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HD **Surging Fortescue tips ore price rise**

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WC 490 words
PD 21 August 2014
SN The Age
SC AGEE
ED First
PG 24
LA English

LP

Resources

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

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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.

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

IN i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | i211 : Metal Ore Mining | imet : Mining/Quarrying

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AN Document AGEE000020140820ea8l0004f

