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HD **Fortescue says bears are wrong on iron ore**

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Fortescue Metals Group, fresh from announcing a profit surge based on increased volumes, predicts iron ore prices will head upwards again despite broader market expectations of prolonged weakness.

After its near-death experience 18 months ago, Fortescue earned a net profit of $US2.7 billion ($2.9 billion) in the year to June, up 56 per cent, on revenue of $US11.7 billion, which was itself a rise of 45 per cent.

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The company benefited from record export levels coupled with 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, since it expects ongoing robust steel demand in China thanks to continued buoyant economic growth to buoy prices.

"Our expectation is the [iron ore] price will drift upwards … as higher cost producers exit and the market rebalances," chief executive Nev Power said.

But he declined to say when prices might recover or to what extent.

Fortescue 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 around $US93 a tonne in the year, the company slashed its debt burden by $3.1 billion in the year, and flagged paying down another $US500 million in October, as part of full-year payments which could total as much as $US2 billion.

If achieved, this could push net debt to less than $US5 billion by mid-2015, which is well below the gross debt figure of $US12.7 billion reached in late 2012, when a plunge in the iron ore price left the group faced with 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-40 per cent of earnings.

It boasted of net debt of $7.2 **billion** in mid-2014, although it is facing a sizeable tax bill of more than $600 **million** in early December which may limit its debt repayment flexibility over the balance of the financial year ahead

With production costs of about $US84 a tonne, this will keep management under pressure to cut costs further to give it flexibility if the **iron ore** price does remain soft.

With a final dividend of 10¢ a share, which takes the annual dividend to 20¢ a share, this equals a 20 per cent payout.

The chairman, Andrew Forrest, is the main beneficiary of the dividend, since he holds more than 1 **billion** shares. He will receive a $100 **million** dividend cheque on October 3.

Fortescue shares fell 1.5 per cent or 7¢ to close at $4.55 on Wednesday. The stock is up 19.1 per cent in the past 12 months, compared with a 10.9 per cent rise in the S&P/ASX 200.

Full year 2014 2013 Sales ($**m**) 11,753 8,210 Pretax ($**m**) 5,636 3,575 Net ($**m**) 2,740 1,756 EPS 88¢ 56.07¢ Final div* 10¢ 10¢ –Payable October 3 Close Change Shares (last) $4.55 -7¢

CO ambol : Fortescue Metals Group Ltd

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