Mike Henry's presentation at BMO conference
Transcript

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Mike Henry, CEO, BHP

Good morning, all. It is a pleasure to be here with you again, and what a joy it is to be here in-person this year. Two years ago when we were last in-person together at BMO I presented for the first time after having just become CEO of BHP in January of that year. And at the time I laid out a few simple priorities for the company: becoming safer, becoming a better operator, continuing the track record that we were building at the time of being a disciplined allocator of capital, advancing our social value agenda – our approach to social value, and reshaping our portfolio, including building more options in future-facing commodities. These priorities remain unchanged, and you can see coming through in the actions that we have taken since and the results that we continue to deliver that we are executing against those priorities.

On the topic of results, we just announced another strong set of results two weeks ago. We safely delivered a record set of first half earnings and a record interim dividend. We had solid underlying operational performance in the majority of our assets. We maintained cost discipline in an inflationary environment. We made good progress on our portfolio-related actions in coal, petroleum and potash, and we unified our corporate structure, making the company simpler yet again and creating a stronger platform for growth. In short, we are doing what we said we would do.

The half-year did have a number of highlights. Most importantly, for our third consecutive year, coming back to the point that Rowe made earlier, we had zero fatalities across BHP, so this is a huge achievement. Our high potential injury frequency is down by 30%, or over a third, in the past three years. And our Western Australia Iron Ore business was running at near-record levels for the half, and we mined record material at Escondida.

We continue to face a number of continuing external challenges. This includes ongoing Covid constraints, constraints on labour, supply chain issues, more than twice as much rainfall at our Queensland Coal operations in the past half relative to the same period year prior and, of course, as we are all seeing, rising costs for many of the key inputs for our businesses. However, we retained a sharp focus on operational reliability and solid control over costs. This operational performance, combined with high prices, is reflected in our strong financial results and, as I said earlier, we were able to declare a record dividend. This brings total returns to shareholders over the past 18 months to US$22 billion.

Our success is measured not just by the value and returns that we create for shareholders, but also the way in which we benefit society more broadly and our broader range of stakeholders, because shareholder value is simply not sustainable without a focus on what we call social value. And we believe that our approach on this will be a long-term source of competitive advantage, because it will allow us to secure and develop resources and to operate them more reliably than others.

BHP has a long history on this and our fierce commitment is evident in our approach on things such as health and safety, community engagement and our approach to climate, water and cultural heritage. On the topic of climate, we continue to make strong progress on our climate-related actions and, in fact, in the past half our operational emissions were a full 16% lower than the same period year prior. That is as a number of renewable energy contracts kicked in across our operations. It is not just about operational emissions. We are continuing to build our partnerships right across our value chain, including in steel, where we have entered into a number of partnerships with the world’s leading steelmakers and with academic institutions and where we are continuing to invest further in breakthrough technologies. Last week we sailed our first LNG fuelled bulk carrier and this was carrying iron ore from Western Australia up to a customer in Japan.

In addition to climate, of course, we are also focused on creating the right workforce, and diversity and inclusion. In 2016 we set out our ambition to create a gender-balanced workforce by 2025, so this is six years ago now. In the intervening period we have nearly doubled the proportion of women in BHP’s workforce and we crossed the important 30% threshold or milestone just last half. As we all know, more inclusive and diverse teams generate better, safer business performance and we have been demonstrating that for a few years now. We have also raised the proportion of our employees, including those in leadership positions, from First Nations backgrounds and this includes in Australia, in Chile and more recently at our potash project in Canada.

Back in 2016 we also set out our capital allocation framework, which continues to serve us well. We want to maintain a strong balance sheet through the cycle. This provides us with the flexibility to allocate capital in a balanced way to shareholder returns and to future investment opportunities, be they internal or external. On these, we consider a range of metrics. This includes NPV, IRR and payback, and we also take into account risk, both to the upside and the downside, in coming to our decisions. There is no single hurdle rate that we apply to investments. We consider the impacts of any opportunity on our portfolio, on our decarbonisation commitments, on our social value commitments and, of course, ultimately to shareholder returns.

On the topic of returns and investment opportunities, let us turn to the future. The resources sector – our sector – is essential to meeting the needs and aspirations of 8 billion people around the world. Demand for energy, metal and fertilisers will continue to be underpinned by ongoing growth in global population, decarbonisation, urbanisation and rising living standards. And this is going to remain the case for decades to come. BHP's portfolio, capabilities and distinctive approaches to operational excellence and to how we think about the creation of social value put us in an advantaged position to meet this demand. We also expect that the more rapid push to decarbonising the globe is going to mean increased demand for many of the commodities that BHP produces[1], and this is going to be even more definitively the case given our reshaped portfolio. We have high confidence in this long-term positive outlook for commodities.

Near term, of course, there are all sorts of uncertainties, but we do see continuing momentum towards recovery. That remains intact across most key regions, notwithstanding the ongoing challenges of the pandemic, inflation and disrupted trade patterns. BHP, of course, is not immune from these, but we are well placed to navigate the challenges, and you see that coming through in the results that we have just delivered.

In the case of cost inflation, we are seeing the pressures, as is everybody else, but we have done a good job of containing it so far and, while we do expect to see a bit of a lag effect coming through as a result of inflation, I am confident that we are going to do a better job of keeping the lid on costs than we did in previous upcycles. Our ability to do so comes down to the way that we have structured ourselves, to the capability that we have built, both through our centres of excellence and in procurement, and to our focus on culture. At BHP we have been building an inclusive culture, one where people are eager and able to step up and have their voices hear and where they are keen to get their ideas on the table, and we are reinforcing this more recently with a sharper performance edge. We are locking all of this in and reinforcing it through the BHP Operating System.

Back on the topic of inflation, I should just make one more point and that is that we have to differentiate between the drivers of inflation. On the one hand, you have supply chain disruptions and those are short term in nature. On the other, we have inflation that is driven through ongoing increases in demand. We expect that inflation to be more enduring and, of course, that type of inflation is on balance good for commodity demand and commodity prices.

At BHP, through being a more reliable operator and better controlling costs in an environment of strengthening demand for our products and strengthening pricing, we believe that we can capture greater relative margins and extend our lead in the sector. Importantly, we are applying these capabilities and this way of thinking to a set of very large and very attractive assets. We have sector-leading assets in our tools and commodities and we aim to operate them exceptionally well.

I will use our Western Australia Iron Ore business as an example. Back in 2017 we set ourselves a strategy of becoming the world's lowest-cost major iron ore producer and of improving the average quality of our product suite. We have successfully done so. We now occupy a leadership position on cost and we have the room to increase our production should market conditions warrant. Our assets generate strong margins through the cycle and create a baseline of stable cashflows that our shareholders consistently benefit from. In fact, in all bar one of the past 15 years we have generated net operating cashflows of more than US$15 billion. The size and the cost curve position of our assets give us a stable base of cashflows that may be counterintuitive for some, given the overall cyclical nature of the industry. We do have that very large stable base of cashflows.

[1] BHP's 1.5°C scenario requires steep global annual emissions reductions, sustained for decades, to stay within a 1.5°C carbon budget. Refer to the BHP Climate Change Report 2020 available at bhp.com/climate for information about scenario analysis and about the assumptions, outputs and limitations of our 1.5°C scenario.

Having said all of that, we are not standing still. We want to build on the success of our asset base and to do this we are creating and capturing more options in future-facing commodities to deliver value growth. Our first priority is, of course, protecting and growing value through delivering safe, reliable operations with a strong focus on continuous improvement every day. We continue to embed the BHP Operating System, something we put in place back in 2017. BOS is as our way of leading and working and it is delivering results, as you can see. By increasing the capability of our workforce, we are improving our decision-making, our reliability and our productivity.

In terms of high-returning production growth, our current portfolio of large long-life resources offers plenty of opportunity for organic growth, and that can come through further debottlenecking, through larger brownfield expansions and through bringing innovation to bear in ways that allow us to unlock more of our resource more quickly at attractive returns.

At Escondida, where we expect average production of 1.2 million tonnes per annum over the next five years, we are assessing brownfield options to allow us to make more of this world-class resource, and that would help us to mitigate the long-term impacts of grade decline. As a reminder for those in the audience, we have over 27 billion tonnes of resource at Escondida[2] at an average grade of 0.52% and this is larger and higher-grade than many of the large greenfield open cut operations that are being brought to market today.

We have good growth in copper ahead of us. Over the next five years across all of our assets we expect production of 300,000 tonnes per annum greater than in 2021.

At Nickel West, as well as looking at opportunities to grow production, we are increasing the value of our underlying product. We now have over 90% of our sales of nickel going into the ultimate EV market and we are producing nickel sulphate, which achieves a further premium relative to our historic products.

At Western Australia Iron Ore, we have recently increased our export licence to 330 million tonnes per annum, giving us headroom to pursue low-cost opportunities in our mines, our rail network and our port facilities. We have the world's best resources of high-quality coking coal, which is benefiting from increasing premiums as steelmakers pursue decarbonisation. And this business also has expansion potential if market circumstances warrant.

With the approval of Jansen Stage 1, we have entered into another commodity with very attractive fundamentals, as we are seeing play out currently, in the world's best potash basin. This opens up a new future growth front for the company, with significant expansion potential.

We have reinforced our focus on technology and innovation as two routes to unlocking more value from current assets and we are adding to our suite of early-stage options, particularly in copper and nickel. In the last half we invested in Kabanga Nickel in Tanzania, and we have a suite of early-stage options in Australia, North America and South America.

M&A was mentioned earlier. M&A, of course, remains a lever, but it is a lever that we would only pull for the right opportunity at the right value and, of course, at the right time.

Let me close now on, 'Why BHP?' We have demonstrated strong execution capability, including in the face of some pretty significant sector challenges over the past six months, and this has not been a flash in the pan. We have a number of periods now of demonstrating this strong execution capability. We are delivering more reliable operational outcomes, enabled by our efforts on workforce, culture, the BHP Operating System and technology. Our results have also demonstrated how our diversified, high-quality portfolio substantially reduces underlying volatility and enables us to generate more stable cashflows over time. That is that US$15 billion net operating cashflow that I mentioned earlier.

[2] Escondida total resources includes the Escondida Projects of Chimborazo, Pinta Verde and Pampa Escondida and represents 5.8 billion tonnes of Measured Resources, 5.2 billion tonnes of Indicated Resources and 16.6 billion tonnes of Inferred Resources, as reported in BHP's Annual Report 2021 (pages 254 to 255).

We are improving our growth outlook and our leverage to commodities with decarbonisation upside. After the divestments that we currently have underway, in fact, we are going to have a portfolio that is all or almost all comprised of commodities with decarbonisation upside – copper, nickel, potash and even high-quality iron ore and high-quality coking coal for steelmaking. This portfolio of large, low-cost, expandable assets provides us with considerable opportunity for further production and value growth, and this is all going to be made more significant as new greenfield resources become more challenging to develop and bring to market. With BHP's focus on operational excellence, ever more sustainable production and our unique approach to broader social value, we are well positioned to supply the resources that the world is going to need to decarbonise and continue to grow and we will create much greater value for shareholders through doing so. Alex, thank you.

Questions and answers

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)

Thank you, Mike. Just as a reminder, please submit questions via the app for the presentations today. Maybe just a question from me to begin with. Traditional metrics on which mining companies have been judged in the past have been shaken up recently, particularly with the ESG focus and decarbonisation, and you showed your CAF on a slide earlier. How does fit in your capital allocation plan?

MIKE HENRY (CEO, BHP)

You are right, Alex. Rather than 'shaken up', I would say 'added to'. At the end of the day, we are all here to create great value for shareholders, as well as other stakeholders. For us specifically, we do bring decarbonisation spend under our capital allocation framework. It ranks higher up the stack, so it is alongside maintenance capital, but one of the things we are fiercely committed to is ensuring that the dollars that we spend on decarbonising BHP are spent for highest possible returns. Whenever you hear me out there talking about $2 billion to $4 billion to achieve a 30% reduction in operational emissions by 2030, which more recently I have been saying is towards the upper end of that range at $4 billion, I will always tie something around NPV or returns to that. It is currently looking at about minus $500 million on $4 billion spend. The reason I bring that forward is because it is important that the teams within BHP are competing for that capital. We want decarbonisation opportunities competing for the capital and those opportunities that generate highest possible returns for achieving what we see as being an absolute must, which is decarbonisation, are the projects that will win out.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)

Okay. Maybe I will take the first question from the app here. You have recently increased Pilbara port capacity levels beyond the current rate right now. Maybe you could comment on the timeframe that you plan to achieve this in. Is this a change in strategy overall for your iron ore business back to growth, essentially, I think, is the question?

MIKE HENRY (CEO, BHP)

There is no change in strategy. We are nothing if not consistent. Back in 2017 what we said is we are not going to be looking to deploy major growth capital into iron ore in the face of the market outlook that we saw at the time and that remains. We continue to believe that come the middle of this decade we will have seen Chinese steel peaking and beginning to move into decline and the beginnings of a market contraction associated with that at the same time as we see a lot of new supply coming to market out of the Pilbara, South America and, of course, West Africa.

For the time being, focus is all about productivity, but you see what we have been able to do through getting better at what we do day in and day out. What we were finding is that as we approach 290 million tonnes per annum, which was the previous licence, we faced the very real prospect of hitting 290, let's say, on 15 June or 15 December and then needing to shut production because we are going to run up against 290, so we need to de-constrain ourselves from that as we continue to focus on productivity. Would we look to go to 330? Not for now. But if market circumstances warrant, so if our view on demand changed or our view on some of the supply commitments that we are hearing from other suppliers changed, then we will be ready to move to 330 and we will have all the studies done to be able to get us there, but for the time being it is just the focus on getting better at what we do every day.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
Sticking to iron ore, there is a question here. Can you comment on China's reported efforts to centralise iron ore purchases?

MIKE HENRY (CEO, BHP)
We have not seen anything official yet. What we have seen playing out over recent weeks is a real focus on reducing speculation, particularly around the Dalian Exchange. As everybody in this room would know, BHP has been committed to open, transparent markets and index-based pricing for many years now and we remain committed to that, but as to some of the rumours that we have seen out there recently, as we have not yet seen anything official, it is a bit difficult to comment.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
This is a question that I think comes up pretty much every year, but, essentially, where are we in the cycle for mining?

MIKE HENRY (CEO, BHP)
Where are we in the cycle for mining? I am not sure if that is the commodity price cycle or the growth focus cycle. For any of us who have been around the industry for a long time, you know that any talk of 'stronger for longer' is probably going to be proven wrong in short order. Clearly, at this point in time we have had this extraordinary run of high commodities prices as the world has come out of Covid. We still think there is some way to go for some of the supply-side constraints to get worked out of the market, so barring any demand side shock, we think there is going to be a baseline level of support there for prices for a number of our commodities. Our medium to long-term outlook for how demand will play out and how we see pricing playing out for the commodities that we are in really has not changed.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
Just turning to petroleum, obviously you are spinning out the assets there. With the divestment for petroleum and non-core assets ongoing, BHP's portfolio is undergoing significant overhaul. Given that energy prices are where they are, is removing petroleum still the right option?

MIKE HENRY (CEO, BHP)
Absolutely 100% with the decision we have taken on petroleum. For anybody who has followed this closely, you will know that we have given shareholders continuing exposure to an even better oil and gas business now, so any people in the room or outside the room who have a stake in BHP who want that ongoing energy exposure get it, plus they get the synergies that are unlocked as part of the merger. From a BHP perspective, it allows us to focus on the long-term value creation opportunities that we see in future-facing commodities.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
Okay. The next question is some of your competitors have shown interest in lithium. Is that on your radar too?

MIKE HENRY (CEO, BHP)
It is one of these things where we always try to maintain an open mind and keep things under review, but, as we have been quite clear over a number of years now, we do not see the opportunity in lithium to create a business akin to the other businesses that we have, which are large, where we generate very significant margins. No doubt lithium demand is increasing at quite a pace, but we think that the long-term cost curve for lithium is probably not aligned with the sort of shape of the cost curve and margin opportunity that we would see in things like copper, nickel, potash and even iron ore and high-quality hard coking coal.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
Okay. The next question is with regard to what is happening in Ukraine. If this conflict is prolonged, how do you think this could impact the supply chain?

MIKE HENRY (CEO, BHP)
There are too many variables for me to be able to predict things with any degree of confidence, other than to say that for a number of the commodities that currently get supplied out of that part of the world, clearly, the initial supply-side shock would then need to be met with supply from other areas and this would include in nickel, coking coal, potash, oil and gas and we see that coming through in terms of some of the current market sentiment, but it really depends on where things go from here.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
Are we in a rising cycle globally of mineral nationalism and how do you position BHP to deal with this?

MIKE HENRY (CEO, BHP)
It comes back to what I mentioned earlier, which is that long gone are the days where companies like BHP can focus on this narrow concept of direct shareholder value creation, because we know that in order to achieve that in a sustainable way over time, we have to be engaging broader stakeholders, including governments, local communities and local populations, in a way that helps them to understand the importance of the industry and the value that a company like BHP with all the capabilities and the experience that we have can bring to the table. Frankly, resource nationalism globally has a pretty mixed track record. I would venture to say on balance it has not worked out very well. We think with the right engagement and the right track record where we can demonstrate that we are creating broader value for society, that will give us a seat at the table, even in difficult circumstances.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
At high LNG prices would this delay your rollout of bulk carriers?

MIKE HENRY (CEO, BHP)
The carriers that we are deploying are actually dual fuel, so they have the ability to run on LNG; they also have the ability to run on fuel oil. In short, no, we will continue down that path and, like all commodities, prices will be cyclical, but when LNG pricing makes sense those carriers will be able to run on LNG, as we demonstrated with this recent sailing from Australia to Japan.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
Has your long-term view on potash changed given the current commodity markets and potential sanctions?

MIKE HENRY (CEO, BHP)
It has been reinforced. The view that we have had on potash for well over a decade now is you have a commodity here where there are only two major basins globally. You have Canada and Russia-Belarus. Against a backdrop of a demand outlook that looks to be pretty strong and steady over coming decades as the world's population grows, as diets change, as there is sharper focus brought to bear on things like deforestation or avoiding deforestation and as we need to get greater crop yield out of constrained arable land, there is a very strong case for potash. We are seeing that supply-side structure or point that I made play out in real time around there only being two big basins and if one of them gets disrupted it is good for the other basin. It certainly validates I think the decision that we took last year to trigger the first big investment in Jansen with the first phase of the Jansen project and in short order we will then look at Jansen stage two, Jansen stage three and Jansen stage four, so within a reasonable time horizon we will be able to build up quite a significant business in potash.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
This is a question on technology and its impact on mining. How much supply growth, particularly in copper, do you think new tech can unlock?

MIKE HENRY (CEO, BHP)
I think new tech is going to be essential for supply in copper, because if you look at the world's resources, they are lower grade for any big resources and they are getting deeper for any high-grade resources. Both of those are going to create great opportunity for new technologies to be developed and brought to bear on unlocking some of those resources and we are out there investing in some of these technologies as we speak, as well as developing internally, to allow us, for example, to unlock more of that fantastic Escondida resource that I mentioned earlier. We are also using technology to discover more at greater depth and then, of course, we would apply technologies to be able to mine and process that ore.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
I think we have time for one more question and maybe I will ask this one. Prices are high. There has been significant discipline. Do you think this is going to continue from a CAPEX perspective? Are we still going to see more shareholder returns over capital invested in the ground?

MIKE HENRY (CEO, BHP)
One has to believe that will be the case, Alex, because you have a generation of management in the industry who wear all the scar tissue from previous periods of ill-discipline. I would put the discipline into the category of operational discipline, so not letting costs run rampantly away from us, but then you also have the capital allocation discipline.

Do I expect that over time, now that companies have rebuilt the hard-won trust from shareholders, we will see a little bit more M&A? Of course, but I think the way that BHP thinks about it is we have to make sure that we have the discipline to only pursue opportunities that are on strategy, for the right value and in the right construct, because if you look at where things have gone off the rails historically, it has been where companies like BHP have varied from strategy, have pursued the wrong assets and have paid over the top for them.

What we have done to try to reinforce that is we have put in place our dividend policy, so 50% minimum payout, and our capital allocation framework. The reason that you see us at pretty much every one of these presentations coming out and talking about the CAF, or the capital allocation framework, is to reinforce not just the market's understanding, but to give you all comfort that we remain absolutely firmly committed to this, and it is one of the disciplines that we put in place as a result of some of the prior missteps that the company has made.

ALEX PEARCE (MINING ANALYST, BMO CAPITAL MARKETS)
Thank you very much, Mike.

MIKE HENRY (CEO, BHP)
Thanks, Alex. Thank you, all.