

# BHP changes tack on Jansen while speculation mounts on new Potash Corp. move

BHP Billiton is slowing its spending on the huge Jansen  potash project as conjecture grows as to the British-Australian company's tactical plans in Saskatchewan. Will BHP make another bid for Potash Corp (possibly in partnership with Germany's K+S)? Or will BHP come to a deal with Potash Corp once the latter's new management is in place whereby the two will co-operate on developing Jansen? Or is BHP just playing it safe by not spending too much in Saskatchewan while it waits to see how the potash market and, on a more broad perspective, the global economy pans out over coming months.

The latest quarterly report from BHP says its "measured approach" means that it will cut its planned spending on the potash project by 25% for fiscal 2014 to around \$600 million rather than the previously signalled \$800 million. However, it must be added quickly that \$600m is a decent slab of money, that BHP is still boosting Jansen as "the world's best undeveloped potash resource" and that this stage of the overall project is already 25% completed. Due to the tightening of the budget, the shafts will not be completed according to the previously outlined time-frame, but the the company adds that this did not affect its present \$2.6 billion budget for Jansen or longer-term development plans; the shafts are not on the company's critical path. [The company's overall costing for Jansen is \$16 billion.] The previous timetable for the shafts would have allowed the company to begin the ramp-up from 2018. That now won't happen.

"On the basis of our current projections for market demand, the Jansen mine could ramp-up to its theoretical design capacity of approximately 10 million tonnes a year in the

decade beyond 2020", said BHP. That is just eight+ years out – not a huge time-frame for a project of this size and calibre.

According to the *Australian Financial Review*, the decision by BHP to slow development of what is being viewed as the company's fifth pillar is being "welcomed by analysts who say investors are yet to be convinced" of the wisdom of developing Jansen. The newspaper quoted Sydney-based analyst for UBS Glen Lawcock saying the BHP pull-back was a smart move. "It's a lot of capex on a project the market is yet to be convinced by," he added. The view from Australia is that Jansen needs a potash price north of \$400 a tonne and also that the overall potash market has to grow substantially in order to be able to absorb that extra 10 million tonnes a year. Clearly, the BHP thinking is that this is not going to be the market situation until well after 2020.

And here is other important viewpoint that is clearly held at BHP's Australian headquarters in Melbourne: that all the talk about the company making another takeover tilt at Potash Corp (speculation that boosted the latter's share price this week) is just not on. The Melbourne view apparently is that the takeover talk is Canadian-based hot air.

Maybe. Maybe not. Meanwhile, Toronto-based Scotia Capital conjectures that Potash Corp would be the optimal candidate to partner up with BHP, taking a 40% slice of the project. This "marriage made in heaven" would offer BHP an experienced potash partner with plenty of market and customer experience and an "in" with the Saskatchewan government. For the would-be Canadian partner, it would offer a timing for Jansen development that would come when the extra potash was needed and thus not disrupt the market.

The other piece of Canadian speculation, as reported by the *Globe & Mail* newspaper, is that BHP could team up with K+S to try another takeover of Potash Corp [the previous \$40 billion bid in 2010 failing when the Canadian government said it would

block the move]. But Roger Bade at London broker Whitman Howard throws in an intriguing thought as to what could be the Canadian government's present view: in his view, the policy makers in Ottawa would probably prefer it that Potash Corp, K+S and BHP all get on separately with their own projects, that any tighter relations could see both or either the Legacy and Jansen projects delayed or even abandoned.