

Rio Tinto Plc and Reservoir Minerals Inc. have signed a “joint-venture” agreement related to the latter’s four wholly-owned exploration permits, with a combined area of 265.6 square kilometers. The project will be funded by Rio, which can earn 75% interest during different stages of the venture by funding costs of about \$75 million.

Under the terms and conditions of the contract, Rio Tinto can choose to bear the total project expenditure of \$7 million by November 30, 2019. This will enable it to earn 51% interest in the Tilva project. The company has already agreed to spend a minimum project expenditure of \$3.1 million by the end of 2017. This is inclusive of the reimbursement costs of a maximum of \$500,000 that will be used in the drill program in the Tilva project.

Bidness Etc believes it is a lucrative investment opportunity for Rio Tinto since Reservoir Minerals has a rich exploration history. Reservoir recently updated its exploration activity in Romania, Serbia, and Macedonia. It also operates in areas of south-east Europe that are known to have high potential for copper-gold miners.

Reservoir President and CEO Simon Ingram stated that the company is delighted to work with Rio Tinto at the Timok belt, where Reservoir has recently shown its exploration potential for copper-gold deposits. He further said that the company expects more growth and success after the agreement.

The agreement looks to be a huge boost for Rio Tinto at a time when investors are not too satisfied with the stock. The mining industry has become a cyclical industry with the current decline in mining activity. However, a number of analysts contend that it is safe for long-term investors to invest in mining companies.

The company has an efficient mining strategy and has displayed cost-efficient measures as well. It has done active restructuring of its business in the past year. With a decline in commodity prices, the cost has also fallen, benefitting the business in the long run. It has reduced its cost base by \$5.4 billion in working capital.

The company also has a solid cash flow. From 2013 to 2014 the free cash flow surged 76% from \$1.14 billion to \$2.55 billion. This helped the company expand its business through the purchase of assets and other small businesses.

Future Outlook

According to the department of Industry and Science, an increase in iron ore demand is expected in the medium to long term, which will be beneficial for Rio Tinto since it is a low-cost producer.

After the mine disaster at Samarco in Brazil, iron ore prices are expected to rise due to the supply cut. However, Rio is unlikely to be affected much by the prices of iron ore in the long run.



What is the deal with Rio Tinto Plc and Reservoir Minerals

Rio Tinto stock traded at \$33.99 at the closing bell on Thursday, and has a 52-week range of \$31.97-50.07. The company has a market cap of \$99.32 billion.

source: bidnesstc.com