

## BHP Group Limited

# Softer Met Coal guidance and potential Nickel West impairment the highlights

Reiterate Rating: BUY | PO: 55.00 AUD | Price: 46.57 AUD

## Iron Ore and Copper in line while Met Coal disappoints

BHP has released its 1H FY24 production update with production broadly in-line for Iron Ore and Copper while Met Coal was a 12% miss vs consensus. Met Coal production was weak than expected due to significantly higher planned maintenance, the extended longwall move at Broadmeadow and increased stripping. FY24 production guidance is unchanged for all assets, with the exception of BMA Met Coal which has been lowered to 23 - 25 Mt (from 28 - 31 Mt) reflecting the weaker 1H FY24 and the expected sale completion of Blackwater and Daunia on 2 April 2024. Unit cost guidance for FY24 is unchanged for WAIO, Escondida and Spence however BMA unit cost guidance is increased from US\$95-105/t to US\$110-116/t as a result of the lowered production guidance. The other highlight in the result is BHP flagged a potential non-cash impairment due to low nickel prices discussed further below.

## FY24 EBITDA trimmed by 4% and PO lowered to \$55/sh

We reduce our FY24 EBITDA by 4% mainly reflecting the reduced production and higher unit cost guidance for Met Coal. Our price objective is also trimmed from \$57/sh to \$55/sh reflecting our reduced earnings and adjustments to net debt. We reiterate our Buy with BHP trading on 0.85x Price/NPV and offering a higher than sector average 8% FCF and 5.6% dividend yield in FY24. BHP will report 1H FY24 results on 20 February 2024. We forecast 1H FY24 adjusted EBITDA of \$13.7bn, net income of \$6.8bn and an interim dividend of 74 UScps based on a 55% payout ratio.

## Nickel West impairment up to \$1.2bn amid low prices

BHP has flagged it will likely make a non-cash impairment against the carrying value of Nickel West at its 1H FY24 results due 20 February 2024 given the low nickel price environment and loss making nature of Nickel West. We note nickel prices have declined 40% in the past year to \$16,150/t, well below our estimated unit costs for Nickel West of \$25,000/t. We estimate Nickel West will generate negative EBITDA of \$515m for FY24 and have zero NPV for the operation. According to BHP's FY23 annual report, the carrying value for Nickel West is \$1,189m. With nickel being one of BHP's Future Facing Commodities and currently contributing zero earnings, we wonder what the strategy is to make nickel as business of scale for BHP which generates c.\$30bn p.a. of EBITDA.

Estimates (Jun)	2022A	2023A	2024E	2025E	2026E
EPS (Reported b/f exceptionals - US\$)	4.434	2.579	3.116	2.611	2.486
EPS (Reported b/f exceptionals - A\$)	6.380	3.902	4.840	4.050	3.873
Dividend / Share (US\$)	3.250	1.700	1.714	1.436	1.367
Dividend / Share (A\$)	4.676	2.572	2.662	2.228	2.130
Valuation (Jun)					
P/E	7.2x	11.8x	9.8x	11.7x	12.2x
Dividend Yield	10.7%	5.6%	5.6%	4.7%	4.5%
EV / EBITDA*	3.9x	5.7x	5.1x	5.6x	5.8x
Free Cash Flow Yield*	15.1%	7.5%	7.9%	7.7%	7.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

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**Refer to important disclosures on page 10 to 13. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 17 January 2024 11:11PM EST

18 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	A\$57.00	A\$55.00
2024E EBITDA (m)	32,918.0	31,042.9
2025E EBITDA (m)	28,772.6	28,326.4
2026E EBITDA (m)	27,786.4	27,362.1

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### Stock Data

Price (ASX Ord / ADR / UK Ord)	46.57 AUD / 60.42 USD / 2,383 GBp
Price Objective	55.00 AUD / 67.00 USD / 2,750 GBp
Date Established	18-Jan-2024 / 18-Jan-2024 / 18-Jan-2024
Investment Opinion	B-1-7 / B-1-7 / B-1-7
52-Week Range	41.66 AUD-50.84 AUD
Market Value (mn)	153,820 USD
Market Value (mn)	235,504 AUD
Shares Outstanding (mn)	5,057.0 / 2,528.5 / 5,057.0
Average Daily Value (mn)	232.44 USD
Free Float	100.0%
BofA Ticker / Exchange	BHPLF / ASX
BofA Ticker / Exchange	BHP / NYS
BofA Ticker / Exchange	ZBHPF / LSE
Bloomberg / Reuters	BHP AU / BHPAX
ROE (2024E)	32.5%
Net Dbt to Eqty (Jun-2023A)	20.4%

# iQprofile<sup>SM</sup> BHP Group Limited

Key Income Statement Data (Jun)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
<b>Sales</b>	<b>66,050</b>	<b>54,211</b>	<b>58,241</b>	<b>54,154</b>	<b>53,391</b>
Operating Expenses	-26,688	-26,812	-27,198	-25,828	-26,029
<b>EBITDA</b>	<b>40,634</b>	<b>27,956</b>	<b>31,043</b>	<b>28,326</b>	<b>27,362</b>
Depreciation & Amortization	-5,683	-5,061	-5,302	-5,569	-5,383
<b>EBIT</b>	<b>34,951</b>	<b>22,895</b>	<b>25,741</b>	<b>22,757</b>	<b>21,979</b>
Net Interest & Other income	-969	-1,531	-981	-948	-632
Pretax Income	34,089	21,401	25,366	22,501	22,075
Tax (expense) / Benefit	-10,737	-7,077	-8,483	-7,476	-7,321
Minorities	-2,155	-1,403	-1,106	-1,805	-2,167
<b>Net Income (Reported b/f Exceptionals)</b>	<b>21,197</b>	<b>12,921</b>	<b>15,777</b>	<b>13,220</b>	<b>12,588</b>
Exceptional Items (After Tax)	107	37	606	692	728

<b>Key Cash Flow Statement Data</b>					
Net Income (Reported)	31,852	12,921	15,777	13,220	12,588
Depreciation & Amortization	-5,683	-5,061	-5,302	-5,569	-5,383
Change in Working Capital	-841	-263	-362	294	73
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	1,339	-552	486	517	527
<b>Cash Flow from Operations</b>	<b>29,285</b>	<b>18,701</b>	<b>22,182</b>	<b>21,523</b>	<b>20,759</b>
Capital Expenditure	-6,111	-7,083	-9,995	-9,722	-8,676
(Acquisition) / Disposal of Investments	-537	-6,720	0	0	0
Other Cash inflow / (Outflow)	1,675	738	1,050	333	333
<b>Cash Flow from Investing</b>	<b>-4,973</b>	<b>-13,065</b>	<b>-8,945</b>	<b>-9,388</b>	<b>-8,343</b>
Shares Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	-17,851	-13,268	-7,785	-8,864	-7,021
<b>Cash Flow from Financing</b>	<b>-22,734</b>	<b>-10,315</b>	<b>-9,002</b>	<b>-10,299</b>	<b>-9,233</b>
<b>Free Cash Flow</b>	<b>23,174</b>	<b>11,618</b>	<b>12,187</b>	<b>11,801</b>	<b>12,083</b>
<b>Net Debt</b>	<b>333</b>	<b>9,917</b>	<b>5,682</b>	<b>3,847</b>	<b>663</b>
Change in Net Debt	-5,404	9,584	-4,235	-1,835	-3,184

<b>Key Balance Sheet Data</b>					
Cash & Equivalents	17,236	12,428	16,663	18,498	21,682
Other Current Assets	1,067	1,109	1,109	1,109	1,109
Property, Plant & Equipment	61,295	71,818	74,974	78,273	80,701
Investments	802	1,115	1,115	1,115	1,115
<b>Total Assets</b>	<b>95,166</b>	<b>101,296</b>	<b>109,268</b>	<b>113,671</b>	<b>119,240</b>
Short-Term Debt	2,594	7,173	7,173	7,173	7,173
Other Current Liabilities	14,325	11,870	11,961	11,639	11,686
Long-Term Debt	14,975	15,172	15,172	15,172	15,172
Other Non-Current Liabilities	14,506	18,555	18,556	18,555	18,555
<b>Total Liabilities</b>	<b>46,400</b>	<b>52,766</b>	<b>52,857</b>	<b>52,535</b>	<b>52,582</b>
Net Asset	48,766	48,530	56,411	61,137	66,658
Minorities	3,809	4,034	3,923	4,293	4,248
Shareholder Funds	44,957	44,496	52,488	56,844	62,410

<b>iQmethod<sup>SM</sup> - Bus Performance*</b>					
Return On Average Assets	34.3%	23.3%	24.4%	20.4%	18.9%
Return on Equity	46.6%	29.2%	32.5%	24.2%	21.1%
EBIT Margin	55.5%	42.6%	45.2%	43.3%	42.5%
EBITDA Margin	61.7%	51.6%	54.3%	53.6%	52.6%

<b>iQmethod<sup>SM</sup> - Quality of Earnings*</b>					
Price / EBITDA	3.8x	5.5x	5.0x	5.4x	5.6x
Price / Free Cash Flow	6.6x	13.3x	12.6x	13.1x	12.7x
Tax Rate (Effective)	31.5%	33.1%	33.4%	33.2%	33.2%
Net Debt-to-Equity Ratio	0.7%	20.4%	10.1%	6.3%	1.0%
Interest Cover (EBITDA Basis)	38.7x	13.6x	21.4x	19.5x	24.5x

<b>Key Metrics</b>					
Franking (%)	100%	100%	100%	100%	100%

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Sector

Non-Ferrous-Mining

## Company Description

BHP is the world's largest mining company and a top 3 global producer of iron ore, metallurgical coal and copper in concentrate. BHP has some of the world's best undeveloped resources and it is this inventory of resources & growth projects that we expect will allow the company to maintain its position as a leading global resource company.

## Investment Rationale

BHP is a diversified miner which provides greater earnings stability and less volatile cash flows vs. pure play mining companies. Earnings are driven by price and production and shares tend to trade according to earnings and NPV expectations. BHP's assets are low-cost and longer-life "franchise" assets, so the company has less sensitivity to prices than many of its peers.

## Stock Data

Shares / ADR	2.00
Price to Book Value	2.9x

## Key Changes

(US\$)	Previous	Current
Price Obj.	70.00	67.00
2024E EPS	6.79	6.23
2025E EPS	5.41	5.22
2026E EPS	5.08	4.97

## BMA Met Coal production guidance lower, costs higher

FY24 production guidance ranges remain unchanged for all assets, with the exception of BMA which has been lowered to 23 - 25 Mt (from 28 - 31 Mt) reflecting the weaker 1H FY24 and the expected sale completion of Blackwater and Daunia on 2 April 2024.

### Exhibit 3: FY24 production guidance

FY24 production guidance lowered for BMA Met Coal while Energy Coal revised upwards to the upper end

FY24 Production Guidance	Unit	Notes	FY24 Guidance	FY24 BofAe	BofA vs Guidance	FY24 Cons	Cons. Vs Guidance
Copper	Kt	Unchanged	1720-1910	1,819	0.2%	1,810	-0.3%
Escondida	Kt	Unchanged	1080-1180	1,117	-1.1%	1,102	-2.5%
Pampa Norte	Kt	Unchanged	210-250	250	8.6%	246	7.1%
South Australia	Kt	Unchanged	310-340	321	-1.2%	318	-2.2%
Antamina	Kt	Unchanged	120-140	127	-2.5%	132	1.6%
Iron Ore (Equity %)	Mt	Unchanged	254-264.5	259	0.0%	259	-0.1%
WAIO (100% basis)	Mt	Unchanged	282-294	287	-0.4%	287	-0.2%
Metallurgical Coal (Equity %)	Mt	Lowered	23-25	25	2.9%	28	18.6%
NSW Energy Coal	Mt	Upper end	13-15	15	3.6%	14	1.5%
Nickel	kt	Unchanged	77-87	81	-1.2%	82	0.2%

Source: BofA Global Research estimates, BHP, Visible Alpha

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WAIO, Escondida and Spence are expected to be within their respective unit cost guidance ranges for FY24. However, BMA unit cost guidance for FY24 is increased from \$95-105/t to \$110-116/t as a result of the lowered production guidance.

### Exhibit 4: FY24 cost guidance

BMA unit cost guidance increased from \$95-105/t to \$110-116/t.

	Unit	FY24 Guidance	FY24 BofAe	BofA vs Guidance
Escondida	US\$/lb	1.4-1.7	1.56	1%
Spence	US\$/t	2-2.3	2.20	2%
WA Iron Ore *	US\$/t	17.4-18.9	17.74	-2%
BMA Unit cost	US\$/t	110-116	112.84	0%

Source: BofA Global Research estimates, BHP

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## FY24 EBITDA reduced by 4% on revised Met Coal guidance

We reduce our EBITDA by 4% for FY24 and 1% for FY25-26 mainly reflecting the reduced production and higher unit cost guidance for Met Coal. BHP will report 1H FY24 results on 20 February 2024. We forecast 1H FY24 adjusted EBITDA of \$13.7bn, net income of \$6.8bn and an interim dividend of 74 UScps based on a 55% payout ratio.

### Exhibit 5: Estimate changes

We reduce our EBITDA by 4% for FY24 mainly reflecting lower production and higher unit cost guidance for Met Coal

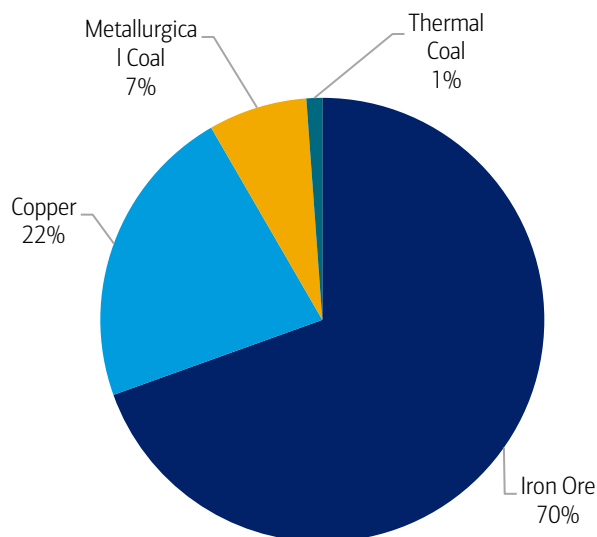
US\$ millions	FY2024E			FY2025E			FY2026E		
	New	Prior	% Chg	New	Prior	% Chg	New	Prior	% Chg
Revenue	58,241	59,566	-2%	54,154	54,750	-1%	53,391	53,976	-1%
<b>Underlying EBITDA</b>	<b>31,043</b>	<b>32,426</b>	<b>-4%</b>	<b>28,326</b>	<b>28,549</b>	<b>-1%</b>	<b>27,362</b>	<b>27,578</b>	<b>-1%</b>
Copper	7,032	7,211	-2%	10,806	10,821	0%	12,299	12,323	0%
Iron Ore	22,076	21,728	2%	16,278	16,278	0%	13,808	13,808	0%
Coal	2,651	4,174	-36%	1,708	1,927	-11%	1,265	1,466	-14%
Group & Unallocated	-715	-688	NA	-265	-276	NA	190	181	5%
<b>EBIT reported</b>	<b>26,087</b>	<b>27,340</b>	<b>-5%</b>	<b>23,167</b>	<b>23,319</b>	<b>-1%</b>	<b>22,415</b>	<b>22,560</b>	<b>-1%</b>
<b>Net profit underlying</b>	<b>15,777</b>	<b>16,851</b>	<b>-6%</b>	<b>13,220</b>	<b>13,556</b>	<b>-2%</b>	<b>12,588</b>	<b>12,707</b>	<b>-1%</b>
EPS underlying - US\$/share	3.12	3.33	-6%	2.61	2.68	-2%	2.49	2.51	-1%
DPS - US\$/share	1.71	1.83	-6%	1.44	1.47	-2%	1.37	1.38	-1%
Net Debt	5,682	4,864	16.8%	3,846.59	1,146.16	235.6%	663	-3,038	-121.8%

Source: BofA Global Research estimates

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**Exhibit 4: FY24 EBITDA by division**

Iron Ore contributes 70% to group EBITDA

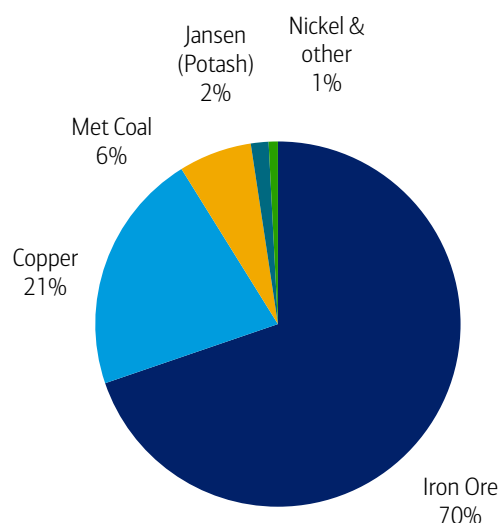


Source: BofA Global Research estimates

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**Exhibit 5: NPV by division**

Iron Ore comprises 70% of our group NPV, Copper = 21%



Source: BofA Global Research estimates

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## 1H FY24 divisional highlights

### Iron ore (70% of FY24 EBITDA)

Western Australia Iron Ore (WAIO) produced 142 Mt (100% basis) in 1H FY24, in line with expectations. Production guidance for FY24 remains unchanged at 282 - 294 Mt on a 100% basis (BofA 287 Mt).

WAIO production in 1H FY24 was 3% lower vs pcg due to the continued tie-in activity for the Rail Technology Programme (RTP1), and the impacts of the ongoing ramp up of the Central Pilbara hub (South Flank and Mining Area C).

South Flank is on track to ramp up to full production capacity of 80 Mtpa (100% basis) by the end of FY24. The planned tie-in of the Port Debottlenecking Project (PDP1) is on track to be completed in CY24, following commissioning on 7 December 2023.

### Copper (22% of FY24 EBITDA)

BHP produced 894kt of copper in 1H FY24, up 7% vs pcg yet slightly (2-3%) below expectations. Copper guidance for FY24 remains unchanged at between 1,720 and 1,910 kt (BofAe 1,819 kt).

**Escondida** produced 528 kt in 1H FY24, up 3% vs pcg primarily due to higher concentrator feed grade of 0.81% (vs 0.79% in 1H FY23) and higher concentrator throughput. Concentrator feed grade is expected to be between 0.85% and 0.90% for FY24. Production guidance for FY24 remains unchanged at between 1,080 and 1,180 kt.

At **Pampa Norte**, copper production at **Spence** rose 4% to a half year record of 127 kt, driven by improved concentrator throughput. Record concentrate production was partially offset by lower cathode production, in line with an expected decline in stacked feed grade. BHP also approved an incremental US\$570 m (to be spent over 4 years) in sustaining capital to progress remediation of previously identified anomalies in the Spence Tailings Storage Facility (TSF).

At **Copper South Australia**, copper production of 154 kt increased by 51 kt or 48% vs pcg due to the additional volumes from Prominent Hill and Carrapateena. Successful

integration of the Copper South Australia asset has resulted in strong underlying operational performance, including record quarterly copper production at Carrapateena in Q2. Strong smelter performance at Olympic Dam was supported by increased transfers of concentrate from Prominent Hill for processing to higher margin cathode. Olympic Dam also delivered record half year gold production and sales. Production guidance for FY24 remains unchanged at between 310 and 340 kt.

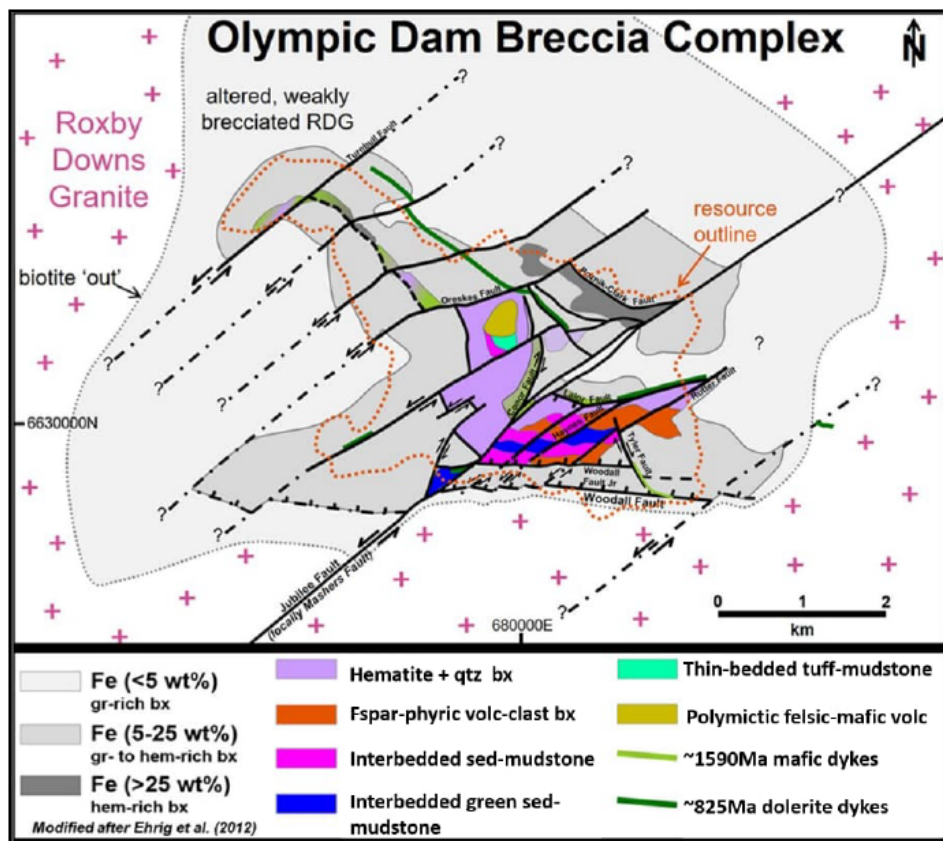
### Promising exploration drilling results at Olympic Dam

BHP have identified attractive copper mineralisation continuity (>1% copper grade) beneath Olympic Dam (OD) following 62km of exploratory drilling. OD is one of the largest copper-uranium operations globally with copper reserves at 10 Bn tonnes. Historically, the current smelting process has a narrow aperture in terms of the type of copper sulphide it can tolerate, driving inefficiency in the underground mining operation. However, OD has also seen stronger smelter performance supported by increased transfers of concentrate from Prominent Hill for processing to higher margin cathode.

We note Olympic Dam may potentially more than double its copper production later this decade be transitioning to a two stage smelter and processing additional ores from Carrapateena, Prominent Hill and potentially Oak Dam. Olympic Dam is also Australia's largest uranium mine. Please refer to [BHP Group Limited: Olympic Dam Deep Dive: where to from here? 07 September 2022](#).

### Exhibit 3: Simplified geological plan of the Olympic Dam deposit

Olympic Dam is an iron-oxide copper uranium gold and silver (IOCG) deposit



Source: BHP

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### Met Coal (7% of FY24 EBITDA)

BMA produced 11.3 Mt in 1H FY24 (-17% vs pc), 20% below BofA (14 Mt) and 12% below consensus of 13 Mt. Production guidance for FY24 has lowered from 28-31 Mt to

23-25 Mt (BofAe 25 Mt) reflecting the weaker 1H FY24 production result and the expected sale completion of Blackwater and Daunia on 2 April 2024.

BHP has also increased unit cost guidance for FY24 from \$95-105/t to \$110-116/t as a result of the lowered production guidance and expects unit costs in 1H FY24 to be significantly above guidance (BofAe \$125/t).

BMA met coal production in 1H FY24 was weaker than expected due to a significant increase in planned maintenance across the asset, the extended longwall move, and geotechnical faulting which impacted underground operations at Broadmeadow until early November.

Production was also impacted by an increase in prime stripping to improve value chain stability following depleted inventory positions arising from extended weather impacts and labour constraints over recent years.

### **Energy Coal (1% of FY24 EBITDA)**

NSW Energy Coal produced 7.5 Mt in 1HFY24 (+36% vs pcg), 7% above BofA (7 Mt) and in line with consensus of 7.4 Mt. Production guidance for FY24 has now been revised upwards to the upper end of the range of 13 -15 Mt (BofAe 15 Mt).

Production rose 36% vs pcg due to a strong operating performance as eased labour constraints and improved weather conditions enabled an uplift in truck productivity, with record annualised truck hours for the Dec-23 half.

Domestic sales under the NSW Government Coal Market Price Emergency (Directions for Coal Mines) Notice commenced in Q4 FY23, which resulted in a lower proportion of washed coal and contributed to the higher volumes.

### **Nickel West (0% of FY24 EBITDA)**

Nickel West produced 40 kt in 1HFY24 (+4% vs pcg), in line with BofA and 3% below consensus of 41 kt. Production guidance for FY24 remains unchanged at between 77 - 87 kt (BofAe 81kt).

Production increased slightly due to improved performance, and a shorter shutdown period at the Kalgoorlie Smelter offsetting downtime at the Kwinana Refinery.

### **Nickel West carrying value of \$1.2bn to be impaired given low prices**

However, BHP has flagged it will likely make a non-cash impairment against the carrying value of Nickel West at its 1H FY24 results due 20 February 2024 given the low nickel price environment and loss making nature of Nickel West. We note nickel prices have declined 40% in the past year to \$16,150/t, well below our estimated unit costs for Nickel West of \$25,000/t. We estimate Nickel West to generate negative EBITDA of \$515m for FY24 and have zero NPV for the operation.

According to BHP's FY23 annual report, the carrying value for Nickel West is \$1,189m.

BHP has stated Nickel West operations are being actively optimised, and options are being evaluated to mitigate the impacts of the sharp fall in nickel prices which we believe could be a curtailment post FY24 as guidance is unchanged for FY24.

We also note Panoramic Resources Savannah nickel operation recently went into administration due to low nickel prices.

With nickel one of BHP's Future Facing Commodities and currently contributing zero earnings to the group, we wonder what the strategy is to make nickel as business of scale for BHP which generates over \$30bn of EBITDA from its iron ore, copper and coal operations.



## Price objective basis & risk

### BHP Group Limited (BHPLF / BHP)

Our price objective of A\$55.0/share (US\$67.0/share) represents approximately 1.0x our DCF-derived NPV. Our DCF is based on BofA commodity price forecasts and assumes a 9% discount rate. Diversified miners have historically traded in a range of 0.7-1.4x NPV with lower multiples paid during periods of economic slowdown and higher multiples paid during periods of rising commodity prices and earnings.

Downside (upside) risks to our price objective are: Global economic slowdown (growth), volatility in commodity prices, operational risks associated with mining, project execution risk, currency pressures and mining cost inflation (deflation).

### BHP Group Limited (ZBHPF)

Our price objective of 2,750 GBp represents approximately 1.0x our DCF-derived NPV. Our DCF is based on BofA commodity price forecasts and assumes a 9% discount rate. Diversified miners have historically traded in a range of 0.7-1.4x NPV with lower multiples paid during periods of economic slowdown and higher multiples paid during periods of rising commodity prices and earnings.

Downside (upside) risks to our price objective are: Global economic slowdown (growth), volatility in commodity prices, operational risks associated with mining, project execution risk, currency pressures and mining cost inflation (deflation).

## Analyst Certification

I, James Redfern, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as Financial Advisor and Financer to Whitehaven Coal Ltd in connection with its proposed acquisition of Daunia and Blackwater coalmines from BHP Group and Mitsubishi Development Pty Ltd, which was announced on 18 Oct 2023.

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### Australia - Materials & Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	29Metals Limited	XMLNF	29M AU	James Redfern
	AGL Energy	AGLNF	AGL AU	Reinhardt van der Walt
	APA Group	APAJF	APA AU	Reinhardt van der Walt
	BHP Group Limited	BHPLF	BHP AU	James Redfern
	BHP Group Limited	ZBHPF	BHP LN	James Redfern
	BHP Group-ADR	BHP	BHP US	James Redfern
	BlueScope	BLSFF	BSL AU	Chen Jiang
	Boral Ltd	BOALF	BLD AU	Shaurya Visen
	Boss Energy	BQSSF	BOE AU	Cameron Taylor
	Brambles Limited	BMBLF	BXB AU	Reinhardt van der Walt
	Champion Iron	CIAFF	CIA AU	Chen Jiang
	Champion Iron	YCIA	CIA CN	Chen Jiang
	Coronado	CODQL	CRN AU	Chen Jiang



**Australia - Materials & Industrials Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Evolution Mining	CAHPF	EVN AU	Meredith Schwarz
	Gold Road Resources	ELKMF	GOR AU	Meredith Schwarz
	GWA Group	GWAXF	GWA AU	Shaurya Visen
	Incitec Pivot	ICPVF	IPL AU	Reinhardt van der Walt
	Mineral Resources	MALRF	MIN AU	Matt Chalmers, CFA
	Monadelphous	MDPHF	MND AU	Josephine Forde
	Nickel Industries	NICMF	NIC AU	Cameron Taylor
	Northern Star Resources	NESRF	NST AU	Meredith Schwarz
	NRW Holdings	NRWWF	NWH AU	Josephine Forde
	Nufarm	NUFMF	NUF AU	Reinhardt van der Walt
	Orica	OCLDF	ORI AU	Reinhardt van der Walt
	Origin Energy	OGGFG	ORG AU	Reinhardt van der Walt
	Orora	ORRAF	ORA AU	Roy Harrison
	Paladin Energy	PALAF	PDN AU	Cameron Taylor
	Regis Resources	RGRNF	RRL AU	Meredith Schwarz
	Reliance Worldwide Corporation Limited	RLLWF	RWC AU	Shaurya Visen
	Rio Tinto Ltd	RTNTF	RIO AU	James Redfern
	Seven Group Holdings	XSEVF	SVW AU	Shaurya Visen
	South32 Ltd	SHTLF	S32 AU	James Redfern
	South32 Ltd	XKTPF	S32 LN	James Redfern
	South32 Ltd	XMWTF	S32 SJ	James Redfern
	Ventia	VXVGF	VNT AU	Roy Harrison
	Whitehaven Coal Limited	WHITF	WHC AU	Chen Jiang

**NEUTRAL**

	Codan	CODAF	CDA AU	Sriharsh Singh
	CSR Limited	CSRLF	CSR AU	Shaurya Visen
	Deterra Royalties	DETRF	DRR AU	Chen Jiang
	Downer EDI Limited	DNERF	DOW AU	Roy Harrison
	Fletcher Building	FRCEF	FBU NZ	Shaurya Visen
	Fletcher Building	YFLBF	FBU AU	Shaurya Visen
	James Hardie Industries Plc	JHIUF	JHX AU	Shaurya Visen
	James Hardie Industries Plc	JHX	JHX US	Shaurya Visen
	Pilbara Minerals	PILBF	PLS AU	Matt Chalmers, CFA
	Qube Holdings	QUBHF	QUB AU	Reinhardt van der Walt
	Reece Limited	REECF	REH AU	Shaurya Visen
	Sandfire Resources	SFRRF	SFR AU	James Redfern
	Sims Limited	SMUPF	SGM AU	Chen Jiang
	Transurban Group	XTRAF	TCL AU	Reinhardt van der Walt
	Transurban Group	TRAUF	TRAUF US	Reinhardt van der Walt
	Worley Limited	WYGPF	WOR AU	Cameron Taylor

**UNDERPERFORM**

	ALS Limited	CPBLF	ALQ AU	Reinhardt van der Walt
	Alumina Limited	AWCMF	AWC AU	Chen Jiang
	Atlas Arteria Ltd	MAQAF	ALX AU	Reinhardt van der Walt
	Cleanaway Waste Management	TSPCF	CWY AU	Reinhardt van der Walt
	Fortescue Ltd.	FSUMF	FMG AU	James Redfern
	IGO	IPGDF	IGO AU	Matt Chalmers, CFA
	Vulcan Steel Limited	XVULF	VSL AU	Shaurya Visen
	Vulcan Steel Limited	XVSTF	VSL NZ	Shaurya Visen



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

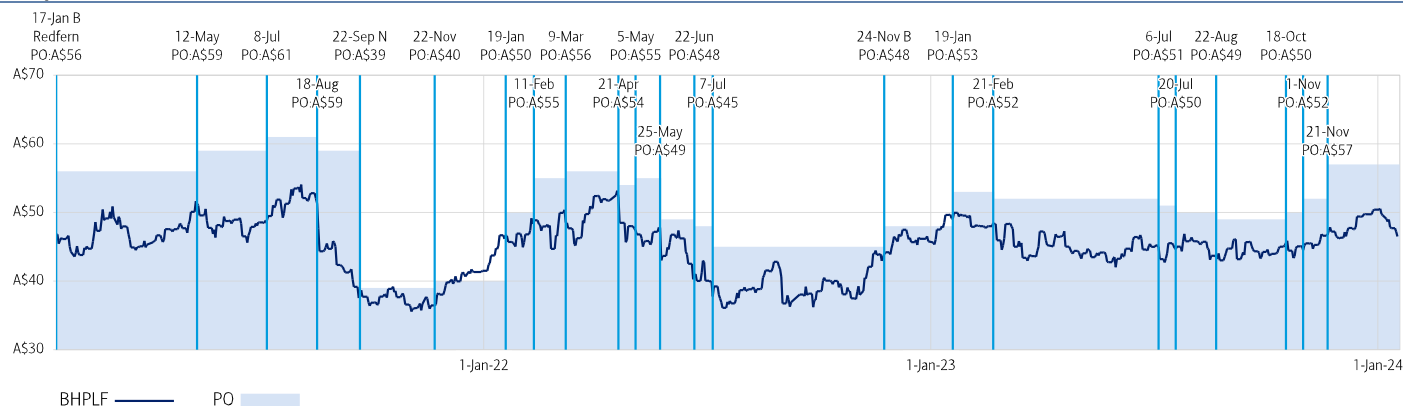
Basic EBIT + Depreciation + Amortization

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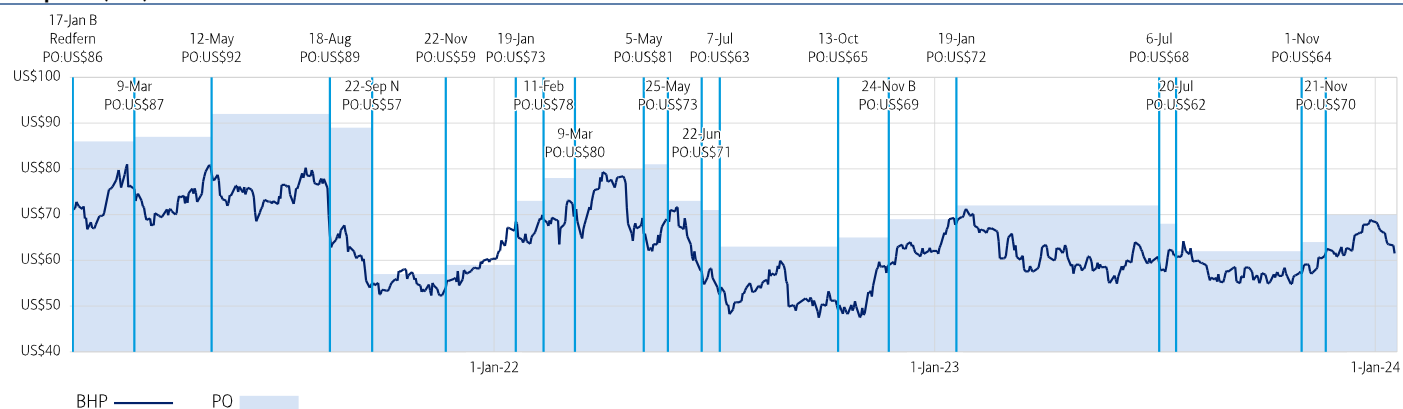
### BHP Group Limited (BHPLF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

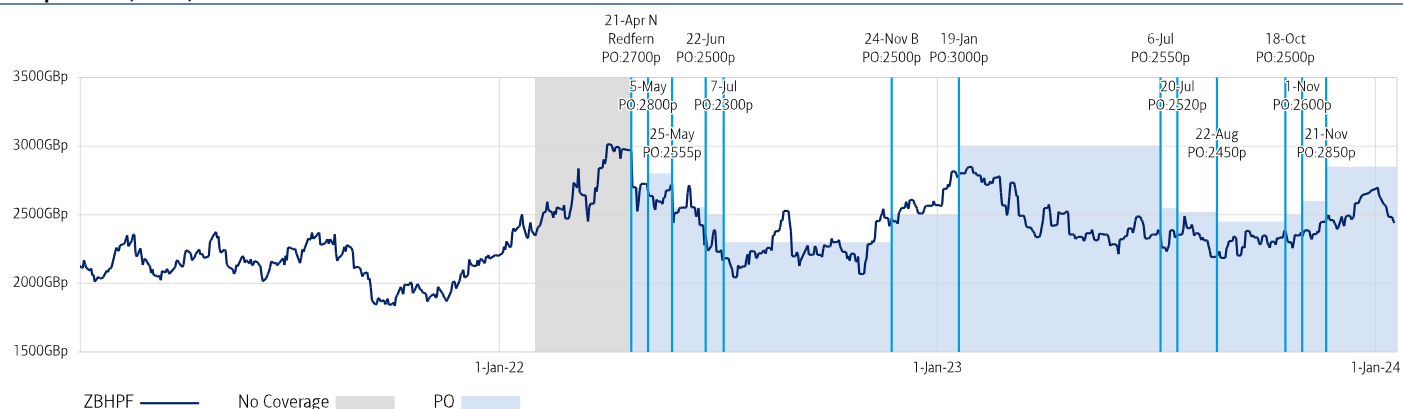
### BHP Group-ADR (BHP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### BHP Group Limited (ZBHPF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Equity Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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