

HD BHP Billiton to spin off noncore assets

BY by Paul Whitfield

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BHP Billiton Ltd. will spin off aluminum, manganese, **coal**, nickel and silver **operations** from Australia to South Africa to create a new **mining company** that could be worth as much as \$17 **billion**.

BHP's CEO Andrew Mackenzie confirmed the plan, which was hinted at on Friday, ahead of his **company's** annual results conference on Tuesday.

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"A demerger will maximize value for our shareholders," he said.

The new **company** will have 11 main assets, including BHP's Colombian Cerro Matoso Nickel business, **Energy Coal** South Africa, Aluminum South Africa, and Australian **operations**, including manganese producer Gemco, aluminum unit Worsley, Illawarra Metallurgical **Coal**, and the Cannington silver, **lead** and zinc mines.

BHP, like many of its rivals, has spent years seeking to offload underperforming and subscale businesses, many of which were acquired prior to 2007 on expectation of long-term increases in global commodity prices. Those hopes foundered on slower-than-expected growth in **China**, and the global economic slump triggered by the 2007-08 financial crisis. **Mining** companies, including BHP and its closest rival Rio Tinto Group, were forced to swallow huge write-downs and changed tactics, and CEOs, to focus on improving shareholder returns and eschewed acquisitions.

Mackenzie, who replaced Marius Kloppers in early 2013, has turned the **company's** attention to a so-called four pillar strategy centered on BHP's largest and most profitable **operations** in petroleum, potash, **copper**, **iron ore** and **coal**.

The four business units — petroleum and potash are combined in the BHP model — account for about 97% of BHP's underlying Ebitda, according to a **company** presentation.

BHP on Tuesday posted Ebitda of \$32.4 **billion** for its financial year ending June 30, up 6.8% year-on-year. Underlying profit rose to \$13.4 **billion**, up 23% on last year's figure of \$11.2 **billion**.

The assets to be spun off into the new **company** do not include BHP's Nickel West **operations** in Western Australia, which BHP is negotiating to sell and which is expected to fetch about \$800 **million**.

BHP is also still considering the fate of its New Mexico **Coal** business and some smaller petroleum assets, the **company** said on Tuesday.

The new **mining company**, which has yet to receive a name, could be worth between \$15 **billion** and \$17 **billion** according to brokers, including CLSA Asia-Pacific Markets.

The new entity would have posted an average annual Ebitda of about \$3.3 **billion** over the past 10 years, according to BHP's chief financial officer, and future CEO of the new **company**, Graham Kerr.

That Ebitda figure had slipped to about \$1.8 **billion** for the year ending June 30, highlighting the recent decline in profitability of the assets that will be spun off.

The new business is expected to be headquartered in Perth, Western Australia, and will operate a regional office in Johannesburg. The **company** is planning to seek listings in Australia and South Africa

and will issue American Depositary Receipts. It will be chaired by BHP board member David Crawford. Kerr will be replaced as CFO of BHP by Peter Beaven, head of BHP **copper**.

The spinoff will reduce BHP's **operations** from 41, bringing it closer to a target of 19 assets, including **coal**, **copper** and **iron ore** mines and oilfields in Australia, potash and **oil** units in North America and **copper** mines in South America.

"In a single step, we will significantly increase BHP Billiton's focus on the exceptionally large resource basins that underpin its competitive advantage," Mackenzie said. "With a simpler portfolio, we are targeting sustainable, productivity-led gains of at least \$3.5 **billion** per annum by the end of the 2017 financial year."

The difference in the quality of the assets being retained by BHP against those being spun off is evidenced by their respective earnings margins.

BHP will retain **operations** with an underlying Ebit margin of 42%. The new **company**'s assets posted an average Ebitda margin of 21%.

BHP shareholders will receive stock in the new **company** on a pro rata basis linked to their existing **stake**. BHP shareholders will vote on the demerger, which is expected to complete in the first half of 2015.

Shares in BHP, which trades in London as BHP Billiton plc, fell Tuesday to 1,978 pence (\$32.93), down 89 pence, or just over 4%, on their Monday close.

Richard de Carle and Susannah Macknay of law **firm** Slaughter and May are advising BHP on the demerger, supported by Louise Campbell and Elizabeth Szanto. Jeanette Zaman is advising on tax matters, Philip Snell on financing, and Michael Rowe on competition issues.

Herbert Smith Freehills Freehills LLP is advising on Australian law while ENSafrica is advising on South African law.

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