

# BHP Group

BHP

July 11, 2019 FAT-UK-789

GBP£19.97

Core



SH

BHP Snapshot

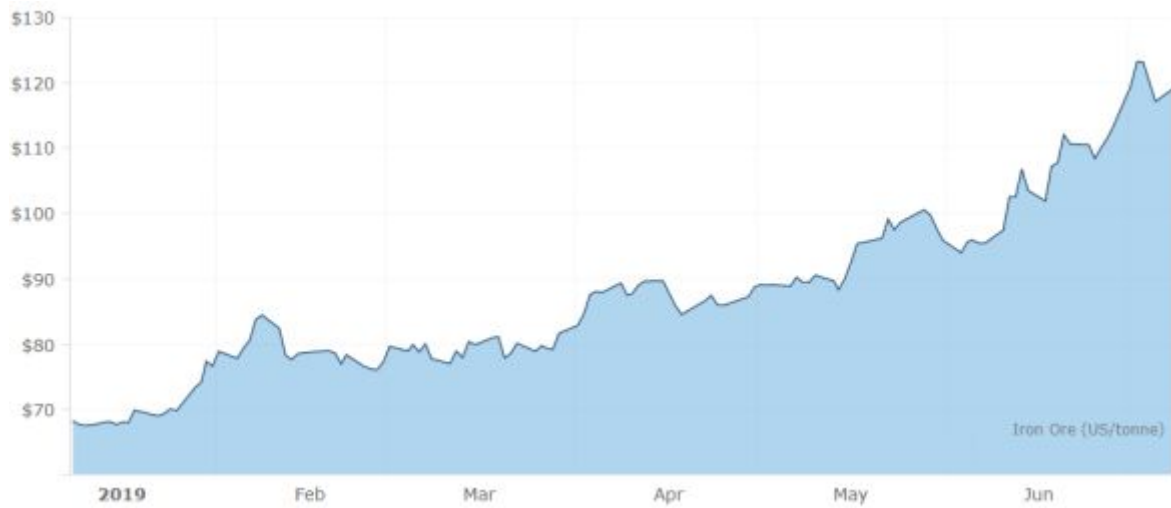


## Nearing a price record so cashing in some chips

BHP Group's share price has been on a well established uptrend since early 2016, when the share price touched lows of GBP£6.76 and is now trading around GBP£19.97, and is again approaching its record highs of GBP£23. BHP in the near-term has been impacted by the second Vale tailings dam failure in early 2019 and the assertion of pressure on oil supply by the Organisation of the Petroleum Exporting Countries (OPEC). Both factors that have propelled BHP's share price to, again, touch record highs.

**With the global economy displaying signs of potential fatigue on trade war entanglements, geopolitical pressures from Brexit to Middle East tensions and growing currency tensions, we are taking some profits off the table in BHP Group.**

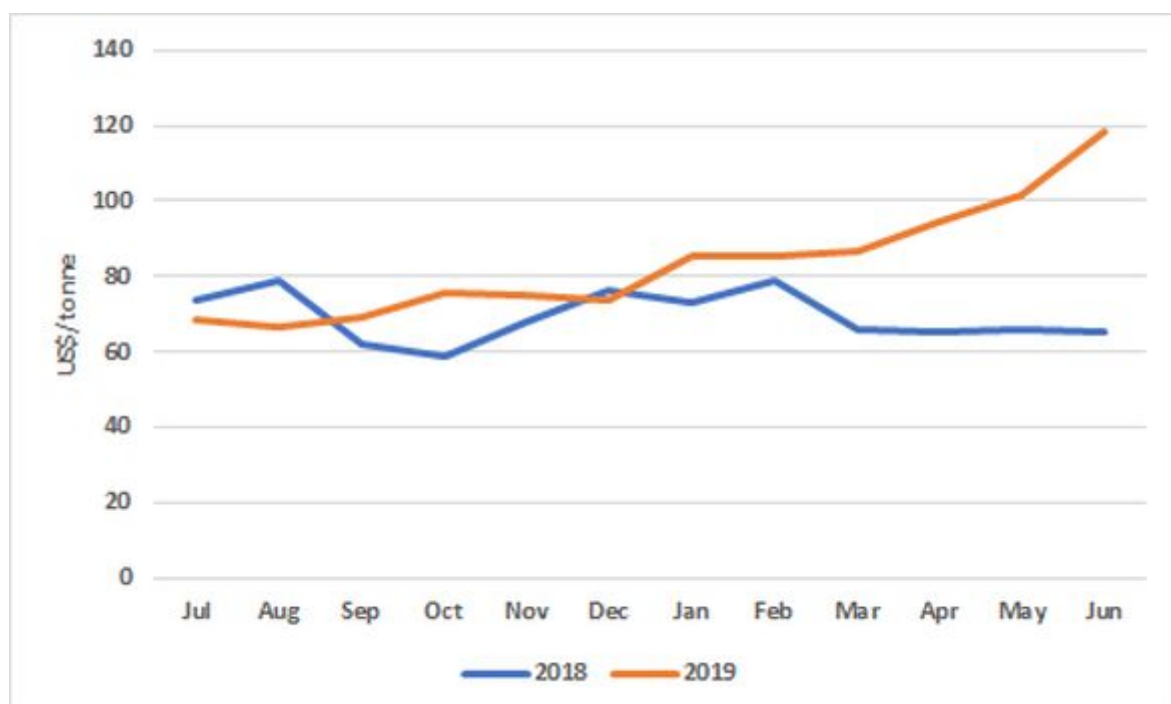
One key driver in the company's share price performance over 2019 was the misfortune that befell Brazilian iron ore producer Vale, following its second tailings dam failure (January 2019). The event had an immediate impact on the iron ore price in 2019. The following chart shows the year to date iron ore price:



Source: MarketIndex.com.au

The event did cause Vale to suspend production of iron ore pellets, with some 28 million tonnes of production likely to be lost in calendar 2019. Vale is guiding 2019 total production of iron ore to be in the range of 307 million to 332 million tonnes. **The return of the impacted production remains under a cloud and will likely not occur until well beyond 2019.** Vale's first tailings dam disaster occurred in November 2015, in the Samarco disaster (Vale's interest 50%); **that facility has yet to recommence production.**

The iron ore price over the company 2019 fiscal year has traded higher compared to 2018, with the comparison shown in the following chart:



Source: UBS

As a result of the positive comparative difference, we expect the company's iron ore operations will report a significant improvement in its financial performance.

We are now questioning whether the surge in iron ore prices can be sustained. While supply is tight, demand on the other side is vulnerable to a reaction from consumers at some point.

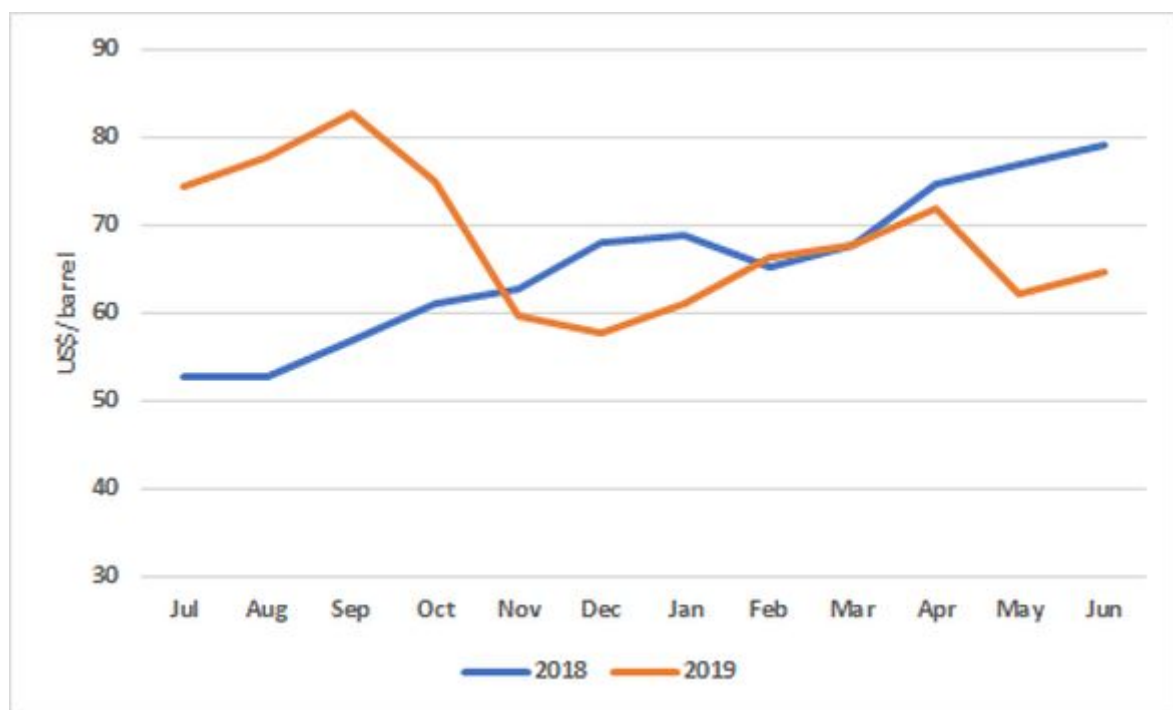
Indeed, Chinese steel mills are becoming more vocal it seems, and are complaining that rampant iron prices have been stoked by market manipulation by futures traders. According to reports, a top official representing China's steel industry said Beijing was preparing to crack down on pricing 'irregularities' for imported ore. Chinese steelmakers, representing 40% of industry output, have also set up a working group to find ways to tackle the 'distortion' between the price of steel and iron ore.

BHP Group PLC - BHP (LSE) - 1 Day CandleStick Chart - GBP



The reaction is probably not surprising, and with iron ore prices having notched up a 5-year high last week of more than US\$126 a tonne. The robust gains in pricing have also been during a period when many have been fretting over the impact of the trade war on China's economic growth story. However, demand has been underpinned by the country's own stimulus initiatives to ensure domestic construction remains robust, alongside demand from China's Belt and Road initiative. **Arguably however we have seen an interim peak in iron ore prices.**

The company's petroleum operations have also played a key role in driving the share price back to near-record highs this year. The following chart shows the oil price comparative between 2018 and 2019:



Source: UBS

As with the company's iron ore operations, the positive comparative price difference between 2019 and 2018 for oil, although not clear cut, will add to the tailwind on earnings for the petroleum segment.

OPEC has been diligent in curbing oil production over 2019, having started the year at 30.5 million barrels, and at its June reading has pulled production back to 29.9 million barrels. US domestic production has, on the other hand, risen from a weekly read of 11.7 million barrels

at the beginning of the year to 12.2 million barrels at 29 June 2019. Oil price rallies have capped especially as US domestic production has shifted to the higher side over the year. **It is this continued pressure coming from US domestic oil production that places some uncertainty the energy sector pricing going forward and warrants caution.**



The company will report its 2019 full year results to 30 June 2019 on 20 August 2019. **We are cognisant of the pending uplift in the company's total earnings from both its iron ore and petroleum segments in 2019, but we believe that the good news is now primarily factored into the current share price.**

Due to BHP's strong share price performance, to see it again approach record highs and prices not seen since late 2007 early 2008, we consider it prudent to take some exposure off the table. **This is also as our view of economic global growth is in the balance over the remainder of 2019.** Consequently, we recommend Members sell half their exposure in BHP Group at the current price.

### DISCLAIMER

Fat Prophets has made every effort to ensure the reliability of the views and recommendations expressed in the reports published on its websites. Fat Prophets research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect. This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Fat Prophets and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Fat Prophets hereby limits its liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply. As at the date at the top of this page, Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in: ASX- Listed Australian stocks ABP, ADI, AMC, ANZ, APA, ARF, AVN, BHP, BOQ, BPT, BWP, CBA, CHC, CKF, CQE, DHG, ELD, EVN, FID, FMG, FPC, FPP, GMG, GOR, GPT, HUB, IGO, ILU, JHK, MAI, MCR, NAB, NCM, NEC, NUF, NXT, ORE, OSH, OVH, OZL, PAN, PPS, QBE, RIO, S32, SAR, SBM, SCG, SCP, SFR, SGP, SHL, SHV, SLR, SPK, SRV, STO, SUN, SYD, TLS, TPM, VCX, VOC, WBC, WES, WHC, WPL, WSA, International stocks: Alibaba, Alphabet, Alstria Office, American Homes 4 Rent, Apple, Ashford Hospitality Trust, Avalonbay Communications, Baidu, Braemar Hotel & Resorts, Brookfield Property Partners, Camden Property Trust, Castellum, Champion Real Estate Investment Trust, China Lodging Group, CNOOC, Coeur Mining, Columbia Property Trust, Cubesmart, Deutsche Wohnen, Entra ASA, Euronext, Extended Stay America, Extra Space Storage, FedEx, Frasers Hospitality Trust, Guangzhou Automotive, Heineken, Harmony Gold, Hufvudstaden, Icade, Industrial Logistics Properties Trust, Inmobiliaria Colonial Intu Properties, Japan Airport Terminal, Land Securities Group, Meituan Dianping, MGM China, Mitsui Fudosan Co, National Storage, Nintendo, Office properties income Trust, Prologis, Retail Value, Sands China, Segro, Seritage Growth Properties, Site centres Corp, SMC Corp, Sony, SPDR Gold Trust, Spirit Reality Capital, Sumitomo Mitsui Financial, Tanger Factory Trust, Taubman Centres, Tencent, Vail Resorts, VanEck Vectors Gold Miners ETF, VanEck Vectors Junior Gold Miners ETF, Vereit, Vodafone, Vonovia, Vornado Reality, Trust, Walt Disney, Wharf Real Estate Investment Co, Wynn Macau, Wynn Resorts, Zillow, ZOZO. These may change without notice and should not be taken as recommendations.