



## *Mercurial Forrest approaches a pivotal moment for Fortescue; Comment*

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### **Body**

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The stunning 9000-word profile of Andrew Forrest by The Australian Financial Review associate editor Primrose Riordan is a portrait of one of our great entrepreneurs in all his glory - passionate, driven, visionary, pugilistic and, by his own admission, imperfect.

But alongside the in-depth exploration of Forrest's fascinating character is the story of a great Australian business approaching a pivotal moment - maybe the most pivotal since Forrest willed the company into existence through sheer force of personality.

In the coming years, Forrest must bring investors along on a great juggling act, as he manages growing pressure on his flagship iron ore business, a capital-hungry, but earnings-accretive decarbonisation program, and a new push into green iron. It's a puzzle worth tens of billions of dollars.

**Fortescue** has rightly earned a reputation as a dividend machine in the past five years, but the 31 per cent fall in the company's share price this year speaks to the pressure on its revenue and earnings from a sagging iron ore price.

The long-term outlook for prices isn't good. Citi, for example, has a long-term target of \$US85 for iron ore in 2026; it estimates about 200 million tonnes of new supply is scheduled to come into the market and Chinese steel demand has peaked and will gently decline, even with the economic stimulus that is widely predicted for next year. **Fortescue's** revenue is expected to fall from \$US18.2 billion (\$28.6 billion) in the 2024 financial year to \$US16.3 billion in 2025 and \$US14.1 billion in 2026 and \$US13.9 billion in 2027, according to projections from RBC Capital.

Total annual dividends are tipped to fall from \$1.97 in 2024 to 67¢ in 2027, as free cash flow before dividends and debt drops from \$US5.1 billion to \$US2.9 billion.

As a falling iron ore price squeezes the sustainability of the dividend from one end, investors are worried about another squeeze coming from **Fortescue's** capital expenditure bill.

## Mercurial Forrest approaches a pivotal moment for Fortescue Comment

Forrest's grand plan to decarbonise **Fortescue**'s mining operations by retooling its heavy mining equipment by as early as 2030 will need at least \$US6.2 billion on the company's estimates, although analysts believe the cost is more like \$US7 billion to \$US8 billion.

There is value to be extracted from this decarbonisation push, which Jarden analyst Jon Bishop puts at \$1.87 a share if **Fortescue** hits its target of zero carbon emission (without the help of offsets) by a conservative 2040, or \$2.25 a share if the target is achieved by the company's stated aim of 2030.

But Bishop remains frustrated at the lack of detail from **Fortescue** about the size of the capex bill over the next five years - which he believes the market is underestimating - and the potential savings that could be generated by a decarbonised mining operation.

"The capex numbers assumed in our estimates are anchored to guidance that, beyond FY25, lacks significant granularity and is therefore prone to significant changes in due course. However, in our view, whatever the final numbers are, they are large," he says of the capex task ahead.

There are other questions too. The green hydrogen dream is off the table for now, but the market is still struggling to get its head around the cost of **Fortescue**'s green ammonia projects.

Then there's Forrest's nascent plan to value-add to iron ore by turning it into green iron, which is where low-carbon solutions such as green hydrogen and solar energy are used to remove waste elements from iron ore (such as silica and alumina), leaving behind a product that is almost pure iron. What this project looks like, and what it costs, isn't quite clear.

Forrest has plenty of credits in the bank with investors. But they're looking for meat on the bones of his grand vision.

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