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HD **BHP GOES ... BACK TO THE FUTURE**

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DON'T mention the merger. BHP Billiton yesterday all-but officially announced the unwinding of its 'year zero' merger with the British-South African Billiton**company**, in its back to a 21st century BHP future restructuring.

All the assets acquired with Billiton back in 2001 will be hived off in 'NewCo' — with a few assets from the original BHP thrown in to 'bulk-up' the spin-off.

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The continuing BHPB will be essentially the 20th century BHP of great **iron ore**, **copper**, coking **coal** and **oil** and gas assets, plus the assets bought and built over the last decade or so from the fabulous profits generated by those old BHP assets.

While it's hiving off the Billiton assets, it's not going to also hive off the Billiton name, CEO Andrew Mackenzie went on the record yesterday to state.

On reflection that's probably no bad thing; keeping Billiton in the 21st century name will serve as a permanent reminder of how BHP gave away 42 per cent of its **equity** for a mess of **mining** potage.

There were three elements to BHPB's reports yesterday. They were the profit for the 2013-14 year, the details of the Billiton demerger, and the dynamics of those soon-to-be two companies going forward.

The profit was again fabulous — at $US13.8 **billion** ($14.8 **billion**) it was well over one-and-half times the $8.7 **billion** reported last week by our biggest bank the CBA.

It was though pretty hard won, because prices received fell sharply, reducing operating profit or EBIT (earnings before interest and tax) by $US3.5 **billion**. This was more than offset by increased production, which added $US2.9 **billion** to EBIT and cost cuts which contributed a thumping $US1.9 **billion**.

Throw in BHPB's sharply lower capex spend, and its numbers in corporate miniature captured the changing nature of our resources boom for the overall economy — and also, the central challenge to maintain a strong post-boom economy.

The national economic bottom line is a similar race between falling prices for our commodity exports and rising volumes thanks to all the new projects.

What we similarly need across the economy, not just in the resources sector but also in the much larger non-resources side, is a similar mix of productivity gains and raw cost cuts that underwrote the BHPB result.

More than half the profit came from **iron ore** — as against 80 per cent in the case of Rio Tinto in its first half result. The other half was split between petroleum and **copper**.

Coal — both the good coal that stays in BHPB and the demerging coal — and the aluminium and manganese and the nickel, including the nickel that goes into neither company — contributed all of 3 per cent to group operating profit.

That pretty well captures the core of the demerger. The new-is-old BHP will be built on not just premium assets but super-premium ones of both scale and profitability.

BHPB's Pilbara iron ore is not just one of three biggest operations in the world — with its Pilbara peer Rio and Brazil's Vale, but also one of the two most profitable, with Rio of course.

The same goes for BHPB's copper — again, in large part actually shared with Rio in Chile's Escondida; and its Queensland coal. Petroleum is an interesting mix of fabulously profitable legacy oil and gas and very expensive US blue sky.

Gross profit from Bass Strait is an extraordinary 82 per cent of revenue, and most of it falls all the way to the bottom line as there is very little depreciation to pay. There's also very little sustaining capex required.

Gross profit of onshore (shale) US oil and gas is a respectable 53 per cent of revenue, but all that and a bit more gets chewed up by depreciation and amortisation, so EBIT is actually negative. And then there's a very hefty further $US4.2 billion of capex required. In short, about half the cashflow being pumped out by the legacy oil and gas assets is getting re-pumped, literally, into the ground in the southern states of America.

And then there's the fifth virtual reality pillar, Canadian potash, which just sits there, again, literally, in the ground, soaking up some $US544 million of capex last year.

'NewCo — let's call it Billiton-plus — was presented as a pretty reasonable company in its own right. That's if you don't compare it with the new/old BHP.

It's essentially the old Billiton of South African coal and aluminium, bulked-up and almost certainly profit-upped by the inclusion of BHP's WA alumina and Illawarra coking coal.

It's a sort of old fashioned general mineral resources company. Its future will probably be either to acquire or be acquired. As I've noted before it would make immeasurable sense to buy some or all of Rio's aluminium operations.

There's no question that the demerger makes huge sense. It leaves the old/new BHPB as an extraordinarily profitable and very tightly focused company built on absolutely first-tier assets.It is perfect base both for major output-building investment and continuing productivity improvement. It is though a company which doubles down on its bet on China.

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

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