BHP

Financial results for the December 2024 half year

UK and South Africa investor and analyst teleconference transcript – Session 2

18 February 2025

Introduction

MIKE HENRY, BHP

Good morning and good evening to everyone joining the call. Thank you for joining. I am here with our Chief Financial Officer, Vandita Pant, and our Group Investor Relations Officer, Tristan Lovegrove. I am happy to say that we have turned in another strong six months of operational and financial performance, which has been driven, of course, by our unwavering focus on operational excellence underpinned by the BHP Operating System (BOS).

We have grown group production by over 5% in our major commodities over the period, excluding the divestment last year of Blackwater and Daunia and the suspension of nickel. We continue to control costs well, with close to a 4% reduction in unit costs at our major assets. Inflation has been almost a 4% headwind, which we, of course, more than overcame. This tight cost control contributes to our consistently industry-leading margins. We are on track to achieve full-year production and cost guidance across each of our commodities, and this underlying operational performance has supported an interim dividend of 50 US cents per share.

We have also continued to advance our attractive organic growth projects, and there is a specific slide on that in the pack outlining the attractiveness of our projects in copper in Chile. Only a month or so ago, we formed our Argentinian joint venture with Lundin Mining, Vicuña, to develop what we see as one of the world's most significant copper discoveries in decades. Demand for our products remains strong. Notwithstanding the near term uncertainty and volatility, we are seeing early signs of recovery in China, resilient economic performance in the US, and continued strong growth in India, which is the fastest growing major economy in the world. Our combination of strategy, portfolio and operational excellence is a competitive advantage, and we believe it positions us pretty well.

Questions and Answers

LIAM FITZPATRICK, DEUTSCHE BANK

Good morning, or good evening, Mike and team, I have two questions. First, on Vicuña, can you give us a bit of an update on the timing in terms of when you think you will be in a position to announce capex for the project and potentially when you could make an investment decision on the first phase?

MIKE HENRY, BHP

We have not said that yet, Liam. Our ability to talk about when the big milestones will occur is coming. We have committed to coming forward in the first half both with resource updates and an outline of the key milestones, including, as you are referring to, when we would expect to see a potential financial investment decision (FID), completion of study phases, and so on.

LIAM FITZPATRICK, DEUTSCHE BANK

Understood. My second question is just on mergers and acquisitions (M&A). There have been comments overnight in which you have said M&A is more difficult. Could you elaborate on that in terms of what is behind that and whether it is valuation or other factors? How do you want the market to think about BHP and M&A? Are you still open to opportunities if the right opportunity and timing fits and comes along?

MIKE HENRY, BHP

I get why the question is asked, and there are probably others in the queue who will have similar questions, but I really do want us to all get on the same page on this. As you would expect, a company of BHP's size will of course look at opportunities from time to time, but, as we have highlighted, given the market circumstances, it is increasingly challenging to do large global M&A for value. At the end of the day, we are all about shareholder value.

At the same time, we have made significant progress, and you can see that coming through in the site visit to Escondida and in the slide that we have put forward in today's presentation. We have made really significant progress on growing and maturing our portfolio of attractive organic projects in copper and in potash. We are 100% focused on delivering those, and you can see that focus coming through in the information that we are providing, alongside continuing to deliver strong performance in Western Australia Iron Ore (WAIO) and BHP Mitsubishi Alliance (BMA).

Let me say again, just so that we are all clear, that our current focus is on our own organic growth. These opportunities that we have outlined are continuing to advance well. You asked about Vicuña, and there is, of course, more to come on that and Copper South Australia. As we have done with Chile, we will bring forward more information at an appropriate time, but you can see that all of these projects are progressing solidly. They are super competitive, if you look at slide 24 in the pack, relative to external options, they have good capital intensity and strong internal rates of return (IRRs), so it is no surprise that that is where our focus is.

Of course, there will continue to be speculation about M&A, but I have been consistent on this, and I want us all to be on the same page in terms of our focus being on organic growth and progressing these attractive options that we have developed.

JASON FAIRCLOUGH, BANK OF AMERICA

Mike, thanks for making time for us at the end of the day. I know that it is a busy day, so I really appreciate these calls, as usual. I have a couple of questions. The first is on your medium term capex guide. It looks like you are guiding for US$10 billion to US$11 billion per year. Does that include the capex for the Escondida recapitalisation? So the US$10.5 billion to US$14.4 billion to stand still, is that included in that US$10 billion to US$11 billion or is it on top of that?

MIKE HENRY, BHP

It is included. Excluded from the average US$11 billion medium term guidance is any further capex in nickel, given that that is a future decision for review in February 2027. It does not include the capital to expand WAIO to 330 million tonnes per annum, other than the study work that we currently have underway. Given that we have only recently closed on Vicuña and we would also intend to equity account for Vicuña, it does not include Vicuña either.

JASON FAIRCLOUGH, BANK OF AMERICA

Looking at your plans to ramp up copper production in South Australia, I have a big-picture question, given the underperformance of those assets over the last 20 years, what gives you confidence that you can deliver that kind of growth this time?

MIKE HENRY, BHP

Maybe I am getting too far ahead of ourselves here, but I am hoping that people can see a much improved performance at Olympic Dam in recent years, while acknowledging that there was a long period of time when, relative to a nameplate of 220ktpa plus, we were producing on average about 150ktpa to 160ktpa. But that has been turned around through our investment in asset integrity, which built up technical capacity in the asset, that was the foundation upon which we could start more credibly looking at unlocking future growth through the consolidation of Carrapateena, Prominent Hill and Olympic Dam, and then the potential development of Oak Dam.

First and foremost, there has been more reliable underlying production and cost control over probably the recent three or four years. Then there is the optionality. I was there in the first week of January and spent time with the team on the ground. No matter which way you look, you see synergies to be unlocked and optionality left, right and centre there. The game has shifted from when we were looking solely at an expansion of Olympic Dam. There are many more levers available to be pulled now given the multiple assets or mines that we have. Of course, the synergy unlock will also contribute to the economics of any smelter and refinery expansion at Olympic Dam. Given the returns, which are boosted by synergies, and greater optionality, we are pretty optimistic about the potential that is there to be unlocked in the coming five to 10 years.

AMOS FLETCHER, BARCLAYS

Good morning, Mike. Thanks for the opportunity. What is your current thinking on the WAIO 330 expansion and, in particular, whether you see the market needing an extra 25 million tonnes of iron ore, given the progress being made in Guinea, and China demand, I am assuming, having peaked in 2020?

MIKE HENRY, BHP

Let me start by saying that we have a very high-performing business there with the lowest costs, and better margins than the competition. There are two angles to take on the question that you asked. Do we believe that the market needs another 25 million tonnes in the market? The answer is no. We have been clear on that, because we see Chinese steel demand plateauing and then, ultimately, moving into decline. Because of the increase in scrap, pig iron declines even more quickly, so we are pretty confident that we will see a contracting iron ore market as we move towards the end of this decade.

The question is really whether, against that backdrop, which is one that we have assumed for a decade now, there are still attractive returns to be generated by a further 25 million tonnes from the best-performing asset in the world, after taking into account the impact on the market of adding those tonnes. It is not like we would just assume a static price outlook. We would look at, if we bring these tonnes on, what the impact is on the market and on the rest of the portfolio, and whether it still makes sense. That is why we have been careful to talk about these as studies and options, rather than saying that it is a definitive expansion. There is still uncertainty, of course, in iron ore demand and in pricing, which most would say has held up better than some had anticipated. We do see that uncertainty where there is still market opportunity.

Where we have the best-performing business in the industry, it is incumbent on us to make sure that we understand what the options are, and then we can make a determination as to whether we wish to trigger those, based on what we see in the iron ore market, but also as we stack those projects up against alternative opportunities to deploy capital in the other BHP businesses.

AMOS FLETCHER, BARCLAYS

My second question is on nickel. Could you elaborate on whether that asset will be put up for sale in the near term? One of your peers managed to sell their nickel business for a pretty impressive number this morning, so there is a market for these types of assets.

MIKE HENRY, BHP

Firstly, the process towards moving it into temporary suspension has gone smoothly. We have done everything that we said we would by way of redeploying people and so on. We are continuing to spend money, in anticipation of reviewing the decision as to whether to restart in early 2027. I do want to make the point, though, that the money that we are spending is not just to keep the asset warm. In fact, if we ever, ultimately, moved into a closure scenario, two-thirds of what we are spending would have gone towards that anyway. We are optimistic that the fortunes for the nickel market still have the potential to improve towards the back end of this decade, but we are not yet confident enough to say for certain that things would be attractive enough to reopen the business in due course. That is why we said early 2027, when we will hopefully have a better view on market circumstances. Vandita, is there anything that you wanted to add on this one?

VANDITA PANT, BHP

No, I think that that covered it.

DOMINIC O'KANE, J.P. MORGAN

I just had a question on the capital structure. You focused in the presentation on moving towards the top end of the US$5 billion to US$15 billion net debt target range. Could you give us your thinking on whether that is still the most appropriate metric for BHP as you move into what is clearly a potential for a higher-growth phase over the next five to 15 years? Are you perhaps boxing yourself into a corner with such a limited net debt range? Would you consider moving to a different parameter for guidance around capital structure?

MIKE HENRY, BHP

There are different parts to the response on this. There is no perfect metric. We think a firm range for net debt is the best metric, and I will ask Vandita to talk about that in a second because I know you've got strong views on this. I do want to say though that there is benefit in having constraints in place, in terms of the Capital Allocation Framework. I've seen the great benefit that has brought in terms of ensuring a more disciplined balance between cash being returned to shareholders versus being reinvested in the business and ensuring there is very strong competition for capital between projects that are all vying to be funded. That has resulted in better capital efficiency, more reliably executed projects, with better returns, than the alternative scenario where we don't have constraints in place. The other point I would make is that our objective here is to ensure that we have a robust balance sheet and robust business at all points in the cycle so, even under a prolonged down-cycle scenario that we have a solid balance sheet. The best way that we have had of trying to depict that is to put a clear net debt range in place, rather than looking at something like a leverage ratio or gearing. Vandita, maybe you can elaborate.

VANDITA PANT, BHP

Yes, I agree with what Mike just said on leverage and gearing, which are alternate measures for balance sheets. We do think that net debt has a simplicity and a nowhere-to-hide view, whereas, of course, EBITDA leverage on net debt to EBITDA can get a little more pro-cyclical in terms of the behaviour, given that it can seem quite low. Equally, gearing can be quite back-historical because of the historical cost on the balance sheet of the asset. There is not a perfect metric, really, but from the perspective, as you will have seen in the slide, we do watch all of these, and whichever way you look I think we would agree that we are very comfortable that the balance sheet we have currently is very competitive and very strong for all kinds of cycle-related ups and downs. And we have lots of levers to manage it in case we were to be outside of that range, but I wouldn't say that would mean we would use another metric instead of a net debt range.

ALEXANDER PEARCE, BMO

My question is around Jansen. Westshore flagged a couple of times last year that the upgrades it needs to make to the port were presenting some challenges from a cost perspective. I wondered if there are any concerns from you that there could be some time slippage associated with that project, or indeed any cost implications from BHP?

MIKE HENRY, BHP

No concerns in the sense that we have a contract in place with Westshore where costs from a BHP perspective are well defined. In terms of potential for slippage, there are appropriate buffers built in place between when the infrastructure will be in place and when we need to ship. On balance, in the world of capital projects, that project continues to progress well.

MYLES ALLSOP, UBS

Thinking about iron ore in the medium term, you sound reasonably cautious. How low do you think iron ore can go as we look over the next five to 10 years?

MIKE HENRY, BHP

Let me start by saying there is a bench of probably circa 180 million tonnes at between US$80 and US$100 per tonne, so even against the backdrop of a market that can decline over time, there is a lot to be pushed through to get prices that are below that. Of course, it is an imperfect science; so, within what we can control, we have said our safest bet is to make sure that we are at the very low end of the cost curve and that we improve the average quality of our product offering, because through doing those two things we will gain the greatest resilience around margins. In a world that becomes much more competitive, or where the competition heats up in that market, in the coming years we will be best placed under a range of different scenarios.

MYLES ALLSOP, UBS

So if Simandou displaces at 120 million tonnes, we could go below US$80. Is that the way you are thinking?

MIKE HENRY, BHP

It was 180 million tonnes, but yes, it was Simandou volume coming into the market; of course, that is going to have an effect on the market, but we have been forecasting for some time that those Simandou volumes would be coming into the market, so it is not a surprise for us. Our views around the Chinese steel industry and fresh supply coming to the market is what underpinned the strategy that we laid out for the WAIO business back in 2017, which was to go from being the third best business in the world and the third lowest-cost business to being the best, do that sustainably, and, at the same time, improve the average quality of our product suite. We did that through triggering the South Flank investment, which has given us higher Fe content and higher lump content than otherwise would have been the case.

MYLES ALLSOP, UBS

And then maybe just on Samarco, could you give us a quick update on the UK class action, maybe Australia and the Netherlands? Are you seeing any of the claimants migrate to the Brazilian settlements? Are they starting to fade in terms of the momentum? When will we get the next updates around those two contingent liabilities?

MIKE HENRY, BHP

Our position in respect of the UK case remains exactly as it was previously, which is that the best recourse or the most appropriate recourse for claimants is in the Brazilian system. In the period since the UK case was launched, of course, an agreement has been reached with the public authorities in Brazil that is very comprehensive, provides for a range of claimants, builds upon the good work that has been done to date, and provides a lot of clarity and certainty, both for Brazilian stakeholders and shareholders.

You asked the question as to whether we are seeing some claimants in the UK case migrate to Brazil? There are probably two points to make on that. One is that has been an overlap in a certain portion of the claimants in the first instance. But yes, we have seen some claimants availing themselves of the recourse they have under the Brazilian system, as you would expect, because the Brazilian system gives them more certainty and faster payment than under the UK case, which we continue to defend in its totality.

VANDITA PANT, BHP

The liability is not yet established, as you know, given it is still in the contingent liability trial case.

RICHARD HATCH, BERENBERG

I just want to ask you a bit about the coal costs. You say that coal costs are flat, year on year, but they are up 12% half on half. I just wonder whether you can just give us a bit of an update on what you are doing to try and pull those costs down on the Australian met coal business.

VANDITA PANT, BHP

IR can give you more details offline as well, but when we are comparing costs, we are neutralising for the April sale of Blackwater and Daunia so that it becomes like for like. You can see that, with the volume adjusted, the unit costs are flat as stated.

TRISTAN LOVEGROVE, BHP

What I would add, Richard, is obviously, we had the long wall and the maintenance in the first half, so there is no long wall move in the second half and the maintenance is much lower. We would also expect higher volume in the second half, such that it would go back into the range.

RICHARD HATCH, BERENBERG

Okay, understood. Still, if you compare it versus a few years ago this business was running sub-US$100 costs, and now it is running at US$120 costs or US$130 costs. Is that US$110 guidance, or below US$110 guidance, fair, or do you not feel that is right?

VANDITA PANT, BHP

No, the US$110 guidance in the medium term relates to three things. One is volume guidance; it has to be read along with the volume guidance, which is 43 to 45 million tonnes. That is about volume dilution. Secondly, these are the costs which are coming through, not because of new investment, but because of the underlying shift in both strip ratios as well as higher yields, which come through. By that time, we would have rebuilt the inventory that is in the supply chain, which has been low, as you know, which is what the effort is. Combining these three things, along with a real focus on labour productivity and equipment productivity, which has actually been going well, relates to that medium-term guidance, quite aligned.

BOB BRACKETT, BERNSTEIN RESEARCH

Returning to Vicuña, if I think about the RIGI bill and your ability to qualify under that process, is that nice to have or is that necessary to have? You mentioned a two-year timeline from July 2024. How does the one-year option for extension fit in? Is it at your discretion, or is that at the government’s discretion?

MIKE HENRY, BHP

Vandita, maybe you can answer the question around the extension. The RIGI bill is clearly attractive. What we said is that, in the first six months, we have come up with some milestones around the project, updated resource, milestones around study phases, FID and so on. We all understand that the RIGI bill is a real demonstration of the Argentinean government's efforts to attract capital investment to the country. We will actively be looking at whether that presents an opportunity for us. I would bring you back to the fact we made our initial investment in Filo back in early 2022. It is because we see this resource as having significant long-term potential. As we start to put the finer brushstrokes on what a development plan may look like, we will then make the call as to whether to pursue the opportunity presented by the RIGI bill.

VANDITA PANT, BHP

Yeah, and just on putting the RIGI bill, there are quite a few limbs of the RIGI bill which are relevant for us, including, as you mentioned, the window for application for projects, which needs to go in within that two-year window, and then an implementation from there on. We are very comfortable and working through it. Of course, it is early days on how to look at that, but overall, as a package, it is a positive package, not just in fiscal terms, but also attractiveness and the support for a project like Vicuña, which is there at a federal and state level.

BOB BRACKETT, BERNSTEIN RESEARCH

My follow-up would be around the phased development strategy. You have ringfenced Filo del Sol and Josemaria. If you did something like a small oxide project, would that be a foot in the door and then you could grow that into a world-scale project, or would you have to go back? Under the RIGI bill do you have to define the entire scope of what the development would look like?

MIKE HENRY, BHP

That is still the subject of further consideration, Bob. Again, we are still early on, having just closed on Filo, in working together with Lundin on mapping out what that development path may look like. Of course, we are looking at what the proposal would be that we would take into any RIGI application.

MATT GREENE, GOLDMAN SACHS

I have a couple of questions, one on capex and one on Jansen. On capex, it is quite encouraging to see some of the FX tailwinds in unit costs, but can you just comment on how the weaker FX is translating into your capex? Just on the US$11 billion ceiling, I guess we are starting to see your equity-accounted investments potentially going up around Resolution, Vicuña, some infrastructure around Jansen, and potentially Antamina in the future. How should we be thinking about investing cash outflow of the company on a medium-term outlook?

MIKE HENRY, BHP

Vandita, maybe you can answer the question on FX impact on capex. I just want to start, though, Matt, with your comment; you referred to the US$11 billion as a ceiling. I want to be clear that that is our average guidance on capex. It is not a target and it is not a ceiling. We have noted that we have the ability to flex upwards or downwards on that US$11 billion, depending on the opportunity set available to us and depending upon cash inflows into the company. Your point on Resolution, Vicuña and Antamina is taken, and those would be equity-accounted. I do note that the US$11 billion does not back out the joint venture partner shares out of something like Escondida. We have to look at it from both sides of the equation.

VANDITA PANT, BHP

On FX, the Australian dollar has not really materially moved to make an impact on the capex side, but CLP has. The Chilean peso would be a benefit, and we are seeing that come through in some of the projects.

MATT GREENE, GOLDMAN SACHS

That is great. Thanks very much. Just on Jansen, can you just give us an update on how the underground development is progressing? Are you tracking to plan? Where are the risks from here?

MIKE HENRY, BHP

Yes, we are tracking ahead of plan. You will recall that we moved the first production estimate forward from 2027 into late 2026. That remains the case. Vandita, the project is about 67% complete?

VANDITA PANT, BHP

63%.

MIKE HENRY, BHP

It is 63% complete now, so we are well on track for that late 2026 window.

EPHREM RAVI, CITIGROUP

My first question is on the smelter and refinery expansion at Olympic Dam, the first phase of FID by 2027. What could be the order of magnitude of capex for that? Is it very simplistically to reduce the uranium levels and take more ore from the OZ Minerals assets? When would that expansion be ready, assuming it is approved? Are we talking by 2030, or beyond that?

MIKE HENRY, BHP

Okay, so in order, on the capex we have not yet provided information on capital intensity. We will in due course, as we have done with the Chilean projects, but we want to do it once we have got a next level of confidence around it. I would say that, at a macro level, the economics of that project are going to be supported by the synergies to be unlocked, which you pointed to in the second part of your question around the OZ Minerals ores.

There is a choice for us to make in bringing the OZ Minerals ores through the newly upgraded and expanded smelter, and that is as to whether we were to expand uranium processing capacity in parallel with that or not. The current indication is that the economics of that may be challenged. However, there is still a significant uranium benefit to us in that the Prominent Hill and Carrapateena ores currently incur a uranium penalty that we would remove. The synergies here are removal of the uranium penalty and the reduction in transport distance. They are two big drivers of that, and that will support the economics of the SRE project.

The final part of your question was around timing. You are right; we are looking at FID in circa 2027. The capacity would then be online right at the start of the 2030s and just beyond that.

I just want to thank everybody for joining this evening. I know it is early morning for many of you. I hope that, coming through in the results, you can see another very reliable set of operational results, strong financial results, and increasing things to be positive about in terms of the growth optionality in the portfolio, both in potash and in copper, which is going to underpin attractive shareholder returns and value growth over the decades to come. Thank you.