

HD BHP mulls \$20bn demerger plan

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BHP Billiton has indirectly confirmed that a \$20 **billion** demerger of non-core assets is an option it has under active consideration.

While not directly addressing the speculation that a demerger to shareholders had become the preferred divestment route for the previously flagged **sale** of the non-core assets, BHP did not dismiss it out of hand either.

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Individual asset sales to trade buyers, or the emerging and well-funded private **equity** funds, such as the X2 fund headed by former BHP and Xstrata executive Mick Davis, remains the most likely outcome, although a demerger of a new **company** loaded up with the non-core assets that do not fit BHP's simplification plan under new chief executive Andrew Mackenzie is now clearly under consideration.

BHP said in response to the market speculation on the demerger that "simplification of our portfolio is a priority and is something we have pursued for several years".

"In the last two years alone, the group has announced or completed divestments in Australia, the United States, Canada, South Africa and the United Kingdom, including petroleum, **copper**, **coal**, mineral sands, **uranium** and diamonds assets."

That the remaining non-core assets have yet to go down the same path flags that they are difficult to sell. Their appeal sitting inside a demerged organisation without the cashflow to meet long-term sustaining capital requirements is why the demerger option, up until now, has not received much of an airing.

"We believe that a portfolio focused on our major **iron ore**, **copper**, **coal** and petroleum assets would retain the benefits of diversification, generate stronger growth in free cash flow and a superior return on investment," BHP said.

"By increasing our focus on these four pillars, with potash as a potential fifth, we will be able to more quickly improve the productivity and performance of our largest businesses," BHP said.

It said it would actively study the next phase of simplification, including structural options, but would only pursue options that maximised value for BHP shareholders.

"Any course of action remains subject to detailed review and an assessment of alternatives," BHP said.

The alternative is trade **sale** of individual assets.

The common feature of the key assets up for **sale** is that, with the exception of manganese in Australia and South Africa, they all are struggling to turn a dollar because of weak prices, most notably aluminium and nickel.

Those struggling industries are also the most structurally changed in that the rise in aluminium smelting and nickel processing in **China** has changed the global industry's cost curve.

In essence, a demerger to shareholders — they could presumably opt out in the process — would be offering shareholders the worst of the BHP businesses, shored up here and there by a profitable manganese business and a thermal **coal** business that could have better days with more cost-cutting.

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

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