



Dornbusch Partners

Stock of the Week

BHP Billiton (BHP)

Date: 9 February 2012

Background

BHP is the world's largest diversified resource company with many prime assets well located to service Asia and other developing countries. The key is low cost operations and a strong balance sheet. Most revenue comes from the Australia, North America and Europe. Production covers major commodities including petroleum, alumina, copper, iron ore, gold coking and energy coal, nickel and diamonds.

Consensus Estimates

	2011	2012	2013
EPS (cents)	364.5	389.8	465.7
DPS (cents)	94.0	118.3	125.6
P/E	10.3x	9.6x	8.0x
Yield	2.5% ff	3.1% ff	3.6% ff

Outlook

Global growth is critical to BHP's growth in the future. Their 1H FY12 result was mixed with revenue increasing by 9% however NPAT decreased by 5.5% in line with expectations. Their recent Petrohawk acquisition of Shale Gas assets in the US has been hampered by softening gas prices due to an abundance of supply. BHP has announced in a reduction in their shale gas drilling program.

Why Dornbusch Partners likes the business?

BHP makes more money than the big four banks combined. They are forecasting a \$20bn profit after tax this year. For long term investors, they are a core portfolio holding. However, BHP is heavily leveraged to global growth. When the world appears to be getting its act together, BHP performs. When the world appears to be slowing down, BHP suffers. BHP pays a low dividend of around 2.6% therefore the only way to make money from low yielding shares such as BHP is to buy and sell. Contact your adviser to see if this is a strategy that would be suitable for you.



Snapshot

Market Cap	\$121bn
Share Price (as at 9.2.12)	\$36.80
12 mth high	\$49.81
12 mth low	\$33.68
Debt/equity	25%
Return on Equity	41%

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