



# ***MINING/INCOME*** **RECOMMENDATION**

# **BHP**

**BHP:ASX**  
**November 2024**

*GENERAL ADVICE ONLY - THIS RECOMMENDATION IS GENERAL ADVICE ONLY AND DOES NOT TAKE INTO ACCOUNT YOUR SPECIFIC CIRCUMSTANCES*

### MINING/INCOME RECOMMENDATION

#### BHP Group BHP:ASX

BHP Group is a leading global resources company headquartered in Melbourne, Australia. As one of the world's largest producers of major commodities, BHP operates a portfolio of world-class assets focused on iron ore, copper, nickel, and metallurgical coal.

The company's operations are primarily located in Australia and the Americas, with its flagship iron ore business in Western Australia being a key driver of profitability.

**BHP has large, high-quality, long-life assets...**

**...in commodities positively leveraged to global megatrends**

Population growth

Urbanisation

Increased living standards

Energy transition

**Our cash generation and financial position...**

Highest margins<sup>1</sup>

Consistent NOCF<sup>2</sup>

Strong balance sheet

**...enables organic growth and delivers value to shareholders**

**Chilean copper**  
Pathways back to ~1.4 Mtpa<sup>3</sup>

**Copper South Australia**  
650 ktpa aspiration

**Jansen Stages 1 & 2**  
8.5 Mtpa

**Western Australia Iron Ore**  
Studies for up to 330 Mtpa

BHP has strategically positioned itself to benefit from global megatrends, including urbanization, electrification, and the transition to clean energy. The company's recent focus on "future-facing" commodities like copper and nickel aligns well with the growing demand for materials essential to renewable energy technologies and electric vehicles. Additionally, BHP's upcoming entry into the potash market through its Jansen project in Canada demonstrates its commitment to diversifying its portfolio and capitalizing on long-term trends in global food security and agricultural productivity.

<b>BHP Portfolio</b>	Population growth	Urbanisation	Rising living standards	Decarbonising power	Electrifying transport	Geopolitical risk	30/30 year growth <b>BHP</b> 1.5°C scenario
<b>Copper</b>	+	++	+++	+++	+++	~	More than double
<b>Nickel</b>	+	++	+++	+	++++	+	~3¼ times
<b>Steel</b>	+	+++	++	++	~	~	~1¼ times
<b>Potash</b>	+++	+	+	~	~	+++	More than double
<b>2050 estimate, change from current</b>	~10 bn total population; +2¼ bn	~7 bn urban population; +2¼ bn	~\$400 tn world GDP; 4-fold gain	¾ of power capacity wind & solar; 13-fold energy gain <sup>[1]</sup>	~2 bn EVs on the road; 100-fold gain	-	

<sup>\*</sup> Indicators are versus a baseline that does not include the theme being assessed. ~ Signifies trivial direct impact or offsetting forces that are basically in balance. [1] Three-quarters refers to the share of power capacity, 13-fold refers to the projected increase in the volume of primary energy, not the increase in the share.

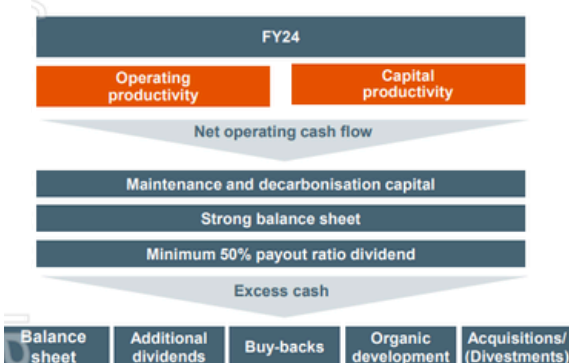
# INVESTMENT CONSIDERATIONS

## Leadership

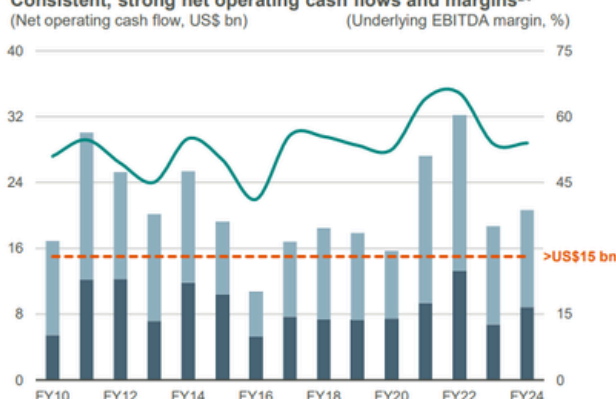
BHP is led by CEO Mike Henry, who has demonstrated strong leadership and strategic vision since taking the helm in January 2020. With over 30 years of experience in the mining industry, including various senior roles within BHP, Henry has implemented a clear strategy focused on three key pillars: operational excellence, portfolio optimization, and social value creation. Under his guidance, BHP has made significant strides in improving productivity, reducing costs, and advancing major growth projects. The management team's track record of execution and ability to navigate commodity cycles has been impressive, with a particular emphasis on capital discipline and maintaining a strong balance sheet. Henry's commitment to sustainability and decarbonization has also been evident, with BHP setting ambitious targets for reducing operational emissions and investing in low-carbon technologies. The leadership's focus on creating a more diverse and inclusive workplace culture has been noteworthy, recognizing that diverse teams contribute to better decision-making and improved safety outcomes.

## Financial Performance

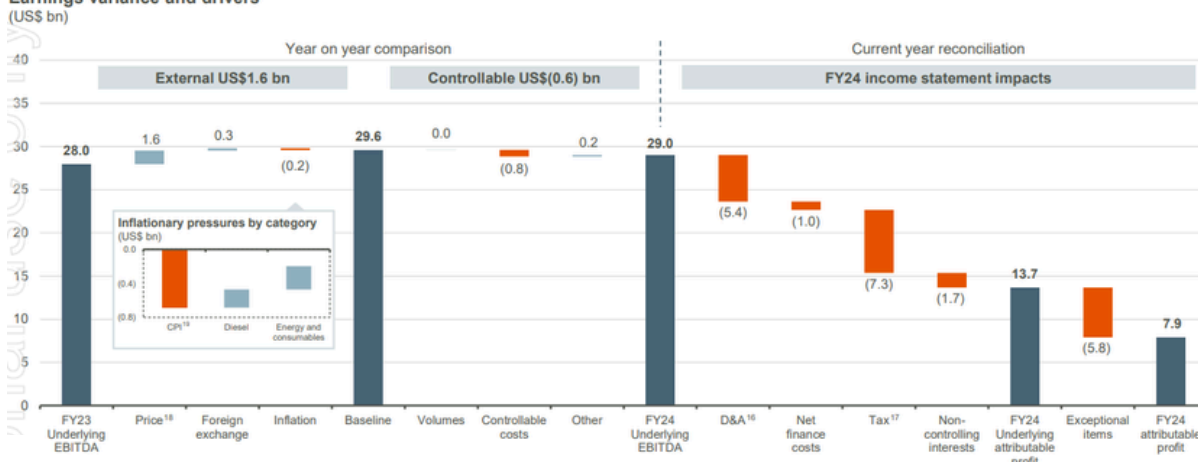
The Capital Allocation Framework sits at the core of BHP



Consistent, strong net operating cash flows and margins<sup>24</sup>



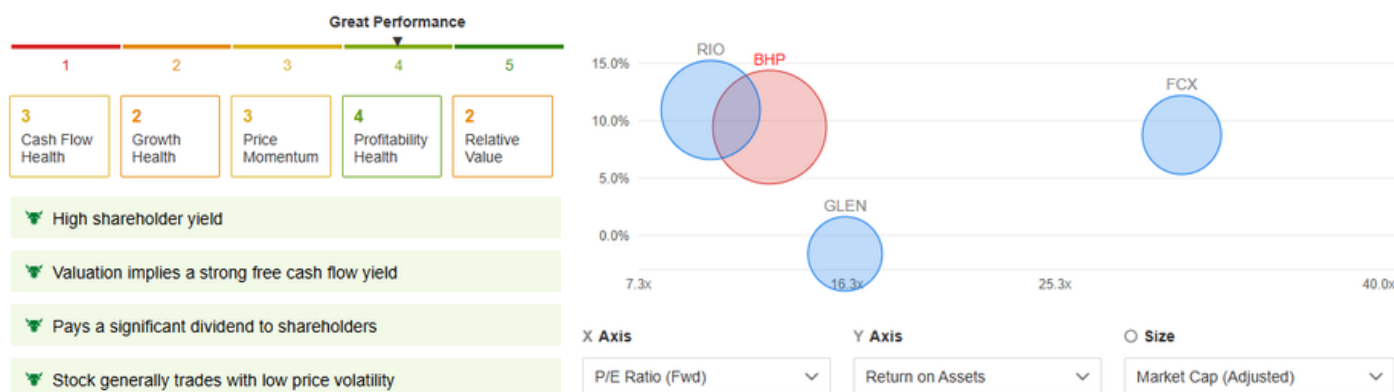
Earnings variance and drivers (US\$ bn)



# INVESTMENT CONSIDERATIONS

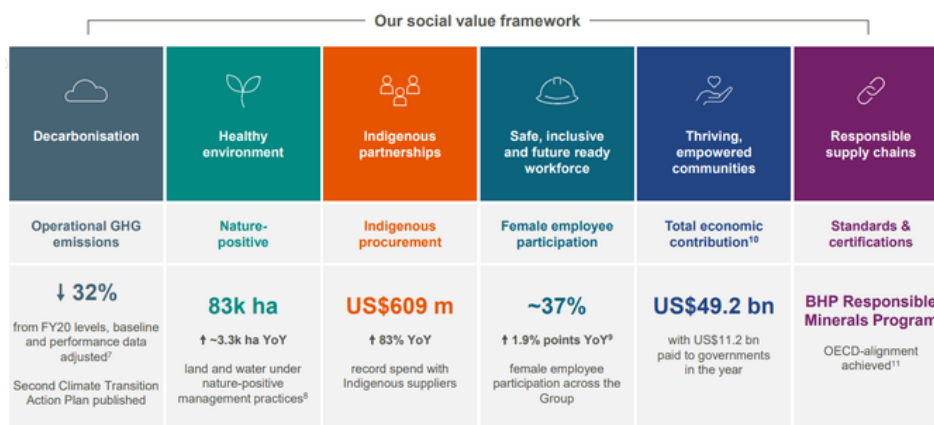
## Valuation

BHP currently trades at attractive valuation multiples relative to its historical averages and peer group. With a forward price-to-earnings ratio of 10x and an enterprise value to EBITDA multiple of 6x, the stock appears undervalued considering the company's strong market position and growth prospects. These multiples represent a discount to BHP's 5-year historical averages, suggesting potential for multiple expansion as the company executes on its growth strategy and benefits from favourable commodity price trends. Our target price of A\$55 is based on a blended valuation approach, incorporating discounted cash flow analysis and forward multiples. This target implies a 25% upside from current levels and reflects our confidence in BHP's ability to generate strong free cash flows and deliver shareholder returns. The company's commitment to a progressive dividend policy, with a minimum 50% payout ratio, provides an attractive yield for income-focused investors. Additionally, BHP's strong balance sheet and disciplined capital allocation framework position it well to pursue value-accretive growth opportunities while maintaining financial flexibility



## Sociological Factors

While all miners don't really sit positively in the societal impact scale, BHP has one of the "least dirty shirts" out of the miners. The company is actively divesting fossil fuel assets and investing in futures metals for the energy transition as well as potash, which is critical to keep



## UNDERLYING COMMODITIES

### Underlying commodities

Being a diversified miner, BHP is involved in Iron Ore, Copper, Potash, Coal and Nickel. In recent times the company has divested many of their fossil fuel assets and have a very clear plan decades into the future. Overall, the outlook appears most positive for copper due to strong demand from the energy transition, while iron ore faces some headwinds from slowing steel demand in China. Potash seems to have a stable long-term outlook but is emerging from a period of price volatility and supply disruptions.

<p><b>Iron ore</b></p> <p>Production: 259.7 Mt <span style="color: green;">▲</span></p> <p>Average realised price: US\$101.04/wmt <span style="color: green;">▲</span></p> <p>EBITDA margin: 68%</p> <p>WAIO unit cost<sup>20</sup>: US\$18.19/t</p> <p>WAIO C1 unit cost<sup>21</sup>: US\$15.84/t</p> 	<p><b>Potash</b></p> <ul style="list-style-type: none"> <li>Jansen Stage 1 ahead of construction schedule – 52% complete</li> <li>Jansen Stage 2 sanctioned – 2% complete</li> </ul> 
<p><b>Copper</b></p> <p>Production: 1,865.2 kt <span style="color: green;">▲</span></p> <p>Average realised price: US\$3.98/lb <span style="color: green;">▲</span></p> <p>EBITDA margin: 51%</p> <p>Escondida unit cost<sup>20</sup>: US\$1.45/lb</p> <p>Spence unit cost<sup>20</sup>: US\$2.13/lb</p> <p>Copper SA unit cost<sup>20</sup>: US\$1.37/lb</p> 	<p><b>Energy coal<sup>23</sup></b></p> <p>NSWEC production: 15.4 Mt <span style="color: green;">▲</span></p> <p>Average realised price - export: US\$121.52/t <span style="color: red;">▼</span></p> <p>NSWEC EBITDA margin: 22%</p> <ul style="list-style-type: none"> <li>Committed to responsible closure of Mt Arthur Coal in 2030</li> </ul> 
<p><b>Steelmaking coal<sup>22</sup></b></p> <p>BMA production: 22.3 Mt <span style="color: red;">▼</span></p> <p>Average realised price: US\$266.06/t <span style="color: red;">▼</span></p> <p>BMA EBITDA margin: 33%</p> <p>BMA unit cost<sup>20</sup>: US\$119.54/t</p> 	<p><b>Nickel</b></p> <p>Production: 81.6 kt <span style="color: green;">▲</span></p> <p>Average realised price: US\$18,197/t <span style="color: red;">▼</span></p> <ul style="list-style-type: none"> <li>Announced a temporary suspension of our Western Australia Nickel operations from October 2024</li> </ul> 

**Iron Ore:** The outlook for iron ore appears challenging, with Bank of America forecasting prices to fall below \$80 per tonne by 2025 due to declining demand, especially in China's property sector. BHP expects an "era of adjustment" for iron ore, citing factors like China's steel plateau and India's growth. Despite this, Morningstar anticipates modest volume gains for BHP's Western Australia Iron Ore operations, projecting sales to rise to about 270 million tonnes by fiscal 2029.

**Copper:** The copper outlook is bullish, with Bank of America projecting prices to rise above \$10,000 per tonne by 2025 due to strong structural demand. BHP expects "durable outperformance" in copper pricing and sees the energy transition as a key driver of demand growth. The world requires about 10 million tonnes per annum of new copper supply over the next decade, necessitating significant investment. Morningstar forecasts BHP's copper sales to increase 5% to around 1.4 million tonnes in fiscal 2025.

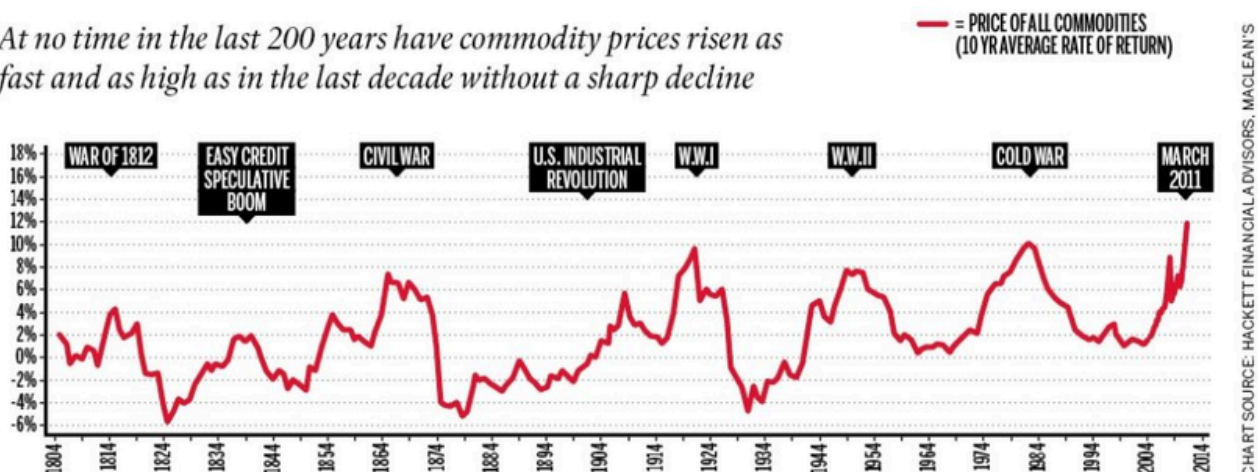
**Potash:** BHP anticipates continued benefits for potash from rising population, improving living standards, and changing diets. While potash prices have been declining over the past 18 months, the market is expected to stabilize soon. Recent supply disruptions, particularly related to Russia's exports, have increased the need to source potash from new locations. New technologies for recovering potassium from organic wastes are being developed, though scaling these to meet global agricultural demand remains a challenge.

## RISKS

While BHP's outlook is positive, investors should be aware of several key risks:

Commodity price volatility remains a significant factor, particularly for iron ore, which contributes a substantial portion of the company's earnings. Any prolonged downturn in iron ore prices could materially impact profitability. Operational risks at key assets, such as potential production disruptions or cost overruns, could affect financial performance. Geopolitical tensions and trade disputes may impact global demand for commodities and disrupt supply chains. Execution risk on major growth projects, particularly the Jansen potash development, could lead to delays or higher-than-expected costs. Regulatory and environmental risks, including potential changes to carbon pricing or mining regulations, may increase compliance costs or restrict operations. Currency fluctuations, particularly in the Australian dollar, can affect reported earnings and competitiveness. While BHP has a strong track record of managing these risks, they remain important considerations for investors.

*At no time in the last 200 years have commodity prices risen as fast and as high as in the last decade without a sharp decline*



The boom and bust cycle of commodity prices is characterized by periods of rapid price increases followed by sharp declines, driven by supply and demand factors, economic conditions, and speculative activity. During booms, prices surge due to increased demand, often fueled by economic growth in emerging markets. Supply constraints can amplify these increases, attracting speculative investments that further push prices higher.

However, high prices eventually lead to increased supply and reduced demand, causing prices to fall. This decline can be exacerbated by economic slowdowns or shifts in market sentiment. The bust phase often sees a rapid exodus of speculative capital, accelerating the price decline.

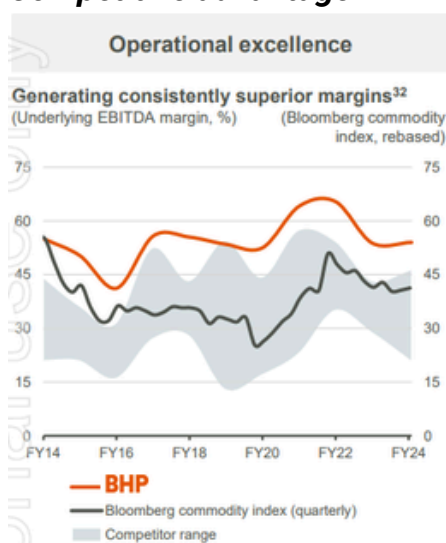
The 2000s commodities boom exemplifies this pattern. Driven largely by demand from emerging markets, particularly China, commodity prices rose dramatically from 2000 to 2014, followed by a significant downturn as supply caught up and global economic growth slowed. Understanding these cycles is crucial for investors, policymakers, and businesses due to their impact on global economic stability and development strategies.

# WHY HOLD THE COMPANY?

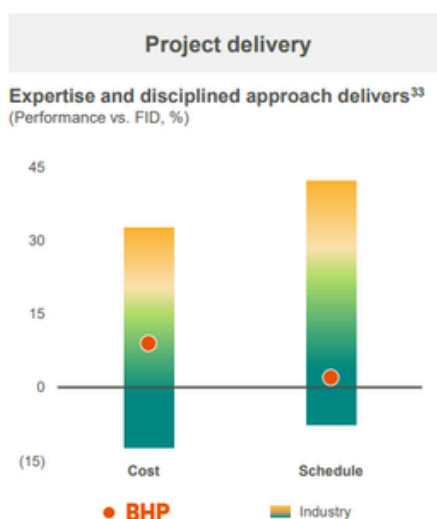
## Why hold the Company?

We recommend investors BUY BHP shares based on several compelling factors. Firstly, the company's world-class, low-cost assets provide strong and consistent cash generation throughout commodity cycles. BHP's iron ore business, in particular, benefits from its position as the lowest-cost major producer globally. Secondly, the company has an attractive growth pipeline in copper and nickel, positioning it to benefit from the electrification trend and growing demand for battery materials. The development of the Jansen potash project adds further diversification and exposure to the agricultural sector. Thirdly, BHP's disciplined capital allocation and strong balance sheet provide financial flexibility to pursue growth opportunities while maintaining robust shareholder returns. The company's commitment to a minimum 50% dividend payout ratio offers an attractive yield for income-focused investors. Fourthly, at current valuations, BHP presents a compelling opportunity, trading at a discount to historical averages with potential for multiple expansion. Finally, the company's focus on operational excellence, cost leadership, and social value creation provides a sustainable competitive advantage. With its high-quality, diversified portfolio and exposure to commodities critical for the energy transition, BHP offers investors a unique opportunity to gain exposure to the resources sector with a focus on future-facing commodities. The company's strong management team, operational track record, and commitment to sustainability further enhance its investment appeal.

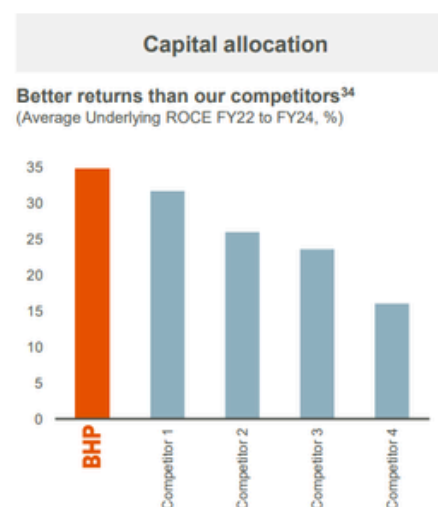
## Competitive advantage



Note: Competitors include Anglo American, Glencore, Rio Tinto and Vale.  
Source: BHP analysis, publicly available reports.



Note: BHP average across all commodities. Industry range across multiple industries.  
Source: Independent Project Analysis, BHP analysis.



Note: ROCE – Return on Capital Employed. Competitors include Anglo American, Glencore, Rio Tinto and Vale.  
Source: BHP analysis, publicly available reports.

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