



BHP Group Limited (BHP)

Updated October 18th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	2.5%	Market Cap:	\$147 B
Fair Value Price:	\$52	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	3/7/2024 ¹
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	3/28/2024
Dividend Yield:	5.9%	5 Year Price Target	\$49	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	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 2023 was derived from Iron Ore production, 21% from Copper and 26% from Coal. BHP has a market capitalization of \$147 billion. One ADR is equal to two common shares.

In mid-October, BHP provided (10/18/23) an operational review for the first quarter of fiscal 2023 (BHP's fiscal year ends June 30th). After a heavy maintenance schedule in the previous quarter, the company grew its production of copper 11% over the prior year's quarter, though it kept its guidance for the full year intact. The production of iron ore dipped -3% due to maintenance activity but guidance for the full year remained intact. The price of iron ore, which is a great determinant of the results of the company, slipped -2% sequentially. Due to lower commodity prices amid a global economic slowdown this year, we expect earnings-per-share around \$3.70 in fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.18	\$1.31	-\$2.40	\$2.21	\$2.49	\$3.32	\$3.58	\$7.75	\$4.71	\$5.30	\$3.70	\$3.52
DPS	\$2.42	\$2.48	\$0.60	\$1.66	\$2.36	\$2.66	\$2.40	\$6.02	\$6.50	\$3.40	\$3.40	\$3.23
Shares²	2,661	2,661	2,661	2,662	2,662	2,596	2,534	2,534	2,535	2,537	2,535	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 above average earnings expected this year, we expect a -1% annual decline until 2029, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.0	41.5	---	16.0	17.9	15.4	13.6	8.3	13.8	11.0	15.7	14.0
Avg. Yld.	3.5%	4.6%	5.3%	3.1%	4.4%	5.2%	4.9%	9.4%	10.0%	5.8%	5.9%	6.6%

¹ Estimated date for 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 at an average price-to-earnings ratio of 13.6 over the last decade. We have assumed a fair earnings multiple of 14.0 for BHP, roughly in line with its historical average. The stock is now trading at a price-to-earnings ratio of 15.7. If it trades at our assumed fair valuation level in 2029, it will incur a -2.2% annualized drag until 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	47%	189%	---	75%	95%	80%	67%	78%	138%	64%	92%	92%

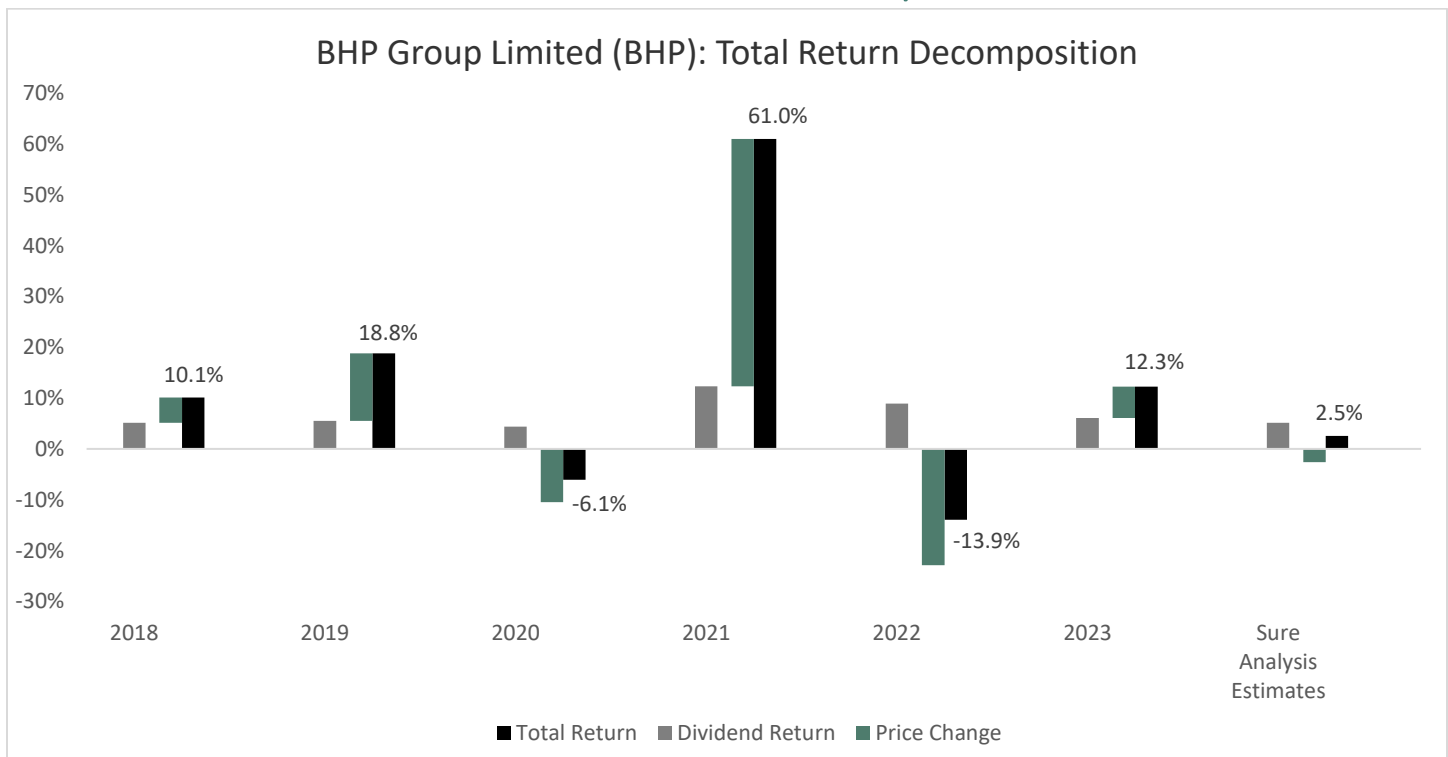
As a commodities producer, BHP has a highly cyclical business model. As a result, the stock is exposed to volatility, which makes it a relatively poor choice for investors primarily interested in safety. During the last recession, BHP posted earnings-per-share results of \$5.51, \$2.11, and \$4.56 through 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 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 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 lackluster business momentum, as commodity prices have corrected off blowout levels in 2021-2022. The stock could offer just a 2.5% annual return over the next five years, as its 5.9% starting dividend yield may be partly offset by a -2.2% valuation headwind and a -1.0% annual decline of earnings-per-share. BHP receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	56,762	44,636	28,567	35,740	43,129	44,288	42,931	56,921	65,098	53,817
Gross Profit	35,024	23,223	12,721	21,372	26,434	27,558	26,093	44,179	50,184	37,904
Gross Margin	61.7%	52.0%	44.5%	59.8%	61.3%	62.2%	60.8%	77.6%	77.1%	70.4%
SG&A Exp.	6,078	5,607	3,977	4,085	4,411	4,437	4,730	6,257	6,937	7,243
D&A Exp.	7,716	9,158	6,210	6,184	6,288	5,829	6,112	5,084	5,683	5,061
Operating Profit	21,437	11,684	4,941	12,292	16,099	16,727	14,757	28,937	32,887	21,957
Op. Margin	37.8%	26.2%	17.3%	34.4%	37.3%	37.8%	34.4%	50.8%	50.5%	40.8%
Net Profit	13,832	1,910	-6,385	5,890	3,705	8,306	7,956	11,304	30,900	12,921
Net Margin	24.4%	4.3%	-22.4%	16.5%	8.6%	18.8%	18.5%	19.9%	47.5%	24.0%
Free Cash Flow	10,140	7,349	4,918	13,107	13,482	11,621	8,806	21,622	26,319	11,968
Income Tax	6,780	3,666	2,103	4,443	7,007	5,529	4,774	10,616	10,737	7,077

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	151.41	124.58	118.95	117.01	111.99	100.9	104.8	108.9	95.2	101.3
Cash & Equivalents	8,803	6,753	10,319	14,153	15,871	15,613	13,426	15,246	17,236	12,428
Acc. Receivable	4,620	4,321	3,155	2,836	3,096	3,462	3,364	6,059	5,426	4,594
Inventories	6,013	4,292	3,411	3,673	3,764	3,840	4,101	4,426	4,935	5,220
Goodwill & Int.	5,439	4,292	4,119	3,968	778	675	624	1,437	1,369	1,610
Total Liabilities	66,031	54,035	58,882	54,280	51,323	49,037	52,537	53,322	46,400	52,766
Accounts Payable	6,973	7,389	5,389	5,551	5,977	6,717	5,767	5,079	5,360	6,296
Long-Term Debt	33,205	30,732	36,075	29,577	26,003	24,113	23,605	17,087	13,852	19,326
Total Equity	79,143	64,768	54,290	57,258	55,592	47,240	47,936	49,981	43,516	43,055
D/E Ratio	0.42	0.47	0.66	0.52	0.47	0.51	0.49	0.34	0.32	0.45

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.5%	1.4%	-5.2%	5.0%	3.2%	7.8%	7.7%	10.5%	30.3%	13.2%
Return on Equity	18.5%	2.7%	-10.7%	10.6%	6.6%	16.2%	16.7%	23.4%	66.1%	29.9%
ROIC	12.2%	1.7%	-6.5%	6.3%	4.1%	10.2%	10.5%	15.2%	45.7%	19.8%
Shares Out.	2,661	2,661	2,661	2,662	2,662	2,596	2,534	2,534	2,536	2,537
Revenue/Share	21.27	16.74	10.74	13.40	16.16	17.06	16.94	22.46	25.67	21.22
FCF/Share	3.80	2.76	1.85	4.91	5.05	4.48	3.47	8.53	10.38	4.72

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

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