

# FINANCIAL REVIEW

SE Companies and Markets  
HD **Twiggy drops \$500m as ore price slumps**  
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Andrew 'Twiggy' Forrest knows better than most how movements in commodity prices can cause havoc with your bank balance.

With **iron ore** prices falling to its lowest in close to a year, shares in Fortescue Metals Group tumbled more than 9 per cent on Monday, wiping about \$450 **million** off the value of Forrest's **stake**.

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Since February 21, when FMG's shares broke through \$6 for the first time since early 2012, the stock has dropped by about 18 per cent to close at \$4.92 on Monday.

That drop has wiped \$1.1 **billion** off the value of Forrest's **stake** in a matter of 11 trading days. His **stake** is now worth \$5.1 **billion**.

Calculating the impact of the **iron ore** price movement on other **iron ore** moguls such as Gina Rinehart and Angela Bennett isn't as transparent, although given they both rely on royalties paid by Rio Tinto – which mines tenements owned by their fathers, Lang Hancock and Peter Wright – the share price of that **company** can be seen as a very rough proxy.

Rio shares dipped 5.76 per cent to close at \$61.20 on Monday. Since February 21, Rio's stock is down 12.9 per cent.

BHP Billiton shares lost 4.14 per cent on Monday, to close at \$36.16. The stock is down 7.8 per cent since February 21. Fortune seesaws

Forrest has regularly felt the impact of the **iron ore** prices on his wealth. In 2008, with **iron ore** spot prices soaring towards \$US200 a tonne, shares in FMG jumped and Twiggy's fortune soared to \$9.4 **billion**, making him Australia's richest person. A year later, with the spot price back around \$US60, Twiggy's fortune was put at \$2.4 **billion** as FMG shares slumped.

With the **iron ore** price dropping 2 per cent to \$US114.20 a tonne – the lowest price since June 2013 – on the back of more disappointing data from **China**, Forrest appears to have taken a step back onto that wealth roller-coaster.

The drop in the **iron ore** price is certainly causing jitters at all ends of the **mining** sector; last week Citi downgraded its long-term earnings expectations for BHP Billiton and Rio Tinto. FMG and Atlas **Iron** were also downgraded.

Citi is forecasting **iron ore** will slip to \$113 a tonne this year – and obviously it's already very close to that level – before sliding to \$90 in 2015 and \$80 in 2016. It then expects the price will see a "modest rebound".

Given the way his fortune and FMG's share price have gyrated wildly over the years, Forrest is unlikely to be too concerned about Monday's losses.

Indeed, over the past 12 months, the **iron ore** spot price has fallen from \$US144 a tonne to its current level of \$US114 a tonne, but Forrest's FMG **stake** has risen from \$4.2 **billion** \$5.3 **billion**.

He even took home more than \$100 **million** when FMG surprised the market by announcing a dividend with its half-year results. Share price more resilient

It could be argued that FMG's share price should be bit more resilient to **iron ore** price movements than it was in 2008, when it was an **iron ore** hopeful rather than a true **iron ore** miner.

Indeed, JPMorgan Lyndon Fagan last week upgraded the stock with a bullish price target of \$6.85, compared with the current share price of \$5.43.

His take is based on a \$US90 a tonne **iron ore** price, but he says that FMG's pre-tax break-even price has dropped \$US20 a tonne to \$US83 a tonne and says the **company** "can now remain in positive cash flow territory", even if prices remain "significantly" lower for longer.

Fagan also argues that FMG has shored up its balance sheet and strengthened its production, which, like most of the Pilbara producers, is rising.

"The key question remains whether FMG can outperform in a structurally declining **iron ore** pricing environment," Fagan wrote in a note to clients.

"While we acknowledge the **iron ore** price could be volatile this year as the market adjusts to new supply, we believe the imminent de-risking of FMG's production and balance sheet present a compelling outlook for it to outperform this year."

If you agree with Fagan's take, then there could be some very attractive buying opportunities around a stock like FMG.

But be ready for some ups and downs – as Andrew Forrest knows only too well, life is never boring with **iron ore** stocks. READ NEXT: **Iron ore** price falls 2pc as **China** economy drags

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