Big investors steer clear of Fortescue, and miss major rally; Commodities

Australian Financial Review
April 17, 2024 Wednesday
Print & First Editions

Section: MARKET WRAP; Pg. 29

Length: 702 words

Byline: Joshua Peach

Body

Institutional investors are increasingly steering clear of ***Fortescue***, but their scepticism of the iron ore giant's prospects has meant they have missed out on a record rally in the company's share price as overseas funds and retail shareholders pile in.

Analysis of more than 30 top actively managed Australian equity funds found just one portfolio manager had disclosed a substantial position in the company this year.

That makes the West Australian miner - founded in 2003 by Andrew Forrest, now executive chairman - the least-held stock among the 10 largest companies on the ASX.

The Australian Financial Review's analysis is in line with a survey of 50 fund managers from JPMorgan, which ranked ***Fortescue*** as the "least-loved" stock relative to its size - a position it has held for much of the poll's eight-year history.

Several portfolio managers and analysts cited the miner's lower iron ore grades as one reason to forgo the stock in favour of larger rivals BHP, Rio Tinto and Brazil's Vale.

They said they were also concerned about the high turnover among senior management and increased spending on the as-yet unprofitable green hydrogen projects.

"For some investors over the last couple of years, it's just gone into the too-hard basket," said Jason Kururangi, portfolio manager with Milford Asset Management.

He also cited concerns about its green investments.

"Most people tend to be more comfortable in BHP. You have a similar cost structure and a higher-grade product, which generally fares through the cycle - even if you sometimes get supercharged earnings from ***Fortescue***, like we've seen in the last 12 months."

Even so, many fund managers missed out on an almost 50 per cent surge in the share price between September and February, after earnings were boosted by higher iron ore prices and lower than expected discounts on its exports. That compares to a mere 5 per cent rise for BHP and 16 per cent for Rio Tinto over the same period.

Brokers have also been bearish for some time. Most analysts have slapped a sell or equivalent rating on the stock since November 2022. In contrast, BHP and Rio Tinto have never held a majority sell rating from brokers since at least 2009.

Morningstar mining equity analyst Jon Mills said the stock had become too expensive compared to its peers.

"***Fortescue*** has been really benefiting recently from a higher iron ore price and lower discounts on it products," he said. "If you go back a few years, it was the exact opposite. It's in a great situation now, but is iron ore going to stay where it is? We don't think so.

"It's not generally liked by the wider market, but retail investors love it because it's made them a fortune over the years."

The company lost its final buy rating in January after JPMorgan's head of Australian resources, Lyndon Fagan, told investors to take profits. The call proved well-timed: shares in the company fell more than 10 per cent since peaking in early February.

Australian Eagle Asset Management chief investment officer Sean Sequeira said investors had remained sceptical of ***Fortescue***'s prospects since its earliest days.

"When Andrew first put ***Fortescue*** together, it all seemed quite haphazard," Mr Sequeira said. "It was the entrepreneurial spirit that drove the company, not standard management."

Mr Sequeira's fund was among the few to back the stock in 2016, when looming debt repayments and a poor iron ore market raised fears that ***Fortescue*** was close to broke.

"It was an extremely contrarian investment at the time. Everyone said it was going under," he said, adding that the fund had wound down its interest in ***Fortescue*** since that time in favour of gaining exposure to copper through BHP and Rio.

Shares in the miner have recovered strongly since its nadir in 2016, rising 1500 per cent. BHP and Rio have risen 150 per cent and 200 per cent respectively since then.

Mr Sequeira said Dr Forrest's unconventional approach to management had often left the investment community baffled.

"Andrew is the type of person who goes into areas and tries to execute new methods of doing things," he said.

"That does result in the market finding it very difficult to see how these things will be pulled off because they haven't seen them done before."

Load-Date: April 19, 2024
