# Fortescue plunge reveals huge shoes to fill

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## Body

***Fortescue*** could use a new friend. And quickly. The stock dropped like a stone yesterday, taking the benchmark S&P/ASX 200 down with it.

Why? Because it lost one of its two big long-term backers; the sort of shareholder that picks and sticks and helps someone like Andrew Forrest have the certainty and platform to create a $63 billion miner.

That shareholder was US fund manager Capital Group, a rusted-on ***Fortescue*** bull that backed Forrest's growth story in the early years and collected its substantial dividends later.

It was a great trade for both sides; ***Fortescue*** got a steady and loyal institutional shareholder (not as common as you might think), while Capital got a substantial stake in a stunningly strong cash machine. This time last year, Capital was ***Fortescue***'s third-biggest shareholder with a 7.94 per cent stake.

But managers and their views change, and now Capital is on hard retreat. There have been two block trades worth a combined $3 billion in the past six weeks via JPMorgan's equities desk, and they can only have come from Capital Group. ***Fortescue*** stock was down 10 per cent yesterday, dragging the ASX 200 down with it.

What sparked it? We're told it is internal changes at Capital. What matters for ***Fortescue*** - and indeed its other shareholders now getting washed around in the swell - is where the stock went.

Whoever bought it, it is unlikely that ***Fortescue*** has found another Capital Group. Such high-conviction and deep-pocketed investors are rare; they pretty much do not exist anywhere else.

There are no active managers with substantial stakes at BHP or Rio Tinto, for example, or any of the big four banks. Offshore miner Glencore has a good, sticky institutional shareholder with an 8 per cent stake - but once again, it is Capital.

So, ***Fortescue*** needs to find a way to get a dozen or more smaller institutions - the sort that don't have $5 billion tied up in a stock like Capital did at ***Fortescue*** this time last year - to invest, or invest more. It needs more widespread support than it has had.

The steady grind lower in China's bond yields is evidence that investors are betting more rate cuts will be needed to stimulate the economy.

Capital did stunningly well on its ***Fortescue*** investment. When the investor first disclosed its stake in February 2015, it had just picked up 67.6 million ***Fortescue*** shares at an average $2.34 each.

The stock's now above $18, nearly hit $30 in February, and has paid $11.26 a share in dividends since, which puts it in 10-bagger-plus territory.

***Fortescue*** shares yesterday closed at $18.32. The stock traded weakly all day, which suggests some of those Capital shares are yet to find a medium-term home. Until they do, it could be a choppy ride.

Capital's big sell orders leave ***Fortescue*** holding on to its one long-term backer (two if you count the Forrests' Tattarang), China's Hunan Valin Iron and Steel Group, which doubles as a customer.

Hunan Valin bought its initial 260 million shares, still the bulk of its holding, in the 2009 financial year, which means its interest predates Capital's. And like Capital, it has also done very well. It paid $US452 million ($645 million) for those shares 15 years ago. If it thought about it in Australian dollars, that's an entry price at less than $2.50 a share in return for stock now worth more than $18 and having paid $11.71 in dividends. The difference is that it is a strategic investor and is yet to head for an exit.

It comes as investors and analysts are still trying to work out what's going on with ***Fortescue***'s energy arm. The company jettisoned its 15 million tonnes of green hydrogen by 2030 production target a fortnight ago, although management made it pretty clear on last week's quarterly production call that the push was more delayed rather than abandoned.

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