Fortescue plan to split bill on mega hydrogen build

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Fortescue will use debt, government grants and equity sell-downs to minimise the toll on its balance sheet from the estimated $US4 billion ($5.9 billion) cost of its next two hydrogen projects.

Insights into the potential capital required of the next wave of hydrogen projects came as ***Fortescue*** raised its dividend by 16 per cent and reported a $US5.7 billion annual underlying profit yesterday.

Total dividends for the year of $1.97 a share translate into $2.2 billion for Andrew and Nicola Forrest, who collectively control 36.7 per cent of ***Fortescue***.

The iron ore miner announced in July that it would slow its push into hydrogen as part of an austerity campaign that would involve 700 job cuts. The belt-tightening comes at a time when analysts believe weak iron ore prices will drive a 15 per cent slide in revenue in the year ahead.

But ***Fortescue*** has not fully abandoned the nascent hydrogen sector, and plans to bring projects in Norway and Brazil to the board for an investment decision over the next 12 months.

Fortescue energy chief Mark Hutchinson said both projects would, in fact, make green ammonia, a compound of hydrogen and nitrogen that was easier to transport than hydrogen.

He said a plan to build an ammonia project at Holmaneset in the Norwegian fjords would cost in the "low $US1 billion" range, with construction expected to start in 2025 and first production by 2027.

But Mr Hutchinson stressed that ***Fortescue*** did not plan to cover the full $US1 billion price tag, with the European Commission already pledging (EURO)204 million ($335 million) towards the project.

"We would get going on the project, we would bring bank debt in at some stage, probably at financial close, of 50 to 60 per cent, and then we would sell down some of the equity," he said of the project's funding.

Mr Hutchinson did not provide an exact cost estimate for Brazil's Pecem ammonia project, but said it would be "three times the size" of the Norwegian project.

Fortescue has made similar remarks about the funding structure for its energy projects in past years, but has so far fully funded its hydrogen projects in Arizona and Gladstone.

The company had $US4.9 billion of cash on hand and net debt of $US500 million at June 30.

Credit rating agency Moody's Investor Services said those metrics left ***Fortescue*** well-placed to invest in projects even though the outlook for iron ore prices was soft.

"This leaves ***Fortescue*** with significant capacity as the company steps up its decarbonisation efforts and capital expenditure for ***Fortescue*** Energy in fiscal 2025, while considering further green energy projects," said Moody's analyst Sean Williams.

Fortescue's total capital spending in the next year will be between $US3.7 billion and $US4.3 billion, with only $US500 million going to energy projects, while up to $US900 million of the spend will be on decarbonising its iron ore mines.

Fortescue vowed to continue returning between 50 per cent and 80 per cent of earnings to shareholders as dividends. The $1.97-a-share dividend total for 2023-24 equated to a 70 per cent payout ratio; an improvement on last year's 65 per cent.

The stronger dividend was made possible by an 8 per cent rise in revenue on the back of stronger iron ore prices, and came despite a rare decline in annual export volumes.

It was also made possible by an austerity campaign that saw ***Fortescue*** announce 700 job cuts last month, on top of hundreds of job cuts in the previous 15 months.

Analyst consensus measured by Bloomberg had pointed to a $US6.09 billion underlying profit.

Morgans analyst Adrian Prendergast said higher than expected depreciation and amortisation charges were the major reason why ***Fortescue***'s profit result was lower than expected.

Fortescue shares have lost 36.5 per cent of their value since January 1, and Mr Prendergast believed the stock was offering good value at current levels.

"The stock had become oversold following two discounted block trades in two months and fears around China growth [where we expect much more stable iron ore fundamentals]," he said.

Benchmark ore with 62 per cent iron was fetching $US101.10 a tonne on Tuesday, according to S&P Global Platts.

Yesterday's ***Fortescue*** accounts also revealed that former chief executive Fiona Hick was paid $2.4 million for working eight months in 2023-24.

Her resignation was announced in August last year, but she remained employed until February 28. Her pay was described as $327,205 of fixed remuneration, plus a $2.08 million "termination payment".

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