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BHP Billiton meeting with ShareSoc members 29 September 2016.

The meeting was held in the 8th floor of the BHP HQ in Wilton Road, Victoria which gave attendees splendid views of Westminster Cathedral, St James' Park, Big Ben and the Houses of Parliament. It was a sell out with all 36 places taken.

Background

BHP now has a market cap of £66bn, having been twice that in Feb 2013. In that time, the share price has reduced from £22 to £11.50 on the day we met BHP. Turnover has dropped from £45bn in 2012 to £21bn in 2016, reflecting the large drop in the price of commodities. BHP recorded a loss of $6.4bn in 2016, mainly due to exceptional items of $4.9bn for the Impairment of Onshore US Petroleum assets and $2.2bn for the Samarco dam failure.

The Samarco Dam failed on 5 Nov 2015, causing 19 deaths and widespread devastation. The share price dropped to £6.23 in Feb 2016 but has since recovered.

Presentation

A copy of the presentation slides can be found here :-
http://www.bhpbilliton.com/~/media/bhp/documents/investors/news/2016/160816_bhpbillitonresultspresentationyearended30june2016.pdf?la=en

Hard copies of the presentation slides were handed out to all attendees along with a copy of the notice of meeting for the AGM on the 20th October.

The presenters (Rob Clifford, Head of Investor Relations and James Upton, Head of Governance) stressed the actions that BHP have taken following the Samarco disaster and it is clear the company are treating this extremely seriously and have apologised most sincerely for what happened.

James Upton explained that the format for the AGM this year will be changed and will start at 10.30 with a shareholder information session before covering the formal resolutions at noon. BHP Billiton hope that shareholders will find this new format more helpful.

Rob covered the key operational and financial highlights and explained the capital allocation process and said the company had identified Petroleum and Copper as the most attractive markets (see slide 14). Their position in Iron is strong as a low cost producer, but there is overcapacity in this market: nevertheless, the market is high margin for them.

He stressed the EBITDA figures and margin of 44% and $3.4bn of free cash flow. FCF of $7bn is expected in 2016/7 assuming present market prices.

Q&A session

There was plenty of time allocated for questions. The most interesting were:

Q. What about potash?

A. We don't produce it today but we believe it has potential driven by the growing global population. It is presently a 100 mtpa market and we already own the largest share of the largest source in Canada which we are evaluating.

Q. What is your competitive advantage in Petroleum? Why is Petroleum part of your portfolio?

A. Diversification. We think the cycles of petroleum and other mining products are different although this was not the case last year. There are also technological benefits as there are synergies between mining and petroleum not only in technology but also in procurement. Cross pollenation of ideas across the company is important.

Q. Do your unit costs of production on slide 8 include sustaining costs?

A. No. If you look at the Iron Ore example, we would have to add about $10/t but this would still give us a healthy margin on the present market price for iron ore.

Q. If the capital allocation process is so important, why is there no return on capital measure as a KPI? Is there a table which shows return on capital anywhere in the annual report?

A. We think that capital allocation is very important and I explained earlier the capital allocation process. There is no table in the annual report setting out return on capital percentages, but on page 66 there is a summary of five-year financial performance.

Q. Will electric vehicles change the requirement for Commodities?

A. That's a good question and yes, we regularly review forecasts for the balance between oil based transportation and electric based transportation as it will drive copper and oil demand. You can see more information on this topic on our website.

Q. In other organisations, problems like Samarco have been found to be due to a combination of technical and people issues. Has the Board learned from this?

A. Yes. We have reviewed our other non-operated minerals joint ventures in an effort to determine opportunities for enhancement and the optimal structure and approach. We are enhancing the application of risk management processes and establishing a new BHP Billiton global standard for non-operated minerals joint ventures.

Q. Are there any future cost implications arising from the Samarco report such as major remedial work on dams and/or major cost increases for any future projects?

A. As far as we can tell, any remedial work to existing dams (which will all be improved to Canadian standards) will be limited in impact and we do not believe these changes will have any significant cost impacts on future projects.

Q. Does the $2.2bn provision for Samarco include everything or will we see more provisions in the future?

A. We believe the present provision covers all expected costs of remedial work, clean up costs and compensation to local communities and businesses. The measurement of the provision requires the use of estimates and assumptions and may be affected by a range of other factors as set out on pages 164-169 of the Annual Report.

Q. I congratulate you on not paying your CEO a bonus when you made a loss of $6.4 billion (unlike BP) and by reducing the number of shares in the LTIP board (unlike Anglo) and by so doing the company and your CEO seemed to avoid a lot of negative press unlike what the other two example companies attracted. I'm concerned about mining companies who have had a tendency over the last 20 years to invest too much at the top of the cycle, to the detriment of their shareholders. The short term incentive plan does not have a return on capital employed or similar measure. Could you comment please? Secondly, could you explain about share ownership guidelines and whether you require Directors to hold shares for two years after they leave the company?

A. We have had similar questions about return on capital measures from institutional investors. We have looked at it a number of times. We don't feel that a return on capital employed measure is robust enough as it can be manipulated by squeezing capex. Therefore, we focus on TSR. We feel there is a clean line of sight with TSR as a performance measure.

Our Chief Executive is required to own five-time salary of shares which he has to build up over a period of time and can only sell shares to pay taxes until he reaches this target. However, there is no lock-in beyond his tenure in the role. For other senior executives the target is three times and for non-executive directors one times fees. We think this compares well with our benchmark peer group. We set our total remuneration at lower than the median of our peer group.

Q. Would it not be possible to look at the cash return on capital invested over the cycle? It is important to shareholders that they see that cash returns over the cycle are being considered.

A. It is something that we look at but it is difficult to find a way to disclose this information to shareholders in a robust way. However, we shall pass this and all other suggestions today on to our board for consideration.

The meeting presentation started at 11.15 and carried on to about 12.30, followed by a nice lunch when the presenters mingled with ShareSoc members for further discussions. All in all, a most interesting meeting. We plan to hold more of these events.

Note prepared by Cliff Weight and Mike Dennis.