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BHP Billiton Leaves Investors in a Spin

BHP Billiton was trying to pull off a high-wire act. Instead, the Anglo-Australian miner took a wobble.

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BHP's London-listed shares fell 4% after the miner, which reported full-year results Tuesday, said it would spin off a collection of noncore aluminum, manganese, nickel and **coal** assets. BHP's shares have rallied on anticipation of the spinoff. But Tuesday's adverse reaction also reflected an unsteady performance from the miner.

Spinning off subscale assets should create a simpler, more efficient **company**, a welcome break with **mining**'s empire-building past. BHP's remaining businesses over the past 10 years have grown more quickly and been more profitable than the **company** as a whole.

The miner pledged to find a further $3.5 **billion** in cost savings and efficiency gains by 2017, partly mitigating lost earnings. The noncore assets generated about $2.1 **billion** in earnings before interest, taxes, depreciation and amortization in the year to June, or about 6.5% of BHP's total. At the average margin over the past decade, with prices for those commodities currently depressed, the assets made $3.4 **billion**, about 10% of last year's total.

But two other factors knocked BHP off balance. First, there is likely to be angst about the spinoff's structure. Both Australian and U.K. shareholders will receive stock in the new **company**, which will be listed in Australia and South Africa. That is designed to treat all investors equally. But the mechanism means London shareholders who aren't able to hold overseas equities will have to sell, likely weighing on the new **company**'s stock in its early weeks of trading. Both sets of shareholders, then, have reason to be wary.

Second, and more important, the absence of a widely expected share buyback is a real blow. Instead, BHP said it would maintain and grow the absolute level of its dividend after the spinoff, meaning its payout ratio would rise from last year's 48%. Investors this year have bet that falling capital spending and improving free cash flow around the **mining** sector would mean an imminent ramp-up in returns.

BHP's balance sheet, with net debt of $25.8 **billion**, is only just approaching the point at which the **company** suggested it could return capital. That serves to underline that BHP's cuts to investment and debt reduction have been less striking than at rival Rio Tinto.

In the longer term, BHP boasts a more-diversified portfolio with a better growth pipeline than does Rio Tinto. But BHP's latest growth announcement trumpeted its ability to lift **iron**-**ore** production in Western Australia to 290 **million** metric tons a year, adding 65 **million** tons for a cost of less than $3.3 **billion**.

Investors wanting to bet on low-cost volume growth in Australian **iron ore** already have an option: Rio Tinto, which is trading at a 15% discount to BHP on a price/earnings basis. That is one place shareholders may turn while BHP regains its poise.

-- Helen Thomas

Sprint's Price Cuts Look

Like Too Little, Too Soon

Sprint isn't being nearly disruptive enough.

The No. 3 U.S. carrier by subscribers announced new family plans late Monday, set to replace its puzzling "Framily" pricing arrangement later this week. The new plans offer more data for the money than those of Verizon Communications and AT&T and even undercut T-Mobile US in some instances.

For Sprint, whose current prices are higher than peers' on the most popular plans, the move should at least slow its recent flood of subscriber defections. The carrier has lost a net 1.2 **million** of the most valuable postpaid subscribers over the past four quarters.

But the price cuts should mean lower margins and may not move the subscriber needle that much, particularly as Sprint's network still trails the rest of the industry. This is why many had expected Sprint to wait to lower prices.

Sprint's new chief executive, Marcelo Claure, who replaced Dan Hesse earlier this month, was apparently unwilling to let the subscriber drain continue at this pace, though. The move comes against the backdrop of intensifying competition, mostly spurred by T-Mobile and after Sprint gave up on a possible merger with its smaller rival.

Under the new plans, a family of four can get 20 gigabytes of shared data for $160 a month -- the same price AT&T and Verizon charge for 10 gigabytes. T-Mobile charges $100 for 10 gigabytes.

The new plans cost about $1 a month less on average than T-Mobile's unsubsidized plans, according to New Street Research. By comparison, Sprint's current prices are $7 to $10 a month higher than those of AT&T and Verizon and $10 to $15 above T-Mobile on the most popular plans.

Sprint is also offering a promotion, from Aug. 22 to Sept. 30, under which it will waive access fees, bringing the $160 plan down to $100. In addition, it will pay up to $350 in early-termination fees for customers leaving rivals and signing up for one of its higher-data plans.

This may lure some customers. But they might not like what they find at Sprint. The carrier's network remains well behind those of rivals and won't catch up to them for at least another year, New Street says. It will be even longer before Sprint can claim network superiority.

For Sprint investors, lower prices alone won't get it out of its current jam.

-- Miriam Gottfried

An Overlooked Play on Alibaba

Investors looking for Alibaba treasure shouldn't forget that some of it lies outside the **company**'s cave.

The promise of the **Chinese** e-commerce giant becoming the largest-ever initial share **sale** in the U.S. already has boosted the stocks of its major shareholders, Yahoo and SoftBank.

But Alibaba has minor shareholders, too, which often are overlooked. One of these offers perhaps the best opportunity to play this IPO.

China Dongxiang Group is a **Hong Kong**-listed sportswear maker with a market capitalization of $1.13 **billion**. In 2011, it spent $100 **million** to buy a 0.31% **stake** in Alibaba through a private-**equity** fund co-founded by Alibaba chief Jack Ma. This **stake** will certainly fetch more today.

Dongxiang shares are up 17% this year in anticipation of the Alibaba IPO, yet that hasn't captured the **company**'s overall worth.

To calculate Dongxiang's full value, start with its sportswear business, anchored by nearly 1,200 Kappa-brand retail stores in **China**. Its peers trade at about nine times this year's estimated earnings before interest, taxes, depreciation and amortization, as measured by FactSet. Slapping this multiple onto Dongxiang's sportswear line yields $199 **million**.

Next, Dongxiang sat on $178.3 **million** of cash as of Dec. 31, to which it has since added $4.8 **million** by disposing of shares in a U.S. apparel **firm**. It also owns bank treasury products, plus investment funds. These mostly liquid assets total $886 **million**. The **company** holds no debt.

To this, add Alibaba. If Mr. Ma manages to get a $200 **billion** valuation, the higher end of market estimates, Dongxiang's **stake** comes to $620 **million**. That means the sum of this **company**'s parts would be worth 52% more than its market cap, though that is before applying a discount for being a holding **company** and any possible taxes.

A more moderate $150 **billion** Alibaba valuation still leaves a 39% gap between the value of Dongxiang's assets and its shares. Even assuming Dongxiang's sportswear business is worth zero, and that its other investments are somewhat impaired, it still appears the shares undervalue the Alibaba **stake**.

Such a wide gap should close, as Alibaba's market value becomes apparent closer to its listing. Dongxiang says that it may unload some of its shares after the IPO. If it doesn't, the stock will likely become a smaller tracking version of Alibaba.

Unlike Yahoo or SoftBank, Dongxiang's regular business is less important to its overall value. That leaves Dongxiang's fortune hitched to Alibaba. The e-commerce giant doesn't even have to reach a supercharged valuation for Dongxiang investors to make out like bandits.

-- Abheek Bhattacharya

Overheard

Be careful what you wish for. While tighter labor markets would boost wage growth, they also might cost lives.

It turns out that paydays can be dangerous. A new paper from the Bonn-based Institute for the Study of Labor finds a significant increase in mortality on the day workers receive salaries. "Income Receipt and Mortality" takes its bearings from public-sector workers in Sweden -- a sample that covers 22% of the country's workforce.

The lethal effects of paydays are quite large. The paper finds a 23% increase in total mortality on the day salary payments arrive.

This isn't offset by a subsequent decline to below-average mortality, which means paydays are indeed contributing to additional mortality. Increased consumption of alcohol or drugs doesn't play a significant role, according to the paper's authors.

In other words, it isn't the wages of sin that are death. It may be the wages of wages.

CO bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

IN i645 : Clothing Stores | i656 : Mixed Retailing | i7902 : Telecommunications | i79022 : Wireless Telecommunications Services | imet : Mining/Quarrying | i64 : Retail/Wholesale | i654 : Specialty Stores | ibasicm : Basic Materials/Resources | iretail : Retail | i211 : Metal Ore Mining

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