

# FINANCIAL REVIEW

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HD **Fortescue on path to investment grade**  
BY Jonathan Shapiro  
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Fortescue Metals Group has inched closer towards a coveted investment grade debt status after rating agency Standard & Poor's upgraded the **company** to BB+.

The upgrade to BB+ is just one notch below investment grade status and follows a record full year profit of \$2.7 **billion**.

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"The upgrade reflects our view that Fortescue has substantially improved its credit profile with its debt reduction, successful production ramp-up to 155 **million** tonnes per annum in the June 2014 quarter, and improving credit metrics," Standard & Poor's credit analyst May Zhong said.

The agency cited Fortescue's efforts to cut its debt, which leaves it better placed to weather sharp swings in the **iron ore** price. The **company** has cut its debt by \$US3.1 **billion** from \$US12.7 **billion** a year ago to \$US9.6 **billion**.

The upgrade is the third uplift in the long-term bond rating since October 2010 when the agency rated the miner's unsecured debt at "B".

S&P said Fortescue's business risk was satisfactory as it solidified its position as the fourth-largest **iron ore** producer in the world. But it warned that the **company**'s lack of product and customer diversity – it sells almost all its **iron ore** to the **Chinese** steel market – was a weakness. The agency estimated that an **iron ore** price of \$US60 per wet metric tonne represented Fortescue's break-even level.

S&P said it might consider lowering the rating if Fortescue's credit metrics worsened. It estimated that a fall in the **iron ore** price to \$US80 a dry metric tonne would pressure the rating. At present the **iron ore** price is around \$US91.90 per dry metric tonne out of **China** and the price hasn't been below \$US80 a tonne for five years. In February 2011, **iron ore** peaked at \$US192 a tonne.

The **company**'s financial profile was still a "significant" risk, the agency said,

While the **company** is just one notch away from achieving investment grade status, the agency said it would have its work cut out to get another uplift.

"An upgrade is less likely in the short term unless the **company** has a demonstrably much more conservative financial policy and financial risk profile," the agency said.

Investors in Fortescue's **bonds** have seen a sharp decline in bond yields. The February 2018, 6.75 per cent **bonds** had yielded as much as 9 per cent in October 2011, but have traded below 5.30 per cent since March this year. Fortescue's shares closed 1.34 per cent lower on Friday at \$4.42.

CO ambol : Fortescue Metals Group Ltd

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