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HD **Surging Fortescue tips ore price rise**
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Fortescue Metals, fresh from announcing a profit surge, is predicting **iron ore** prices will head upwards again despite broader market expectations of prolonged weakness.

After its near-death experience 18 months ago, Fortescue earned a net profit of \$US2.7 **billion** in the year to June, up 56 per cent, on revenue of \$US11.7 **billion**, up 45 per cent, as it benefited from record export levels and a significant decline in costs.

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Analysts are forecasting lower earnings in the year ahead of about \$US1.7 **billion**, with the recent weakness in the **iron ore** price expected to be prolonged.

Fortescue is more upbeat, because it expects ongoing robust steel demand in **China** thanks to continued economic growth.

"Our expectation is the **iron ore** price will drift upwards ... as higher-cost producers exit and the market rebalances," chief executive Nev Power said. He declined to say when prices might recover, or to what extent.

Fortescue's production hit an annualised rate of 155 **million** tonnes in the year to June, moving close to the anticipated peak of 160 **million** tonnes.

With the price of **iron ore** holding near \$US93 a tonne, the **company** slashed its debt burden by \$US3.1 **billion** in the year, and flagged paying down another \$US500million in October, as part of full-year payments that could total \$US2 **billion**.

If achieved, this could push net debt to less than \$US5 **billion** by mid-2015, well below the gross debt figure of \$US12.7 **billion** reached in late 2012, when a plunge in the **iron ore** price meant the group faced breaching its loan covenants.

As a result, it was forced to defer some spending as it took an axe to costs, to ensure its survival.

Now it expects to reduce its gearing - the ratio of debt to **equity** - to about 40 per cent over the next 18 months or so from 50 per cent at present, although the outcome will depend on the **iron ore** price.

When that gearing ratio is achieved, Fortescue intends to raise its dividend payout ratio to 30 per cent to 40 per cent of earnings.

The **company** had net debt of \$US7.2 **billion** in mid-2014, although it is facing a tax bill of more than \$US600 **million** in early December, which may limit its debt repayment flexibility over the balance of the financial year ahead.

With production costs of about \$US50 a tonne, this will keep management under pressure to cut costs further, to give it flexibility if the **iron ore** price remains soft.

A final dividend of 10¢ a share, which takes the annual dividend to 20¢ a share, equals a 20 per cent payout.

The chairman, Andrew Forrest, is the main beneficiary of the dividend. He holds more than 1 billion shares and will receive a \$100 million dividend cheque on October 3.

CO	ambol : Fortescue Metals Group Ltd
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