REUTERS

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

WC 1,189 words

PD 29 August 2014

ET 15:10

SN Reuters News

SC LBA

LA English

LP

(The following statement was released by the rating agency) SINGAPORE/SYDNEY, August 29 (Fitch) 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.

TD

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). 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. 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; Leni Vu, Sydney, Tel: +61 2 8256 0326, Email: Leni.Vu@fitchratings.com. Additional information is available on 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. 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 Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=721836 Updating Fitchâ€™s Mid-Cycle Commodity Price Assumptions http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749419 Additional Disclosure Solicitation Status http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=860874 ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE **LEAD** ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

RF Released: 2014-8-29T06:10:26.000Z

CO ambol : Fortescue Metals Group Ltd

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

NS c174 : Corporate Credit Ratings | c172 : Corporate Debt Instruments | c17 : Funding/Capital | cactio : Corporate Actions | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

RE austr : Australia | china : China | singp : Singapore | sydney : Sydney | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | nswals : New South Wales | seasiaz : Southeast Asia

IPD Business

IPC SERVICE:ABN

PUB Thomson Reuters (Markets) LLC

AN Document LBA0000020140829ea8t002kt