BHP Billiton Ltd BHP [NYSE] | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
80.49 USD	100.00 USD	70.00 USD	135.00 USD	Medium	Narrow	—	—	Industrial Metals & Minerals

BHP's Record Fiscal 2011 Earnings In Line

by Mark Taylor
Stock Analyst

Analysts covering this company do not own its stock.

Pricing data through September 08, 2011.
Rating updated as of September 08, 2011.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Analyst Note Aug. 29, 2011

We are increasing our fair value estimate for BHP Billiton by 5%, to $50 per share ($100 per ADR) and maintain our positive stance. Very strong cash flows leave the balance sheet in better shape than anticipated. Our fiscal 2012 earnings forecast is $5.25 per share. That 33% increase in earnings versus fiscal 2011 reflects substantial growth in Western Australia iron ore volume on expansion plans and coking coal volume recovering from fiscal 2011's bad weather. We also anticipate improved performance from aluminum and nickel, veritable laggards in fiscal 2011. We then expect earnings to level off on a cooling in commodities price growth from current stratospheric levels and the impact of the mineral resources rent tax in Australia. We forecast earnings of $4.75 per share in fiscal 2013.

In line with expectations, BHP reported record underlying fiscal 2011 earnings up 74% to $21.7 billion. That's 40% above the previous highest mark of $15.4 billion set in fiscal 2008. The group earnings before interest and tax margin improved from 36% to a record 43% courtesy of higher commodity prices, only partially offset by adverse exchange rate movements. Key in order of importance were iron ore up 96% to $144 per tonne, copper up 28% to $3.90 per pound, oil up 18% to $90 per barrel, and coking coal up 63% to $238.50 per tonne. Volume effects, including the impact of weather on East Australia coal exports, pale in comparison. Underlying earnings per share jumped 76% to $3.94, outpacing gross profit courtesy of $10 billion in share buybacks. These reduced shares on issue by 4%. The headline fiscal 2011 profit grew 86% to $23.6 billion, including $2 billion pertaining mostly to reversal of deferred tax liabilities, noncash.

Cost pressures are evident, though outside of oil are in line with expectations, given commodities inflation. Most segments experienced 35%-40% rises in unit costs, though some like oil and coal were higher for industry-specific reasons--oil in part because of the drilling moratorium in the United States and coal the weather. Yet industrywide cost pressures, in conjunction with persistent supply-side constraints, are a key plank to commodity price support. Net operating cash flow ballooned 83% to $30.3 billion, higher than anticipated. Of course unit costs lag commodity rises, a cause for joy on the way up but amplified pain on the way down. We anticipate unit costs to stabilize somewhat in fiscal 2012 in lagged sympathy with pricing.

Net debt grew 76% off a very low base to $5.8 billion, though leverage is still paltry at 10%. This changes in the second half of 2012 with the $15 billion acquisition of Petrohawk Energy. But even then leverage will remain at sub-30% levels and diminish rapidly with very strong cash flows. BHP spent $11.6 billion in fiscal 2011 on capital expenditure projects, with the largest 30% share going to iron ore, followed by oil, copper, aluminum, and coal. Group returns on invested capital increased from 20% to 29%, in line with the prior high in fiscal 2008. BHP is enjoying unparalleled returns on capital invested at far lower prices than present--a key differentiator to other resource groups that began substantially investing post-boom.

BHP stamped its optimistic outlook with a 22% rebasing of the full-year dividend to $1.01 per share (the final of $0.55 was ahead of our $0.52 forecast), "confident in the long-term outlook for [its] core commodity markets." There was no dividend increase in Australian dollar terms, though, with the strong currency holding the payout to AUD 0.98 per share.

A protracted recovery remains BHP's base case for the developed world, with the potential for "a coordinated policy response to engender confidence and ease the volatility that has been the dominant theme of recent years." With respect to the important growth economies of China and India, BHP cautioned that growth in fixed-asset investment in China remains resilient and is yet to fully reflect recent monetary policy tightening.

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
BHP Billiton Ltd	USD	214,421	62,354	26,922	17,111
Vale S.A.	USD	144,285	57,233	30,719	25,233
Rio Tinto PLC	USD	114,231	61,088	22,727	16,066
Freeport-McMoRan Copper & Gold	USD	41,963	22,278	11,289	5,594

Morningstar data as of September 08, 2011.

This doesn't appear a major shift in BHP rhetoric; the company has been dovish on the near term for some considerable years while remaining confident in a strong long term based on ongoing urbanization in the developing world. Evidence suggests it has considerably underrepresented the near-term potential in recent years--why go out on a limb?

BHP anticipates robust commodities demand in both the short and medium term, supported by intensive emerging economic growth--and if stimulatory policy is enacted, then more so. With respect to steelmaking raw materials, the company does anticipate growth in demand, particularly in China, to slow in the longer term to more sustainable levels. But the fundamentals even for these commodities remain compelling, given a constrained supply-side response and rising capital costs.

Thesis Aug. 29, 2011

After 30 years of decline, the world is again experiencing a sustained increase in commodity prices. The last long-cycle uptrend, born at the end of the Great Depression, was driven by the rebuilding of Europe after the wars and later on the rise of Japan to economic powerhouse status. The oil shocks of the 1970s were an effective death knell. The current rise, forged on the industrialization and urbanization of the world's most populous country, began early in the final decade of the 20th century, though the seeds were probably sown considerably earlier.

China's rise from economic obscurity has sustained commodity price growth into the 21st century. Despite now accounting for the lion's share of global consumption of many commodity staples, its per capita use remains well below that of industrialized nations--the difference being China's vast population. India's near-equivalent numbers portend a lagged reinvigoration of commodity price support. The decade milestone of growth need not spell the end of the current boom.

Positioned in the center of this enviable tailwind, BHP is the world's largest publicly traded mining conglomerate, with the financial wherewithal to weather the boom-and-bust cycles of the volatile commodity markets. Geographic and product diversification give BHP more stable cash flows and lower operating risk than most of its mining peers. Most revenue comes from the relative safe havens of Australia/New Zealand, North America, and Europe.

This narrow-moat company has several key advantages. It produces a range of commodities from oil and gas to diamonds, and it is a major producer of iron ore, copper, nickel, thermal coal, metallurgical coal, and manganese. It also offers a full suite of conventional energy products. The company can benefit from a rally in any of its product lines. Finally, BHP is a major Australian commodity producer in close proximity to the Asian markets.

A geographically diversified customer base allows BHP to benefit from economic growth and development in any part of the world. When all major world economies are growing strongly, BHP's revenue and profits can benefit significantly. With demand for most of its products in an upswing--because of the growing Asian economies and worldwide economic expansion--BHP reported stellar results in fiscal 2005-08. Fiscal 2009 softened with the global financial crisis, but the company's diversified earnings stream damped the overall volatility associated with the downturn. Fiscal 2010 delivered improved profits, and 2011 stands to be another record result.

The good times have fortified the balance sheet. Some cash has been returned to shareholders, but the bulk of the windfall is financing growth. Since the $8 billion acquisition of WMC in 2005, BHP has approved billions in expansion projects. The development pipeline is strong. With modest net debt of $3.3 billion at the end of fiscal year 2010, there is plenty of room for further development projects or acquisitions.

It is difficult to create and protect competitive advantages while focusing on multiple commodities. With the exception of iron ore, we think BHP lacks real pricing power in its products. There is a risk that expanding at near-peak market conditions will result in lower-than-optimal returns on investment. However, with its impressive portfolio of businesses in terms of size and scale, BHP has a narrow economic moat, in our opinion.

Valuation, Growth and Profitability

BHP made an all-cash bid for NYSE-listed Petrohawk Energy . The $38.75 a share offer values Petrohawk at $15.1 billion, including $3.0 billion net debt. Having now modeled Petrohawk into our BHP numbers, we expect the acquisition to be mildly accretive to earnings per share and valuation. We've increased our fair value estimate to $100 per share from $95. About half is driven by Petrohawk, with the bulk of the balance reflecting the roll forward in valuation model to the next quarter. The strong fiscal 2011 profit result is an additional benefit.

Noteworthy is the impact recent U.S. shale gas purchases have on BHP's asset mix. From a valuation perspective, Petrohawk propels the oil and gas division to the top of the list at $110 billion, or 32% of our group value overall. That's up from around 27% and ahead of iron ore at $80.5 billion or 24% and copper at $67.5 billion or 20%. Of course if you bundle iron ore in with the carbon steel materials group's metallurgical coal and manganese, it still wins out at $138.7 billion or more than 40% of valuation overall. Regardless, the energy focus reinforces a clear point of differentiation with Rio's iron ore skew.

Key long-term valuation assumptions are $70 per metric ton iron ore, $120 per metric ton coking coal, $2.50 per pound copper, $1.30 per pound aluminum, an AUD/USD exchange rate of 0.80, and a 10% discount rate.

Risk

We believe BHP merits a medium fair value uncertainty rating, as individual commodity price volatility is offset by mineral diversification and a relatively robust balance sheet. This does not imply a lack of risk, however. BHP faces all the environmental and operational risks associated with mining as well as the country-specific risks associated with some of its assets.

Bulls Say

- BHP is a beneficiary of continued global economic growth and increased demand for the commodities it produces.
- BHP's cash flow base is diversified, and the company is less susceptible to the vagaries of the market than single-commodity producers.
- The company has an attractive, low-cost, long-life portfolio of expandable operations.
- Growing producer concentration is slowly tipping pricing power away from the end user and toward miners.
- Steady cash flows allow BHP to invest throughout the cycle.

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Bears Say

- Sovereign risk heightened following the Australian government's intended Resource Super Profits Tax. The softer replacement Mineral Resource Rent Tax has reduced, but not erased, this risk.
- The global economy is cooling off; demand for commodities will follow suit.
- Diversified miners' stocks always trade at discount valuations to pure plays. Investors interested in gaining exposure to a specific commodity would be better off investing in pure plays.
- BHP is subject to the long-term supply/demand balance for metals, a major factor in determining the company's profitability.
- Chinese mineral investment, for production rather than profit's sake, could erode some of the limited pricing power mining companies have recently won.

Financial Overview

Financial Health: The company is on strong financial footing. Returns on invested capital have averaged 25% during the past five years and remained above 20% even during the global financial crisis. The worth of BHP's diversified earnings stream was tested and proved. The company has reinvested throughout the cycle. The five-year average EBITDA margin is a very healthy 45%.

Company Overview

Profile: BHP Billiton is a diversified miner that supplies aluminum, coal, copper, iron ore, mineral sands, oil, gas, nickel, diamonds, uranium, and silver. A 2001 dual-listed merger of BHP Limited (now BHP Billiton Ltd.) and Billiton PLC (now BHP Billiton PLC) created the present-day BHP Billiton. The two operate as separate firms but are overseen by the same board and management team. Shareholders in each company have equivalent economic and voting rights in BHP as a whole.

Management: CEO Marius Kloppers took the reins from Chip Goodyear in October 2007. He was expected to be more aggressive on the acquisition and development front while adhering to the Tier 1 asset-only policy. Confirmation came with the unsuccessful 2008 Rio Tinto and 2010 PotashCorp bids. Some shareholder unease has arisen over these costly forays. The depth and strength of the board should ensure a deal isn't done for a deal's sake. Likely targets exist in the oil and gas industry, where antitrust issues are unlikely to feature.

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Jul. 27, 2011

BHP Billiton's Fourth-Quarter Operating Result Overshadowed by Petrohawk Bid

BHP Billiton made an all-cash bid for NYSE listed Petrohawk Energy. The $38.75 a share offer values Petrohawk at $15.1 billion including $3.0 billion net debt. The bid is 49.5% above the trading price at June 1, 2011 and has the unanimous support of Petrohawk directors. Petrohawk brings acreage in the Eagle Ford and Haynesville shales and the Permian Basin in Texas and Louisiana. It has approximately one million net acres with estimated 2011 net production of 950 million cubic feet of gas equivalent per day--equivalent to approximately 158,000 barrels of oil per day. Proven reserves at the end of 2010 were 3.4 trillion cubic feet of gas equivalent (Tcfe). The further 32 Tcfe resource equates to a price of $0.39 per million cubic feet of gas. BHP sees a decade of expansion ahead and expects the petroleum division to deliver more than 10% growth a year.

BHP shares have drifted back--to be expected given the Petrohawk bid. But if the Fayetteville shale gas performance is any indicator, Petrohawk should present little to worry about for shareholders. The Fayetteville acquisition boosted group fourth-quarter 2011 gas output by around 40% to 132 billion cubic feet. Petrohawk could lift that by a further 70% again to more than 200 billion cubic feet and drive strong ongoing gas production increases. The near 50% premium BHP is paying should be viewed in the context of that production growth. Petrohawk is not a particularly onerous lick for a company market-capped at BHP's $250 billion, but it should drive strong production growth when aligned with such an enviable balance sheet.

We expect BHP gearing (net debt/equity) to push 40% levels with Petrohawk and share buybacks, but to rapidly ebb to sub-10% levels within two years, all else being equal. Annual group net operating cash flow approaches $30 billion with the current favorable commodity tailwind.

Having now modeled Petrohawk into our BHP numbers, we expect the acquisition to be mildly accretive to earnings per share and valuation. We upgrade our valuation by 6%. Approximately half is driven by Petrohawk, with the bulk of the balance reflecting the roll forward in valuation model to the next quarter. The quarterly production result discussed below is a modest favorable influence also. Fiscal 2011 and 2012 earnings forecasts are little changed.

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Analyst Notes (continued)

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On balance, BHP's fourth-quarter 2011 operating performance was in line with expectations. In the main, production was strongly higher, though still recovering from weather impacts in the prior period. Iron ore, copper, aluminum, energy coal, and nickel rose sharply, in line with expectations. Queensland coking coal is taking longer than anticipated to recover from the drenching received earlier in the year. But this is more than accounted for by an impressive showing from the petroleum division, where the successful integration of Fayetteville shale, pleasing underlying performance from North West Shelf, and first production from Angostura (Trinidad and Tobago) saw ballooning gas output counter the ongoing impact of permitting delays on Gulf of Mexico liquids production.

Fourth-quarter iron ore volumes grew 8% to 35.6 million metric tons, with the ongoing benefit of dual tracking of rail infrastructure in Western Australia and production recovery at Samarco in Brazil, following maintenance in the prior quarter.

Copper volumes grew 9% to 294,000 metric tons, thanks to a strong operating performance from Pampa Norte and draw down of inventory at Escondida in Chile. Higher Olympic Dam production in South Australia follows sustained recovery from the Clark Shaft outage.

Metallurgical coal volumes grew 33% to levels still reflecting the remnant effects of wet weather. Alumina production rose 19% to 1.05 million metric tons, with Worsley refinery catching up from a weak quarter prior and continued ramp-up of Alumar in Brazil. Aluminum output grew 8% on stronger performance from the Hillside smelter in South Africa.

Jul. 22, 2011

BHP Snares the Hawk: Implications for U.S. Exploration and Production

We've given some additional thought to the impact of BHP's acquisition of Petrohawk on U.S. natural gas markets and E&Ps. The U.S. upstream sector jumped 6% the day after the deal was announced as the deal's implications filtered through the investment community, and speculation about the next likely takeout target heated up. While this deal is clearly a bullish signal for the industry--indicating continued strong interest from global resources players in unconventional oil and gas--we think its impact on North American natural gas prices and the U.S. exploration and production sector is likely to be more muted over the short and medium term. However, upstream firms with significant resource potential, concentrated portfolios, contiguous positions, and "bite-size" enterprise values--such as Range Resources, Ultra Petroleum, Whiting Petroleum, and Concho Resources--are among the most likely acquisition targets, in our opinion. Deep knowledge of specific plays and early mover advantages seem to draw more attention from acquisitors.

Jul. 15, 2011

BHP to Acquire Petrohawk for Huge Premium; Confirms Our Belief in Hawk as Top-Tier M&A Target

Petrohawk Energy announced Thursday that it had accepted an all-cash offer from BHP Billiton for $12.1 billion, or

Analyst Notes (continued)

$38.75 per share, along with the assumption of $3 billion in net debt. The purchase price represents a 65% premium to Thursday

May 16, 2011

BHP Reports Sodden 3Q

As expected, BHP Billiton reported sharp declines in fiscal 2011 third-quarter volume for most commodity categories. Hardest hit was coking coal, down 34% to 6.2 million tonnes courtesy of persistent Queensland rainfall associated with La Nina weather patterns. Force majeure remains in place for the majority of Bowen Basin mines and will probably crimp metallurgical coal volume for the rest of 2011. Australian rain also affected iron ore volume, down 6% to 32.9 million tonnes, and nickel volume, down 20% to 34.6 kilotonnes. The rain effect was exacerbated by tie-in activities at Western Australian iron ore, maintenance at Nickel West, and a furnace replacement at the Cerro Matoso nickel mine in Colombia. Petroleum output fell 4% to 35.8 million barrels of oil equivalent because of northern Australian cyclones, though permitting delays in the Gulf of Mexico also were a factor.

Even beyond the reach of the Australian weather, the production gods weren’t smiling. Copper output declined 11% to 270 kilotonnes, though in line with expectations--lower copper ore grades at Escondida in Chile were well flagged. Alumina production fell 12% to 882 kilotonnes because of a calciner outage at Worsley.

However, the two hardest-hit segments in terms of volume--carbon steel materials and copper--also enjoyed the strongest gains in price, and the commodity price action eclipsed the volume effects. CSM and copper are the largest contributors to revenue and profit. We estimate group third-quarter revenue at around $19 billion, or 37% above the year-ago quarter, despite volume being in line. CSM prices are 60% higher and copper prices 30% higher than a year ago.

Our valuation is little changed, though our fiscal 2011 earnings forecast softens on the weaker-than-expected third-quarter results and the impact of rain-affected coking coal assets off line into the fourth quarter. Our fiscal 2012 earnings forecast increases marginally thanks to some catchup of lost fiscal 2011 volume and at higher prices. BHP recently bought back around 4% of its issued capital via a combination of off-market buyback of Limited stock and on-market buyback of PLC stock. The off-market buyback was tax effective, conducted at a 14% discount to market, and marginally accretive to fiscal 2012 earnings. Most important, it was conducted at a considerable discount to our valuation, offsetting some of the negative impact of the poor third quarter.

The buybacks are an investment of around $10 billion, but BHP’s net cash position is still near $8 billion, in our estimate, improved from a neutral position at end December. Such is the prolific cash flow at current commodity prices. BHP remains a top resource pick at the right price. It is unleveraged and enjoying a rebound to 30%-plus returns on invested capital from none-too-shabby 20% levels in fiscal 2010. We forecast fiscal 2012 earnings before interest and tax margins approaching 50% versus the five-year average of 40%. BHP is enjoying historically high commodity prices, generating revenue from assets largely built at a "days of yore" cost. This is an extremely powerful combination--just ask anyone trying to build something today!

BHP Billiton Ltd BHP

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
62,354	214,421	Industrial Metals & Minerals	Basic Materials

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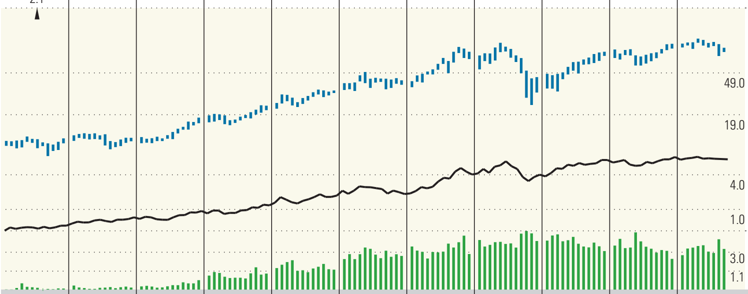
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★	80.49	100.00	Medium	Narrow	—

per share prices in USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Annual Price High	12.01	12.95	18.49	24.38	34.48	50.74	87.43	95.61	78.75	93.56	104.59
Low	7.56	8.90	10.27	15.57	22.58	33.45	36.37	24.53	33.09	58.38	71.81
Recent Splits	2:1										



Price Volatility
Monthly High/Low
Rel Strength to S&P 500

52 week High/Low
104.59 - 69.44

10 Year High/Low
104.59 - 7.56

Bear-Market Rank
6 (10=worst)

Trading Volume Million

Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	5.2	10.2	12.3	15.2
Operating Income %	69.7	5.4	20.8	64.0
Earnings/Share %	116.1	-0.2	17.0	24.2
Dividends %	1.2	29.2	29.3	18.7
Book Value/Share %	20.9	18.8	25.1	—
Stock Total Return %	18.2	12.9	17.0	25.1
+/- Industry	3.9	4.3	4.0	2.2
+/- Market	10.3	15.1	18.8	24.4

Profitability Analysis

Grade: D	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	34.2	37.9	23.6	24.4
Return on Assets %	19.0	18.8	12.4	9.5
Fixed Asset Turns	1.1	1.1	0.6	7.4
Inventory Turns	2.0	4.7	3.4	15.1
Revenue/Employee USD K	1575.8	1328.1*	—	1010.4
Gross Margin %	83.0	62.5	50.8	39.2
Operating Margin %	43.2	39.4	43.3	16.1
Net Margin %	27.4	25.6	32.9	10.8
Free Cash Flow/Rev %	21.5	16.1	16.8	0.1
R&D/Rev %	—	—	—	9.9

Financial Position

Grade:	12-09 USD Mil	06-10 USD Mil
Cash	12456	12456
Inventories	5334	5334
Receivables	6732	6732
Current Assets	25134	25134
Fixed Assets	55576	55576
Intangibles	687	687
Total Assets	88852	88852
Payables	8152	8152
Short-Term Debt	2191	2191
Current Liabilities	13042	13042
Long-Term Debt	14042	14042
Total Liabilities	40327	40327
Total Equity	48525	48525

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	13.1	14.6	7.7	13.1
Forward P/E	8.3	—	—	12.6
Price/Cash Flow	9.1	11.1	7.0	6.9
Price/Free Cash Flow	16.8	39.5	16.3	15.6
Dividend Yield %	2.5	—	1.8	2.1
Price/Book	3.8	4.6	2.0	1.7
Price/Sales	3.6	3.8	2.6	1.1
PEG Ratio	0.5	—	—	1.6

*3Yr Avg data is displayed in place of 5Yr Avg

Stock Performance

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Total Return %	7.9	9.9	61.5	33.5	41.5	21.1	78.6	-36.8	82.3	23.6	-11.2
+/- Market	20.9	33.3	35.1	24.5	38.5	7.5	75.1	1.7	58.9	10.8	-5.5
+/- Industry	16.8	14.9	-33.7	-2.7	-2.5	0.0	7.9	15.4	-17.2	-8.3	4.9
Dividend Yield %	2.4	2.4	1.7	1.5	1.7	1.8	1.3	3.3	2.1	1.9	2.5
Market Cap USD Mil	64517	42836	56751	74794	101198	115785	200453	119894	214021	259687	214421

Financials

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM
Revenue USD Mil	11467	17062	16549	23513	29587	32153	39498	59473	50211	52798	62354
Gross Margin %	36.4	44.5	44.6	48.3	50.0	50.2	67.0	39.5	76.1	79.9	83.0
Oper Income USD Mil	1580	2876	3128	4636	8382	14671	18401	23150	12688	21527	26922
Operating Margin %	13.8	16.9	18.9	19.7	28.3	45.6	46.6	38.9	25.3	40.8	43.2
Net Income USD Mil	1024	1648	1900	3403	6398	10450	13416	15390	5877	12722	17111
Earnings Per Share USD	0.27	0.41	0.50	0.86	2.08	3.45	4.58	5.50	2.11	4.56	6.12
Dividends USD	0.26	0.26	0.29	0.33	0.46	0.64	0.77	1.12	1.64	1.66	1.74
Shares Mil	3861	3981	3800	3957	3076	3031	2929	2802	2799	2798	2795
Book Value Per Share USD	—	—	4.20	4.61	5.80	9.61	10.79	13.87	15.72	20.07	21.06
Oper Cash Flow USD Mil	2553	3724	3627	5310	8688	10476	15595	18159	18863	17920	24645
Cap Spending USD Mil	-1003	-2359	-2571	-2589	-3831	-6005	-7176	-8924	-10735	-10656	-11230
Free Cash Flow USD Mil	1550	1365	1056	2721	4857	4471	8419	9235	8128	7264	13415

Profitability

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM
Return on Assets %	6.3	7.4	6.5	11.3	17.5	23.1	25.1	23.0	7.6	15.2	19.0
Return on Equity %	17.4	17.9	14.9	24.4	39.7	50.5	49.8	45.3	15.0	28.8	34.2
Net Margin %	8.9	9.7	11.5	14.5	21.6	32.5	34.0	25.9	11.7	24.1	27.4
Asset Turnover	0.71	0.76	0.56	0.78	0.81	0.71	0.74	0.89	0.65	0.63	0.69
Financial Leverage	2.6	2.3	2.3	2.1	2.5	2.0	2.0	2.0	2.0	1.8	1.8

Financial Health

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	06-10
Working Capital USD Mil	97	-314	0	1627	883	-85	838	5202	10636	12092	12092
Long-Term Debt USD Mil	3192	6383	195	5453	7971	7594	9244	—	15512	14042	14042
Total Equity USD Mil	5613	12821	12761	15078	17153	24218	29667	38335	39954	48525	48525
Debt/Equity	0.57	0.50	0.02	0.36	0.47	0.32	0.31	—	0.39	0.29	0.25

Valuation

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM
Price/Earnings	39.2	34.0	31.9	19.2	10.1	9.7	15.0	10.0	22.8	15.2	13.1
P/E vs. Market	—	—	—	—	—	—	—	—	—	0.9	1.0
Price/Sales	3.9	3.0	3.6	3.4	2.4	3.4	4.7	1.9	4.8	4.2	3.6
Price/Book	—	—	4.3	5.2	5.8	4.1	6.5	3.1	4.9	4.6	3.8
Price/Cash Flow	10.4	13.5	16.8	13.3	7.6	9.1	12.2	5.0	18.7	10.5	9.1

Quarterly Results

Revenue USD Mil	Sep 09	Dec 09	Mar 10	Jun 10
Most Recent Period	—	—	—	—
Prior Year Period	—	—	—	—

Rev Growth %	Sep 09	Dec 09	Mar 10	Jun 10
Most Recent Period	—	—	—	—
Prior Year Period	—	—	—	—

Earnings Per Share USD	Sep 09	Dec 09	Mar 10	Jun 10
Most Recent Period	—	—	—	—
Prior Year Period	—	—	—	—

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
BHP Billiton Ltd	214421	62354	13.1	34.2
Vale S.A.	144285	57233	3.5	42.7
Rio Tinto PLC	114231	61088	7.1	29.6

Major Fund Holders

	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis →	Economic Moat™ Rating →	Company Valuation →	Fair Value Estimate →	Uncertainty Assessment →	★★★★★
Analyst conducts company and industry research: • Management interviews • Conference calls • Trade-show visits • Competitor, supplier, distributor, and customer interviews	The depth of the firm's competitive advantage is rated: • None • Narrow • Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Assumptions are input into a discounted cash-flow model.	DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.	An uncertainty assessment establishes the margin of safety required for the stock rating.	★ ★★ ★★★ ★★★★ ★★★★★ The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."