

HD Fortescue profits hits record high

CR AAP

WC 576 words

PD 20 August 2014

ET 16:44

SN couriermail.com.au

SC NLCRMW

LA English

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IRON ore miner Fortescue Metals has lifted net profit by 56 per cent to a record \$US2.7 **billion** but is balancing repaying debt with dividends.

FORTESCUE, the world's fourth largest **iron ore** miner, grew its full year net profit by 56 per cent to a record \$US2.7 **billion** but unsurprisingly did not increase its 10 US cents a share dividend.

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Shareholder returns are a contentious issue for the miners with BHP Billiton shares plunging four per cent on Wednesday when a hoped-for buyback or special dividend did not occur.

The sharemarket's top recent performers have paid higher dividends, although they have been criticised for not investing in growth.

Fortescue shares fell 1.5 per cent to \$4.585 and are down more than 12 per cent in the last 12 months.

Fortescue's founder and biggest shareholder Andrew "Twiggy" Forrest will still collect about \$103 **million** through his 33 per cent **stake**.

When **iron ore** prices fell sharply in 2012 and tested Fortescue's profitability, it was forced to secure a \$US4.5 **billion** funding line to avoid breaching its debt covenants.

Its net debt reached a peak last year of \$US10.5 **billion** but has been rapidly cut to \$US7.2 **billion**, with the **company** also announcing on Wednesday it would repay another \$US500 **million** early in October.

The **company** intends increasing its dividend pay-out ratio from a current 21 per cent to 30-40 per cent as long as it repays a planned \$2-\$2.5 **billion** in two years, reducing gearing to 40 per cent.

That assumes **iron ore** prices do not change greatly after falling 30 per cent this year to a current \$US93 a tonne.

That cannot be guaranteed although Mr Power said Fortescue expects prices to rise as high cost production is forced out and **Chinese** demand stays high.

"We've been very clear about what our strategy is and we have communicated clearly that our focus is debt reduction," he told reporters.

"It is a matter of maintaining balance, recognising that shareholders need to be rewarded along the way ... we felt 10 cents was about right.

"We are very relaxed and comfortable with our position at the moment and the speed at which we are repaying debt."

The **company** has seemingly thrived since its crisis, finishing its \$US9.2 **billion** three-year expansion, and it expects to hit its target of 155 to 160 **million** tonnes of **iron ore** in fiscal 2015.

The **company** has cut costs by about \$US2 **billion** since 2012 including 23 per cent in production costs in the last year.

All-in costs are about \$US60 a tonne, meaning it can handle further falls in the **iron ore** price.

IG market strategist Evan Lucas said Fortescue was proving the naysayers wrong, but noted that its bullish outlook for **iron ore** prices was not shared by peers such as BHP Billiton chief Andrew Mackenzie.

"They have still got a considerable amount of debt on the balance sheet ... that is certainly still the risk that comes with Fortescue and that 98 per cent of earnings comes from **China** and they are exposed to one and one only commodity."

FORTESCUE ROCKETS TO RECORD PROFIT

* Net profit of \$2.7b, up 56pct from \$1.7b in 2012/13

* Revenue of \$11.8b, up 45pct from \$8.1b

* Unchanged fully-franked final dividend of 10 cents per share

CO ambol : Fortescue Metals Group Ltd

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AN Document NLCRMW0020140820ea8k0008f