BHP

Bank of America 2023 Global Metals, Mining & Steel Conference

Q&A transcript

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JASON FAIRCLOUGH (BofA)

Mike, since you assumed the role of CEO, you really hit the ground running. So you've collapsed the DLC. You've exited oil. You're selling down some lower-quality coal assets. You bid for OZ Minerals.

I guess the question is, to what extent are you just executing to a plan that you came up with years ago versus just reacting to the market and the opportunities that you see?

MIKE HENRY (CEO, BHP)

I hope I'm not disappointing you, Jason, but no, it's not a random walk. There actually is a method to the madness. In fact, if we go back to some of what I attempted to lay out when I first became CEO back in early 2020, just before COVID hit, everything is very well aligned with that, of course.

So the plan is very clear. I think it's a pretty simple plan in terms of the focus on operational excellence, social value creation, reweighting the portfolio over time to ensure that we've got maximum leverage to the upside in the faster decarbonising world where we're seeing continued global economic growth and rising living standards. So everything is in line with that.

However, of course, we need to be cognisant of what's happening in the world around us and be quite deliberate about when we choose to act on certain aspects of the strategy. And you've certainly seen that with the OZ Minerals transaction, and with a few of the other things that we've done.

JASON FAIRCLOUGH (BofA)

Okay. So our conference theme this year is the "pivot to growth". You've got your acquisition of OZ. You've got your commitments to delivering Jansen Stage 1, bringing forward phase two. But I guess what I always struggle with with BHP is that it's so big. It's big. You've got these giant assets that just crank out the cash. And what a thing to have. But ultimately, they do create this base effect that makes it difficult to deliver meaningful growth relative to your size. So I guess the question is, do the cash cow businesses, do they really go with the growth businesses?

MIKE HENRY (CEO, BHP)

So maybe if I just take a step back, Jason. I think that people would have said that about BHP a decade ago, two decades ago, three decades ago. And yet if you look at the value that we've generated for shareholders over that period of time, I think it's something that, certainly within the company, we can be pretty proud of. And so yes, I acknowledge the fact that we're a big company, but being a big company also means that we have big resources, which provide you a lot of optionality to grow. And they also provide us with the – and I called out in my presentation – when we talk about growth inside the company, we always come back to the first and most important thing that we need to focus on, which is running the business that we already have super well and improving productivity. If you think about our cost base – circa, let's say, a 10% sustained improvement in costs over time, that alone will add US$15 to US$20 billion of value.

And so there's all these other things that, of course, we're focused on doing - looking at where we can create more by way of greenfield or brownfield expansion opportunities to grow the underlying base. But that has to come in tandem with ensuring that we're getting maximum value for the capital that we already have deployed in the business.

And with this big business, where we've got these basin plays – you've got something like iron ore, which has many similarities to metallurgical coal, with some similarities to Escondida and Spence, for example, where we're running large fleets of trucks moving a lot of material. Being a big business, we can learn in one of those businesses and replicate quickly into others, which allows us to unlock that big productivity benefit or value that I spoke to.

So we're doing both. Focus on productivity. You can see that off the resources that we have, we've got more options that we can develop for growth. And we're not standing still in terms of seeking to bring into the portfolio more resources through greenfield exploration – we've shown some technical success on that front. Through early stage entry – so becoming a little more commercially agile in terms of gaining toehold positions in new resources. And then, in the case of OZ Minerals – an acquisition where we believe that through the acquisition, we can create more value than would have occurred just as a standalone company.

Now, on the final part of your question around, do the cash cows make sense with the rest of the business, we believe that they do. It's a discipline that we hold ourselves to of regularly testing that. But again, whilst we term them cash cows, it's not just set and forget. There's still a ton of value to be unlocked out of iron ore, a lot of value to be unlocked out of the metallurgical coal business, even as we grow further in copper, nickel, and potash.

JASON FAIRCLOUGH (BofA)

Well, we've got time for a couple of questions from the floor if anybody wants to ask one?

All right. People are shy. Another one from me. You alluded to this a little bit in your presentation, Mike. The world needs more greenfield and brownfield investments. And yet at the moment, I think we have all this focus on M&A.

How do we think about buy versus build? And I guess more generally, if all mining companies are doing is buying each other, are we actually delivering the metal that the world needs?

MIKE HENRY (CEO, BHP)

Well, great callout. And I gave the one example of copper. But of course, copper is one of many. There are some freakishly large numbers in terms of the capital required to be invested in this industry over the coming decade, over the coming two decades.

And so now, if I bring it back to, well, what are the implications for us? One, we obviously have a constructive outlook on the commodities that we've chosen to be in. But we always have to test, where is BHP going to add incremental value for shareholders? And any opportunities that we pursue have to be in the commodities that we've chosen to participate in. They have to be the sort of assets that we've elected to hold as BHP – large, long-life, low-cost – and we have to see that through the capital that we invest, be it an acquisition or a project, that we're creating value for shareholders. More often than not, that's going to drive us towards the build, be it brownfield or greenfield. But there will be discrete acquisition opportunities where, through synergies or through our better ability to unlock growth in that portfolio, where we can add value.

What we're not going to do is simply go out and buy a stream of copper or buy a stream of nickel or buy a stream of potash, because then all we're doing is calling the market, and that is the thing that's going to be least in our control at the end of the day. Of course, we need to have a view on the market. But I'll always feel safer, we'll always feel safer, if in addition to trying to get the timing right, there's something intrinsic to bringing that business into our business that allows us to unlock more value than if they had remained standalone.

JASON FAIRCLOUGH (BofA)

Interesting. Give you guys one more chance. Any questions from the floor? There's one there, please.

AUDIENCE

Lithium is not part of your portfolio at the moment. What are your thoughts on that?

MIKE HENRY (CEO, BHP)

Yes. So we've elected not to participate in lithium. And there's probably two strands to the response. So the fundamental – as we go about testing which commodities we want to be in, we want to ensure that the industry is large enough to make it meaningful for BHP. And I think in the case of lithium, it is or it will ultimately be.

Two, we have to believe that the shape of the cost curve long-term is steep enough such that if we have the right assets, we can generate very high margins – i.e., at the low end of the cost curve. The assets have to be individually large and aligned with our capability set. And our belief in lithium is that over the long-term, the cost curve is more likely to flatten out, therefore, not give us the margin potential that we would normally be looking for.

The second strand of the response is we have to be focused. If there's one thing that we've learned at BHP over time, it's that if we allow our focus to get too dispersed, we do a lot of things not well. And so we've made deliberate choices about which commodities we want to be in. And those are, in terms of the future-facing commodities, copper, nickel and potash, whilst continuing to grow value in our iron ore and metallurgical coal businesses.

JASON FAIRCLOUGH (BofA)

Thanks, Mike. Any other questions from the floor? Got one right here at the front.

AUDIENCE

One question on dividends. So industry's delivering pretty large dividends, but at the same time, we've heard from Jason in the morning that there is huge need for investment. Does it make sense to keep paying these high dividends? What do you think about dividend growth medium-term? And is this an industry where the shift needs to focus a little bit to use some of this capital for growth as opposed to paying it out to shareholders?

MIKE HENRY (CEO, BHP)

I think the reality is that there is a period of time where, through the players right across the sector having not done a good job with capital allocation, not having demonstrated a track record of reliable operations, that we all needed to focus the business so that we got the basics right. And we needed to rebuild trust with shareholders.

And as a result of that, over a period, you've seen probably lower capital investment than the world will need to see over the medium to long-term if the world is to continue to grow and to decarbonise. Having said that, at the end of the day, I don't think it's one or the other. And we need to be very cognisant of the interests of shareholders as we seek to grow value.

Now, the better a job that we do in being productive, which will improve underlying project economics, and the more that we're able to advance work in developing options off the base of the current portfolio, the more optionality we'll then have as to where we deploy that capital to.

So it's not like we've taken a deliberate decision not to invest in growth and just return all cash to shareholders, at least not as BHP. The reality is that we haven't had the shovel-ready projects to bring forward. The more that we bring those forward, and as we maintain the trust of shareholders, if we've got great projects with good returns, I know that we'll have the backing of shareholders. But at the end of the day, it's going to be a balance. And we've tried to backstop that balance at BHP by saying that we have a 50% minimum payout ratio. And that stays.

So I think that's a really good discipline. It instils a competition for capital internally. And having personally lived through a period where BHP was spending double or triple what we're currently spending – and it comes back to the point I made in response to the earlier question about focus – if we try to do too much at once, we do a lot of it badly, whereas by constraining ourselves, 50% minimum payout ratio, it forces a competition from capital, which ensures that each of the individual projects is better and higher returning than if we didn't put that constraint on ourselves.

JASON FAIRCLOUGH (BofA)

Thanks a lot for that, Mike.

MIKE HENRY (CEO, BHP)

Thank you.

JASON FAIRCLOUGH (BofA)

And folks, we're out of time. So could you join me, please, in thanking Mike for his presentation.

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