GLOBAL IDEAS

25 February 2015

WWW.ANCHORCAPITAL.CO.ZA
WWW.INVESTORCAMPUS.COM

BHP Billiton beats expectations with 1H15 results

BHP Billiton on Tuesday (24 February) reported better-than-expected results for the six months ending 31 December 2014. Lower iron ore and petroleum prices contributed to a 31% YoY fall in pre-tax profit to $8.6bn, while group revenue fell to $29.9bn from $33.9bn in 1H14. Underlying profit of $5.35bn was well below the $7.8bn half-year profit posted in February 2014, but it was significantly better than the $4.89bn analysts were expecting.

BHP Billiton 1H15 results...measuring up:

Source: Company data

**Underlying attributable profit*

In our view it was a strong set of numbers given the current headwinds facing resource companies. The results are indicative of a very well-run company which operates in a struggling environment. We were very positively surprised, especially by the smart balance-sheet management, substantial cost cutting and the increase in dividend.

Some highlights worth mentioning:

- Net debt was lower and implies a gearing ratio of 22%.
- Capex was substantially lower (-23% YoY) and guidance was cut even further. The world's biggest mining company said it had cut its original spending plans by 15% to $12.6bn for this year and to $10.8bn for FY16.
- A dividend pay-out ratio of 62%. The Group maintained its progressive dividend policy and said it would continue to do so after the demerger. The dividend will also not be rebased downwards following the demerger, which implies a higher underlying pay-out ratio and that any dividends from the demerger will present an additional cash return to shareholders. We view this as a very positive development.
- The demerger (named South32) assets performed very well. The spin-out is still going forward with details being announced mid-March and the shareholder vote taking place in May.

/continued...

Global Ideas is a newsletter published three times a week (Monday, Wednesday and 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 watch-list, which is continually reviewed and updated.

Contacts

Anchor Capital reception	**011 591 0677**	**Trading Desk**	**012 665 3461**
Investment/ Sales	mnyoung@anchorcapital.co.za	General Enquiries	info@anchorcapital.co.za
Brokerage/ Trading	fswart@anchorcapital.co.za	Newsletter Enquiries	newsletters@anchorcapital.co.za

BHP Biliton Chief Executive Andrew Mackenzie said yesterday that “Despite significant falls in the prices of our main commodities over the last six months, group margins remain healthy, free cash flow has increased and we have strengthened our balance sheet. We are confident that we can maintain our progressive dividend policy and continue to selectively invest in projects that offer compelling returns.”

We believe that commodity prices should remain relatively volatile and oversupply in many of the markets will continue to moderate prices. The company’s diversification, competitive cost position, strong balance sheet and the success of ongoing productivity initiatives are competitive advantages and provide the Group with unrivalled flexibility in the face of ever-increasing commodity price volatility.

Everything pertaining to the dividend is a big positive for BHP Billiton, in our view, even with all the potential commodity price headwinds. If an investor hasn’t sold it yet, chances are good that investors won’t do so now. Even if this is not the bottom, shareholders will be receiving a 5% yield, while waiting for the commodity cycle to turn. BHP Billiton has the largest capacity among the miners to sustain its dividend policy even at lower commodity prices and we view this dividend as the ‘safest’ in the industry.

FJ Veldman

The business of money: Global asset management and stockbroking

The business of knowledge: Financial education, information and valuation services