

15 February 2022

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BHP Group Limited

Materials

HOLD

BHP A\$48.33 **TARGET PRICE A\$51.28**

BHP Group Limited (BHP, formerly BHP Billiton Limited) is a diversified natural resources company producing commodities along with substantial interests in oil and gas. BHP's principal business lines are mineral exploration and production, as well as petroleum exploration, production and refining. BHP's assets, operations and interests are separated into Petroleum and Potash, Copper, Iron ore, Coal and Nickel.

Company Data

Number of shares	5,062.3 M
Market Capitalisation	\$244,662.1 M
Free float (%)	100.0
12-month high/low	\$54.06/\$35.56
Average Daily Turnover (\$m)	1,742.81
% S&P/ASX200	11.441%
DDM Ranking	197
% All Ordinaries	9.913%
GICS Industry Group	Metals & Mining

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	84,036.2	86,775.8	76,724.3	69,914.0
Reported NPAT (\$M)	15,619.7	27,030.7	21,458.0	16,978.9
Adjusted NPAT (\$M)	23,596.8	27,059.9	21,495.3	17,213.8
Reported EPS (¢)	308.1	530.2	423.0	332.1
Adjusted EPS (¢ - FD)	466.6	513.8	405.7	331.2
Adjusted EPS growth (%)	88.4	10.1	-21.0	-18.4
Adjusted P/E (x)	10.4	9.4	11.9	14.6
Dividend (¢/sh)	415.9	392.8	296.1	244.2
Gross yield (%)	12.3	11.6	8.8	7.2
Net yield (%)	8.6	8.1	6.1	5.1
ROIC (%)	28.2	31.3	24.5	20.4

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

Half Yearly Report and Accounts

On 15th February 2022, BHP Group Ltd (BHP) announced its Half Yearly Report and Accounts with the following highlights:

Earnings and Margins:

- Attributable profit of US\$9.4 billion includes an exceptional loss of US\$1.2 billion (31 December 2020: US\$3.9 billion, which included an exceptional loss of US\$2.2 billion);
- The exceptional loss of US\$1.2 billion (after tax) relates to the current half year impact of the Samarco dam failure of US\$821 million as well as an impairment of US deferred tax assets no longer expected to be recoverable after the Petroleum demerger of US\$423 million;
- Underlying attributable profit of US\$10.7 billion for total operations (31 December 2020: US\$6.0 billion) was underpinned by disciplined cost performance across BHP's operations;
- Profit from operations (continuing operations) of US\$14.8 billion (31 December 2020: US\$9.9 billion) increased as a result of higher sales prices across BHP's major commodities, near record production at WAIO and higher concentrate sales at Spence, and favourable exchange rate movements;
- This was partially offset by the impacts from planned maintenance across a number of BHP's assets, expected copper grade decline at Escondida, significant wet weather at Queensland Coal and inflationary pressures, including higher fuel, energy and consumable prices;
- The total impact from COVID-19 on BHP's operations was US\$223 million (pre-tax) (31 December 2020: US\$405 million);
- This represents the following impacts: lower volumes at BHP's operated assets of US\$69 million (31 December 2020: US\$138 million) and direct costs of US\$154 million incurred (31 December 2020: US\$267 million, reported as an exceptional item), such as social distancing measures including additional charter flights, accommodation, security and health and hygiene services and also temporary relocation costs due to border restrictions, combined with higher demurrage and other standby charges due to delays caused by COVID-19;
- Underlying EBITDA (continuing operations) of US\$18.5 billion (31 December 2020: US\$13.9 billion), with an increased EBITDA margin (continuing operations) of 64 per cent (31 December 2020: 60 per cent);
- Underlying return on capital employed strengthened to 39.5 per cent (31 December 2020: 23.6 per cent); and
- Underlying return on capital employed, excluding Petroleum, is approximately 42.9 per cent.

Earnings changes

BHP reported H1 Underlying EPS of US\$1.92. This compares with market expectations of US\$1.92. Hence, we do not expect any significant earnings revisions for FY22 and future periods.

Valuation

We are updating our 12-month target price from \$45.67 to \$51.28 and retaining our HOLD recommendation. The price target is underpinned by our valuation.

Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

Conflicts of Interest

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

Buy	36.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	31.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	31.8%	(0.0% of stocks with recommendations are Barclay Pearce clients)