

BHP – Exit Petroleum, Expand Potash

BHP was the final big mining company to report results in what has been a bumper earnings season as the industry has emerged as one of the biggest beneficiaries of China's rapid economic recovery from the coronavirus pandemic. In a major move to restructure the company's dual-listing status and to eventually exit fossil fuels, the company is undergoing the most diverse corporate change in its history. Looking forward, the company is expanding into potash – a product that forms a critical link in long-term food security.



**Willie
Pelsner**

Companies within the resources sector (or commodities environment) have released some good results over the last few weeks. BHP is the final big miner to report results in what has been a bumper earnings season as the industry has emerged as one of the biggest beneficiaries of China's rapid economic recovery from the coronavirus pandemic. Stimulus measures across all the major economies have also helped fuel strong demand for commodities. BHP reported the strongest earnings since 2012. What stood out for us (and the rest of the analyst community) to confirm that these were stellar results include:

- Profit jumped 80% for the year. Iron ore and copper were the main drivers of profits contributing 80% and 22% respectively of the profit line. Coal and some other small group items subtracted from the profit line and the petroleum division only contributed 1% of profits.
- Net operating cash flow was up 73%.
- Net debt dropped by 66% to just \$4 billion – almost insignificant for a company with a market capitalization of \$165 billion. This is well below their internal debt target range of between \$12 and \$17 billion. The extent of deleveraging was a surprise, but the trend was clear. At the end of December 2020 (6 months ago), net debt was already at the bottom range of the target.
- A record dividend of \$2/share (totalling \$10.1 billion) was declared which comprises 71% of the free cash flow generated over the past 6 months.

The other big news on the day was the announcement of the unification of its dual corporate structure and shift in its primary listing to Australia. (At the moment, BHP has a

SPEED READ

- BHP released the strongest earnings since 2012 with profit soaring by more than 80%; a record dividend was declared and debt substantially reduced.
- The results coincided with an announcement about a corporate restructuring, which included the news that they are going to exit from petroleum. This restructuring includes some of the most radical corporate changes in its history.
- The board approved plans to develop Jansen, a \$5.7 billion potash project in Canada. So what is potash?

dual-company structure with BHP Ltd listed in Australia and BHP plc listed in London – and the JSE. This is a relic of the merger that created BHP Billiton back in 2001). The UK's blue-chip FTSE-100 index will lose its biggest company. The corporate restructure announcement, coupled with the news that they are going to exit from petroleum, are some of the most radical corporate changes in its history. Back in 2013, petroleum contributed almost 26% of profits. But its importance has consistently declined – as highlighted above to a meagre 1%. The merger of BHP's oil business with Woodside Petroleum comes as big mining companies face pressure to reduce their exposure to fossil fuels.

The company also announced that its Board had approved plans to develop Jansen, a \$5.7 billion potash project in Canada. The rest of the note will “explore” or “mine” around potash.

Some readers might well know exactly what is Potash. For others, this will be enlightening. The potash story dates

back to 1790. On July 31st of that year, President George Washington signed the first-ever patent in the United States. The patent was granted to Samuel Hopkins for a new process and apparatus for making potash - America's first industrial chemical. History recalls that the patent expired fourteen years thereafter, but potash remains an important product all around the world, even today. It is therefore not surprising that BHP has decided to proceed with this project.

What is potash?

Fertilizer potassium is sometimes called "potash", a term that comes from an early production technique where potassium was leached from wood ashes and concentrated by evaporating the leachate in large iron pots ("pot-ash").

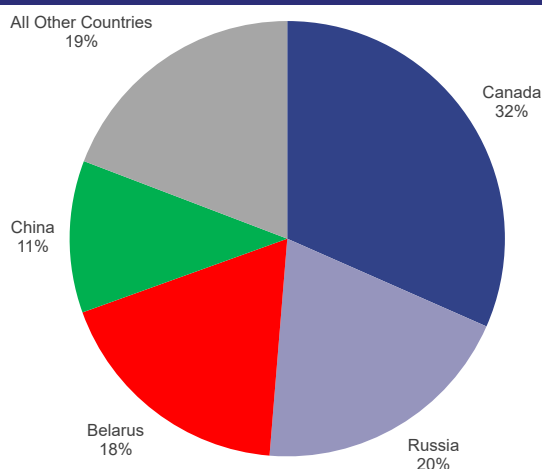
Why is potash so important?

When a plant grows, it takes potassium out of the growing zone, which is the area where a plant's roots reside. Potash is primarily used in fertilizers (approximately 95%) to support plant growth, increase crop yield and disease resistance, and enhance water retention. It also has a positive effect on food colour, taste, and texture. Small quantities are used in manufacturing potassium-bearing chemicals such as detergents, ceramics and pharmaceuticals. Potassium is also one of the most important minerals in the human body. It is an important element of the human diet as it's involved in both cellular metabolism and body functions. It's essential for the growth and maintenance of tissues, muscles, and organs and the electrical activity of the heart.

Where does potash come from?

Most of the world's potash comes from Canada (more than 30% of production, with the largest deposits located in Saskatchewan and New Brunswick.) Russia and Belarus rank as the second and third largest potash producers

WHERE IS POTASH PRODUCED?



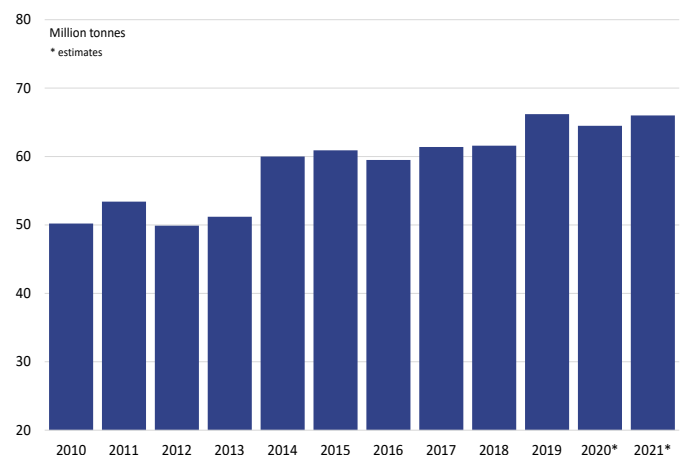
Canada, where BHP's new Jansen project is located, alone accounts for more than 30% of global production of potash. Together, just 4 countries account for 80% of global production.



respectively, with China in fourth position. As the chart shows, that leaves only 19.2% produced across the rest of the world. Within this group, the most meaningful producers are the US, Brazil, Chile, Germany, Israel, Jordan and Spain.

Global potash production is estimated to reach almost 66.2 million tonnes this year and demand has grown steadily over the years at a compound rate of 2.6% per annum, highlighting its role in the global food chain. Fortunately, global reserves of potash are estimated at more than 3.6 billion tonnes – so there is no shortage!

ANNUAL POTASH PRODUCTION



Over the past 11 years, production of potash has grown at 2.6% per annum.

The bottom line is the fact that potash resources are finite and concentrated in just a few select countries. At the same time, life can't survive without food and water, and potash is a vital part of the formula for expanding the efficient expansion of the world's food supply. But like all commodities, successful extraction lies in rich, large deposits that can be mined at maximum efficiency. In this regard, BHP has a good track record, and Jansen represents a rare opportunity to enter this market. It also highlights the incredible change that is occurring at a corporate level as companies strive to meet the challenges of a greener future.



Please note, due to the concerns over the 3rd wave of Covid, Harvard House has decided to cancel our Insight presentations until further notice.



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Topic: n/a

Natal Midlands

Date:	TBC
Venue:	Fernhill Hotel Midmar / Tweedie Road Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	TBC
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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