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Anglo American plc

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Anglo American at last finds favour with analysts after years in the wilderness

Price:	2245.5
Market Cap:	£30.76 billion

Share Information

Code:		AAL
Listing:		LSE
52 week	**High**	**Low**
	2294	**1654.8**
Sector:		**Mining**
Website:		**www.angloamerican.co.uk**

Company Synopsis:
Anglo American is one of the world's largest diversified mining groups with portfolio of mining assets and natural resources includes precious, base metals and bulk commodities in Africa, Europe, South and North America, Australia and Asia.

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Anglo American plc's (LON:AAL) long run as the mining company least favoured by analysts looks to be well and truly over.

Not before time, long-standing supporters might well argue, given that the shares have had a stellar run since they bottomed out at around 220p back in January of 2016. They are now riding high at a bumper 1,847p, back in the sort of pricing range at which they always seemed to belong.

Indeed, in April and in July the shares took a peek over the 2,100p mark, and there's some speculation that it could go through that level again, and beyond too, by some margin.

That's the view of BoA Merrill Lynch, which currently sets a price "objective" for the company of 3,100p, and rates it a "buy."

The rating looks more remarkable in the historic context when it's set against the ratings BoA Merrill Lynch gives to the other majors.

BHP (LON:BLT) and Rio Tinto (LON:RIO) are rated underperform, while Glencore (LON:GLEN) is rated neutral.

So what is it that's setting Anglo American apart from the crowd. Simply put, the wheel has turned, or what used to be considered a drag for Anglo is now considered a plus, whereas what used to be considered a plus for the other majors is now much less desirable.

In particular, there is Anglo American's exposure to the Platinum group metals via its controlling stake in Anglo Platinum. PGMs, and in particular platinum, have had a poor run over the past few years, amid concerns of oversupply. But take a look at the palladium price, which has gone up by around 200% since the start of 2016, coincidentally - or perhaps not - the very moment at which Anglo American reached its nadir.

Now riding high at not far off US$1,700 an ounce, there could be still more to come, if the opinions of analysts at UBS are anything to go by.

"We see further price upside over the coming quarters", UBS told clients in a note issued in early October.

The platinum price hasn't been doing quite so well as the palladium price, of course, but it is up by around 10% over the past 12 months, something which won't have done Anglo Platinum's margins any harm.

Also working in Anglo American's favour is the diamond market. But wait, I hear you cry, isn't the diamond market completely in the doldrums. But that's just the point that BoA Merrill Lynch is making.

With more exposure to diamonds than any other major mining company outside of Russia, Anglo American has suffered the vicissitudes of diamond pricing over the past couple of years more than most.

But BoA reckons that the diamond price is "close to a trough" or, to put it another way, the worst could now be behind us. If that's the case and diamonds pick up over the coming few quarters then Anglo will benefit disproportionately. Both Rio and BHP do have some diamond exposure, but it hardly sets the price or affects investor sentiment the way De Beers does for Anglo.

Then there's iron ore. It's a widely held view that the peak in the iron ore price that followed on from Vale's various woes is now behind us. The major companies with the most exposure to iron ore are therefore likely to see some of the recent shine that showed up in their earnings rubbing off. In particular, that means Rio and BHP.

Anglo American does have some iron ore exposure in the shape of its South African vehicle Kumba, but the market doesn't set so much store by this as it does by BHP's and Rio's Australian operations - another reason why the two larger peers have both earned "underperform" ratings from BoA Merrill Lynch.

Finally, there's South Africa, and here the analysis does get a bit more tenuous.

"We consider the potential for new political leadership in South Africa to arrest the derating of the South African mining sector vs. global peers," argues BoA Merrill Lynch.

If Merrills is right, of course, then that would bode well for Anglo, given that although there has been significant diversification over the past few years it is still seen as predominantly a South African play and a South African vehicle.

Political risk in South Africa has been on the rise inexorably for more than a decade, and sentiment towards its miners has been hurt accordingly. On the other side of the same coin, of course, mining companies that don't have much exposure to South Africa, like Rio Tinto, BHP and Glencore, have enjoyed stronger support.

If the South African dynamic is changing, then once-shy investors could indeed come rushing back into Anglo American. But don't hold your breath.