

**HD** \*Fitch Affirms Fortescue at 'BB+'/Stable

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29 Aug 2014 01:10 ET Press Release: Fitch Affirms Fortescue at 'BB+'/Stable

The following is a press release from  
Fitch Ratings:

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Fitch Ratings-Singapore/Sydney-29 August 2014: Fitch Ratings, Singapore/Sydney, 29 August 2014: Fitch Ratings has affirmed Australia-based Fortescue Metals Group Limited's (Fortescue) Long-Term Issuer Default Rating (IDR) and its senior unsecured rating at 'BB+'. The Outlook on the IDR is Stable. The agency has also affirmed the **company**'s senior unsecured and senior secured debt, issued through FMG Resources (August 2006) Pty Ltd, at 'BB+' and 'BBB-', respectively.

Fortescue's operating and financial profiles closely mirror that of an investment-grade rated **company**. In particular, Fortescue is the fourth-largest **iron ore** producer in the world, and it has a low-cost base, which results in strong profit margins. The completion of the **company**'s expansion project in March 2014 increased the **company**'s processing capacity to 155 **million** tonnes per annum (mtpa) and helped strengthen its cost position further.

Fitch also expects the **company** to reduce its FFO adjusted gross leverage (leverage) to below 2x. Fitch's expectations are based on Fortescue repaying a further USD2.5bn of debt over the next 18-24 months to achieve its publicly stated 40% gearing (measured by debt/(debt and **equity**)) and 62% Fe (cost and freight) price - a benchmark price for **iron ore** - remaining at or above USD90 per dry metric tonne (dmt).

Fortescue would need to demonstrate a long-term commitment to maintaining a capital structure that is in line with a 'BBB' category rating and a reduced risk appetite before Fitch would consider positive rating action.

#### KEY RATING DRIVERS

- Higher Output, Lower Costs: Fortescue successfully produced **ore** at an annualised rate of 155mtpa in the fourth quarter of the financial year ended 30 June 2014 (FY14), including a higher 160mtpa rate in the month of June 2014. This compared with 124.2 **million** tonnes that were shipped in FY14. The **company**'s C1 costs (cash costs) reduced 23% to USD34/wet metric tonne (wmt) from a year earlier, driven by lower stripping costs at Solomon, an improved product strategy, a 54% increase in output that improved economies of scale, as well as a lower Australian dollar-US dollar exchange rate.

Strong Profits Drive Deleveraging: Fortescue's EBITDA (as defined by Fitch) rose 68% in FY14 to USD5.6bn, with EBITDA margin increasing to 48% from 41%. The agency expects Fortescue's EBITDA margin to remain at around 42%-46% over the medium term, provided the 62% Fe price doesn't fall below USD90/dmt on a sustained basis (for more information, see "Updating Fitch's Mid-Cycle Commodity Price Assumptions", dated 28 July 2014, on [www.fitchratings.com](http://www.fitchratings.com)). The **company** repaid USD3.1bn of debt in FY14 and has committed to repay a further USD500m in October 2014. Leverage is likely to reach around 2.1x in FY15 after this repayment and amid Fitch's expectation that **iron ore** prices would weaken from the previous year's levels. This compares with 1.8x in FY14 when **iron ore** prices improved and 4.0x in

FY13. Leverage could fall further to around 1.8x by FYE15 if the **company** calls an additional USD2bn of its outstanding notes.

**Strong Liquidity, Flexible Structure:** Fortescue had cash reserves of USD2.4bn at end-June 2014, while its earliest mandatory debt repayment of USD1bn falls due only in 2017. Furthermore, Fitch expects Fortescue to generate strong post-dividend free cash flow, as the **company's** capex will fall to maintenance levels over the medium term. Fortescue has considerable flexibility around its debt structure and repayments because its secured credit facility, which accounts for over 50% of FY14 debt, is repayable at the **company's** discretion. Furthermore, each tranche of its senior unsecured notes, which account for the remainder of its debt, can be called early.

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- **Lack of Diversification:** Fortescue has limited business diversification compared with its higher rated international peers. It has only one product, **iron ore**, which it sells predominantly in the **Chinese** market.

**Secured Credit Facility:** The rating on the secured credit facility is notched up one level from Fortescue's 'BB+' IDR to reflect the additional provision of quality collateral, including **mining** tenements. This uplift for a 'BB+' rated **company** is consistent with Fitch's "Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers" criteria.

#### RATING SENSITIVITIES

- **Positive:** Future developments that could **lead** to positive rating actions include:

- - A demonstrated commitment to maintain a capital structure that is more in line with a 'BBB' category rating and,

- - sustaining FFO adjusted gross leverage at less than 2x and FFO fixed-charge cover at more than 5x (FYE14: 6.1x)

**Negative:** Future developments that may, individually or collectively, **lead** to negative rating action include:

- - FFO adjusted gross leverage exceeding 3x and FFO fixed charge cover remaining below 4x

#### Contact:

##### Primary Analyst

- Hasira De Silva, CFA
- Director
- +65 6796 7240
- Fitch Ratings Singapore Pte Ltd
- 6 Temasek Boulevard
- #35-05, Suntec Tower Four
- Singapore 038986

##### Secondary Analyst

- Vicky Melbourne
- Senior Director
- +61 2 8256 0325

##### Committee Chairperson

- Kalai Pillay
- Senior Director
- +65 6796 7221

Media Relations: Leslie Tan, Singapore, Tel: +65 67 96 7234, Email: [leslie.tan@fitchratings.com](mailto:leslie.tan@fitchratings.com); Leni Vu, Sydney, Tel: +61 2 8256 0326, Email: [Leni.Vu@fitchratings.com](mailto:Leni.Vu@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable criteria, "Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage", dated 28 May 2014, and "Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers", dated November 2013, are available at [www.fitchratings.com](http://www.fitchratings.com).

Related Research:

- "Rating **Mining** Companies" dated 9 August 2012.
- "Updating Fitch's Mid-Cycle Commodity Price Assumptions" dated 28 July 2014.

Applicable Criteria and Related Research:

- Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=749393](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393)
- Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers  
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- Updating Fitch's Mid-Cycle Commodity Price Assumptions  
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Additional Disclosure

- Solicitation Status  
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(END) Dow Jones Newswires

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