

BHP Group Limited

Samarco settlement moving closer? \$5.7bn impairment for Nickel and Samarco

Reiterate Rating: BUY | PO: 53.00 AUD | Price: 45.17 AUD

Conservative impairments of \$5.7bn with 1H FY24 results

BHP will report 1H FY24 results on 20th Feb and has announced it will take a \$2.5bn (post-tax) impairment against the carrying value of its Western Australian Nickel (WA Nickel) business. WA Nickel comprises the Nickel West operations and West Musgrave project which has been impacted by low nickel prices and high industry cost inflation. BHP has also increased its provision for the Samarco dam failure by \$3.2bn to \$6.5bn as BHP Brasil (including Samarco and Vale) progress negotiations towards a settlement in Brazil. We note these non-cash impairments are exceptional items and will not impact 1H FY24 underlying earnings or dividends. While BHP will appeal the various rulings, which could take 2-5 years, we assume BHP agrees to a \$6.5bn (real) settlement for Samarco spread over 10 years. Reflecting these payments, our NPV and price objective is reduced to A\$53/share from A\$55/share (2,600p from 2,750p, ADR \$65 from \$67). However, with over 20% potential total return we reiterate our Buy on BHP.

Challenged Western Australia Nickel impaired by \$2.5bn

BHP's Nickel West operations are forecast to generate negative \$200m EBITDA in 1H FY24 with the business impacted by a 38% decline in nickel prices over the past year, quality issues with third party nickel ore from Mincor and significant industry cost inflation. The \$2.5bn impairment is larger than our \$1.2bn estimate (see [note](#)) and we note we have zero NPV for Nickel West. BHP now plans to place the Kambalda concentrator into care and maintenance in June 2024. As such, we reduce our nickel production by 33% from FY25e. We also expect the West Musgrave nickel-copper project acquired from OZ Minerals (21% complete) to be progressed more slowly as the initial capex of \$1.1bn is expected to increase due to significant industry cost inflation.

Samarco provision raised by \$3.2bn as settlement nears

BHP Brasil has lifted its provision for the Samarco dam failure by \$3.2bn post-tax, taking its provision to \$6.5bn as 31 Dec-23. The increase to the provision and subsequent charge reflects BHP's estimated costs to resolve all aspects of the Federal Public Prosecution Office Claim (initially \$32bn gross) and the Framework Agreement obligations. We expect BHP to appeal the various claims and rulings although the latest provision is prudent in our view. Clearly, there is also a risk the provisions are increased.

Estimates (Jun)	2022A	2023A	2024E	2025E	2026E
EPS (Reported b/f exceptionals - US\$)	4.434	2.579	3.128	2.616	2.479
EPS (Reported b/f exceptionals - A\$)	6.380	3.902	4.859	4.058	3.863
Dividend / Share (US\$)	3.250	1.700	1.720	1.439	1.364
Dividend / Share (A\$)	4.676	2.572	2.673	2.232	2.125
Valuation (Jun)					
P/E	7.1x	11.6x	9.5x	11.4x	12.0x
Dividend Yield	10.9%	5.7%	5.8%	4.8%	4.6%
EV / EBITDA*	3.8x	5.6x	5.0x	5.5x	5.7x
Free Cash Flow Yield*	15.4%	7.7%	7.7%	7.1%	7.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 15 February 2024 03:52AM EST

15 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	A\$55.00	A\$53.00
2024E EBITDA (m)	31,042.9	31,136.8
2025E EBITDA (m)	28,326.4	28,327.6
2026E EBITDA (m)	27,362.1	27,281.7

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Stock Data

Price (ASX Ord / ADR / UK Ord)	45.17 AUD / 59.85 USD / 2,346 GBp
Price Objective	53.00 AUD / 65.00 USD / 2,600 GBp
Date Established	15-Feb-2024 / 15-Feb-2024 / 15-Feb-2024
Investment Opinion	B-1-7 / B-1-7 / B-1-7
52-Week Range	41.66 AUD-50.84 AUD
Market Value (mn)	148,156 USD
Market Value (mn)	228,425 AUD
Shares Outstanding (mn)	5,057.0 / 2,528.5 / 5,057.0
Average Daily Value (mn)	232.94 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)	34.2%
Net Dbt to Eqty (Jun-2023A)	20.4%

iQprofileSM BHP Group Limited

Key Income Statement Data (Jun)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	66,050	54,211	58,241	53,534	52,668
Operating Expenses	-26,688	-26,812	-33,704	-25,207	-25,386
EBITDA	40,634	27,956	31,137	28,328	27,282
Depreciation & Amortization	-5,683	-5,061	-5,302	-5,528	-5,336
EBIT	34,951	22,895	25,835	22,799	21,946
Net Interest & Other income	-969	-1,531	-981	-958	-654
Pretax Income	34,089	21,401	18,860	22,534	22,019
Tax (expense) / Benefit	-10,737	-7,077	-6,402	-7,482	-7,298
Minorities	-2,155	-1,403	-1,106	-1,805	-2,167
Net Income (Reported b/f Exceptionals)	21,197	12,921	11,352	13,246	12,555
Exceptional Items (After Tax)	107	37	-5,994	692	728

Key Cash Flow Statement Data					
Net Income (Reported)	31,852	12,921	11,352	13,246	12,555
Depreciation & Amortization	-5,683	-5,061	-5,302	-5,528	-5,336
Change in Working Capital	-841	-263	-366	326	81
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	1,339	-552	4,977	515	519
Cash Flow from Operations	29,285	18,701	21,551	20,408	19,296
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
Cash Flow from Investing	-4,973	-13,065	-8,945	-9,388	-8,343
Shares Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	-17,851	-13,268	-7,802	-8,890	-7,014
Cash Flow from Financing	-22,734	-10,315	-9,019	-10,325	-9,226
Free Cash Flow	23,174	11,618	11,556	10,687	10,619
Net Debt	333	9,917	6,331	5,636	3,909
Change in Net Debt	-5,404	9,584	-3,586	-695	-1,727

Key Balance Sheet Data					
Cash & Equivalents	17,236	12,428	16,014	16,709	18,436
Other Current Assets	1,067	1,109	1,109	1,109	1,109
Property, Plant & Equipment	61,295	71,818	68,374	71,715	74,189
Investments	802	1,115	1,115	1,115	1,115
Total Assets	95,166	101,296	104,110	107,243	111,394
Short-Term Debt	2,594	7,173	7,173	7,173	7,173
Other Current Liabilities	14,325	11,870	11,939	11,493	11,535
Long-Term Debt	14,975	15,172	15,172	15,172	15,172
Other Non-Current Liabilities	14,506	18,555	17,862	16,714	15,327
Total Liabilities	46,400	52,766	52,141	50,548	49,203
Net Asset	48,766	48,530	51,969	56,695	62,191
Minorities	3,809	4,034	3,923	4,293	4,248
Shareholder Funds	44,957	44,496	48,046	52,402	57,943

iQmethodSM - Bus Performance*					
Return On Average Assets	34.3%	23.3%	25.2%	21.6%	20.1%
Return on Equity	46.6%	29.2%	34.2%	26.4%	22.8%
EBIT Margin	55.5%	42.6%	34.1%	43.9%	43.0%
EBITDA Margin	61.7%	51.6%	43.2%	54.2%	53.2%

iQmethodSM - Quality of Earnings*					
Price / EBITDA	3.7x	5.4x	4.8x	5.3x	5.5x
Price / Free Cash Flow	6.4x	12.8x	12.8x	13.9x	14.0x
Tax Rate (Effective)	31.5%	33.1%	33.9%	33.2%	33.1%
Net Debt-to-Equity Ratio	0.7%	20.4%	12.2%	9.9%	6.3%
Interest Cover (EBITDA Basis)	38.7x	13.6x	21.4x	19.5x	24.4x

Key Metrics					
Franking (%)	100%	100%	100%	100%	100%

* For full definitions of iQmethodSM measures, see page 5.

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	3.1x

Key Changes

(US\$)	Previous	Current
Price Obj.	67.00	65.00
2024E EPS	6.23	6.26
2025E EPS	5.22	5.23
2026E EPS	4.97	4.96

Price objective basis & risk

BHP Group Limited (BHPLF / BHP)

Our price objective of A\$53.0/share (US\$65.0/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 2,600 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 coal mines 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



Australia - Materials & Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Champion Iron	YCIA	CIA CN	Chen Jiang
	Coronado	CODQL	CRN AU	Chen Jiang
	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	OGFGF	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
	Worley Limited	WYGPF	WOR AU	Cameron Taylor
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
	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	Matt Chalmers, CFA
	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
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
	James Hardie Industries Plc	JHIUF	JHX AU	Shaurya Visen
	James Hardie Industries Plc	JHX	JHX US	Shaurya Visen
	Vulcan Steel Limited	XVULF	VSL AU	Shaurya Visen
	Vulcan Steel Limited	XVSTF	VSL NZ	Shaurya Visen

iQmethodSM 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 & 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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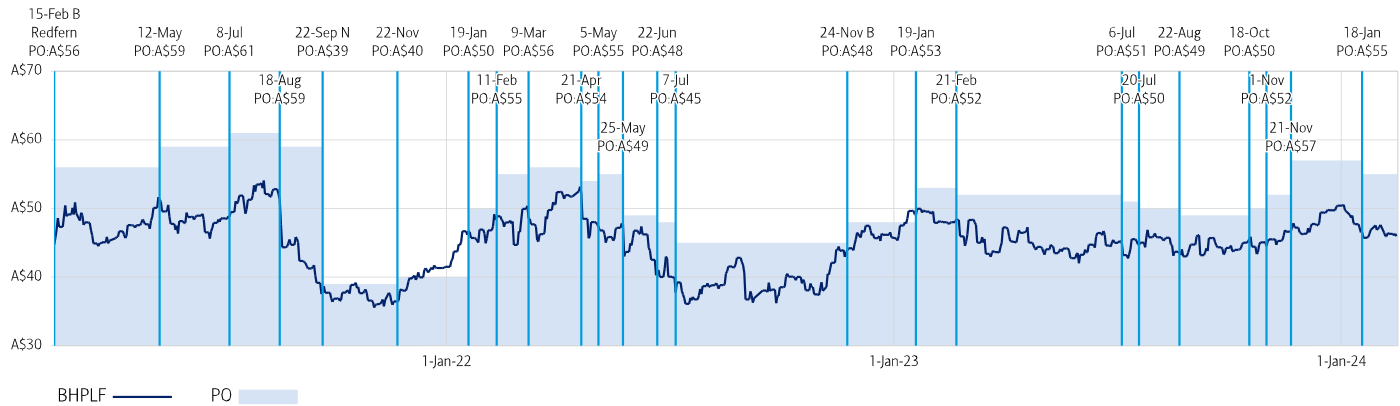
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Disclosures

Important Disclosures

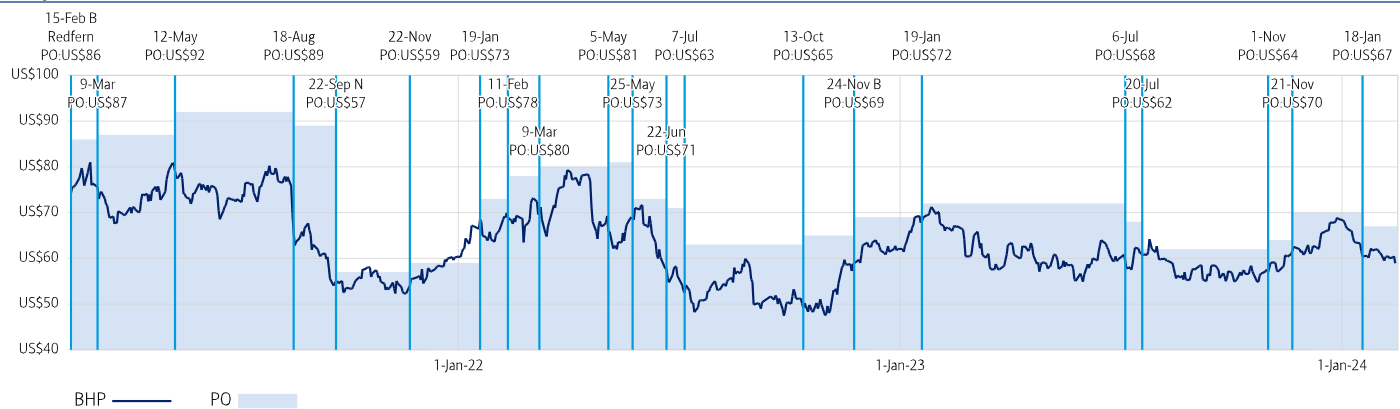
BHP Group Limited (BHPLF) Price Chart



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.

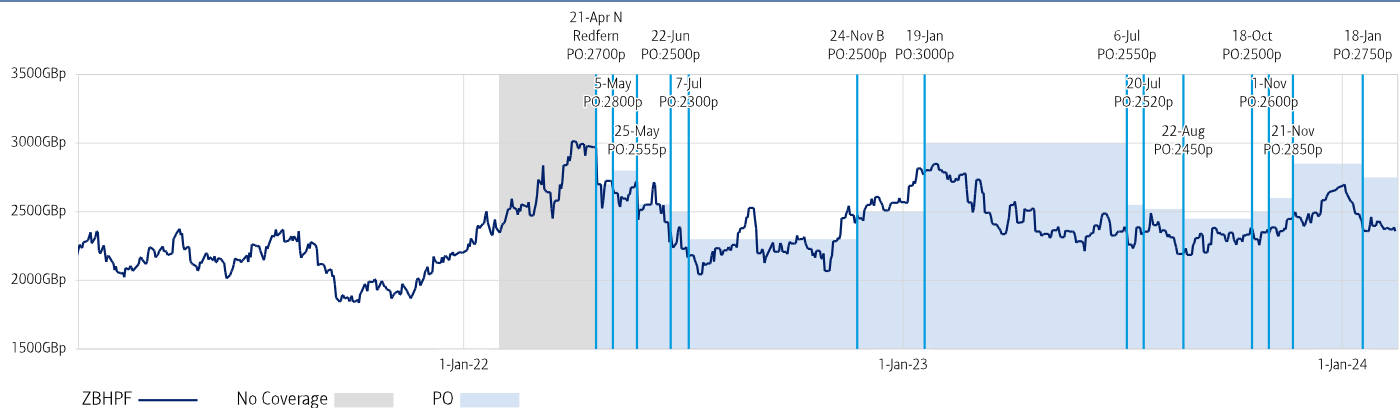
BHP Group-ADR (BHP) Price Chart



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 ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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