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HD **BHP still likes copper story**

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It argues that the demand for the metal can only rise

BHP Billiton has never been one to over-egg the pudding when it comes to outlook for particular commodities within the broad sweep of its portfolio of interests.

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That's why recent comments by Mike Henry, BHP's president of many things, including marketing, on the outlook for copper are worth recording. Speaking at BHP's capital markets briefing in London, the man that many have pencilled in as an eventual BHP chief executive, did not hold back on his copper outlook.

"The copper story remains incredibly strong,'' Henry said. Now the cynics out there might suggest Henry could have been talking in relative terms.

After all, BHP is copping it on just about all price fronts when it comes to commodities at the moment, with copper the exception. Compared with their 2014 financial year price average, iron ore is down by 38 per cent, oil is off by 28 per cent, thermal coal is down by 19 per cent and coking coal is 13 per cent lighter. Copper in the meantime, is down by less 4 per cent.

The price pressure on iron ore, oil and coal is causing some real alarm about BHP's ability to maintain its "progressive" dividend policy while funding a reduced but still heavy capital expenditure program and also holding on to its prized credit rating.

According to Henry's crystal ball, annual demand for copper is expected to rise from 27 million tonnes to 40 million tonnes by 2030.

Henry said the strong growth would be driven by electrical and building construction, which together made up about half of overall copper demand, as well as by the production of consumer goods, including household appliances and cars.

One of the key areas of growth is in air-conditioning. And that makes copper's growth story more broadly based than most commodities with their exceptional reliance on China.

Henry offered the example of muggy India, where less than 10 per cent of households currently have air-conditioning.

BHP reckons that that is going to increase to 40 per cent by 2030, with each of the units requiring about 5.3kg of copper, let alone the copper-heavy electricity infrastructure needed to turn them on and run them.

Helping to meet that demand growth will be the increased availability of scrap, with Henry estimating growth from that supply source to rise from about 10 million tonnes to 13 million tonnes by 2030.

The net of all that is the need for an additional 10 million tonnes by 2030, which is the equivalent of 50 mines the size of BHP's Olympic Dam operation in South Australia's outback.

That is a big call on the industry. As things now stand, the existing primary supply base is expected to drop from around 18 **million** tonnes to 13 **million** tonnes by 2030, making the likely all-up call on the industry more like 14 **million** tonnes in new production, or 70 Olympic Dams.

“The combination of need for new greenfield capacity and more capital, and the higher operating cost, bode well for **copper** prices longer term,’’ Henry said.

OZ Minerals (OZL) THE bullish call on **copper** is good news for BHP. But because of its diversified asset base, a greater leverage to **copper**’s “incredibly strong’’ story for investors is to be had elsewhere.

And in this market, it could well be that OZ Minerals could fit the bill from its existing **copper**-**gold** production at Prominent Hill to the northwest of Olympic Dam, and its Carrapateena **copper**-**gold** project to the southwest.

Apart from what staged expansion plans BHP eventually comes up with for its own **operations** at Olympic Dam, it is Carrapateena that stands out as the best development prospect in the country to help meet the global demand growth talked about earlier.

It has recently come out of pre-feasibility study sporting an initial mine life expectation of 24 years at an average annual production rate of 114,000 tonnes of **copper**, along with 117,000 ounces of **gold**.

Net present value was put at $1.14 **billion** post-tax (at 8 per cent real discount rate). But until there is more certainty around the $2.9bn development — and just who OZ brings in as a partner — the market is attributing only a fraction of that NPV to its valuation of OZ.

Analysts at CIMB reckon the market is dismissive of OZ’s chances of attracting interest in the **sale** of part — or all — of Carrapateena, or that it can achieve any significant value. CIMB disagrees, saying that Carrapateena is a unique asset.

“Carrapateena’s setting is exceptionally well suited to **mining operations**, in our view, with favourable topography, little competition for land use, excellent infrastructure and access to a skilled, available labour force,’’ CIMB said.

“Add to that a government working to attract **mining** investment, a transparent business environment and a falling Australian dollar, and Carrapateena looks a compelling long-term opportunity.’’CIMB reckons that a deal on Carrapateena — now more likely next year because of the arrival of a new CEO — could drive a material rerating of OZ. All that gets fed in to its price expectations for the stock of $6, which compares with yesterday’s quote of $3.63.

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