



BHP Group Limited (BHP)

Updated November 23rd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	9.2%	Market Cap:	\$131.2 B
Fair Value Price:	\$87	5 Year Growth Estimate:	-5.0%	Ex-Dividend Date:	9/2/2021 ¹
% Fair Value:	62%	5 Year Valuation Multiple Estimate:	10.0%	Dividend Payment Date:	9/21/2021
Dividend Yield:	6.7%	5 Year Price Target	\$67	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	151%

Overview & Current Events

Effective November 19th, 2018, BHP Billiton changed its name to BHP Group Limited. BHP traces its roots back to 1851 and a tin mine on a small island in Indonesia, called Billiton. Today, it is an exploration and production giant in the metals and mining industry, and is headquartered in Melbourne, Australia. BHP explores, produces, and processes oil, iron ore, metallurgical coal, and copper. The company has a diversified production portfolio. Approximately 64% of the EBITDA in fiscal 2020 was derived from Iron Ore production, 19% from Copper, 10% from Petroleum and 7% from Coal. BHP has a market capitalization of \$131.2 billion. One ADR is equal to two common shares.

In mid-October, BHP provided (10/19/21) an operational review for the first quarter of fiscal 2022 (BHP's fiscal year ends June 30th). The company reported a -4% decrease in its iron ore production and a -9% decrease in its copper production over last year's quarter due to maintenance activity and temporary labor shortages amid the pandemic. However, it kept its production guidance and unit cost guidance for the full year intact. On the other hand, the price of iron ore has plunged more than -50% off its peak in May due to lower steel production in China amid strict controls on power usage. As a result, we have lowered our annual forecast for the earnings-per-share of BHP from \$7.50 to \$6.20.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.77	\$4.07	\$5.18	\$1.31	-\$2.40	\$2.21	\$2.49	\$3.32	\$3.58	\$7.75	\$6.20	\$4.80
DPS	\$2.24	\$2.32	\$2.42	\$2.48	\$0.60	\$1.66	\$2.36	\$2.66	\$2.40	\$6.02	\$3.60	\$3.20
Shares²	2,661	2,661	2,661	2,661	2,661	2,662	2,662	2,596	2,534	2,534	2,534	2,450

BHP's results reflect what you might expect from a commodity producer – wide swings in earnings, marked by outstanding results in boom times followed by significant declines in lesser times. Due to the high comparison base of this year, we expect a -5% annual decline over the next five years, but this is highly dependent on commodity prices.

BHP's future growth catalysts include rising production. The company has many exploration projects in copper and nickel, which will greatly benefit from the mega-trends of electrification of vehicles and decarbonization. The latter has remarkably accelerated since the onset of the pandemic. On the other hand, the price of iron ore is going through a steep correction off its recent peak and may not return to its all-time highs for years. As BHP is extremely sensitive to the price of iron ore, it will be significantly affected by lower iron ore prices. Investors should also keep in mind that it is essentially impossible to make accurate forecasts for the earnings of BHP due to its sensitivity to commodity prices.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.0	17.2	13.0	41.5	---	16.0	17.9	15.4	13.6	8.3	8.7	14.0
Avg. Yld.	2.9%	3.3%	3.5%	4.6%	5.3%	3.1%	4.4%	5.2%	4.9%	9.4%	6.7%	4.8%

¹ Semiannual dividend already paid.

² In millions.

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Due to the cyclical nature of the business, it is hard to peg a “fair” valuation multiple on BHP. Excluding 2015-2016, shares have traded around 15 times earnings. As we have assumed that the earnings of BHP will be at the upper part of the commodity cycle in 2027, we have assumed a fair earnings multiple of 14.0 for that year, having taken into consideration the uncertainty and dependence on commodity prices. The stock is now trading at a price-to-earnings ratio of 8.7. If it trades at our assumed fair valuation level in 2027, it will enjoy a 10.0% annualized gain until 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	39%	57%	47%	189%	---	75%	95%	80%	67%	78%	58%	67%

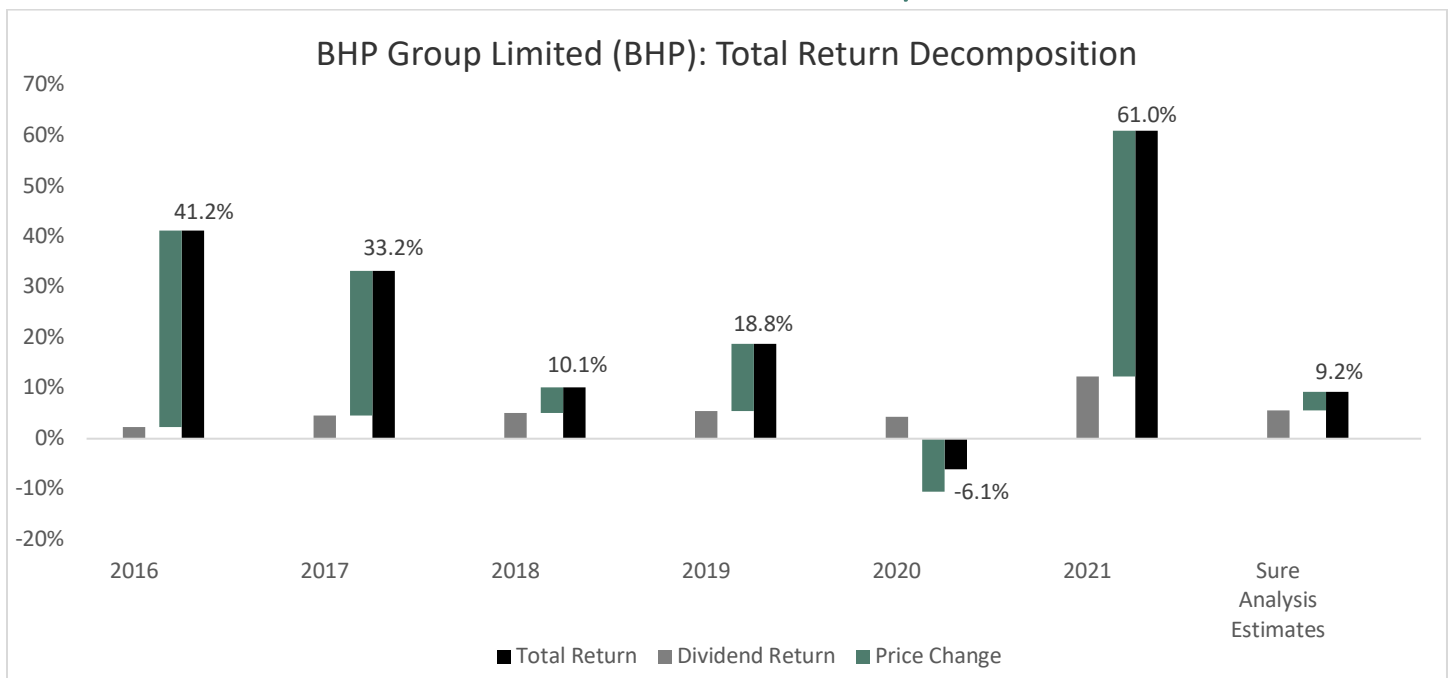
As a commodities producer, BHP has a highly cyclical business model. As a result, the stock is exposed to volatility, which makes it a relatively poor choice for investors primarily interested in safety. During the last recession, BHP posted earnings-per-share results of \$5.51, \$2.11 and \$4.56 through the 2008 to 2010 stretch. During the commodities downturn of 2015-2017, the company’s fundamentals deteriorated. BHP reported a large net loss in 2016, which prompted a significant dividend reduction.

In the ongoing downturn, BHP has remained resilient so far thanks to the impact of the coronavirus on the supply of iron ore in Brazil, which is a critical producer for the global supply. As iron ore is the most important commodity for BHP, we expect the company to endure the pandemic without any problem. Moreover, as a large operator and an industry leader, BHP is likely to grow future production from its high-quality assets.

Final Thoughts & Recommendation

BHP has incurred a -35% correction in the last four months due to the plunge of the price of iron ore. As a result, the stock could now offer a 9.2% annual return over the next five years. However, BHP is highly vulnerable to downturns in commodity prices, as its earnings collapse in such occasions. We thus look for a wider margin of safety. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	70,477	53,860	56,762	44,636	28,567	35,740	43,129	44,288	42,931	60,817
Gross Profit	37,906	31,034	35,024	23,223	12,721	21,372	26,434	27,558	26,093	---
Gross Margin	53.8%	57.6%	61.7%	52.0%	44.5%	59.8%	61.3%	62.2%	60.8%	---
SG&A Exp.	6,693	6,257	6,078	5,607	3,977	4,085	4,411	4,437	4,730	---
D&A Exp.	6,431	6,067	7,716	9,158	6,210	6,184	6,288	5,829	6,112	6,824
Operating Profit	25,206	19,702	21,437	11,684	4,941	12,292	16,099	16,727	14,757	25,302
Op. Margin	35.8%	36.6%	37.8%	26.2%	17.3%	34.4%	37.3%	37.8%	34.4%	41.6%
Net Profit	15,473	11,223	13,832	1,910	-6,385	5,890	3,705	8,306	7,956	11,304
Net Margin	22.0%	20.8%	24.4%	4.3%	-22.4%	16.5%	8.6%	18.8%	18.5%	18.6%
Free Cash Flow	6,403	-1,330	10,140	7,349	4,918	13,107	13,482	11,621	8,806	20,628
Income Tax	7,315	6,696	6,780	3,666	2,103	4,443	7,007	5,529	4,774	11,150

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	129.27	139.18	151.41	124.58	118.95	117.01	111.99	100.9	104.8	108.9
Cash & Equivalents	4,781	5,677	8,803	6,753	10,319	14,153	15,871	15,613	13,426	15,246
Acc. Receivable	4,723	4,415	4,620	4,321	3,155	2,836	3,096	3,462	3,364	6,059
Inventories	6,233	5,821	6,013	4,292	3,411	3,673	3,764	3,840	4,101	4,426
Goodwill & Int.	5,112	5,496	5,439	4,292	4,119	3,968	778	675	624	1,437
Total Liabilities	62,188	63,887	66,031	54,035	58,882	54,280	51,323	49,037	52,537	53,322
Accounts Payable	8,727	7,601	6,973	7,389	5,389	5,551	5,977	6,717	5,767	7,027
Long-Term Debt	28,093	33,050	33,205	30,732	36,075	29,577	26,003	24,113	23,605	20,983
Total Equity	65,870	70,667	79,143	64,768	54,290	57,258	55,592	47,240	47,936	51,264
D/E Ratio	0.43	0.47	0.42	0.47	0.66	0.52	0.47	0.51	0.49	0.41

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.3%	8.4%	9.5%	1.4%	-5.2%	5.0%	3.2%	7.8%	7.7%	10.6%
Return on Equity	25.2%	16.4%	18.5%	2.7%	-10.7%	10.6%	6.6%	16.2%	16.7%	22.8%
ROIC	18.3%	11.0%	12.2%	1.7%	-6.5%	6.3%	4.1%	10.2%	10.5%	14.8%
Shares Out.	2,661	2,661	2,661	2,661	2,661	2,662	2,662	2,596	2,534	2,534
Revenue/Share	26.37	20.17	21.27	16.74	10.74	13.40	16.16	17.06	16.94	24.00
FCF/Share	2.40	(0.50)	3.80	2.76	1.85	4.91	5.05	4.48	3.47	8.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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