BHP

BMO Global Farm to Market Conference

Q&A transcript

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JOEL JACKSON (BMO)

I have been following Jansen since 2008. Back over a decade ago, BHP would have presented a 16 million tonne plan for potash for well over a decade in different steps, so what you are presenting here is nothing new. What I think is new this week is that you are telling us what the capital intensity will be for the next 4 million tonnes over phase 2. Why are you disclosing that this week? Why do you want to now go to the market and say, 'This is what the capital intensity is for phase 2'? Potash is now at the highest prices ever, with a lot of concerns about Belarus and Russia. Nutrien and other companies are out there talking about maybe now putting tonnes out. Is this about really saying, 'No, we are going to be really big in Saskatchewan, so you should all expect that we are going to go to 12, and 16 eventually. We have talked about it for 12 years, but now we are serious'? Does what I am saying make sense?

DAVID LAMONT (BHP, CFO)

What you are saying makes sense. I would put it in the broader context, though, of BHP in a total sense. What we have been able to do at a portfolio level within BHP is we have needed to work through some of the other parts of our business. Most notably, just today, Woodside, with whom we are merging our petroleum business, had a successful vote, so that business will now move out on 1 June.

One of the questions that we have had coming back from the market is, 'With petroleum moving out, where is your growth coming from?' We have always said, 'Well, the growth was potash', but perhaps we had not been as explicit to the market around how we saw that over the decades to come. All we have largely done as a result of that is tabled a bit more detail around what we already had in our internal plans.

As a result of the Ukraine-Russia situation, we have looked at whether or not that would create a better window for potentially more non-FSU potash to come to the market, so that is one factor that has changed, which is why we have said that we are looking to study that stage 2 and be prepared. However, what we have seen in a lot of the commodities that we have operated in over a long period of time is that markets have dislocation at various times. If you are low on the cost curve and are the most consistent and reliable operator, you are best-placed to step in, but only if you have done the preparatory work to get there. There is nothing cynical as part of that.

JOEL JACKSON (BMO)

If the first tonnes come out in 2026 or 2027, with a couple of years of ramp up, does it make sense that you would not want to start construction of stage 2? You have really ramped up production of stage 1 and all the learnings from that to not make the same mistakes for stage 2. Is that reasonable?

DAVID LAMONT (BHP, CFO)

It depends on where the market is at as part of that, so with an eye to that. We are also very mindful that we are the new entrant. We need to understand the market. We need to understand the business further. We certainly are very comfortable with the schedule that we have. We are very comfortable with what we see as the overall operating costs, as such, but as to whether we would do that or not, we will judge that more by what the market situation is at that point in time.

JOEL JACKSON (BMO)

In terms of the marketing arrangement that you might have, BHP has been clear over the years that you are not really into cartels and that you want to stand in front of your customers and try to produce at the lowest cost. Is that fair, that you want to market by yourself, you have your port and your rail deals, and everything is good to go? Is that the plan?

DAVID LAMONT (BHP, CFO)

That is the plan and it is consistent with what we do elsewhere. We see that there is value to be extracted through all of the commodities that we are in by having a very focused customer end of our business. We can make good decisions and extract value through that by having an integrated supply chain all the way through. A good example of that is the intel we get on the ground by talking to our customers in our existing businesses in countries like China and India. We want to feel that, and that is principally what we are wanting to do.

JOEL JACKSON (BMO)

Do you have a vision of the marketing arrangement, such as how much potash in the US and how you are going to market it there?

DAVID LAMONT (BHP, CFO)

For us, as I said earlier through the presentation, we are wanting to diversify, to the extent that we can, a little bit away from our traditional markets. Our traditional markets have been more China and India. Clearly, what potash enables us to do is to look into the US and Brazil as two markets that we do not have as big a presence in. Clearly, through the rail side of things, we will be able to distribute product into the US directly, but I will step back and say that, in terms of the arrangements that we have put in place today, the MOUs that we have in place for over 100% of stage 1's production are diversified from a region. We have them in China, in India, in Brazil and in the US. We will get to assess where we ultimately go when we get closer to the overall outcome.

JOEL JACKSON (BMO)

Does your stage 1 plan include 100% granulation capability or some smaller percentage?

DAVID LAMONT (BHP, CFO)

Initially, we will be about 50/50. We can see our way clear to probably going to 60/40 as part of that, but, at the moment, the start-up and, as we ramp up, we will be more 50/50.

JOEL JACKSON (BMO)

That means that you are targeting a large amount of production to China, India and southeast Asia by being 50% standard grade.

DAVID LAMONT (BHP, CFO)

Yes. We have been quite open around that. That is why we have the MOUs in place in countries like China and India, etc.

JOEL JACKSON (BMO)

Can you provide an overview of your capital allocation framework? How do you intend to balance the company's growth strategy for shareholder returns? How does Jansen fit within this framework versus some of the stronger-performing commodities in the current market?

DAVID LAMONT (BHP, CFO)

Let me start by saying our capital allocation framework was something that BHP put in place back in 2016, whereby, at that time, the balance sheet needed a bit of repairing and we became disciplined in how we would allocate capital. To walk you through that, if people are not familiar with it, it starts with the fact that we say we do need to maintain our operations. Out of the free cashflow that we are generating, we will spend $2-2.5 billion on our maintenance capital and sustaining the operations.

After that, what we have said is that we will pay out a minimum of 50% as a dividend. Any cash that is available after that, we look at whether that gets invested back into the business or gets a further return back to shareholders, either through additional dividends or through buybacks as part of the process.

What we have said is that, as we move forward, historically BHP has spent $6-6.5 billion on total capex. We have flagged over the foreseeable mid-term that we would see that stepping up to about $10 billion, and the Jansen projects have been built into that $10 billion, so we are building capacity to do that.

We have a criteria that we look at in relation to the returns profiles, etc, but we have had a track record of also paying our dividends appropriately. In the last 12 months, we paid out in excess of $17 billion of dividends, so we are one of the largest dividend payers globally in any industry as a result, and that is something that we will continue to evaluate in terms of whether that is the best way to give value back to shareholders or whether we continue to reinvest back into the business.

JOEL JACKSON (BMO)

This question is from my colleague, Alex Pearce, who covers you at BMO. Given cost pressures and inflation, does it make more sense to spend on near-term, less intensive, easier wins rather than longer-term projects like Jansen at the moment?

DAVID LAMONT (BHP, CFO)

The short answer is that we do not see them as being mutually exclusive. One of the things that we are very happy with in relation to the Jansen project specifically – and my favourite slide that I put up there around the borer - we have been working on that for a number of years. It is bespoke for us. It has been trialled in salt lakes in Germany, and we know that it can work. That is all contracted already.

From an inflationary perspective, we are not immune to that across BHP, and we do not sit here and say that we are different to anybody else in the industry. However, what we would say is that, if you are the lowest-cost, best operator and a reliable producer, you are best-placed to buffer the impacts of inflation. Our overall principle at this stage is that, through this inflationary environment, we intend to widen the gap between us and our peers in terms of operational performance.

JOEL JACKSON (BMO)

You own a quarter of all the potash concessions in Saskatchewan, I am pretty sure. I remember visiting 10 years ago the BHP office in Saskatoon when it opened, and all the meeting rooms are named after all the old projects like Burr, Melville – have you been in that office?

DAVID LAMONT (BHP, CFO)

No, I have not been there. I am going there next month.

JOEL JACKSON (BMO)

It is a lovely place to go. Burr, Melville, Jansen. How about all those other concessions? I guess the team must have looked at all those other concessions and said expanding on Jansen was a better investment than what I guess we will call greenfield at the other assets.

DAVID LAMONT (BHP, CFO)

It comes back to why we like potash in a more macro sense. We have a project today that we see has very good returns and very good optionality, but through our other operations – Western Australia Iron Ore and even through to our BMA and Escondida operations – we are always looking for future optionality. They are not near term. We have a near-term project. We have stage 1 and stage 2, but equally we are not coming into the potash market just to be there for the short term. This is an investment that we see will have a century-long payback as part of the process. As I said through the presentation, great resources are hard to find and they only get better over time, and all of that is there.

JOEL JACKSON (BMO)

BHP always wants to be number one or two in every commodity. That is your mantra. Is that correct?

DAVID LAMONT (BHP, CFO)

No. In some of the commodities that we are in, we are not. What we do believe we can be is the best operator of scale. In terms of the definition of scale, we are one of the top three global producers of copper, so we are not always needing to be one or two. That was an old mantra.

JOEL JACKSON (BMO)

I am a fertiliser analyst.

DAVID LAMONT (BHP, CFO)

That is alright. That is good. You have been around the traps.

JOEL JACKSON (BMO)

Yes, let us be clear.

DAVID LAMONT (BHP, CFO)

This is the first time you have a BHP person up here. You are doing well.

JOEL JACKSON (BMO)

We are not on stage here.

DAVID LAMONT (BHP, CFO)

You are improving as part of the process.

JOEL JACKSON (BMO)

Teach me.

DAVID LAMONT (BHP, CFO)

We are not sitting here saying that we have to be one, two or three. What we are saying is that we want to be a meaningful player in any market that we are in, but, more importantly, we look at the underlying resource. We look at a resource that we want to have, which sees us low on the cost curve, and which has scale, optionality and longevity.

JOEL JACKSON (BMO)

I will pick a number. Let us say you are not at 8 million tonnes for 10 years, whatever the number is. I am not sure what it is – 7, 10, 12 or whatever. I am making it up. Your 8 million tonnes will be well less than 10% of the market in 10 years, and you will be the fifth largest producer. Is that good enough in 10 years from now?

DAVID LAMONT (BHP, CFO)

As I said earlier, if we were to develop based on current pricing and halve that, and we were at the full side of things, at 16 to 17 million tonnes, we would be delivering between $4 billion and $5 billion of EBITDA. If you say it is eight, I will take $2 billion – or two-plus – of EBITDA any day. That is meaningful. We have ambition, yes, but we will do that only if we see that the market conditions are appropriate for us to execute on that. It is not, 'I must be one, two or three in the market'. It is about, 'How do we add shareholder value by optimising the resources that we have?' and we have to be mindful of what that means from a market perspective.

JOEL JACKSON (BMO)

The current shaft supports stage 2 to get to 8 million tonnes, correct? Do the current shafts support getting to 12 and 16?

DAVID LAMONT (BHP, CFO)

Yes.

JOEL JACKSON (BMO)

So you could do 16 from the current shafts.

DAVID LAMONT (BHP, CFO)

Yes.

JOEL JACKSON (BMO)

That's important. Are there any other questions from the room? We have a couple of minutes left. I know you have been back and forth with BHP a couple of times in your career, but, with BHP, what was interesting was that – and I have followed the project for 15 years – a lot of people never thought you would ever do this, that you would ever be here in this room, right now, saying, 'We will be on in four or five years', and you guys kept doing the work in the background. What is the one thing that you want investors and the potash industry to know? Here comes BHP. What do you want, number one, investors to know about what BHP is really thinking about potash and the potash industry? What do you want to tell them?

DAVID LAMONT (BHP, CFO)

It is consistent with the overall strategy that we have for BHP. I will come back to what we want to be known as is the most reliable producer in the market. If we are able to do that at the scale that we have been talking about and at the position that you have on the cost curve, that is what we can do a) to ensure that we are doing the right thing by the communities in which we operate, and b) for the customers that we ultimately will be supplying things into. By doing that, we will also maximise shareholder value and return.

Our focus is that we are an operator. We are a mining company moving into a new commodity, albeit that we see a lot of similarities between what we do in our bulk mining operations and what we will be able to bring to the potash industry and to Jansen. We are excited by the possibility of what we can do, and we are excited at being able to leverage some of the skills and capabilities that we have. We think that the market will ultimately enjoy that reliability that we have, and we are keen to continue to execute on it.

To your earlier comment, it's important to note that it is not like we have suddenly fallen in love with potash.

JOEL JACKSON (BMO)

Not at all.

DAVID LAMONT (BHP, CFO)

We have been in and around it for a while. We are very excited that we now have our project sanctioned and are looking to get into the market.

JOEL JACKSON (BMO)

David, thanks a lot. I appreciate your time.

DAVID LAMONT (BHP, CFO)

Great. Thank you.