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HD **BHP Billiton eyes \$12B asset spinoff; Aim is to focus on 4 main products, including iron ore and petroleum**
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BHP Billiton Ltd. may announce a spinoff of assets estimated to be worth as much as US\$12 billion next week, as the world's biggest mining company casts aside operations acquired in the 2001 purchase of Billiton Plc.

Directors will consider a structure to focus BHP on its four main products, including iron ore and petroleum, when they meet next week, and announce any decisions immediately, the Melbourne-based company said Friday. It has already sold assets worth US\$5.2 billion since January 2012 as part of plans to simplify its portfolio.

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"The market will be quite well predisposed to it and it probably adds some value to the BHP story," said Brenton Saunders, a Sydney-based investment analyst with BT Investment Management Ltd., which manages about A\$64 billion (US\$60 billion) and holds BHP shares. "The devil is in the detail, it will depend on which assets are included and which aren't."

Focusing BHP on iron-ore, copper, coal and petroleum projects that stretch from Australia to the Americas and generated about 85 per cent of its sales last year, will raise free cash flow, help boost production growth and deliver stronger return on investment, Chief Executive Officer Andrew Mackenzie said in a May speech. Mackenzie, appointed in February 2013, also identified potash as a potential fifth unit.

"The board has continued to study various structural alternatives, including at its meeting this week," the company said in Friday's statement. "A demerger of a selection of assets is our preferred option."

A spinoff that included nickel, manganese and aluminum operations that span Australia, South Africa and Colombia, a South African coal unit and the Cannington lead and silver mine may be worth as much as US\$12 billion, according to a valuation Friday from CLSA Asia-Pacific Markets.

Such a restructuring would be the largest since the A\$3.3 billion spinoff of its steel unit in 2002. A demerged company will probably be based mainly around former Billiton assets, Glyn Lawcock, an analyst at UBS AG in Sydney, said in a July 14 note to clients. A new company would likely have a primary listing in Australia and may also be traded in both the U.K. and South Africa, Lawcock said.

Mining companies are cutting costs and sharpening portfolios as commodity prices retreat and after poorly timed acquisitions in a decade-long US\$614 billion investment spree led to asset writedowns and management clear-outs. Investors including BlackRock Inc.'s Evy Hambro, who manages the US\$8 billion World Mining Fund, have urged producers to refrain from costly growth projects and focus on shareholder returns.

The US\$11.6 billion acquisition of Billiton gave BHP assets including aluminum, nickel and thermal coal that no longer fit Mackenzie's strategy of focusing on four main commodities. BHP spokeswoman Eleanor

Nichols declined to comment on which assets may be included in any demerger. Chief Financial Officer Graham Kerr may run the spinoff company from headquarters in Perth with a portfolio that includes BHP's West Australian nickel unit and the Cannington mine, the Australian Financial Review reported Friday. BHP's Nichols declined to comment on the report.

Creating a smaller collection of **operations** with long lifespans may be a catalyst for further productivity savings, Mackenzie said in May. In 2011, as **China** devoured everything from **iron ore** to **copper** to feed economic expansion, BHP's return on invested capital was 35 per cent, according to data compiled by Bloomberg. The figure slumped to 13 per cent two years later as **Chinese** growth slowed, the data show.

BHP's aluminum, manganese and nickel unit accounted for about 14 per cent of revenue in the 12 months ended June 30, 2013. That's down from about 30 per cent in the year through June 2007, according to filings. Revenue from **iron ore** has risen from about 12 per cent to 31 per cent over the same period. Glencore Plc CEO Ivan Glasenberg said the commodity trader and metals producer planned to study BHP's Australian nickel division.

Investors are likely to support any spinoff company as it would provide an alternative to the larger producers, according to BT's Saunders.

"Globally there are not that many reasonable quality mid-cap diversified **mining** groups," he said. Shareholders will seek more clarity on Mackenzie's plans for BHP's remaining portfolio amid weak prices for **iron ore**, petroleum and **copper**, according to Tim Schroeders, a Melbourne-based portfolio manager who helps manage US\$1 **billion** in equities, including BHP shares, at Pengana Capital Ltd.

"When the price of the commodities in those divisions have all fallen, it's difficult to grow your profits, despite volume increases and cost cutting, so that's the big picture," Schroeders said Friday by phone, before BHP's statement. "In terms of repositioning the businesses, I don't think that there's a magic wand."

ART / Focusing BHP on **iron-ore, copper, coal** and petroleum projects will raise free cash flow, help boost production growth and deliver stronger return on investment, CEO Andrew Mackenzie said in May.; / Andrew MacKenzie; / Focusing BHP on **iron-ore, copper, coal** and petroleum projects will raise free cash flow, help boost production growth and deliver stronger return on investment, CEO Andrew Mackenzie said in May. [OTCT_20140816_Early_B7_01_I001.jpg]; / Andrew MacKenzie [OTCT_20140816_Early_B7_01_I002.jpg];

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