



BHP Group Limited (BHP)

Updated February 22nd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	2.8%	Market Cap:	\$170 B
Fair Value Price:	\$71	5 Year Growth Estimate:	-4.0%	Ex-Dividend Date:	3/10/2023 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	3/30/2023
Dividend Yield:	6.1%	5 Year Price Target	\$58	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Sell

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 iron ore, metallurgical coal, and copper. The company has a diversified production portfolio. Approximately 53% of the EBITDA in fiscal 2021 was derived from Iron Ore production, 21% from Copper and 26% from Coal. BHP has a market capitalization of \$170 billion. One ADR is equal to two common shares.

In late February, BHP reported (2/21/23) financial results for the first half of fiscal 2023 (BHP's fiscal year ends June 30th). Its revenue and its earnings decreased -16% and -32%, respectively, over the prior year's period due to a -25% decline in iron ore prices and a -19% decline in copper prices. Iron ore is the most important product for BHP, as it generates about 50% of its earnings. It comprised 70% of earnings in 2021 but its share in earnings fell in 2022 due to a rally in coal and copper prices. On the bright side, iron ore prices have rallied to an 8-month high lately thanks to the ongoing economic recovery of China from the pandemic. We have thus kept our annual forecast for earnings-per-share intact.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.07	\$5.18	\$1.31	-\$2.40	\$2.21	\$2.49	\$3.32	\$3.58	\$7.75	\$4.71	\$5.10	\$4.16
DPS	\$2.32	\$2.42	\$2.48	\$0.60	\$1.66	\$2.36	\$2.66	\$2.40	\$6.02	\$6.50	\$4.00	\$3.20
Shares²	2,661	2,661	2,661	2,661	2,662	2,662	2,596	2,534	2,534	2,535	2,530	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 -4% 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 may correct significantly off its somewhat elevated price in the long run. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.2	13.0	41.5	---	16.0	17.9	15.4	13.6	8.3	13.8	12.9	14.0
Avg. Yld.	3.3%	3.5%	4.6%	5.3%	3.1%	4.4%	5.2%	4.9%	9.4%	10.0%	6.1%	5.5%

¹ Semiannual dividend.

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 towards the upper part of the commodity cycle in 2028, 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 12.9. If it trades at our assumed fair valuation level in 2028, it will enjoy a 1.6% annualized gain until 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	57%	47%	189%	---	75%	95%	80%	67%	78%	138%	78%	77%

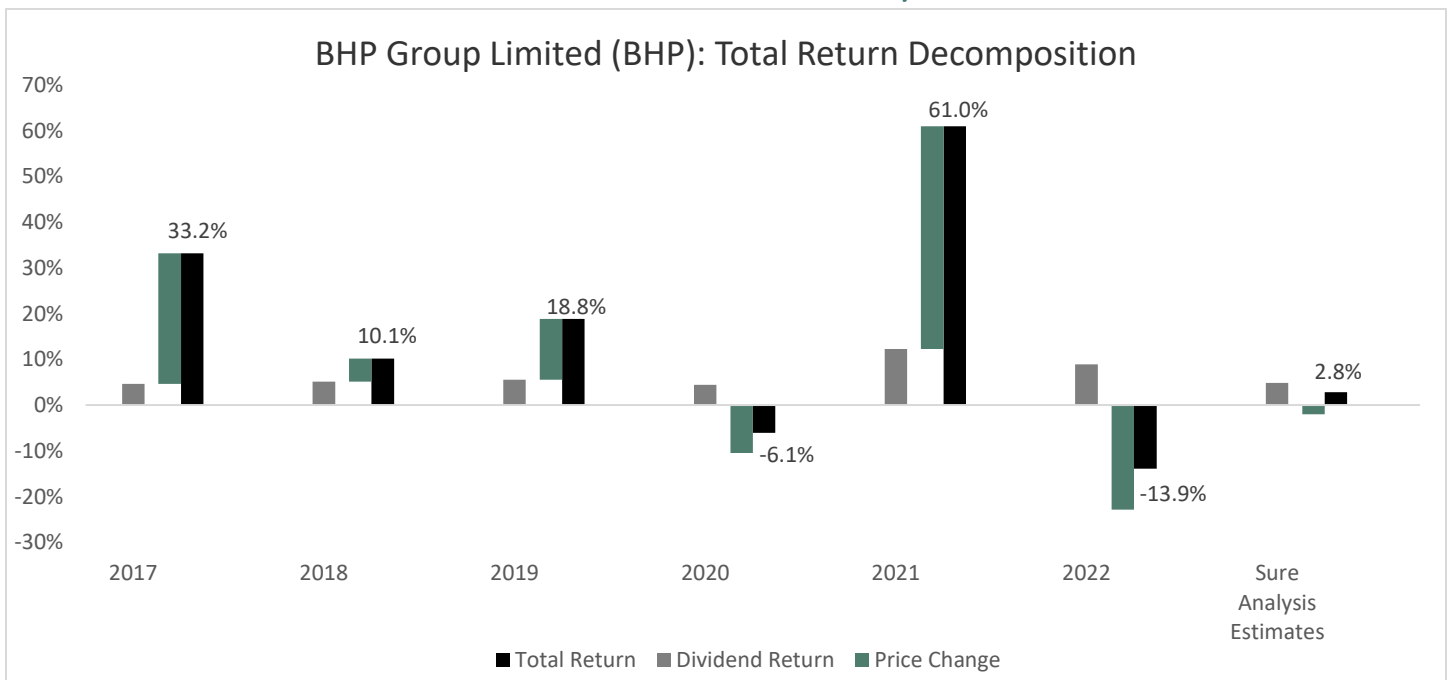
As a commodities producer, BHP has a highly cyclical business model. As a result, the stock is exposed to volatility, which makes it a relatively poor choice for investors primarily interested in safety. During the last recession, BHP posted earnings-per-share results of \$5.51, \$2.11 and \$4.56 through 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 downturn caused by the pandemic, BHP has remained resilient 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, the company has endured 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 rallied 42% off its bottom in October, primarily thanks to the rally of iron ore prices amid optimism about the recovery of the Chinese economy from the pandemic. As a result, the stock could now offer just a 2.8% annual return over the next five years, as its 6.1% starting dividend yield and a 1.6% valuation tailwind may be partly offset by a -4.0% annual decline of earnings-per-share. BHP receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	53,860	56,762	44,636	28,567	35,740	43,129	44,288	42,931	56,921	65,098
Gross Profit	31,034	35,024	23,223	12,721	21,372	26,434	27,558	26,093	44,179	50,184
Gross Margin	57.6%	61.7%	52.0%	44.5%	59.8%	61.3%	62.2%	60.8%	77.6%	77.1%
SG&A Exp.	6,257	6,078	5,607	3,977	4,085	4,411	4,437	4,730	6,257	6,937
D&A Exp.	6,067	7,716	9,158	6,210	6,184	6,288	5,829	6,112	5,084	5,683
Operating Profit	19,702	21,437	11,684	4,941	12,292	16,099	16,727	14,757	28,937	32,887
Op. Margin	36.6%	37.8%	26.2%	17.3%	34.4%	37.3%	37.8%	34.4%	50.8%	50.5%
Net Profit	11,223	13,832	1,910	-6,385	5,890	3,705	8,306	7,956	11,304	30,900
Net Margin	20.8%	24.4%	4.3%	-22.4%	16.5%	8.6%	18.8%	18.5%	19.9%	47.5%
Free Cash Flow	-1,330	10,140	7,349	4,918	13,107	13,482	11,621	8,806	21,622	26,319
Income Tax	6,696	6,780	3,666	2,103	4,443	7,007	5,529	4,774	10,616	10,737

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	139.18	151.41	124.58	118.95	117.01	111.99	100.9	104.8	108.9	95.2
Cash & Equivalents	5,677	8,803	6,753	10,319	14,153	15,871	15,613	13,426	15,246	17,236
Acc. Receivable	4,415	4,620	4,321	3,155	2,836	3,096	3,462	3,364	6,059	5,426
Inventories	5,821	6,013	4,292	3,411	3,673	3,764	3,840	4,101	4,426	4,935
Goodwill & Int.	5,496	5,439	4,292	4,119	3,968	778	675	624	1,437	1,369
Total Liabilities	63,887	66,031	54,035	58,882	54,280	51,323	49,037	52,537	53,322	46,400
Accounts Payable	7,601	6,973	7,389	5,389	5,551	5,977	6,717	5,767	5,079	5,360
Long-Term Debt	33,050	33,205	30,732	36,075	29,577	26,003	24,113	23,605	17,087	13,852
Total Equity	70,667	79,143	64,768	54,290	57,258	55,592	47,240	47,936	49,981	43,516
D/E Ratio	0.47	0.42	0.47	0.66	0.52	0.47	0.51	0.49	0.34	0.32

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.4%	9.5%	1.4%	-5.2%	5.0%	3.2%	7.8%	7.7%	10.5%	30.3%
Return on Equity	16.4%	18.5%	2.7%	-10.7%	10.6%	6.6%	16.2%	16.7%	23.4%	66.1%
ROIC	11.0%	12.2%	1.7%	-6.5%	6.3%	4.1%	10.2%	10.5%	15.2%	45.7%
Shares Out.	2,661	2,661	2,661	2,661	2,662	2,662	2,596	2,534	2,534	2,536
Revenue/Share	20.17	21.27	16.74	10.74	13.40	16.16	17.06	16.94	22.46	25.67
FCF/Share	(0.50)	3.80	2.76	1.85	4.91	5.05	4.48	3.47	8.53	10.38

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

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