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HD **Split of mining giant lends hope to underperformers**

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Since BHP Billiton announced it may demerge some of its **operations**, the share price has jumped $1.

The knee-jerk reaction is to wonder why. BHP is already owned by its shareholders as a single unit. Why should it be worth more if split in two?

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The speculation is that BHP shareholders would simply be issued shares in a new **company** containing the group's non-core assets.

The table, from an Ord Minnett research paper released last week, shows the BHP assets which will probably be in the spinoff. The figures are Ord's estimates of the net present value (NPV) of the assets.

Looking at the list, three points come to mind. Firstly, the spinoff comprises bits and pieces spread across disparate geographic areas. Apart from some integration in the aluminium and manganese businesses, they have little apparent connection. It's what you'd expect if BHP held a garage **sale**.

It is heavily weighted towards aluminium processing, a rather unfashionable business at present. The Worsley refinery in WA enjoys the highest net present value of any of the assets, being one of the largest and lowest-cost refineries in the world. Some of its **alumina** is exported to the Hillside and Bayside smelters in South Africa and Mozal in Mozambique.

One of the most attractive assets is the Cannington mine, which produced 31 **million** ounces of silver and 213,000 tonnes of **lead** last financial year. It's in outback Queensland, a long way from any of the other assets.

The manganese assets look good. Mamatwan and Wessels in South Africa produce high-grade **ore** which is processed by Gemco, one of the world's lowest-cost manganese producers.

Feedstock from the two mines goes to the Samancor Metalloys plant, one of the largest and lowest-cost manganese alloy producers in the world.

Nickel West comprises nickel mines and processing plants left over from the WMC takeover. Mines in WA sold by WMC are still contracted to have their **ore** treated at the Kambalda concentrator operated by BHP.

Cerro Matoso is an open-cut lateritic nickel mine in Colombia, with a nominal capacity of 50,000 tonnes of ferronickel a year. The four thermal coalmines in South Africa produced 31 **million** tonnes last year. A little over half sold to Eskom, the government-owned electricity utility. Most of the rest went to **China** and India.

Ord Minnett believes BHP may not want to sell its one-third interest in the Colombian Cerrejón mine. It's among the world's lowest-cost thermal **coal** producers. The best tactic would seem to be auctioning it to one of the other one-third stakeholders, Glencore and Anglo American.

Secondly, we're saying goodbye Billiton. All the South African and South American stuff came from Billiton, as did Worsley. It looked then as if BHP paid way too much for Billiton and this list tends to prove it.

Lastly, Ord Minnett has calculated an NPV of nearly $US20 **billion** ($21.3 **billion**) on the spinoff assets. The BHP 2013 annual report shows that the nickel, aluminium, manganese and alloy assets generated EBIT of $US164 **million** last financial year and a loss of $US24 **million** in fiscal 2012. That's a poor result for some good-quality assets and makes the NPV look high, but we don't know the EBIT for Cannington and the thermal coalmines.

So the spinoff might include under-performing assets capable of better results if well managed. Alternatively, the assets are capable of being sold piecemeal, preferably after the metals markets have improved. Either way, shares in the spinoff could be a bargain for shareholders in the medium term.

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