BHP

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Q&A transcript

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JASON FAIRCLOUGH: Thanks for those opening remarks. So now we have our fireside chat, and just to remind everyone that audience members can ask questions via the broadcast panel, and James and I will try to work those in. We do have a couple of pre-prepared questions, so let's start with just a couple of those.

Mike, maybe a bit of an obvious question, but sometimes obvious is good. So BHP is the largest mining company in the world, enterprise value approaching $200 billion. As a CEO, this must bring some special challenges in terms of management but also in terms of capital allocation. Can you give us a little bit of context here and talk about how you and the organisation address this?

MIKE HENRY: Well, sure, Jason. So let me just start by just saying, again, that I think in the current environment we do have a number of very strong advantages that give us the edge, and some of those accrue as a result of scale. But of course, scale does bring with it its own unique challenges, as you put, around management and around capital allocation. The way I put it is they're different challenges, not necessarily greater but different.

Now how do we seek to deal with that is, well, first of all, by having a very clear winning strategy and sticking to it. So everybody's focused on that winning strategy. Second of all is that we price simplicity. So as a means of ensuring that scale doesn't lead to unnecessary complexity, we really do prize simplicity, and that is in portfolio, processes, our corporate structure. We're focused on simplicity, and in the case of portfolio, the one thing I would draw your attention to is that whilst we're big, that scale comes from a relatively small number of very large, very high quality assets in relatively few commodities and relatively few geographies.

Now in addition to that, we’re focused on building capability and culture to allow us to drive performance at pace, and I think you've seen us demonstrating that over a number of periods now. And so it's that combination of how we think about the organisation, how we think about capability and culture that allows us to continue to drive value.

Now the final one that I put on the table is just the old chestnut: Do companies get to a point where they're too big to grow. I've spoken about the case for BHP actually having some clear advantages in our ability to secure opportunities to meet the world's need for the commodities to support the transition. First focus is, of course, on driving even greater value out of our current assets, and you've seen us doing that again for multiple periods now through productivity but also through executing and executing very well the brownfield and greenfield growth options that we have in the portfolio, but there's more to do.

We want to replenish the cupboard of options for the future. We've had the benefit of the work of previous generations of management in terms of the options they've created for us. We now want to replenish that cupboard for the future and specifically in the future facing commodities.

JAMES REDFERN: Thanks, Mike. It's James here. Mike, you talked about a potential pivot to future facing commodities, BHP being copper, nickel, and potentially potash. How do you think about your optionality in copper and nickel, do you have any shovel ready projects and also in copper specifically do you have growth options, as many investors in the world globally are calling out for more copper? Thank you.

MIKE HENRY: Well, so James, again, we want more. We've made this a clear area of focus. And the way I would put it is probably, I don't know if I'd term it a pivot, it's more an up weighting in future facing commodities. But I would just, again, point out that we're already the world's third largest copper producer, fourth largest producer of Class 1 nickel, and we've got roughly 20 per cent growth or just over 300,000 tonnes per annum growth coming in copper production over the next five years.

Because of the efforts we've had under way to stabilise smelter operations at Olympic Dam, obviously the Spence Growth Option coming on and then the growth that we'll have at Escondida, in part, because of higher grade. We will achieve the 1.2 million tonnes per annum average production over the next five years at Escondida, so some solid growth ahead of us. But we need to create more options.

Now how are we going to go about doing that? Well, first focus is on bringing innovation to bear to be able to economically recover more of the resources we already have in place, because we have lots of copper. We have lots of nickel. If we can bring innovation to bear on how we go about unlocking more of those resources, that's first prize for us.

But we're also increasing our effort in exploration. In early stage entry, we've had some reasonable success over the past 12 months on securing more partnerships and on increasing our exploration efforts in a number of geographies, both in nickel and in copper. And then, of course, in addition to exploration early stage entry, we remain present to the possibility in the future for the right assets, the right point in the cycle to acquisitions as well. But very strong focus on exploration early stage entry and innovation.

JASON FAIRCLOUGH: Thanks, Mike. Maybe I'll take the next question here. So we'll talk a little bit about ESG, and then I've also had a question that's come in on the Veracast panel. So I'll see if I can work that one in.

So we talk about E, S, and G. The S, Social, always feels a little bit more nebulous than some of the other criteria. So almost two years ago, you outlined your approach to social value. Can you just summarise what this is, and I guess the question from Veracast is: We look at what's happening in Chile. We look at what's happening in Peru. Again, how do you think about this in terms of the potential impact on your business? How do you manage this?

MIKE HENRY: OK, well, a great question, and it's an interesting one, isn't it, Jason? Because you opened up with the S is a bit more nebulous, which I would, kind of, agree that it can be seen that way. And yet, it's paradoxically the one that is most pervasive in everything that we do. It's really that notion that every decision that we take, every action that we take has an impact on those around us, and through the way that we go about our work, we can do a better or less good job of generating opportunity and creating value for others.

And it's really this overarching concept that's led us to the shift from social license, which I think brings a bit of a connotation with it of the minimum necessary, to the concept of social value, which, as I said, is really about understanding that every action that we take, how do we go about our business, if we're thoughtful and deliberate about that, we can actually create more opportunity and more value for a wider range of stakeholders, all those who have a stake in BHP's success. Now in order to do that, we need to ensure that concept permeates right throughout the organisation, and everybody has it in their mind when they're executing their daily business.

Now what you see playing out, and it's kind of in stark relief in Chile and Peru, but globally this sense of people wanting what they see as a fair share and having aspirations. And there's a role for corporates in thinking about how we can go about prosecuting our business in a way that creates more opportunity for more stakeholders.

And so it's perfectly aligned with the notion of social value in the way that we've embedded it. Now there will be specific things. We have to see how Chile plays out obviously, but we're still hopeful that that's going to proceed down a path where people understand the importance of maintaining stability and the importance of being able to attract capital, because, of course, Chile has fantastic copper resources. But for the ongoing investment into the country, the fiscal settings have to be attractive, but that attraction needs to be seen in its broadest sense, including in the way that companies contribute back into society through the jobs they create, through the contributions they make into communities, through the opportunities they provide for other businesses. And again, that's something where we believe we do make a big contribution there, but there's more to do as is seen in our social value agenda.

JAMES REDFERN: Hi, Mike, James again. Can we please talk about Jansen. So potash is one of BHP’s future facing commodities. Around about $5 billion of capex has been sunk to date at Jansen.

You've already mentioned that project will be decided by the Board in the middle of this calendar year. Can you please tell us what your thinking is around Jansen in terms of the project going ahead this year, a potential sell down to a JV partner, and I guess how you're thinking about the supply demand balance for potash in your medium to long term. Thank you.

MIKE HENRY: OK, thanks, James. Look, I'll start by saying that our thinking really hasn't changed. If I talk about the commodity, how we see it, the project, and then the decision, we continue to like potash. We think that the long term demand and supply fundamentals for potash as a commodity are attractive. Potash demand will be driven by ongoing population growth, and increasing in living standards.

Even the stronger push to decarbonise and green the global economy, we believe is going to be positive for potash. And then on the supply side of the equation, notwithstanding the near-term market dynamics, we do believe – and that's reasonably widely held view – that new greenfield capacity is going to be required in the market towards the end of this decade, early next decade. And of course Canada has the world's best resources of undeveloped greenfield potash, and we have the most attractive of those assets with the Jansen project. So we like the commodity.

In terms of the project itself then, I'll start by saying we don't like the amount of capital that we've invested in the project today, without having a project end for production. But we are where we are. We're making sure that we've learned the lessons from that.

But I now look at the project going forward. I've spent time getting behind the project to make sure we understand it. We're finalising some of the project study parameters. We still have to secure the port and route to market, but we'll then be bringing all of that together with a decision to be made by the middle of this calendar year – so in coming months – as to whether or not we want to proceed with Jansen Stage One.

And that of course will be made against the very disciplined approach that we have to capital allocation. And we'll ensure if the project is to proceed, it needs to be able to demonstrate that it's got the right value and returns relative to the risk. Now you did also ask, James, or you had in there the question around sell down to a JV partner. And we've always said we're open to partnering, but the project doesn't need a partner to proceed. So the key things that are required for the project is to get the project studies finalised, get the port option sorted, and then we can make a call as to whether we carry it forward to the Board for an investment decision.

JAMES REDFERN: Thank you.

JASON FAIRCLOUGH: OK, thanks, Mike. So a bit of a portfolio question, and I have had a couple of questions come in on the Veracast system as well asking about coal and oil and their place in the portfolio, but you have been exploring options to exit thermal coal both in Australia and eventually in Colombia. It looks like you may also consider exiting some of your lower quality coking coal assets, but so far you're not committing to a wholesale exit of hydrocarbons. You're keeping the higher quality coking coal. You're also maintaining some presence in petroleum.

So how do you think about the impact of these hydrocarbons in your stock market valuation? And then I guess beyond that if we think about met coal as let's say a gradually declining market at some point, how do you run a business that's feeding into something that ultimately should be shrinking?

MIKE HENRY: OK, so interesting questions, Jason. Let me talk first about met coal, because that kind of sets the scene for the decisions we take around thermal coal and it's certain subset segment of met coal, and I'll come back to the broader question around multiples and so on. So clearly at some point there's going to be a decarbonisation of the steel industry. The world needs that to happen for the world to overcome the climate challenge and to become net zero by 2050 or in due course.

But within that, there's easier to abate emissions and harder to abate emissions, and the emissions from steelmaking or blast furnace steel making are fitting in the harder to abate category. So there's lots of effort underway to develop technologies to enable the decarbonisation of steel, but many of those technologies are still uneconomic. They're still nascent in terms of their development curve.

We're participating in some of them. The steel-making partnerships that I mentioned earlier are focused on decarbonisation of steel. We've invested in some startups that are focused on even more leading edge technologies, but these things will take time to play out. And so for the foreseeable future for decades hence, coking coal is still going to be needed for steel making.

However, the steel makers have the challenge of reducing their emissions footprint. We believe that they'll be taking some action via hydrogen injection into the blast furnace or simply improving blast furnace utilisation to reduce emissions intensity. We believe that they'll be prioritising those sorts of activities in the near term.

Against, that backdrop then, the higher quality hard coking coals that enable higher blast furnace utilisation, for example, we believe are going to remain in strong demand and are likely to attract an even greater premium relative to lower quality coals. And so that means that in the BHP portfolio where we've got thermal coal, less high quality hard coking coal, the premium hard coking coals, that the part of the portfolio that will attract ongoing capital investment will be the high quality, the premium coking coals. Therefore, we won't unlock the true value of the other assets within the BHP portfolio, and that's what sat behind our decision to divest New South Wales Energy Coal, our stake in Cerrejon and BMC that we announced last year.

Now recognising the nature of the process that needs to play out, we spoke about two years to complete that, and so we're still in that process. Now if I come back then the question about how do we think about impact on multiples and so on, look, at the end of the day our first focus must be on intrinsic value. How do we unlock best value for shareholders and high returns? And we can't make all of our decisions based upon latest investor views or sentiment. Albeit we can't ignore it either. So it's clearly a factor that we take into account, even as we make the first focus intrinsic value.

Now we will make whatever decision we believe is going to give rise to the greatest value for shareholders for any commodity in the portfolio. And so we constantly review the portfolio and what the best way of generating value for shareholders is.

JASON FAIRCLOUGH: OK, thanks very much for that, Mike. Well, look, I'm wary here of going over time. So I think we might need to round it up there, and as ever, I think we could chat all day but some really interesting discussion points there.

Thank you very much for your time spent with us today. Thanks very much for presenting to us and being so patient with all these questions, all right. Hope to see you in person next year, Mike. So thanks, everybody, and we're going to wrap up the BHP session now.

MIKE HENRY: Thank you. Bye.