BHP Notes Oct 2011

10/8/2011: Price has dropped further to $71. I reduced my sales growth rate to 9 and eps to 5.3. The sales have been higher than earnings for the past three years No new M\* report out yet, although FY ended in June. No VL for another couple of weeks.Used SSG default low price recommended. High PE estimated at 15.7, and low at 7, just under this year's low. Gives me a 3.8 to 1 U/D, and a TR of 20.7 and PAR of 13.7. ManifestInvesting estimates a 10.6 Sales forecast, higher than my 9, And their 5 yr. eps is $10.65 to my $11.04, slightly lower. MI aver. high PE is 16, mine 15.7. Their Projected Annual return is 20.8, almost identical with my 20.7 TR. My average PAR is 13.7, slightly higher than VL's low 10% annual total return. Manifest's last report listed a FV of $100, raised up from $89, but their buy price was $60.

From the Hendershot Investments Aug. report of FY earnings, which ended in June 2011:

Revenue up 36% and profit from operations up 74% to $31B. Excluding exceptional items, profits were up- 74% to $21.7B There was record annual production across four commodities and ten operations. Robust demand, industry wide cost pressures and persistent supply side constraints continued to support higher prices for the majority of it core commodities, which are well diversified by commodity, geography and customer. Iron ore production increased for the 11th year in a row, and rising iron ore prices contributed to the profit margin. Strong margins produced a 42% return on shareholders' equity.

Free cash flow more than doubled to $18.9 billion.

Return to shareholders: $5B in dividends and $10B in share repurchases. Dividend increased 22% over last year's.

Company has a strong financial position with a solid A credit rating, allowing it to finance the $15.1B acquisiton of PetroHawk Energy while still investing $12.4B in organic growth across its mineral and energy assets. Price has dropped due to near term macroeconomic challenges, but BHP expects strong demand for its low-cost core commodities through the industrialization of China, India and other emerging economies.