

BHP Group Ltd. (BHP.AX): 4Q FY21 result: Strong finish to the year. FY22 guidance implies +3% YoY production growth; Buy

BHP reported stronger than expected iron ore, met coal, oil, and Escondida copper production for the June Q (vs. GSe) with BHP achieving the top of guidance for most commodities in FY21. Realised prices for iron ore were ahead of GSe and unit cost commentary indicates generally better performance than our modeled estimates for the large assets, a strong result compared to industry cost trends. Production guidance for FY22 is broadly in-line with GSe (although we are at the top end of the range) and implies a strong 3% YoY Cu Eq growth for the group. We forecast a further 7% Cu Eq growth in FY23 with the full ramp-up of Spence sulphide copper project in Chile and several new conventional oil projects in the Gulf of Mexico. There were the typical numerous one-offs incl higher D&A and rehab (associated with Yandi iron ore/Bass Strait gas/closed assets). On growth, Spence sulphides (>150ktpa copper) is expected to double production at Spence by the end of FY22, oil projects (Atlantis and Mad Dog II) are on schedule, and Jansen potash is on track for board approval over the next few months. The company is reviewing the carrying value of Jansen potash and Mt Arthur coal.

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Key takeaways

- **Iron ore:** Pilbara production increased 9% QoQ to 72.8Mt (+1% vs. GSe at 72.3Mt) with strong performances from Yandi and Mining Area C partly offset by weaker than expected production from Newman and Jimblebar. The South Flank mine produced first iron ore in the June Q and will ramp-up to 80Mtpa over the next 3-yrs. Shipments increased 12% QoQ to 73.7Mt (+2% vs. GSe 72.3Mt), Samarco produced over 2Mt (100% basis) of high grade pellets and is back at full capacity for the first processing train (8Mtpa). Realised price from the Pilbara for the June H was US\$158.17/wmt (FOB) which is higher than GSe at US\$156/wmt, this is likely due to lower freight and/or lump premiums in our view given the higher proportion of lower grade fines from Yandi. Unit costs came in-line with the US\$13-14/wmt at 70c FX which is better than our US\$15/wmt at 75c. **FY22 guidance: Pilbara shipments are expected to be 278-288Mt guidance range (GSe 286Mt).**
- **Copper:** +3% QoQ to 403kt (in-line with GSe at 404kt). Escondida was flat QoQ at 247kt with higher mill throughput offset by a small drop in head grade. Material movements increased to over a 1-yr high indicating COVID related labour tightness is easing, and we expect this to continue into FY22. Olympic

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Dam and Antamina production was at the top end of FY21 guidance. BHP has stated that Escondida unit costs came in at the lower end of the US\$95c-110c/lb guidance range (GSe US\$102c/lb). BHP is currently in labour negotiations with the larger Union No.1 at Escondida (who went on strike in 2018). At Spence, the sulphides growth project is ramping up well, achieving a 20Mtpa mill run rate in the Q, and we expect 35Mtpa nameplate to be hit by the end of FY22. BHP will realise a US\$47mn provisional pricing benefit for the June H. **FY22 guidance: 1,590-1,760kt (GSe 1,715kt, was 1,637kt); Escondida 1,000-1,080 (GSe 1,060), Pampa Norte 330-370kt (GSe 361kt) with Cerro Colorado 40-50kt, Spence 290-320kt, Olympic Dam down YoY to 140-170kt (GSe already at 154kt)** with well flagged smelter maintenance scheduled from August-October.

- **Petroleum** +6% QoQ to 27Mmboe and 2% above GSe driven by a strong rebound at Bass Strait and Atlantis. On projects, Ruby/Delaware was tied-in to the Angostura platform, and Mad Dog 2 is 93% complete and on track for first production in mid-CY22. Oil exploration was US\$322mn of which US\$296m was expensed. The Invictus drill rig is currently committed to Shenzi infill drilling in the GoM, with BHP now leasing another drillship to complete two ultra deepwater appraisal wells this month at Calypso (T&T North), a field we think will drive BHP's petroleum growth significantly over the long term, if developed. **FY22 guidance: 99-106Mmboe (GSe 104Mmboe)**, and includes a full year of the acquisition of 28% in Shenzi and first production from Atlantis Phase 3.
- **Coal: Qld met coal** production was up 23% QoQ at 11.8Mt and 18% above GSe with record production from Goonyella, and strong performances from Blackwater. Realised hard coking coal price for the June H was US\$119/t (FOB), slightly below GSe at US\$121/wmt on pricing lags, but weak met coal and thermal were better than our estimates. **FY22 guidance: 39-44Mt (GSe 42Mt, up from 39Mt).** **Thermal production** also rebounded up 31% QoQ and 34% above GSe. **FY22 guidance for Mt Arthur: 13-15Mt (GSe 15.5Mt).**
- **One-offs and other charges**
 - **Impairment charges:** of US\$85mn (post tax) of El Cerrejon (being sold to Glencore for US\$294mn), and Jansen and Mt Arthur carrying values are under review by the company. We value Jansen at US\$3.4bn vs. current carrying value of c. US\$4.3bn (therefore indicating a possible c. US\$1bn write-down) and Mt Arthur at US\$0.36bn vs. carrying value of c. US\$0.3bn (therefore indicating a possible c. US\$0.1bn write-down).
 - **Tax rate:** effective underlying tax rate guided to 32-37% for FY21, lower than GSe at 37% (now 35%) and vs. 1H at 34%.
 - **D&A and rehab:** Higher D&A of US\$450-500mn associated with Yandi and Bass Strait (both on decreased mine life / field life), increase in rehab provisions of US\$375-425mn associated with closed iron ore and oil assets.
 - **Other costs:** COVID related one-off costs of US\$150-200mn which will be reported as an exceptional item.

EPS/NAV changes and Investment Thesis

Our FY21 & FY22 are broadly unchanged, with stronger than expected iron ore, met coal, oil, Escondida copper production, offset by higher D&A and rehab. Our NAV is down 1% to A\$48.7/sh, and our 12m TP is largely unchanged at A\$57.7/sh (was A\$57.60).

We **retain our Buy rating on BHP on:**

- 1. Strong earnings growth, FCF and dividend yield:** We forecast a c. 40% increase in EBITDA (60-70% margins) and 55% increase in FCF in FY22 (equating to c. 15% FCF yield), driven by our positive view on iron ore, met coal, copper and oil prices. We forecast a dividend yield of 11-12% in FY22 & FY23. We forecast a final dividend of US\$1.88/sh (85% payout) in August.
- 2. Undervalued vs. historical multiple at peak earnings:** On an EV/EBITDA basis, 1-2yr multiples for BHP look strong at 3.8x, below the 4-5x level in 2011 when earnings last peaked, yet BHP's balance sheet and FCF look much stronger now.
- 3. Strong production growth:** BHP's group Cu Eq production should increase by 4% in FY22 and 6-7% in FY23, driven by a +250-270kt lift in copper volumes from Spence and Escondida, +10MMboe of oil volumes with new production from Mad Dog II/Atlantis Phase 3/Shenzi. BHP will likely also see a significant margin and FCF kicker in the Pilbara from the high grade South Flank deposit. Longer term, we have a positive view on BHP's organic growth options, particularly in oil where we see possible 50% volume growth to +150MMboe driven by Trion, Calypso (formerly T&T North), Shenzi North (formerly Wildling), and Scarborough.
- 4. Potential benefits from ongoing portfolio optimisation:** Ongoing with the announcement to divest thermal and weak coking coal and Bass Strait gas.

Exhibit 1: BHP operating and financial summary

| Commodity and FX assumptions | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | BHP 12m TP | US\$/sh | A\$/sh |
|---------------------------------------|------------|--------|--------|-----------|-----------|--------|--------|-------------------------|---------|--------|
| AUD:USD | x | 0.72 | 0.67 | 0.75 | 0.75 | 0.74 | 0.72 | NAV | 35.52 | 48.7 |
| USD:CLP | x | 674 | 772 | 745 | 733 | 737 | 783 | NTM EV/EBITDA | 48.69 | 66.7 |
| Iron ore fines (CFR, 62% Fe) | US\$/t | 80 | 93 | 155 | 178 | 140 | 100 | Target Price (BHP.AX) | | 57.7 |
| Oil - Brent | US\$/bbl | 69 | 51 | 54 | 76 | 70 | 67 | Current Share Price | | 49.2 |
| Oil - WTI | US\$/bbl | 61 | 47 | 52 | 73 | 66 | 62 | Upside / (Downside) | | 17% |
| US Natural Gas | US\$/Mmbtu | 3.01 | 2.05 | 2.67 | 2.30 | 3.12 | 3.16 | | | |
| Copper | US\$/lb | 279 | 257 | 362 | 505 | 541 | 497 | | | |
| Coking coal (Prem. HCC) | US\$/t | 206 | 145 | 123 | 159 | 158 | 159 | | | |
| Semi-soft coking coal | US\$/t | 115 | 77 | 84 | 105 | 93 | 92 | | | |
| Thermal coal (6,000kcal) | US\$/t | 99 | 64 | 80 | 99 | 83 | 80 | | | |
| Potash | US\$/t | 231 | 249 | 203 | 305 | 315 | 335 | | | |
| Operating assumptions | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | | | |
| Production | | | | | | | | | | |
| Escondida | kt | 1,135 | 1,185 | 1,068 | 1,060 | 1,251 | 1,302 | 1,297 | | |
| Guidance | | | | 1010-1060 | 1000-1080 | | | Med Term: ~1,200kt | | |
| Other Copper | kt | 554 | 539 | 568 | 654 | 695 | 663 | 612 | | |
| Copper (Consolidated) | kt | 1,689 | 1,724 | 1,636 | 1,715 | 1,946 | 1,965 | 1,909 | | |
| Guidance | | | | 1535-1660 | 1590-1760 | | | | | |
| Petroleum (Conventional) | Mmboe | 121 | 109 | 103 | 104 | 119 | 116 | 106 | | |
| Guidance | | | | 95-102 | 99-106 | | | Med Term: ~104Mmboe | | |
| Iron ore | Mt | 238 | 248 | 254 | 256 | 256 | 260 | 260 | | |
| WAO (100%) | Mt | 270 | 281 | 284 | 286 | 286 | 290 | 290 | | |
| Guidance | | | | 276-286 | 278-288 | | | Med Term: ~290Mt | | |
| Met coal | Mt | 42 | 41 | 41 | 42 | 43 | 44 | 44 | | |
| Guidance | | | | 39-41 | 39-44 | | | Med Term: ~46-52Mt | | |
| Energy coal | Mt | 27 | 23 | 19 | 23 | 25 | 25 | 25 | | |
| Guidance | | | | 18-20 | 13-15 | | | | | |
| CuEq Prod. (GS LR prices) | Mt | 5.40 | 5.34 | 5.23 | 5.39 | 5.77 | 5.83 | 5.70 | | |
| CuEq YoY % | % | (1.2%) | (1.0%) | (2.2%) | 3.1% | 7.1% | 1.1% | (2.2%) | | |
| Unit Costs | | | | | | | | | | |
| Escondida | US\$/lb | 1.14 | 1.02 | 1.03 | 1.16 | 0.96 | 0.93 | 0.93 | | |
| Guidance | | | | 0.95-1.10 | | | | Med Term: < US\$1.1/lb | | |
| WAO (100%) | US\$/t | 14.2 | 12.6 | 14.7 | 15.0 | 15.3 | 15.2 | 15.4 | | |
| Guidance | | | | 13-14 | | | | Med Term: < US\$13/t | | |
| Met coal | US\$/t | 69 | 68 | 82 | 81 | 81 | 79 | 78 | | |
| Guidance | | | | 74-78 | | | | Med Term: < US\$58-66/t | | |
| Energy coal | US\$/t | 51 | 58 | 65 | 63 | 58 | 56 | 55 | | |
| Guidance | | | | | | | | Med Term: < US\$45/t | | |
| Financial summary | Units | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | | |
| Revenue | US\$bn | 44.7 | 43.7 | 60.7 | 76.8 | 73.5 | 63.0 | 55.1 | | |
| Underlying EBITDA | US\$bn | 23.2 | 22.1 | 37.2 | 51.0 | 48.0 | 38.4 | 31.1 | | |
| Margin | % | 52% | 50% | 61% | 66% | 65% | 61% | 56% | | |
| Underlying earnings | US\$bn | 9.5 | 9.1 | 17.2 | 26.5 | 23.8 | 18.0 | 13.6 | | |
| EPS (pre exceptionals) | UScps | 183 | 179 | 340 | 525 | 471 | 358 | 270 | | |
| EPS growth | % | 1% | (2%) | 90% | 54% | (10%) | (24%) | (25%) | | |
| DPS (inc. specials) | UScps | 235 | 120 | 289 | 446 | 400 | 251 | 162 | | |
| Payout ratio | % | 129% | 67% | 85% | 85% | 85% | 70% | 60% | | |
| Dividend yield | % | 6.5% | 3.3% | 8.0% | 12.4% | 11.1% | 7.0% | 4.5% | | |
| Cash flow | | | | | | | | | | |
| Operating cash flow (OCF) | US\$bn | 16.8 | 15.1 | 25.2 | 35.5 | 33.8 | 25.4 | 21.3 | | |
| Capex (incl. exploration) | US\$bn | (6.6) | (7.1) | (7.3) | (8.0) | (7.9) | (8.1) | (9.2) | | |
| Acquisitions and divestments | US\$bn | (0.1) | 0.1 | (0.0) | (0.1) | (0.1) | (0.1) | 0.0 | | |
| FCF - excluding dividends | US\$bn | 10.0 | 8.1 | 17.3 | 27.4 | 25.8 | 17.2 | 12.1 | | |
| FCF yield | % | 5.9% | 4.7% | 10.1% | 16.0% | 15.1% | 10.1% | 7.1% | | |
| Dividends (inc minorities) | US\$bn | (12.6) | (7.9) | (10.0) | (23.7) | (24.9) | (23.1) | (15.2) | | |
| Buybacks and shares issued | US\$bn | (5.4) | (0.1) | (0.2) | (0.1) | (0.1) | (0.1) | (0.1) | | |
| FCF - before debt | US\$bn | (8.0) | 0.0 | 7.1 | 3.6 | 0.8 | (6.0) | (3.2) | | |
| Balance sheet and Returns | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | | | |
| Net Debt/(Cash) | US\$bn | 9.4 | 12.0 | 6.8 | 4.3 | 4.7 | 10.9 | 14.2 | | |
| Gearing (ND/ND+E) | % | 15% | 21% | 12% | 8% | 8% | 15% | 19% | | |
| Leverage ratio (ND/EBITDA) | x | 0.4x | 0.5x | 0.2x | 0.1x | 0.1x | 0.3x | 0.5x | | |
| ROA | % | 10.2% | 9.3% | 15.6% | 24.2% | 21.8% | 17.5% | 13.6% | | |
| ROCE | % | 16.6% | 16.7% | 28.1% | 41.3% | 35.2% | 26.3% | 20.2% | | |
| Total Shares O/S | bn | 5.05 | 5.05 | 5.04 | 5.04 | 5.03 | 5.03 | 5.03 | | |
| Divisional EBITDA | | | | | | | | | | |
| Petroleum (conventional) | US\$bn | 3.8 | 2.2 | 2.3 | 3.8 | 4.1 | 4.0 | 3.9 | | |
| Copper | US\$bn | 4.6 | 4.3 | 8.6 | 13.6 | 17.4 | 15.8 | 13.6 | | |
| Iron ore | US\$bn | 10.2 | 14.5 | 26.0 | 31.3 | 24.0 | 16.1 | 11.3 | | |
| Coal | US\$bn | 4.1 | 1.6 | 0.3 | 2.0 | 2.0 | 2.2 | 2.3 | | |
| Group and other | US\$bn | 0.6 | (0.6) | (0.0) | 0.3 | 0.5 | 0.3 | 0.1 | | |
| Total underlying EBITDA | US\$bn | 23.2 | 22.1 | 37.2 | 51.0 | 48.0 | 38.4 | 31.1 | | |
| Divisional Capex | | | | | | | | | | |
| Petroleum (conventional) | US\$bn | 0.6 | 0.9 | 1.4 | 2.1 | 2.8 | 3.0 | 4.0 | | |
| Copper | US\$bn | 2.7 | 2.3 | 2.4 | 2.2 | 1.9 | 1.5 | 1.5 | | |
| Iron ore | US\$bn | 1.6 | 2.3 | 2.3 | 1.7 | 1.3 | 1.4 | 1.4 | | |
| Coal | US\$bn | 0.7 | 0.6 | 0.7 | 0.8 | 0.7 | 0.6 | 0.5 | | |
| Group/other (includes Jansen, Nickel) | US\$bn | 0.6 | 0.6 | 0.7 | 1.2 | 1.3 | 1.3 | 1.6 | | |
| Exploration | US\$bn | 0.9 | 0.7 | 0.5 | 0.7 | 0.8 | 0.6 | 0.6 | | |
| Total capex | US\$bn | 7.1 | 7.5 | 7.8 | 8.8 | 8.7 | 8.4 | 9.5 | | |
| Guidance | | | <8 | 7.3 | 8.5 | | | | | |

GS Recommendation BUY

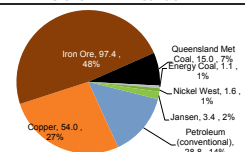
| SOTP NAV Valuation | US\$bn | US\$/sh | A\$/sh |
|--------------------------|--------|---------|--------|
| Petroleum (conventional) | 28.8 | 5.7 | 7.8 |
| Copper | 54.0 | 10.7 | 14.7 |
| Iron Ore | 97.4 | 19.3 | 26.5 |
| Queensland Met Coal | 15.0 | 3.0 | 4.1 |
| Energy Coal | 1.1 | 0.2 | 0.3 |
| Nickel West | 1.6 | 0.3 | 0.4 |
| Jansen | 3.4 | 0.7 | 0.9 |
| Divisional Subtotal | 201.4 | 40.0 | 54.8 |
| Corporate | (3.9) | (0.8) | (1.1) |
| Provisions & Rehab | (12.9) | (2.6) | (3.5) |
| Exploration (expense) | (3.7) | (0.7) | (1.0) |
| Exploration (success) | 4.0 | 0.8 | 1.1 |
| Total Corporate | 184.9 | 36.7 | 50.3 |
| Net (Debt)/Cash | (5.9) | (1.2) | (1.6) |
| BHP NAV (8.9%) | 179.0 | 35.5 | 48.7 |

EV/EBITDA Scorecard

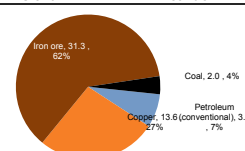
| Median sector multiple | 5.5x |
|----------------------------|----------|
| Financial metrics | |
| Gearing (high or low) | Positive |
| EPS growth (high or low) | Positive |
| FCF growth (high or low) | Positive |
| Capital management outlook | Positive |
| ROCE (high or low) | Positive |
| Operating metrics | |
| Mine life (>10 yrs) | Positive |
| Cost/margin position | Positive |
| CuEq growth - 2yr outlook | Positive |
| Operating/sovereign risks | Positive |
| Adjusted multiple | 5.0x |

| US\$bn | 2022E | 2023E | NTM |
|------------------|--------|---------|--------|
| NTM EBITDA split | 75% | 25% | |
| EBITDA | 51.0 | 48.0 | 50.3 |
| Valuation | US\$bn | US\$/sh | A\$/sh |
| NTM EBITDA | 50.3 | | |
| EV/EBITDA | 5.0x | | |
| Enterprise value | 251.3 | 49.9 | 68.3 |
| Net (debt)/cash | (5.9) | | |
| Equity Value | 245.4 | 48.7 | 66.7 |

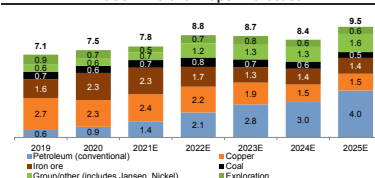
BHP Divisional NPV Breakdown



BHP Divisional FY22 EBITDA Breakdown



GSe Divisional Capex Forecast



Source: Company data, Goldman Sachs Global Investment Research

4Q FY21 key figures

Exhibit 2: BHP 4Q FY21 operating result vs GSe

| | | Jun'20 | Sep'20 | Dec'20 | Mar'21 | Jun'21 | | QoQ | PcP | vs. GSe |
|--------------------------|-------|--------|--------|--------|--------|--------|------|------|-------|---------|
| | | Act | Act | Act | Act | Act | GSe | Diff | Diff | Diff |
| Conventional Petroleum | Mmboe | 26.3 | 26.7 | 23.8 | 25.4 | 27.0 | 26.6 | 6% | 2% | 2% |
| Copper | kt | 414 | 413 | 428 | 391 | 403 | 404 | 3% | (3%) | (0%) |
| Escondida | kt | 294 | 285 | 288 | 249 | 247 | 243 | (1%) | (16%) | 2% |
| Other Copper | kt | 120 | 129 | 141 | 142 | 156 | 161 | 10% | 30% | (3%) |
| Iron ore | Mt | 66.7 | 66.0 | 62.4 | 59.9 | 65.2 | 63.8 | 9% | (2%) | 2% |
| WAIO (100%) - Production | Mt | 75.6 | 74.2 | 70.4 | 66.7 | 72.8 | 72.3 | 9% | (4%) | 1% |
| WAIO (100%) - Shipped | Mt | 77.0 | 73.4 | 70.8 | 66.0 | 73.7 | 72.3 | 12% | (4%) | 2% |
| Metallurgical Coal | Mt | 11.6 | 9.7 | 9.5 | 9.6 | 11.8 | 10.0 | 23% | 2% | 18% |
| Energy Coal | Mt | 5.7 | 4.7 | 3.6 | 4.8 | 6.3 | 4.7 | 31% | 11% | 34% |

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: Coal, iron ore and LNG realised prices were higher than GSe

2H FY21 realised pricing vs GSe

| Division | Units | 1H FY20 | 2H FY20 | 1H FY21 | 2H FY21 | | vs GSe |
|----------------------------|---------------|---------|---------|---------|---------|--------|--------|
| | | Act | Act | Act | Act | GSe | % |
| Oil (crude and condensate) | US\$/bbl | 60.6 | 37.5 | 41.4 | 63.1 | 65.0 | (3%) |
| Natural gas | US\$/Mscf | 4.26 | 3.76 | 3.83 | 4.86 | 6.11 | (20%) |
| LNG | US\$/Mscf | 7.62 | 6.87 | 4.45 | 7.04 | 6.99 | 1% |
| Copper | US\$/lb | 2.60 | 2.39 | 3.32 | 4.34 | 4.41 | (2%) |
| Iron ore | US\$/wmt, FOB | 78.3 | 76.7 | 103.8 | 158.2 | 156.0 | 1% |
| Hard coking coal | US\$/t | 154.0 | 133.5 | 106.3 | 118.5 | 121.2 | (2%) |
| Weak coking coal | US\$/t | 101.1 | 84.4 | 73.2 | 104.4 | 102.9 | 2% |
| Thermal coal | US\$/t | 58.6 | 55.9 | 44.4 | 70.8 | 59.6 | 19% |
| Nickel | US\$/t | 15,715 | 12,459 | 15,140 | 17,537 | 19,207 | (9%) |

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: FY22 production guidance vs GSe

| Division | Units | FY20 | FY21 | FY22E | | |
|------------------------|-------|-------|-------|--------------|-------------|-------------|
| | | Act | Act | GSe previous | GSe revised | Guidance |
| Conventional petroleum | Mmboe | 109 | 103 | 102 | 104 | 99-106 |
| Copper | kt | 1,724 | 1,636 | 1,637 | 1,715 | 1,590-1,760 |
| Escondida | kt | 1,185 | 1,068 | 1,064 | 1,060 | 1,000-1,080 |
| Other Copper | kt | 539 | 568 | 572 | 654 | 590-680 |
| Iron Ore | Mt | 248 | 254 | 253 | 256 | 249-259 |
| WAIO (100%) | Mt | 281 | 284 | 284 | 286 | 278-288 |
| Met Coal | Mt | 41 | 41 | 39 | 42 | 39-44 |
| Energy Coal | Mt | 23 | 19 | 18 | 23 | 13-15 |

Source: Company data, Goldman Sachs Global Investment Research

EPS and NAV changes, investment risks

- Our FY21 & FY22 are broadly unchanged, with stronger than expected iron ore, met coal, oil, Escondida copper production, offset by higher D&A and rehab. Our NAV is down 1% to A\$48.7/sh, and our 12m TP is largely unchanged at A\$57.7/sh; set at an equal blend of NAV at EV/EBITDA with an unchanged target multiple of 5x.

Exhibit 5: BHP.AX TP, NAV and earnings revisions

| | | | | Rating | Target Price A\$/sh | NAV A\$/sh | EBITDA (\$bn) | | | EPS (cps) | | |
|-----|------|-------|----------|--------|------------------------|---------------|---------------|-------|-------|-----------|------|------|
| | YE | Crncy | | | | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| BHP | June | USD | Previous | Buy | 57.6 | 48.4 | 36.61 | 50.97 | 48.09 | 339 | 527 | 473 |
| | | | Current | Buy | 57.7 | 48.7 | 37.17 | 51.02 | 47.97 | 340 | 525 | 471 |
| | | | % Change | - | 0% | 1% | 2% | 0% | 0% | 0% | 0% | (1%) |

Source: Goldman Sachs Global Investment Research

- **Downside Risk:** Stronger AUD, weaker commodity prices, higher costs, production output issues. Project execution (Spence, Mad Dog II, South Flank, Olympic Dam, Jansen). M&A: potentially value destructive.

| | | | |
|---------------|-----------------------------------|------------------------|----------------------|
| BHP.AX | 12m Price Target: A\$57.70 | Price: A\$49.24 | Upside: 17.2% |
|---------------|-----------------------------------|------------------------|----------------------|

| Buy | | GS Forecast | | | |
|--|----------------------------|--------------|--------------|---------------|--------------|
| Market cap: A\$248.5bn / \$182.3bn Enterprise value: A\$296.5bn / \$218.3bn 3m ADTV: A\$256.4mn / \$196.2mn Australia ANZ Resources M&A Rank: 3 Leases incl. in net debt & EV?: Yes | Revenue (\$ mn) New | 6/20 | 6/21E | 6/22E | 6/23E |
| | Revenue (\$ mn) Old | 43,708.0 | 59,871.1 | 76,821.7 | 73,708.9 |
| | EBITDA (\$ mn) | 13,480.0 | 34,393.1 | 50,410.2 | 47,502.3 |
| | EPS (\$ New) | 1.79 | 3.40 | 5.25 | 4.71 |
| | EPS (\$ Old) | 1.79 | 3.39 | 5.27 | 4.73 |
| | FCF yield (%) | 6.6 | 9.5 | 15.0 | 14.2 |
| | Dividend yield (%) | 4.9 | 8.0 | 12.4 | 11.1 |
| | EV/EBITDA (X) | 7.4 | 5.9 | 4.4 | 4.8 |
| | ROCE (%) | 16.7 | 28.1 | 41.3 | 35.2 |
| | | 12/20 | 6/21E | 12/21E | 6/22E |
| | EPS (\$) | 1.19 | 2.21 | 2.78 | 2.47 |

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 20 Jul 2021 close.

Disclosure Appendix

Reg AC

We, Paul Young and Matt Greene, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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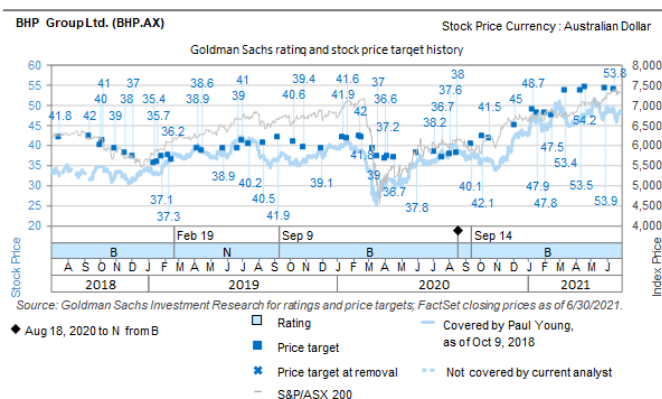
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| | Rating Distribution | | | Investment Banking Relationships | | |
|--------|---------------------|------|------|----------------------------------|------|------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
| Global | 52% | 34% | 14% | 64% | 56% | 47% |

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