

COMPANIES & MARKETS

BHP proposal increases London’s existential angst



Helen Thomas

“How do you keep your index listing up without being a PLC? How would UK investors feel?”

Three years and one chief executive ago, that was BHP’s thinking on the subject of unwinding its dual-listed company structure and giving up its premium listing in London.

At the time, Andrew Mackenzie was arguing against activist investor Elliott’s push for the miner to unify its dual structure, where two companies with two primary listings operate as if they are one entity.

Now his successor Mike Henry is proposing to do just that, as part of a

broader overhaul that involves getting out of oil and gas through a merger of its assets with Woodside Petroleum. And how do UK investors in the (for now) Anglo-Australian miner feel? Rather hacked off, you would imagine. As should those fretting about the future of the London equity markets as a centre for global business.

Shareholders will vote on a proposal whereby those in the UK company would receive shares in the Australian group on a one-to-one basis. If successful, the miner will be left with a primary listing in Australia and a standard listing in London.

Yes, UK investors can still buy and sell shares here with the same claim to dividends from the same set of assets as before. But under the current nationality rules, BHP would not be eligible for the FTSE 100 index, where it has been one of the largest companies by market value. That would force index-trackers, which account for about 15 per cent of the UK company investor base, to sell.

Active managers could also be barred from owning the stock, depending on fund mandates.

But BHP’s move is unlikely to provoke quite the same fury as Unilever’s 2018 plan — later aborted — to ditch its dual structure in favour of the Netherlands.

The miner has always been Australian, both in spirit and in terms of the Pilbara iron ore that accounts for most of its earnings. To be sure, UK shareholder feelings and, in reality, their ability to participate as investors, have been unceremoniously sacrificed on the altar of cost-benefit analysis. But at least BHP has good reasons for the move, something Unilever lacked.

It will make dealmaking easier, including Woodside, which is important given the need to decarbonise its portfolio. The cost of making the change is about a third of what it once was. And the contribution of the PLC’s assets to profits has fallen from about 40 per cent at the time of the 2001 merger between Australia’s BHP and London-listed

Billiton to about 5 per cent. There is also the peculiar business of Australian tax policy, where “franking credits” can reduce tax payable on dividends. BHP has \$16bn of the things knocking around, which are of benefit to Australian investors and worthless elsewhere.

That’s one reason the Australian shares trade at a substantial premium to

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the London stock: it jumped yesterday as hedge funds started to arbitrage the spread between the two.

None of which softens the blow for the London market, already absorbed in existential angst about its place in the world. Though it has been busy tweaking regulations and watering down governance rules to woo more tech listings,

it is not clear where the opportunity lies to attract a chunk of industry and expertise that has global significance. “It’s a big loss of a well-regarded, global company,” said one longtime fund manager. “Put it this way, I’d rather have BHP in our market than Deliveroo.”

Sure, the Broken Hill Proprietary Company has always been Australian; Billiton ended up in London only because of concerns about its native South Africa. But being a home to the biggest mining companies was London’s raison d’être, and lucrative business thanks to the last supercycle. And unlike oil and gas companies, those producing iron ore, copper and nickel have a clear place in a net-zero world, and will need financing and advice to reshape themselves for it.

If BHP vacates its spot as one of the largest listed companies in Global Britain, the question really is what will emerge to take its place.

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Airlines. Climate change

Aviation learns to cope with extreme weather

Increased disruption of flights as Earth grows warmer forces sector to adopt new strategies

CLAIRE BUSHEY — CHICAGO
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Airlines and airports have started to plan for a future where severe weather jolts flight schedules more frequently as climate change increases the likelihood of extreme heat and big storms.

This month, storms forced the cancellation of more than 300 flights at both Chicago’s O’Hare airport and Dallas/Fort Worth airport in Texas. In July, eight flights in Denver were cancelled and another 300 delayed owing to smoke from forest fires burning in the US Pacific Northwest. Extreme heat affected take-offs in Las Vegas and Colorado earlier this summer.

The disruptions reflect a growing trend: weather-related flight cancellations and delays have increased over the past two decades in the US and Europe, regulatory data show. Scientific studies have found they will become more frequent or intense as Earth grows warmer.

The International Civil Aviation Organization, the UN standard-setting body, found in a 2019 poll of member states that three-quarters of respondents said that the airline industry already was experiencing some impact from climate change.

David Kensick, managing director of global operations at United Airlines, said: “It is something that is absolutely on our minds, as far as how we’re going to be able to continue to run the flight schedule, especially with the growth that we have planned for the future.

“With climate change, we are seeing some of that weather that’s hard to predict, so we need to be better at dealing with it.”

Airlines contribute about 2 per cent of global carbon dioxide emissions, although when other substances spewed from aircraft are included, some studies indicate their climate impact is bigger. The potential effects of climate change on the industry are far-reaching. In the short term, intense weather conditions present operational problems.

Forced flight diversions and cancellations add costs to an industry that haemorrhaged billions of dollars during the coronavirus pandemic.

In the longer term, airlines believe



Grounded: people booked on Spirit Airlines flights from Los Angeles wait after the carrier cancelled more than half its August 3 schedule citing weather

Eugene Garcia/AP

changing wind patterns will alter flight routes and fuel consumption. It will probably take longer to fly from Europe to the US as the jet stream above the north Atlantic changes, for example.

“Aviation will be a victim of climate change as well as, in many people’s eyes, a villain,” said Paul Williams, professor of atmospheric science at the University of Reading in the UK.

The number of delays attributed to bad weather in European airspace rose from 3.5m in 2003 to a peak of 6.5m in 2019, according to data from Eurocontrol, although some of that can be attributed to industry growth. As a share of overall delays, weather rose from 23 per



cent to 27 per cent over the same period.

The share of US flights that were cancelled because of weather increased from about 35 per cent in 2004 to 54 per cent in 2019, according to the Federal Aviation Administration.

Mark Searle, global director for safety at the International Air Transport Association, said airlines had adapted over the years to the changing climate.

“There is an evolving situation, but it is not like going off a cliff edge,” he said. “We are managing it pretty darn well.”

For airports, that can mean preparing for rising seas. Singapore Changi’s new passenger terminal was built 5.5 metres above mean sea level. Avinor, operator of airports along Norway’s coast, has mandated that all new runways must be built at least 7m above sea level.

For airlines, it means turning to technology. American Airlines and United have improved their ability to predict the proximity of lightning, allowing work on the tarmac to continue for longer ahead of a thunderstorm without endangering ground staff.

Severe weather demands extra staff. Carriers are forced to pay overtime as gate agents and call centres meet extra

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demand from passengers trying to rebook. Airlines will need to weigh up paying more overtime, instituting extra work shifts, or letting passengers endure the fallout.

“There’s going to be extra cost either way if — and this is a big if — the airlines decide they’re going to address it,” said Jon Jager, analyst at the aviation data firm Cirium.

Disruptions also come from extreme heat. Aircraft struggle to take off in high temperatures because hot air is less dense, meaning wings create less lift. The higher the temperature, the lighter a plane must be to take off.

Iata is discussing with members new climate change pledges this year. The current targets, set in 2009, include halving 2005 emissions by 2050 and carbon neutral growth after 2020.

But there is a belief, particularly in the US and Europe, that tougher targets, including a net-zero pledge, are needed.

Williams said aviation’s approach to climate change appeared to be shifting. “Historically, there have been lots of climate change sceptics in the aviation sector, but I’ve noticed a change,” he said. “The sector is much more honest now.”

Regulators

Chinese start-ups left in US listings limbo waiting for both sides to finalise their rules

TABBY KINDER AND HUDSON LOCKETT
HONG KONG

Some of China’s most valuable start-ups are scrambling to find a way out of listings purgatory in the US as their top advisers on Wall Street admit they have been stymied by new demands from regulators in Beijing and Washington.

More than 50 Chinese companies that filed their intention to list on US markets this year are “in limbo”, several of their advisers said. Initial public offerings by Chinese groups in the US have ground to a halt after the \$4.4bn listing of ride-hailing app Didi Chuxing in June, which was followed by a flurry of regulatory moves in China and the US.

Bankers have been forced to freeze deals that were near completion as they weigh up how to comply with new requirements from US financial regulators to explain how they will be affected by new Chinese rules that do not yet exist in their final form. The proposed

regulations would require nearly all companies that list in foreign countries to submit to a cyber security review that would increase Beijing’s oversight.

In the first half of the year, 34 Chinese companies raised \$12.4bn in New York IPOs, a record high on both counts. About 20 Chinese companies had publicly disclosed plans to raise \$1.4bn from share sales in New York this year, Dealogic data showed, with many more filed confidentially.

The Securities and Exchange Commission has also stopped signing off on Chinese issuers to price their deals amid the uncertainty from Beijing and turbulent markets as investors rushed to sell out of companies affected by a widening clampdown on technology groups.

Companies that had prepared to list “are in a Catch-22”, said a senior IPO lawyer at a US firm in Hong Kong. “The US disclosure requirements are about Chinese regulations, but that’s a billion-dollar question. No one knows what the

final rules will look like so they cannot craft disclosure.”

Thomas Gatley, an analyst at research firm Gavekal in Beijing, said: “The only options are to stay in the queue and wait for the finalised regulations [from

China] or withdraw and attempt to list onshore or in Hong Kong.”

The incentives for listing in the US were still “very large”, Gatley said. Those companies “are thinking the US is our last opportunity to cash out” and so



Backpedalling: China’s Hellobike pulled its US IPO last month — Qilai Shen/Bloomberg

would likely “hold on” for a New York listing, he added.

The chief executive of a large private equity firm in Hong Kong that owns a number of Chinese tech companies that were nearing IPOs in New York said: “The IPO window is firmly shut for now and so bankers are rushing to discuss what the options are.”

The possibilities being pitched by bankers include redirecting listings to Hong Kong, exploring a merger with special purpose acquisition vehicles, and backdoor listings, through which a company would inject its assets into a listed vehicle, according to several bankers and lawyers involved in talks.

“This is a golden opportunity for Spacs to hunt for targets in China,” said the private equity boss. But he said issuers would be cautious because it was not yet clear whether the new Chinese regulations would apply to Spac deals.

Several high-profile companies in China have already withdrawn their

Retail

Walmart raises forecast after sales increase despite Delta variant surge

MATTHEW ROCCO

Walmart has raised its full-year outlook for the second time in three months after a strong start to the back-to-school shopping season lifted sales even as the spread of the Covid-19 Delta variant weighed on consumers.

Market share gains in groceries and a rebound in demand for travel-related products also helped the company post \$141bn in total revenue for the three months to the end of July, a 2.4 per cent increase year on year. Analysts had anticipated that sales would drop to about \$137bn.

Comparable sales at Walmart’s US stores also outperformed forecasts, rising 5.2 per cent versus analysts’ prediction for a 3.7 per cent gain.

Retailers are poised to benefit from a resurgent back-to-school season. Child tax credit payments that began this summer should give parents extra money to spend as students return to the classroom, according to analysts.

Families will spend a record \$37.1bn on school-age children, up from \$35.9bn in 2020, according to a survey last month from the National Retail Federation.

But analysts are watching a flurry of retail earnings this week for clues on whether a new wave of Covid cases will hit consumer spending.

Analysts are watching for clues on whether a new wave of Covid cases will hit consumer spending

US retail sales fell 1.1 per cent in July against the previous month, on the heels of a 0.7 per cent gain in June, the Census Bureau said yesterday. The data came after a University of Michigan survey said consumer sentiment plunged to its worst level in more than nine years in early August, a “stunning loss of confidence” after a wave of coronavirus infections and hospital admissions.

The decline in July vehicle, grocery and clothing sales “could all be a sign that surging virus cases are convincing consumers to stay at home again, although that is a little hard to square with the continued recovery in spending at bars and restaurants”, said Andrew Hunter, senior US economist at Capital Economics.

Retail sales had already pulled back in recent months. The impact of stimulus cheques earlier in the year has faded, consumer price inflation has picked up, and the end of lockdown restrictions has encouraged consumers to spend more on travel and entertainment, which are not captured by retail sales data.

Walmart said it enjoyed a solid start in the second quarter for sales of back-to-school category goods. Grocery sales accelerated as the quarter progressed, it added. Overall, Walmart’s sales gains in the US increased in each month of the quarter, underpinned by the US economic recovery. Store transactions accelerated as more customers returned to shopping in person, while US e-commerce sales were up 6 per cent.

Walmart, the world’s largest retailer, now expects net annual sales to be slightly positive, after previously estimating a low single-digit decline.

Second-quarter net income fell 34 per cent to \$4.28bn, or \$1.52 a share. It earned \$1.78 a share on an adjusted basis, topping analysts’ estimates of \$1.57.

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