



HD Moody's: Fortescue's quarterly production results within expectations; ratings unaffected

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Moody's Investors Service says today that Fortescue Metals Group Ltd's (Fortescue) production report for the quarter ended December 2013 were broadly within our expectations and hold no rating implications. Fortescue Metals Group's Corporate Family Rating (CFR) is Ba1 with senior secured term loan facility rating of Baa3 and a senior unsecured notes rating of Ba2. The outlook on all ratings is stable.

"Total shipments guidance for FY14 of 127mt, towards the lower end of the **company's** previous guidance, is broadly in line with Moody's expectation of around 125mt" says Matthew Moore - a Moody's Vice President and Senior Analyst. "Therefore, production guidance at the lower end of the **company's** guidance range does not impact on our expectations for cash flow generation or credit metrics", adds Moore.

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Under our base case assumptions of **iron ore** prices of around USD110 to USD120 (based on 62% Fe) for the second half of the fiscal year ending 30 June 2014, we expect Fortescue's debt-to-EBITDA to improve to close to 2.0x.

The **company** has also increased its capital expenditure guidance for FY14 to USD2.1 **billion** from USD1.9 **billion**. "The Capital expenditure guidance of around USD2.1 **billion** is still broadly in-line with our expectation of around USD2.0 **billion** for FY14" says Moore. "The incremental capital expenditure can more than adequately be accommodated by the large cash balance of \$2.9 **billion** at the end of the quarter and the strong operating cash flow generation expected by the **company**" adds Moore who is also Moody's **lead** analyst for the **company**.

During the quarter the **company** also completed the construction of the Kings **ore** processing facility (OPF) and announced that it is on track to ramp up **operations** at the Kings deposit to reach the 155mtpa target production levels within the March 2014 quarter. The recent rating upgrade reflected the continued progress the **company** has made on its expansion activities.

"The stable outlook reflects our expectation that Fortescue will continue to generate solid cash flow and achieve its production targets following the completion of the current expansion activities", says Moore.

The ratings are not likely to be upgraded in the near term. Over the longer term, the ratings could face positive trend if Fortescue demonstrates a track record of 1) consistently producing at the full expanded 155mtpa capacity and 2) maintaining a conservative financial profile such that Debt-to-EBITDA is maintained below 2.0x through the cycle. In addition, a critical issue for a rating upgrade will be the **company's** growth intentions post completion of the current phase of expansion. Achieving a more geographically diversified customer base would also be supportive of a rating upgrade.

The outlook or rating could face negative pressure if the **company** experiences any unexpected execution challenges with the remaining expansion activities, is unable to sustain production levels near the 155mtpa target, embarks on any material further expansions, and/or adapts more aggressive shareholder-friendly initiatives, such that credit metrics do not remain in line with Moody's expectations. **Iron ore** prices sustained materially below our base case assumptions could also **lead** to negative pressure on the rating or outlook. Financial metrics that Moody's would consider for a downgrade include Debt-to-EBITDA exceeding 2.5x and FFO-to-Interest falling below 4.0x on a consistent basis

The principal methodology used in this rating was the Global **Mining** Industry published in May 2009. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Fortescue Metals Group Limited based in Perth, is an **iron ore** producer engaged in the exploration and **mining** of **iron ore** for export, mainly to **China**. Fortescue is Australia's third largest **iron ore** producer and exporter as well as one of the world's largest producers and sea-borne traders. Fortescue has around 15.6 **billion** tonnes of **iron ore** Resources, including 2.2 **billion** tonnes of reserves, and its tenement holdings span an area of over 85,000 square km in the Pilbara region of Western Australia. For the December 2013 quarter, Fortescue achieved an annual run rate of around 112mtpa of production. Moody's expects full year shipments for FY2014 to be around 125mt.

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