Mining Journal

The prodigal's return

Australia's BHP (not to be confused with the now shelved BHP Billiton) is funding a multi-million dollar campaign urging its fellow countrymen to 'think big'.

John Robertson* | 27 Jul 2017 | 7:25 | Opinion

Thinking big fails to provide clarity around exactly how BHP might attempt to become a better value proposition

A BHP advertising barrage is invoking the spirit of Broken Hill, where seven ordinary men gathered together 130 years ago and dared to 'think big', according to the company's television commercials.

The allusion to the founding of BHP in Australia's iconic mining centre reconnects a nation with its largest corporate offspring.

'The Big Australian', as BHP has long been nicknamed, has deep roots in the country's corporate history.

BHP has been more important than even its decades-long status as the largest ASX-listed stock suggests. Its influence stretched from mining to steel making when over 80% of Australia's cars were made locally behind hefty tariffs.

Ventures along the way into shipbuilding and wartime aircraft manufacture helped consolidate its industrial pre-eminence.

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Through its pervasive business connections, BHP became the largest shareholder in Australia's dominant brewer in the 1990s.

On the 130th anniversary of the company's founding in 2015, Australia's most eminent living historian Geoffrey Blainey said of BHP that "there's no commercial institution in Australia that has contributed so much to the nation's history".

BHP was the flagship for the Australian equity market not just domestically but among international investors, too.

> ***"Strategic zigzagging has undermined the standing of the Big Australian at home"***

The advent of self managed superannuation funds helped cement the core of its aging retail shareholder base.

Whether millennials are similarly enamoured is less clear. In any case, given its importance in local investment benchmarks, mandated superannuation for everyone with a paid job in Australia has effectively made BHP a universally compulsory investment.

Over the past two decades, much of this investment support has been taken for granted as the company courted the discretionary money controlled by big offshore institutions.

The attempt by BHP to rekindle the affection with which it was once held is opportunistic rather than a loving re-embrace of family.

Without whinging fund manager Paul Singer, one suspects BHP may have dropped the obsolete 'Billiton' from its identity but been happy enough to leave its Australian history to the occasional contemplations of academics.

Being able to draw on the Australian connection has proven an unexpected tactical advantage since Singer cack-handedly suggested removing BHP's ASX listing in favour of a shift to London when he launched his restructuring plans for the company publicly in April.

The emphatic response of the Australian government included a threat of criminal prosecution for daring to abandon an earlier commitment to stay. "It is unthinkable that any Australian government could allow this original Big Australian to head offshore", Treasurer Scott Morrison fumed in May.

The company's understandably enthusiastic embrace of a global presence did erode some of its Australian identity. A succession of foreign chief executives reinforced the impression of the company as a reluctant Melbourne resident.

Recent accusations it used its Singapore marketing hub to cut its Australian tax contribution, whether true or not, have not helped.

The 'think big' catchphrase serves two purposes. Rekindling memories of the 'Big Australian' is a convenient way to reconnect with its Australian base. The slogan is also a tactical response to anyone urging a shrinking of the asset base.

As in all political campaigns, advisers are inclined to go with what makes the quickest and simplest audience connection rather than pursue more complex or less emotive alternatives.

BHP has apparently discarded 'Think Profits', 'Think Growth', 'Think Dividends', "Think Jobs', 'Think Capital Efficiency', 'Think Safety', 'Think Social Responsibility'.

As highly polished as it is, the BHP campaign to reinforce its flagging cultural heritage begs an important question, namely, whether today's BHP is capable of duplicating what its seven founders began in the 19th century.

Could the current BHP executive team create Australia's largest company without the run-up start of a US$60 billion balance sheet? The answer is almost certainly 'no'.

Modern day BHP depends on its balance sheet more than the ingenuity, skill and doggedness exemplified by the Broken Hill seven.

The company bought into its Chilean and Australian copper assets and Pilbara iron ore. It paid GE for its Queensland coal properties and relied on its local financial muscle and Esso for its Bass Strait oil streams. Company-building greenfield discoveries have been elusive.

A detailed strategic plan cogently outlined by chief executive Andrew Mackenzie in May described "value and returns" as being at the centre of everything the company does today.

Mackenzie is the latest in a line of six company leaders within 15 years with a plan to make a difference.

Each new leader's fresh twist on how value could be boosted has been superseded by a successor's compulsion to try a new route.

Their combined experiences suggest size has been a persistent burden. Perhaps, to paraphrase a politically tinged slogan from the global financial crisis, BHP has been too big to succeed.

Strategic zigzagging has undermined the standing of the Big Australian at home, worried hard-nosed professional investors without any emotional attachment to history, and left ambiguities and contradictions in the company's messaging.

Speaking to a Melbourne Mining Club audience in June, chief commercial officer Arnoud Balhuizen reiterated the company's goal to raise value by 50% but the theme of his address was the slightly obscure concept of "connectivity", not value or returns or big thinking.

A 50% value increment over the cycle without having to rely on higher selling prices sounds impressive and a welcome departure from a heavy reliance on commodity prices for an uplift in returns.

All going well, in the trough of the next cycle, BHP would be worth 50% more than it is today. But that could be 10-12 years away, if history is any guide.

What is at first glance an impressively sounding stretch seems unfortunately mediocre when translated into just 3-4% a year.

To be a genuinely competitive equity investment over such a period, the company would have to more than double its value through the cycle. That is what thinking big should really mean.

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