BHP installs new 'fifth pillar' chief

JOHN DAGGE
RESOURCES

BHP Billiton has tweaked its top ranks in a move that sees control of its potash division — a mooted fifth commodity pillar at the world's biggest miner — change hands.

The group's health, safety, environment, marketing and technology president, Dean Dalla Valle, will assume accountability for potash, which centres on the Jansen mega-project in Canada.

The mooted $US15 billion ($19.5 billion) development would make potash, used in fertiliser, a "fifth pillar" of the diversified miner alongside iron ore, petroleum, copper and coal.

In keeping with the simplification strategy being rolled out by BHP chief Andrew Mackenzie, Mr Dalla Vale's job title has been reduced to chief commercial officer.

The change leaves petroleum and potash president Tim Cutt to exclusively look after the miner's oil and gas business.

Mr Cutt's title will change to petroleum president.

BHP is slashing spending on its expensively acquired US shale oil and gas business following a collapse in crude oil prices.

Mr Mackenzie said Mr Dalla Valle's current responsibilities for group project management made the miner's potash project a strategic fit for his portfolio. "These portfolio changes recognise the depth of skill and ongoing contribution of both Dean and Tim to BHP Billiton," he said.

The titles come into effect from July 1 and Mr Dalla Valle will assume responsibility for potash from August 1.

Jansen is the most advanced project at BHP although it has cautioned it does not expect to green light it until after 2020.

In other title changes, human resources president Athalie Williams will take the title of chief people officer and corporate affairs president Tony Cudmore will operate as chief public affairs officer.

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A slump in Australia's iron ore exports has driven a sharp fall in resources and energy export earnings. Picture: BLOOMBERG

Resources, energy exports take a bath

THE ECONOMY

RESOURCES and energy export earnings are likely to have tumbled more than 10 per cent in the financial year just finished, the Federal Government says.

And iron ore has led the rout as the price of the steel-making ingredient plunged during the year, the Government says. In its quarterly resources and energy report, released yesterday, the Department of Industry and Science says it expects iron ore earnings to have dropped 27 per cent for the year to June.

Earnings from coal exports are likely to have clocked in 7 per cent lower, the department says. Export earnings were forecast to increase 2.2 per cent in the financial year starting today due to an increase in volumes and the slide in the value of the Australian dollar, department chief economist Mark Cully says.

Separately yesterday, research house Ibis World published a report on sectors of the economy well placed to grow this financial year.

The group's analysts say the oil and gas industry, childcare services and beef farming should lead the nation's growth sectors. But credit unions, banks and ceramic product makers are expected to battle falling revenues.

Growing demand from Asia, especially Japan, is expected to be a big revenue driver for Australia's liquefied natural gas sector.

OFF OUR LIST OF PORTFOLIO STAPLES

THE SHORT CUT with ANDREW MACKEN

THE office supplies business is a challenging one.

While we will always need supplies, no doubt, we probably don't need as many as we used to.

In the age of digital documents and iPads, pens, paper and printer ink just aren't what they used to be.

The bricks-and-mortar retail model can also be a challenging one these days.

For commoditised goods especially, internet retailers — such as the Amazons of the world —can undercut bricks-and-mortar retailers given their relative lower cost base. And office supplies certainly fall into this category.

So spare a thought for Staples, the American retailer of office supplies that has a network of around 2000 brick-and-mortar stores in North America and around the world.

In all of the past 12 quarters of disclosed financial results, the company has reported negative same-store sales growth. Not surprisingly, profit margins have been on the decline (while chief executive compensation has naturally doubled).

Like many companies, Staples is trying to buy its way out of trouble.

In February this year, the company announced a deal to merge with major rival Office Depot.

Staples will borrow money and issue new shares to pay for the acquisition.

Office Depot, by the way, has been pursuing a similar strategy. With an equally shrinking revenue line, Office Depot acquired its rival OfficeMax in 2013 to boost its perceived growth.

Merging with Office Depot will most definitely create a perception of growth in an otherwise declining industry — at least for a year or so. And the idea is that a merged company could well extract synergies through mass store closures, overhead reduction and increased buying power.

These synergies, assuming they're achieved, are truly valuable — roughly $US5 billion ($6.5 billion) in total. Yet in the lead-up to this deal — and there was no shortage of speculation it would happen for quite some time — the combined market value of both businesses has already appreciated by ... wait for it ... $US5 billion.

So we now have an interesting situation.

In a sense, the best-case scenario is for the two companies to close the merger and achieve all the synergies that have been articulated.

Of course, the industry will probably continue to shrink and the merged entity will be carrying over $US4 billion of debt. And this is just to stand still. Also, if the synergies turn out to be less than anticipated, the stock will fall.

And even worse, should the regulators block the merger on competition concerns, there will be no synergies at all and the stock will fall even further.

What are the chances the deal gets blocked?

No one knows for sure, but we do know this is not the first time the companies have tried to merge. In 1997, the Federal Trade Commission rejected Staples' attempt to buy Office Depot.

By allowing this deal to proceed, the FTC would be signing off on the reduction of US office-supply retailers from three to just one in two years. The argument for the deal is that, in a world of Amazons, there is plenty of competition emanating from online platforms.

Staples appears to be a stock with limited upside and lots off potential downside.

Andrew Macken is portfolio manager of the Montgomery Global Fund.