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HD **BHP to live within its means**

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BHP Billiton boss Andrew Mackenzie has all but ruled out making major mergers or acquisitions, dismissing suggestions that growth could be compromised by the **company**'s cuts to cap on capital expenditure and its relentless pursuit of productivity gains.

Mr Mackenzie said the miner was "all but done" on acquiring new projects, except in conventional **oil** and gas.

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"We have our arms around some of the best **ore** bodies in the world," he told investors at a briefing in Sydney on Monday.

"We are very reluctant to think about going after anything more."

The BHP boss was questioned by analysts about where growth would come from, given the current focus on productivity and cutting capital expenditure.

Mr Mackenzie used the **company**'s **copper** portfolio as an example of the strategy to sweat and expand existing assets rather than buy expensive new ones.

"Ninety-five per cent of what we want to do over the next 10, 20, 30 years, we have.

"The majority have good postcodes – in good, solid, stable political regimes.

"We have all the **coal** that we want to grow, we have all the **iron ore** we want to grow … and positions at the bottom of the cost curve."

He also said the miner's unconventional **oil** and gas portfolio was full.

Mergers and acquisitions could be needed "almost exclusively in conventional liquids – the rest I think we are all but done. But we will keep our eyes open in case we are missing something," he said.Focus on existing **operations**

UBS analyst Glyn Lawcock said Mr Mackenzie's stance showed BHP "want to live within their means and the bottom line is they are very comfortable in their own skin".

"They have a lot of opportunities internally.

"For **M**&A, right now good-quality assets in the commodities they want are not available – they are held by other majors. It is not 100 per cent ruled out – they have said they will look at it in conventional liquids.

"But I would expect that if an asset of very high quality was to come up for whatever reason … BHP would look at it."

BHP is driving growth by trying to squeeze as much production as possible from its existing operations, which also allows it to spread costs more broadly.

Extending the life of existing operations across long-life assets in its four pillar commodities – iron ore, petroleum, copper and metallurgical coal – is key to the strategy. BHP has a potential fifth pillar in potash.

"We have so many of these 20+ [per cent internal rate of return] projects, it's hard to think of M&A that would ever compete with that," Mr Mackenzie said.

BHP has been slashing capex as it continues to push volumes to record levels. It pared capital and exploration expenditure by 32 per cent last financial year to $US15.2 billion ($17.5 billion). And on Monday it reduced capex guidance for the current year by $US600 million to $US14.2 billion, and by $US1 billion to $US13 billion for 2015-2016. But the miner's executives were quizzed about what sort of growth that ceiling could create in the medium term.

Mr Mackenzie said it was the "right level to continue with our strategy" and investors backed him.

BHP shares climbed 3.8 per cent to $32.90 on Monday on a strong day for iron ore miners, who were also bolstered by interest rate cuts in China.Oil and gas JV abandoned

Earlier this month, it emerged that BHP had quietly walked away from a $US6 billion oil and gas joint venture with fellow giants Hess Corporation and Chevron in the Gulf of Mexico, which analysts labelled as sacrificing value to maximise free cash flow. The market was surprised to learn that BHP had abandoned its 20 per cent stake in the Stampede field in April.

But on Monday, Mr Mackenzie said Stampede "failed on every criterion" in the fierce competition within BHP to qualify for capital, including meeting the miner's internal rate of return benchmark of at least 20 per cent.

He also said the Fayetteville shale gas project in the US, which BHP put on the block in October, was "so long at the end of the queue" for capital that it could not justify holding it in the portfolio.

Citigroup analyst Clarke Wilkins said there was potential for BHP's capex ceiling to be lower than flagged. Capital management was no longer the key focus of investors, he said.Productivity

"The market's mood has shifted from debating when BHP starts capital management to the touchier question of whether the progressive dividend policy can be maintained, given the fall in commodity prices, especially oil and iron ore, and pending the spinoff of non-core assets."

"We expect BHP to move heaven and earth by reducing costs and capex further, before any change to the dividend policy."

The miner also lifted target cost cuts and productivity gains to $US4 billion at the Sydney briefing, $500 million more than outlined at its London capital markets day a month ago.

Mr Mackenzie reiterated the productivity mantra that has come to dominate his reign, saying "the majority of what we are doing is coming from making things more productive".

The miner's Queensland coal division is being tapped for a 10 per cent reduction in unit costs in the current year to $US90 a tonne, while New South Wales energy coal is expected to find another 15 per cent in cost cuts by next financial year to reach $US45 a tonne.

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