HD **Iron ore miner Fortescue roars back from the brink**

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BANGKOK -- It was with an air of triumph that Andrew Forrest, the billionaire founder of Fortescue Metals Group, opened the company's fourth mine in late March. FMG is Australia's third-largest iron ore producer; 400 select guests attended the ceremony for Kings, the new site in the country's remote northwest.

"With Kings we have reached our goal of being able to mine 155 million tons per year," a still-excited Forrest, FMG's chairman and major shareholder, said a few weeks later. "As production escalates, we will be moving as much iron ore into China as (Anglo-Australian multinational) BHP Billiton and (Brazil's) Vale SA."

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Kings mine completes FMG's fast-tracked, $9.2 billion expansion, as well as Forrest's 11-year project to become the world's No. 4 iron ore miner, defying legions of doubters.

It took a combination of timing, luck and the backing of a Chinese government determined to break the oligopoly of iron ore's "big three" of BHP, Vale and Anglo-Australian firmRio Tinto.

Wild ride

Like the roller-coaster career of one of Australia's richest men -- Forrest is worth over $5 billion -- the latest mine project has seen many ups and downs.

In September 2012, many analysts believed the flamboyant Forrest was close to losing his business. Iron ore prices, which peaked at $190 per ton in February 2011, began tumbling, bottoming out at $87 per ton, down from $137 only five months earlier as China -- the world's biggest consumer of the commodity -- began showing signs of a slowdown.

FMG's share price fell from over 6 Australian dollars to under A$3 in that period, and trading of the stock was frozen on Sept. 14, 2012. Markets were buzzing with speculation that the low price had seen the miner breach its debt covenants.

"When the iron ore price collapsed, people were happy to dance on our grave. ... They assumed we had failed," Forrest says. "But while we were operating to plan A, we always had a really strong plan B -- to refinance our whole capital structure."

Forrest took charge of the rescue effort and within four days, together with his Chief Executive Nev Power and finance chief Stephen Pearce, had secured $4.5 billion in debt funding from Credit Suisse and JPMorgan.

"The equity markets didn't support us at the time, but we knew the capital markets would," Forrest says.

FMG's financial problems led to a cost-cutting drive that Forrest admits was overdue. Among key changes, 1,000 employees were laid off and the group's port and rail infrastructure -- worth about A$3 billion -- was put up for sale. Insiders say the group was even prepared to sell stakes in individual mines if pricing conditions remained poor.

As Forrest was preparing to offload the infrastructure that had kick-started his business -- BHP and Rio Tinto had for decades refused competitors access to their rail lines -- his luck turned. Iron ore prices rallied to $160 and stayed high for 18 months, averaging about $138 per ton in 2013.

Bolstered by unexpected cash flows, Forrest switched from retreat to attack within days, boldly commissioning new mines he knew would tap into better-quality iron ore bodies and help reduce FMG's costs, while bringing the group closer to its target of shipping an annual 155 million tons of ore by June 2014.

Sharing the wealth

But that "near-death" experience prompted Forrest to -- publicly, at least -- scale back any ambitions of further expansion and focus on his shareholder base.

"We are absolutely focused on paying down debt," he says. "We have (already) paid down some $3.3 billion in debt; in 12-18 months, we will have paid off more debt, so our gearing ratio is about 40% debt to equity."

Analysts have signaled broad approval of this approach. "With net debt declining, we look for FMG to continue to lift its dividend and return an ever-increasing amount of cash to shareholders," Swiss financial-services companyUBS said in an April 17 report.

Although global seaborne iron ore supply, mostly from Australia, is expected to increase 12% this year, Forrest dismisses forecasts that prices will steadily fall to about $85 over the next two years.

"If that's what they are saying, then it will be wrong," he says. "China's continuing urbanization -- of more than 200 million people -- will continue to drive demand for steel and iron ore."

Slashing expenses

FMG's business model has always entailed more risk than its rivals'. At the time of the 2012 price collapse, some analysts estimated the group's actual production costs at nearly $100 per ton -- roughly double those of Rio Tinto and BHP.

Now, Forrest claims, FMG's costs are shrinking and will ultimately be "close to the world's best." That would be quite a feat, given that in an April 16 media briefing on the group's quarterly production figures, Power said the group's costs remain "in the low $70s" -- still about $20 more per ton than its larger competitors. Some analysts believe FMG's costs are actually higher than they appear due to complex but legal capitalization accounting methods.

Still, iron ore prices -- and FMG's business performance -- will continue to rise and fall along with the Chinese economy, which slowed to 7.4% growth in the first quarter of this year from 7.7% in the previous quarter. Economists are divided about China's direction amid mounting concerns about the country's sluggish property market, which consumes 60% of the country's steel.

Forrest does not share these concerns. "It's absolutely predictable," he says, "that the Chinese economy will continue to grow at about 7.5%; that's their target."

FMG is in a much stronger position than ever. But if a slide in China's economy triggers a prolonged fall in iron ore prices, Forrest's resourcefulness may once again be tested.

CO ambol : Fortescue Metals Group Ltd | bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

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