



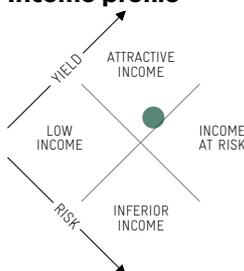
Stock Viewpoint BHP Group Ltd

ISSUE DATE 25-2-2020

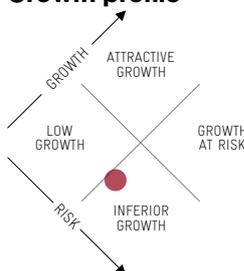
About this stock

ASX CODE	BHP
SHARE PRICE	\$36.33
GICS INDUSTRY GROUP	MATERIALS
MARKET CAP	\$172,100M
ASX200 RANK	1
52 WEEK RANGE	\$34.42 - \$42.33
LONSEC FAIR VALUE	\$37.53

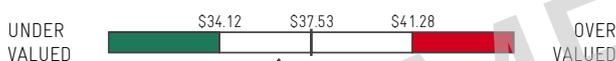
Income profile



Growth profile



Action signal

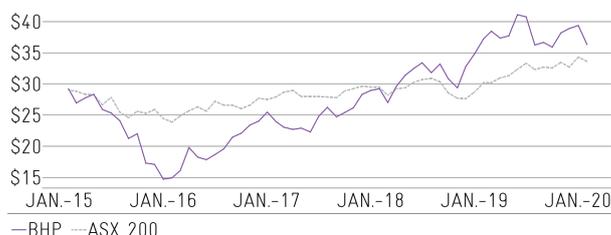


Financial snapshot

	FY19A	FY20E	FY21E
REVENUE (A\$M)	65,360	66,523	65,630
PROFIT (A\$M)	13,970	15,559	14,638
EPS (A\$)	2.69	3.04	2.75
DPS (A\$)	1.92	2.16	2.11
FRANKING (%)	100	100	100
PE RATIO (X)	13.5	12.0	13.2
EPS GROWTH (%)	10.0	13.2	-9.7
CASH YIELD (%)	4.7	5.9	5.8
GROSSED-UP YIELD (%)	6.7	8.5	8.3
GEARING (%)	16.2	15.1	14.9
ROE (%)	16.8	21.0	18.7

FINANCIAL YEAR END: JUNE

Share price performance



What this Rating means

The 'Approved' rating indicates that Lonsec believes the stock is of 'Investment Grade' quality, meaning we believe the long term income and/or growth potential of the company outweighs the potential risks.

Income and Growth Profile

BHP's income profile is rated as 'Attractive Income', reflecting an above-market dividend yield, with a relatively lower risk profile than the broader market. BHP's dividend for FY20 is expected to be \$2.16/share, implying a current cash yield of 5.9%.

BHP's growth profile is rated as 'Inferior Growth', reflecting a below-market growth rate, whilst exhibiting a relatively higher risk profile than the broader market. Based on current estimates, BHP's earnings are expected to grow by 1.8% p.a. over the next two years.

Action signal

Lonsec has assessed BHP's fair value as \$37.53/ share. At the last closing price of \$36.33, BHP is trading at a 3.2% discount to our valuation. Accordingly, BHP is regarded as 'Fairly valued' at current levels.

Business snapshot

BHP is the world's largest diversified resources company, with world class operations in iron ore, metallurgical coal, copper and petroleum. BHP operates under a Dual Listed Company structure with two parent companies BHP Group Ltd and BHP Group Plc.

Investment view

BHP's Tier 1 assets are large, long-life, low-cost, expandable, diversified by commodity, geography and market. Given the business scale, BHP's earnings and valuation are highly sensitive to commodity prices and the AUDUSD. Following a period of under-performance, management's renewed focus on maximising cash flows, improving returns on capital employed and ongoing capital discipline is seen favourably by the market. Additionally, with gearing now at the low end of the target range, a higher proportion of future free cash flow is expected to be returned to shareholders. BHP remains our preferred diversified resource exposure.

Last major event

FY19 result was slightly below expectations due to one-off operational outages that will not impact results going forward. Revenue rose 3% v pcp from higher prices, EBITDA was steady (margin at 53% v 55%) and underlying EPS rose 5%, ahead of NPAT growth due to share buybacks. A fully franked final dividend of US78cps was declared, maintaining a high payout policy to shareholders. The outlook for FY20 is mixed with spot commodity prices, particularly iron ore and copper, softening on slowing global economic growth, while improvements are expected at the operational level wrt volumes and unit costs. Gearing remains modest at 15% with leverage at 0.4. Valuation unchanged.

ANALYST: ROSS BIRD | APPROVED BY: PETER GREEN

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Bull points

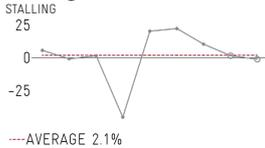
- Diversified, low cost producer of energy and resources.
- Large scale operator with further productivity gains to be made.
- Beneficiary of rising commodity prices in the longer term.

Bear points

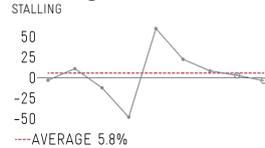
- Poor track record of value adding via acquisitions.
- Commodity price forecasting difficult with China / US actions impacting demand.
- Remains highly sensitive to commodity price fluctuations.

Growth

Sales growth (%)

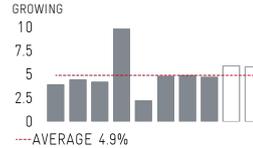


EBITDA growth (%)



Income

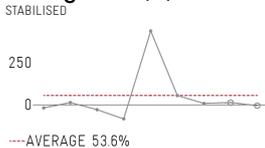
Yield (%)



Dividend (\$/share)



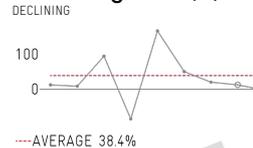
NPAT growth (%)



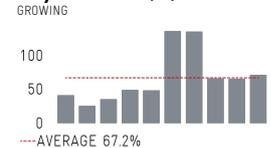
EPS (\$/share)



Dividend growth (%)



Payout ratio (%)

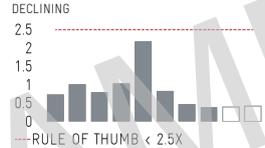


Financial strength

Gearing (%)

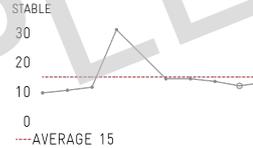


Debt to EBITDA (x)

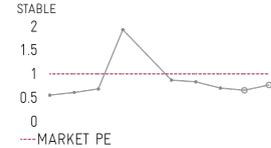


Valuation

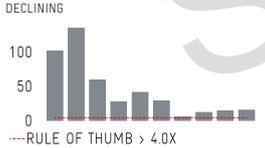
PE ratio (x)



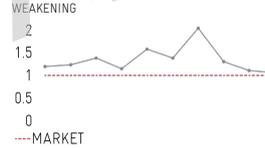
Relative PE ratio (x)



Interest coverage (x)



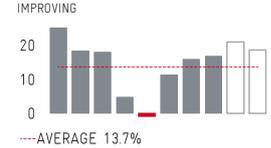
Volatility vs market



Total return (%)



Return on equity (%)



LEGEND: ■ HISTORICAL □ FORECAST (FY20, FY21) ■ PEAK VALUE ■ NEGATIVE VALUE

Data source: Thomson Reuters (Markets) Australia Pty Ltd and Square One Research Limited. Process methodology available at reports.lonsec.com.au/PUBLIC/EquityResearchMethodology.

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