

BHP Billiton - An Undervalued Basic Materials Dividend Stock

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By Robert Hauver

Looking for undervalued dividend paying stocks? Like many Basic Materials stocks, BHP Billiton PLC, (BBL), has been under under pressure in 2012, due to slowing growth and tightening financial policy in China. However, the Chinese government has begun loosening its policies, in order to keep growth moving near their targeted 7.5% GDP rate, which should help Basic Materials stocks such as BBL regain some of their luster.

BHP Billiton was formed in June 2001 from the merger of BHP Limited (an Australian listed company) and Billiton Plc (a UK listed company). The merger was effected by way of a dual listed companies structure, meaning that although the companies technically continue to be separate legal entities, now renamed BHP Billiton Limited, (BHP), and BHP Billiton Plc, (BBL), with separate share listings and share registers, they are managed and run as a single economic entity. The companies have a common Board of Directors and management team. Shareholders in BHP Billiton Limited and BHP Billiton Plc have equal economic and voting rights, as if they held shares in a single company. Here's a breakdown of BBL's various mining and energy segments, as of its last report, on 12/30/11. The company greatly expanded its petroleum production in 2011, with its acquisition of Petrohawk Energy, which is active in the Fayetteville shale oil and gas area. BBL is a world leader in many of these commodities:

Market Segment	12/31/2011 Half Year % Of Revenue	12/31/2011 Half Year % Of EBIT
Iron Ore	32.54%	49.47%
Petroleum	18.09%	24.64%
Base Metals	14.06%	10.27%
Metallurgical Coal	11.76%	9.63%
Energy Coal	8.40%	4.93%
Aluminum	6.85%	-0.42%
Stainless Steel Materials	3.64%	0.01%
Manganese	2.91%	0.93%
Diamonds & Specialty Products	1.75%	0.54%

Undervalued Growth: BBL, whose fiscal year ends 6/30/12, looks undervalued on a PEG basis for 2012 and 2013:

Ticker	P/E (Trailing 12 months)	5-Year P/E Range	EPS growth Fiscal Yr ending 6/30/2011	EPS growth Fiscal Yr ending 6/30/2012	PEG: 2012	Estimated EPS Growth 2013	PEG: 2013
BBL	6.63	9.19 - 21.57	87.42%	71.90%	0.09	10.76%	0.62
			2011 Fiscal Year EPS: \$4.27	Est'd 2012 Fiscal Yr. EPS: \$7.34		Est'd 2013 Fiscal Yr. EPS: \$8.13	

BBL reports semi-annually, and has had earnings which outperformed its peers over the past 5 years, but it had a mild earnings stumble for the last 6 months of 2011:

Ticker	EPS growth quarter over quarter	Sales growth quarter over quarter	EPS growth past 5 years	Price/Sales	Price/Book
BBL	-1.38%	9.70%	19.90%	2.00	0.94
Industry Avgs.	9.76%	19.53%	-0.05%	3.8	3.34

BBL's Price/Book and Price/Sales also look cheaper than its peers.

Dividends: With its 4%-plus dividend yield, BBL is listed in the Basic Materials section of our [High Dividend Stocks By Sector Tables](#). One US ADR of BBL equals two Australian shares, so, BBL's interim dividend of \$.55 actually paid out \$1.10 per US ADR share. BBL pays dividends twice a year, with ex-dividend dates typically in early September and late February-early March. BBL increased its semi-annual dividend in Feb. 2012 by 20%, to \$1.10, from \$.92. Indeed, BBL has been one of the best stocks to buy for dividend growth, with a 5-year dividend growth rate of 23%:

Ticker	Company	Dividend Yield	Dividend Payout Ratio (Trailing 12 Mths)	SEMI-ANNUAL Dividend	Next Ex-Dividend Date approx.
BBL	BHP Billiton plc	4.06%	25.91%	\$1.10	9/7/12

Covered Calls: BBL's December \$60.00 covered call options offer nearly 3 times the next dividend payout, and a nearly 20% potential assigned yield, which should ward off getting assigned before the ex-dividend date in September. (More info is listed in our [Covered Calls Table](#), which has over 30 other trades):

BBL 6/8/12 PRICE PER SHARE	DIVIDEND PER SHARE \$ PAID PRIOR TO CALL EXPIRATION	ANNUAL'D DIVIDEND YIELD %	CALL OPTION EXPIRATION MONTH & STRIKE PRICE	CALL BID PREMIUM	ANNUAL'D CALL YIELD	TOTAL ANN'D STATIC YIELD	POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD
\$54.39	\$1.10	3.81%	DEC 2012 \$60.00	\$3.00	10.38%	14.18%	19.41%	33.59%

Cash Secured Puts: Our [Cash Secured Puts Table](#) lists a September \$55.00 in the money put trade for BBL. This put option trade gives you a breakeven that's below BBL's 52-week low of \$49.90.

Financials: BBL's Financial metrics outshine its peers, with the exception of slightly higher debt levels:

Ticker	Return on Assets	Return on Equity	Return on Investment	Total Debt/Equity	Operating Margin
BBL	20.97%	38.59%	25.39%	0.40	43.96%
Industry Avg.	13.30%	17.08%	15.85%	0.26	30.68%

Technical Data:

TICKER	Performance YTD	Beta	Variance From 52- Week High	Variance From 52- Week Low	Relative Strength Index (14)
BBL	-1.97%	1.57	-30.73%	10.51%	44.98

Disclosure: Author had no positions in BBL or BHP at the time of this writing.

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