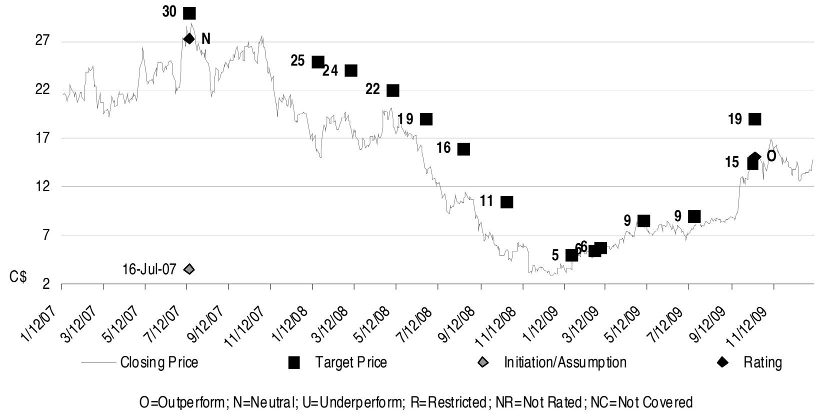
Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

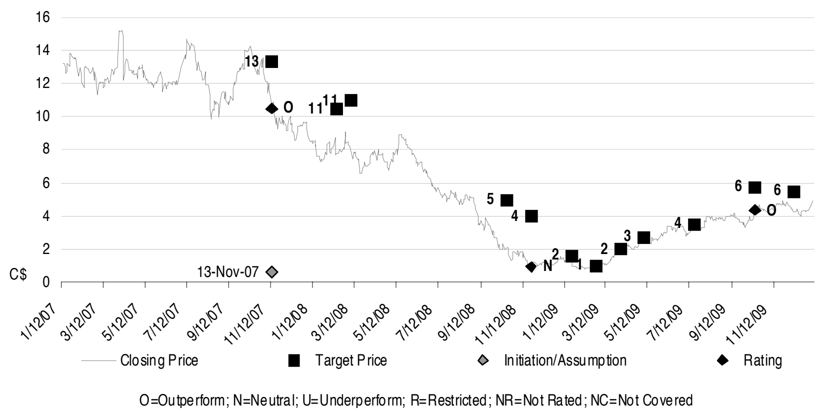
3-Year Price, Target Price and Rating Change History Chart for HBM.TO

HBM.TO Date	Closing Price (C$)	Target Price (C$)	Rating	Initiation/ Assumption
16/07/2007	27.25	30	N	X
18/01/2008	15.83	25		
6/3/08	18.34	24		
7/5/08	19	22		
23/06/2008	14.01	19		
17/08/2008	10.45	16		
20/10/2008	5.5	10.5		
22/01/2009	3.52	5		
24/02/2009	5.38	5.5		
5/3/09	5.66	5.75		
6/5/09	8.44	8.5		
19/07/2009	7.69	9		
11/10/09	15.3	14.5		
16/10/2009	15.08	19	O	



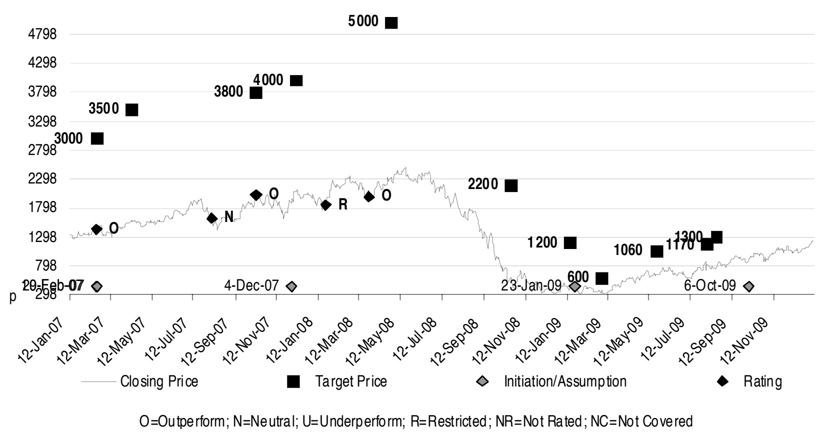
3-Year Price, Target Price and Rating Change History Chart for LUN.TO

LUN.TO Date	Closing Price (C$)	Target Price (C$)	Rating	Initiation/ Assumption
13/11/2007	10.514	13.34	O	X
14/02/2008	7.745	10.5		
6/3/08	8.11	11		
20/10/2008	2.13	5		
23/11/2008	1.05	4	N	
22/01/2009	1.19	1.6		
26/02/2009	.74	1		
3/4/09	2.11	2		
7/5/09	2.57	2.75		
19/07/2009	3.21	3.5		
16/10/2009	4.35	5.75	O	
11/12/09	4.2	5.5		



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

XTA.L Date	Closing Price (p)	Target Price (p)	Rating	Initiation/ Assumption
19/02/2007	1,433.89	3000	O	X
20/02/2007				X
04-Nov-07	1,573.15	3500		
08-Aug-07	1,625.79		N	
10-Dec-07	2,029.98	3800	O	
4/12/07				X
12-Oct-07	2,069.6	4000		
22/01/2008	1,856.76		R	
26/03/2008	1,993.75		O	
28/04/2008	2,317.55	5000		
20/10/2008	587.03	2200		
16/01/2009	420.03	1200		
23/01/2009				X
03-Apr-09	382	600		
22/05/2009	655.5	1060		
08-Jun-09	820	1170		
19/08/2009	771.5	1300		
10-Jun-09				X



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Restricted	2%	

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Price Target: (12 months) for (HBM.TO)

Method: Our C$19.00/share target price for Hudbay Minerals Inc. is based on a 1x our NAVPS estimate ($18.65/share). Our NAVPS uses Credit Suisse long-term copper and zinc price assumptions of US$2.00/lb and US$0.85/lb, respectively. Our multiples for HudBay Minerals Inc. are in-line with the peer group.

Risks: Primary risks to our C$19.00/share target price for HBM include the copper and zinc price varying materially from our forecasts, operational risk at individual mines, and risks to global economic growth and currencies. There is also an element of environmental liability due to the company's 80 years of operating metallurgical and smelting facilities in the Flin Flon area. The liability contingency may be insufficient as the mining industry is highly regulated in North America. HBM's metallurgical operations rely heavily on the purchase of third-party concentrates of copper and zinc. Under HBM's current portfolio of operations, concentrate purchases are expected to increase as a result of declining production, which will likely negatively affect profitability as processing of purchased concentrates is less profitable than processing HBM-sourced concentrate.

Price Target: (12 months) for (LUN.TO)

Method: Our Target Price of $5.50/share for LUN is based on a 70/30 weighting of 1x our NAVPS of C$5.50/share and 5x FY10/11 EV/EBITDA. Our multiples are inline to the peer group. Our NAVPS is based on Credit Suisse long-term copper, zinc, and nickel price assumptions of $2.00/lb, $0.85/lb, and $6.50/lb, respectively.

Risks: Primary risks to our target price for Lundin Mining Corp. (LUN) of C$5.50/share includes the commodity prices varying materially from our forecasts, operational risk at individual mines, and risks to global economic growth and currencies. The Democratic Republic of Congo is currently undergoing a review of is mining licenses. We believe that while the final outcome is still imminent, it will likely have a meaningful impact on the country's attractiveness to foreign mining investment the country risk rating which we apply and hence company valuations that make up significant portion of our overall valuation.

Price Target: (12 months) for (XTA.L)

Method: Our target price of £13.00/share is based on Discounted Cash Flow method (assuming a WACC of 10.5%) and the team commodity price forecasts.

Risks: Global industrial production environment impacting outlook for commodity use, commodity prices, Operational risk on delivery of new projects.

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