Mostly housekeeping this week, just running through the results from some of the majors

BHP

Exceptional updates at Samarco and WA Nickel

- Proving yet again to be the master of mistiming commodity markets and as such writedowns, yesterday BHP took a $5.7b post tax hit to their 1H-FY24 statutory result from Samarco and WA Nickel
- BHP will impair WA Nickel by $2.5b (post-tax), while at Samarco, a $3.2b (post-tax) increase in provisions will also be made with 1H-FY24 results.
- The nickel market has been walloped this year after the 'trade by appointment' pricing last year. Weakening growth in EV sales and increased supply out of Indonesia has been a major factor for this commodity price decline.

- WA Nickel's Kambalda concentrator will be put into care & maintenance from Jun-24 as feedstock sourced from Wyloo Metals' mines ceases from the end of May-24.
- Nickel West (Mt Keith and Leinster mines and concentrators, the Kalgoorlie smelter and Kwinana refinery) remain under review, as is the ~20% complete West Musgrave project acquired with BHP's acquisition of Oz Minerals.
- BHP announced a $3.2b (post-tax, $3.1b pre-tax) provision for Samarco reflecting current estimates of the cost to resolve all aspects of the Federal Public Prosecution Office Claim under the Framework Agreement obligations. Uncertainty remains, with a number of court and negotiated processes outstanding. To the end of Dec-23, the Renova Foundation has spent around $7.2b (100%) on reparation and compensation, with a further $6.5b (BHP share) provisioned for future expenditure (or $13b on 100% basis assuming Vale follows BHP's lead). This takes total Renova Foundation spend and provisions to $21.2b (after $1b to be contributed by Samarco). This compares to the $26b figure discussed in Brazilian media late in CY23, and the $32b maximum represented in the original claim.

Aurizon Holdings Ltd (AZJ)

1H24 result

- A slight earnings beat but FY24 guidance maintained for $1,590-1,680m. Aurizon is essentially guiding to a softer 2H (doubling the 1H EBITDA would beat the top end)
- Underlying EBITDA of $847m was 4% above consensus.
- Normalised NPAT $237m, EPS 12.9cps, and DPS 9.7cps (75% payout, 60% franked)
- FY24E growth capex guided towards the lower end of $250-300m and FY25E guided to be lower still. Combined with a tax refund (~$100m), Aurizon flagged a capital position that allows for more 'flexibility' to increase capital returns. The potential scale, duration, and mode (dividends or buyback) remain unclear.
- Aurizon's core businesses are resilient cash generators; despite the as yet unproven Bulk and Container growth strategies.
- AZJ is trading on PE’s for FY24 and FY25 of 14.9 and 13.3 and yields of 5% and 6.4% respectively.

CSL

1H24 Result

- Result was 'as expected', share price reaction wasn't- stock down 6% for the week.
- The Immunoglobulins franchise (blood) outperformed, jumping 23% year on year (yoy).
- FY24 guidance for revenue (9-11% growth) and NPAT (13-17% growth) was left unchanged.
- I find it interesting that the market is starting to pay attention to the overvaluation of CSL; first with the popular weight loss drugs hitting the market (Ozempic, Wygovy, etc) that may/will impact CSL's Vifor division which ultimately deals with diabetes, obesity, etc sending the price down over 30% during September and October, but now with the failure of its Phase 3 cardiovascular medication trial to achieve its primary endpoint, which has now seen the stock fall nearly 10% in an illustration of uncharacteristic volatility. Could be a sign of them losing their 'champion status' or just a short-term blip.
- According to UBS, CSL are on track for "compounding high teens earnings growth over the next three to four years". They'd want to be, the PE's for FY24 and FY25 are 29x and 25x and yields 1.4% and 1.6% respectively.

Commonwealth Bank of Australia (CBA)

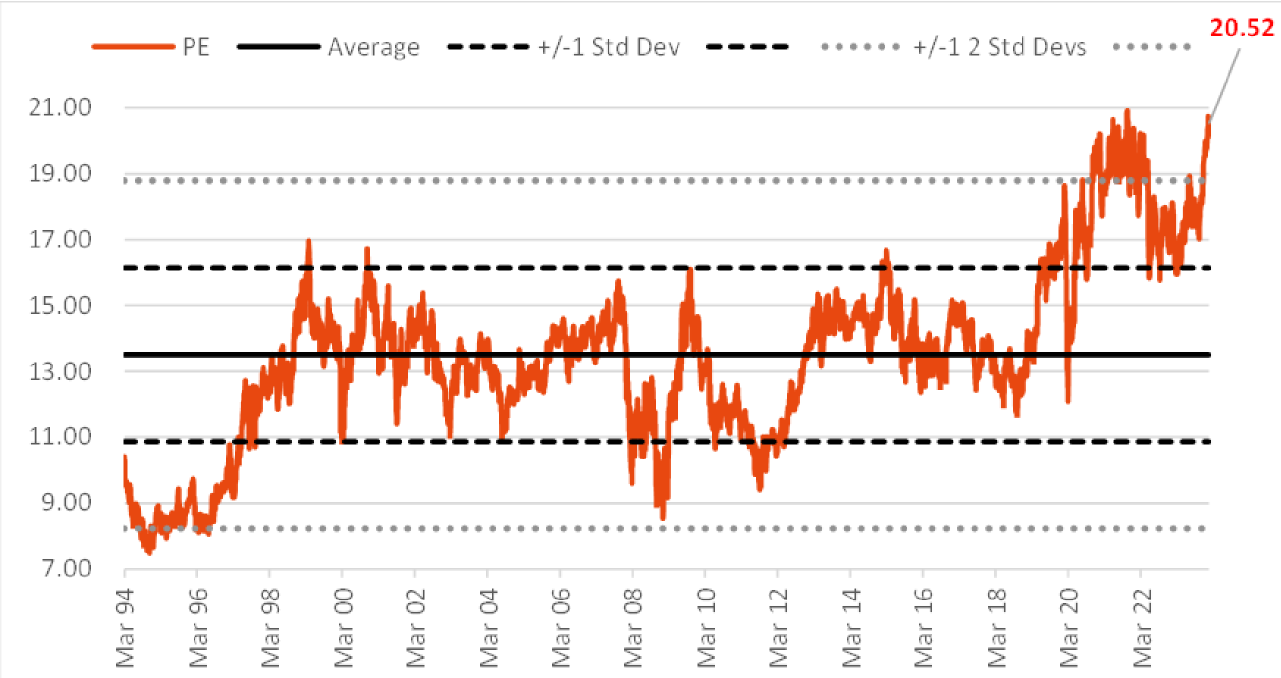
1H24 Result

- Pre-Provision Operating Profit (PPOP) $7.6B, 1.3% above consensus
- NPAT $5.0B, 2% above consensus
- EPS continuing 299.8cps (cons 295.1cps).
- Interim dividend 215cps slightly below consensus of 216cps, representing a 72% dividend payout ratio.
- Net interest Income (NII) flat at $11.4B, driven by a 6bps decline in NIM partly offset by stronger than expected volume growth. CBA's Net Interest Margin (NIM) 1.99% vs 2.01% (cons) impacted, amongst others, by rising funding costs.
- Total Revenue was $13.6B, +1.0% and +60bps on cons.
- Underlying OPEX +2.0% HoH to $6.0B, in line with cons
- Credit impairment expense -30.5% to $415M, a notable beat versus both cons (-16%) and UBSe (-36%). Still incredibly low.
- CET1 Ratio is 12.3%
- Like CSL, CBA continues to look very expensive on PE's for FY24 and FY25 of 20x and 18.7x and yields of 4.1% and 4.4% respectively.
- Given the lack of growth on offer, would you take on the equity risk to earn a 4% yield when you can get 4.5% to 5% in a risk-free Term Deposit?

I love our very own Martin Crabb's comment on CBA*:*

"Never buy CBA, it is 3 standard deviations too expensive. "

Efficient markets here in Oz? I think not.



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Financial Planning Weekly

ShawandPartners
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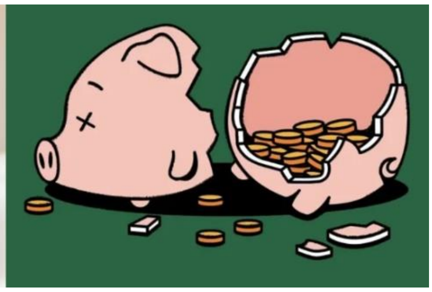

Stage 3 Tax Cuts

Around this time last year, we wrote a piece on the stage three tax cuts and what would this look like. This can be found here. Fast forward a year and the Government of the day has re-negotiated the terms citing: "When economic circumstances change, the right thing to do is change your economic policy. That's what we are doing." Though it has not yet been legislated, these are set to apply from the 1st July 2024 and are expected to be passed.

Click on the link below to read

https://www.morrisseygroup.net/news-1/financialplanningweekly150224

Quote of the week

I read this quote in the Economist this week. Loved it.

“I have mentioned how uncertain and volatile everything is. That means we have to sprint to stand still. But that’s not all. To respond to constant changes we also need the agility of a mountain goat. And to spot those changes coming, we require the radar of a bat. Now just ask yourself this question: have you ever seen a sprinting goat-bat? That tells you something about the scale of the challenge we all face”.

Have a good weekend

Ben and the team.

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