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South Africa Equity

Reason for note: traders update

Sector: Mining

Stock: BHP

Share code: BHP

Share price: AUD33.49 ASX, GBP16.32

LSE, ZAR298.75 JSE

Net shares in issue: 2.11 billion LSE and JSE

Net shares in issue: 3.21 billion ASX

BHP Billiton Limited and BHP Billiton PLC is

a dual listed company; PLC has a secondary

JSE listing

Market cap: R630 billion JSE

Fair value DCF: \$23,20, A\$32.15 on ASX,

£16.16 on LSE (including a 12% discount)

and R291 per share on the JSE at an

exchange rate of ZAR18.00/£

Note: fair value is based on forecast commodity prices and not spot prices

BHP retains solid fundamentals and offers value for those investors with longer run investment horizons seeking exposure to mining and commodities.

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BHP

“Buy-back complete and special dividend announced”

Divestiture of US shale assets returned to shareholders

The mining behemoth has completed a significant share buy-back, for which there was strong shareholder demand. BHP has also announced a **\$1 special dividend** (as anticipated). Shareholders and traders (perhaps on holiday) should note that the **last day to trade cum-dividend on the Johannesburg Stock Exchange is 8 January 2019** with the special dividend ex-dividend date on the JSE being 9 January 2019.

The market price for BHP's **off-market tender buy-back** was determined with reference to the Australian Securities Exchange and was A\$32.14. There were various tender discounts varying between 10% and 14%. **The final buy-back price for the off-market buy-back was A\$27.64 per share**, which was a discount of 14%. Because of strong demand for the \$5.2 billion (in USD) buy-back, **BHP had to cut back demand by more than 50%**. This means **shareholders receive just over 40% of tendered shares**. A vote of confidence indeed.

The special dividend of \$5.2 billion, equivalent to the buy-back, or \$1, per share, is based on the reduced number of shares in issue of a combined 5,058 million on the Australian, UK, and South African share registers. The \$5.2 billion buy-back (equivalent to AUD7.2 billion) resulted in **265.8 million shares** being bought, which is 8.3% of the outstanding Australian listed shares and 5.0% of the combined Australian, UK, and South African shares.

All this was **paid for from the divestiture of US shale assets**, with net proceeds of \$10.4 billion.

It is worth noting that **BHP has returned \$21 billion in the past two years – the equivalent of R300 billion or 70% of the market capitalisation of Anglo American**.

Shareholders can look forward to more largesse in F2019. I estimate that the interim dividend and final dividend will be approximately \$3.0 billion and \$3.5 billion respectively, for a total of \$6.5 billion.

Whilst the divisor does fall because of the buy-back, the effect on earnings per share is around 1% so I'm not going to make a change to my estimates just yet. In any event, there are other **variables**, not least iron ore and currency, that would have a potentially greater effect on EPS. For example, a 1% move in iron ore prices has a 1% earnings effect and a 1% move in the Australian dollar affects earnings by 1%. Therefore, I currently anticipate EPS of \$1.85 in F2019 and \$1.70 in F2020.

Shareholders own a company in which **iron ore now contributes 40% of profits, copper 23%, and petroleum and coal both at 17%**.

The **share price is fairly pitched**. At the current share price the EV/EBITDA ratio is 5x and the forward dividend yield 5%. The company has also reduced debt so the debt to equity ratio is forecast to be less than 12% over the next two years. I forecast EBITDA of \$21 billion a year for the medium term with earnings of \$8.0 billion.

Allowing for the variability in commodities I am keeping my **DCF fair value at a conservative level**. Fair value DCF is \$23,20, A\$32.15 on the ASX, £16.16 on the LSE (including a 12% discount) and R291 per share on the JSE at an exchange rate of ZAR18.00/£

There are 2.1 billion shares in issue on the LSE and the JSE and 3.0 billion shares in issue on the ASX. There is a combined 5.1 billion shares in issue, allowing for the buy-back. The PLC register has 40% of the aggregate number of issued shares and the Ltd register holds 60% of the shares. **South African shareholders hold 17% of the PLC structure and 7% of the combined entity.**

In seeking direction on the JSE share price, **check out at what the ASX share price has done the previous trading day as Sydney is 9 hours ahead of Johannesburg.** Then adjust for the rate of exchange and the discount of PLC to Ltd, which has been around 12% for a long time.

BHP retains **solid fundamentals** and **offers value for those investors with longer run investment horizons seeking exposure to mining and commodities.**