

BHP Group PLC

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BHP drops as record dividend payout still disappoints

BHP Group PLC (LON:BHP) unveiled a record dividend payment on Tuesday but it was not as much as analysts had wanted.

Underlying attributable profit of US\$9.1bn was up 2% on the previous year, while at the statutory level profit more than doubled to US\$8.3bn thanks to strong iron-ore prices and much lower one-off charges.

Basic earnings per share were up 130% to US\$1.6.

Boosted by higher metals prices and strong production from several mines, free cash flow was strong at US\$10bn.

Some of this cash will be used to pay a final dividend of 78 cents per share, taking the total dividend to US\$1.33 and will mean the group returned US\$17bn to shareholders over the financial year.

Many analysts, however, had expected a special dividend.

Chief executive Andrew Mackenzie hailed the increases in production volumes and reductions in unit costs over the past five years and said the strong levels of cash were also used to invest in growth projects and advance exploration programs.

There are six major projects under development in petroleum, copper, iron ore and potash, following the approval of the Ruby oil and gas development this month.

Net debt was cut by US\$1.7bn to US\$9.2bn, below the long-term target range of US\$10bn-US\$15bn.

"This disciplined approach sets us up to deliver strong returns over the long term," Mackenzie said.

"Our transformation programs have the potential to unlock significant value through more productive and stable operations, as we embrace new ways of working and harness new technology."

Sensible move?

Analyst Nicholas Hyett at Hargreaves Lansdown said increasing global trade tensions and a slowing Chinese economy were major headwinds for natural resource groups.

"Demand for steel tends to go a bit rusty during a downturn, and iron ore is right at BHP's core," they said.

"So far the group's been able to shrug off the headwinds though, and with net debt towards the bottom of the target range, management have braced the business for a shock if a major downturn appears on the horizon. All very sensible

Price: 1187.6

Market Cap: £60.06 billion

1 Year Share Price Graph



March 2019 September 2019 March 2020

Share Information

Code: BHP

Listing: LSE

52 week	High	Low
	2078.5	939.8

Sector: Mining

Website: www.bhp.com

Company Synopsis:

BHP Group PLC Billiton is a global leader in the resources industry. Formed from a merger between BHP and Billiton, the company is a leader in the extraction and sales of most natural resources, and is particularly strong in Iron Ore, Coking and Thermal Coal, Copper, Zinc, Oil & Gas, Diamonds and most materials key to the production of steel.

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in our view, and with the hard work done, the profits from the group's high margin assets can be funnelled back to investors in the meantime."

Russ Mould, investment director at AJ Bell, felt BHP's dividend was more generous than might have been expected given the economic backdrop.

He noted, however, that the US\$8bn capex plans were considerably less than the \$20bn-plus it used to spend in the previous commodities boom, while the more streamlined and lower-cost business should be in a stronger position should there be another commodities downturn.

"However, the current negative backdrop would suggest BHP may find it hard to keep growing earnings at the current rate, particularly in the short term," he said.

Outlook for metals prices

BHP noted as part of its results statement that iron ore prices have been elevated since the Brumadinho tailings dam tragedy in Brazil first disrupted the market in January, also supported by stronger than expected Chinese pig iron production and cyclone disruptions to Australian supply.

"We expect supply conditions will return to a more normal path on a one to three year timeframe, and prices are likely to be volatile as that adjustment plays out."

In the longer term, BHP, which plans to spend around \$8bn a year on capital and exploration, sees the marginal price setting tonne being provided by a higher-cost, lower value-in-use exporter from Australia or Brazil.

While copper prices having been heavily influenced by swings in global trade uncertainty in the second half of the BHP's financial year, directors believe underlying fundamentals remain sound.

Demand for copper "should grow steadily," the company said, as a decline in mined grades, rising input costs, water constraints and what is seen as a scarcity of high-quality future development opportunities are predicted to constrain the industry's ability to meet this growing demand at low cost.

BHP shares dropped 2% in early trading on Tuesday and while they erased some of their worst losses were still down 1% at 1,766.8p by mid-morning.

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