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BHP Billiton FY13 results: More positive than negative

BHP Billiton reported FY13 results yesterday with headline earnings dropping 33% to $12bn from $18bn. HEPS of $2.27 was down from $3.37 in FY12 and missed consensus estimates of $2.48. Underlying EBITDA declined 16% with an underlying EBITDA margin of 33% (supported by a $2.7bn reduction in costs). We believe keeping this margin above 30% is extremely positive considering the challenging operating environment within the commodity space over the past year. Underlying EBIT declined $8.9bn. Attributable profit (excluding exceptional items) of $11.8bn was negatively impacted by a temporary increase in the group's effective tax rate and financing charges incurred managing interest rate exposure on recently issued debt securities. Net operating cash flow of $18.3bn and gearing of 29% shows the group's strong financial position. The company increased its dividend by 3.6% to $1.16/share. In our view this shows that the group is positive about its financial position and it's progressive dividend.

BHP Billiton FY13 results ($mn):

	FY13	FY12	% Change
Revenue	65 968	72 226	-8.7
Underlying EBITDA	28 383	33 746	-15.9
Underlying EBIT	21 127	27 238	-22.4
Profit from operations	19 225	23 752	-19.1
Attributable profit - excl. exceptional items	11 798	17 117	-31.1
Attributable profit - excl. exceptional items	10 876	15 417	-29.5
Net operating cash flow	18 252	24 384	-25.1
Basic EPS - excl exceptional items (USc)	221.7	321.6	-31.1
Basic EPS (USc)	204.4	289.6	-29.4
Underlying EBITDA interest coverage (x)	29.8	53.2	-44.0
DPS (USc)	116.0	112.0	3.6

Source: Company reports

Looking at these results one must bear in mind that commodity prices were under severe pressure in the past year. The company actually did very well with production coming in at record levels (production records were achieved across seven of its operations and five commodities in FY13 [*see chart on next page*]) and costs being cut. There was also consistent growth in the company's high margin businesses. The targeted divestment programme continues to realise significant value with transactions totalling $6.5bn completed or announced in the period under review.

In addition to the productivity gains delivered during the period, the company applied strict capital discipline. No major growth projects were approved during FY13 and of the 18 major projects in execution at the end of the period, approximately 70% are expected to deliver first production by the end of CY14. The majority of these development projects are brownfield in nature, which are inherently lower risk.

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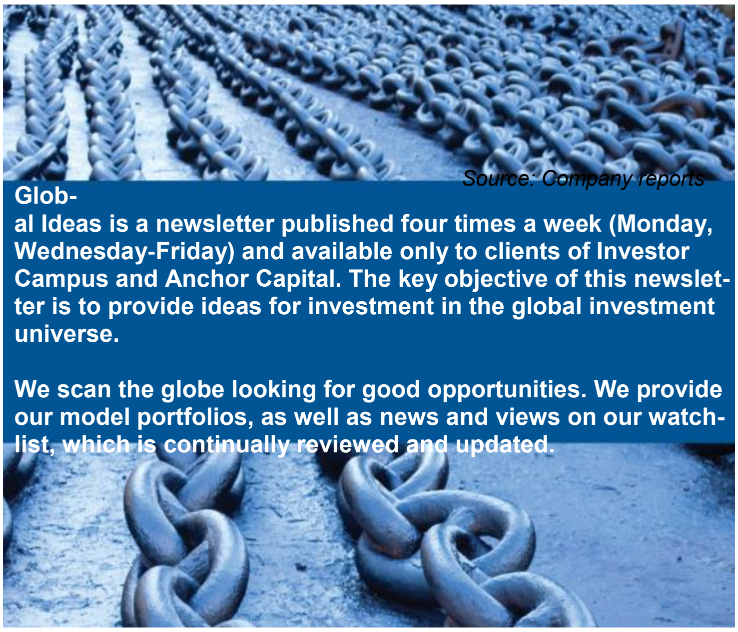

Source: Company reports

Global Ideas is a newsletter published four times a week (Monday, Wednesday-Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.

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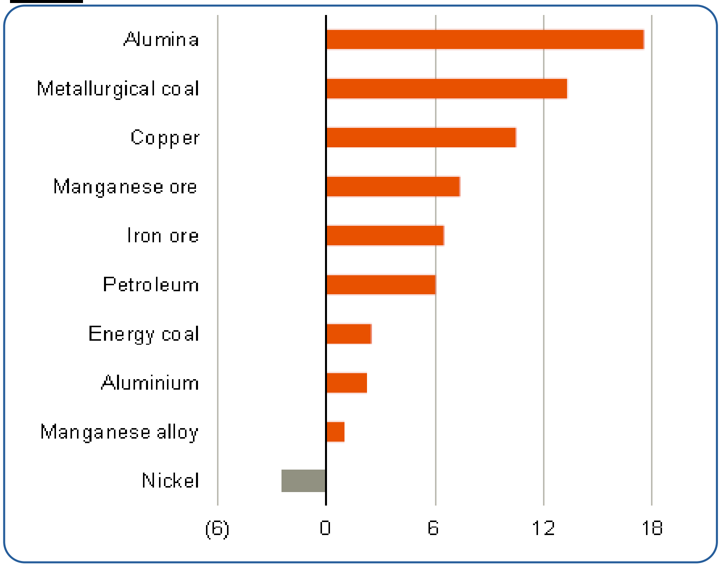
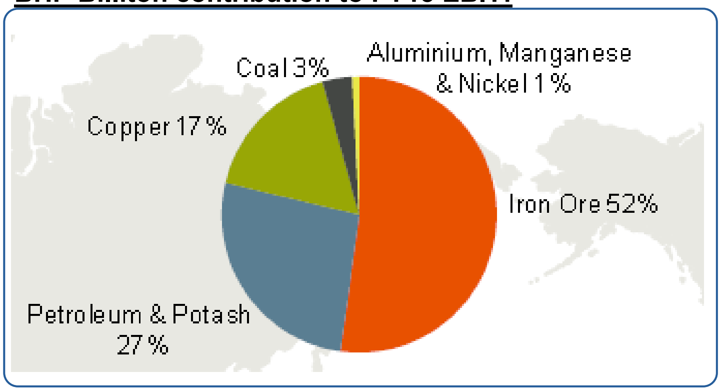
BHP Billiton production volumes, % change, FY13 vs FY12:



Source: Company reports

BHP Billiton contribution to FY13 EBIT:



Source: Company reports

Looking ahead we expect the strong momentum in operations to be maintained in the medium term, with compound annual production growth of 8%, in copper equivalent terms, anticipated over the next two years. This high margin volume growth and the group's determination to reduce operating costs is expected to underpin robust operating margins, even in the absence of higher commodity prices. Capital and exploration expenditure in FY14 is expected to decline by 30% to $16.2bn (from $22.9bn in FY13). By reducing annual capital expenditure and increasing competition for capital within the group, the company expects to achieve sustainable, high-margin growth at a higher average rate of return on incremental investment. With strong cash-flow generation, a gearing ratio of 29% and a net debt to underlying EBITDA ratio of 1x, BHP Billiton's capital structure remains robust.

Overall, the company expects more balanced global growth over the long term as China continues to grow its economy and large developed economies, such as the US, thrive despite fiscal challenges. Management also expect the rebalancing of the Chinese economy to be significant in terms of the nature of domestic demand as well as the types of goods and services the economy will produce.

These changes will take place gradually, particularly in relation to savings behaviour and levels of fixed-asset investment. The company also sees India and South East Asia as significant sources of economic growth in the long term. It is very difficult to make predictions with regards to commodity prices, but the company is of the opinion that with streamlining operations and reducing costs even further it will be able to deliver good results even if commodity prices remain under pressure.

The fact that the share price (in SA) closed at an all-time high yesterday and is down less than 2% on the back of these results (given the troublesome commodity markets) makes it clear that this company has been doing very well. It is held by most fund managers across the world as it is believed to be the 'safest' of the big mining companies and is seen by many as a value play.

With strong production, the streamlining of projects, further cost cutting, new projects starting to contribute to earnings in the next 1-2 years and the ever-looming possibility of commodity prices bouncing due to China reigniting, we believe that (from a management and operational perspective) this is currently the best and 'safest' resource company to hold.

FJ Veldman

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