

Fortescue Metals Group Limited(ASX: FMG) Strategic Investments Providing Enhanced Product Range

BY ACE INVESTORS / 08 SEPTEMBER 2021



Reading Time: 5 Mins

By Team Ace Investors

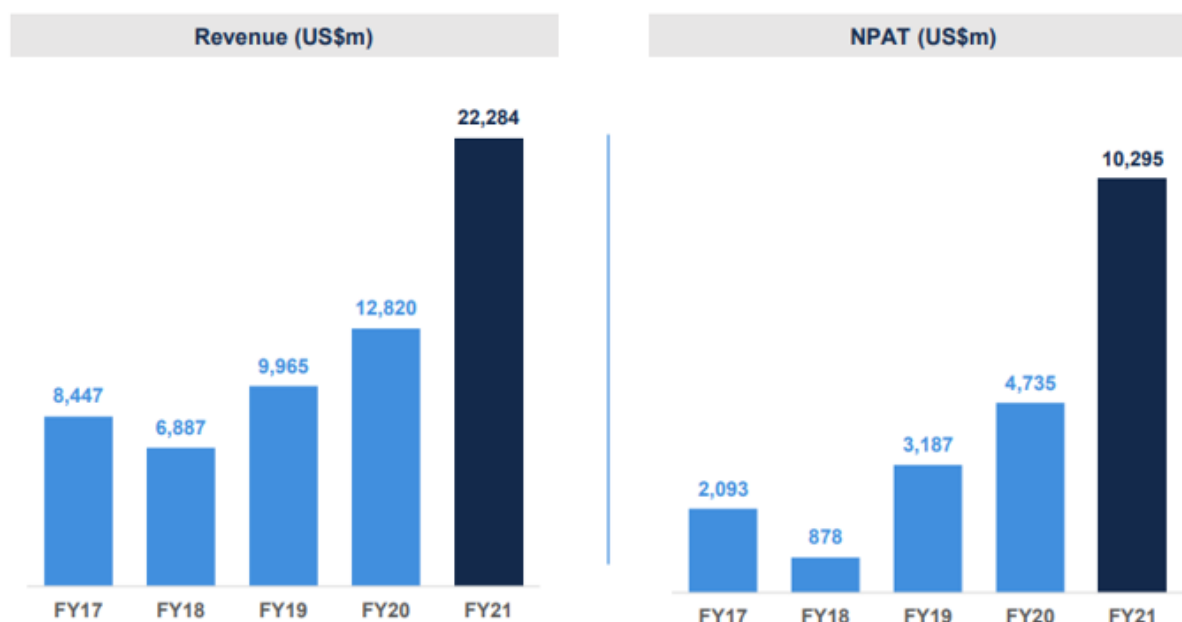
Stock Code	ASX: FMG
Shares O/S	3.08 billion
Closing Price	AUD 17.99
Market Cap	57.17 billion
52 High/Low	26.58/15.62
One Year Stock Performance	0.62%
Avg volume (TTM)	8.08 million
EPS (TTM)	4.469
P/E	4.1
Annual Dividend Yield	19.89%
Franking	100%
Last Dividend Ex-Date	06 Sept 2021
Last Dividend Pay Date	30 Sept 2021
DPS (AUD)	3.58
ROE %	66%

COMPANY OVERVIEW

Fortescue Metals Group Limited (**"FMG" or the "Company"**) is a global leader in the iron ore industry. The Company is known for its industry-leading development of world-class infrastructure and mining assets in Pilbara, Western Australia. The Company's wholly-owned and integrated operations in the Pilbara include the Chichester and Solomon mining hubs and the Western Hub, which is currently under development.

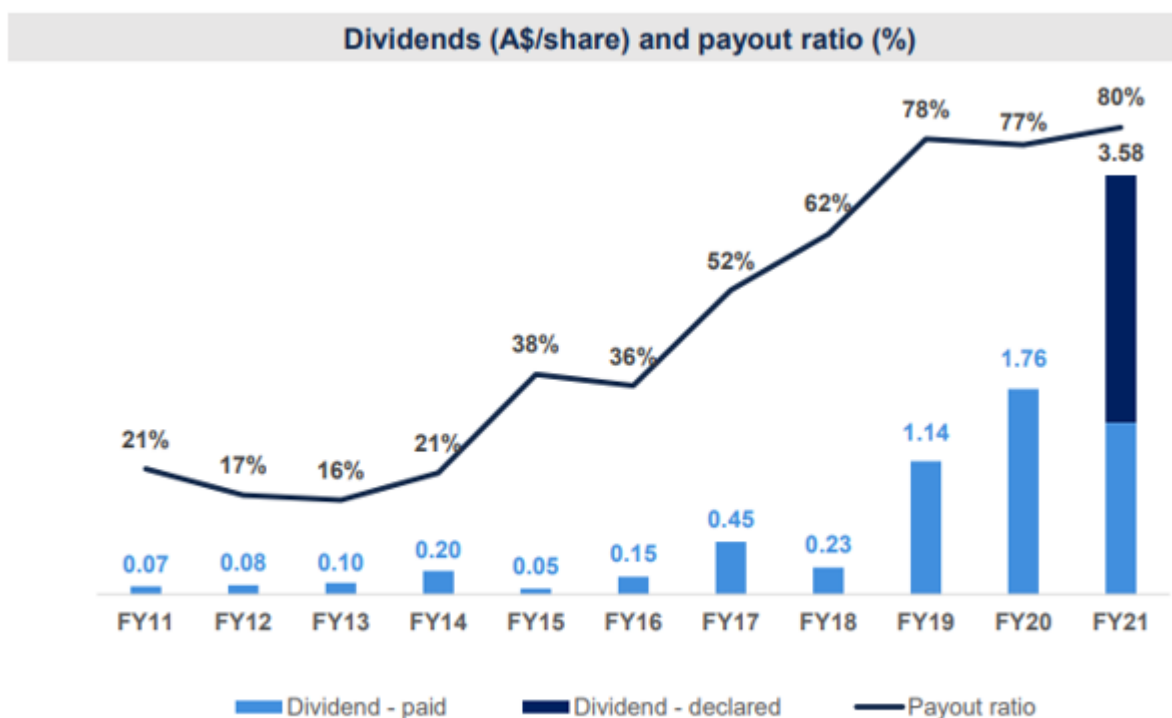
On 30th August 2021, the Company announced excellent operating performance for the year ended 30th June 2021. The Company achieved

record shipments, revenue, earnings, and cash flow in FY21, reflecting outstanding performance across the supply chain and strong customer demand. Revenue of US\$22.3 billion in FY21 was 74% higher than the prior year, EBITDA of US\$16.4 billion was 96 percent higher than FY20 and NPAT of US\$10.3 billion increased 117% compared to the prior year, representing a return on equity of 66%.



Source – Company's Report

The cash balance was US\$6.9 billion on 30 June 2021 and gross debt was US\$4.3 billion resulting in net cash of US\$2.7 billion (30 June 2020: net debt of US\$258 million). Credit metrics remain strong with gross debt to EBITDA of 0.3 times and gross gearing of 19 percent at 30 June 2021. The Board has declared a fully franked final dividend of A\$2.11 per share. Inclusive of the interim dividend of A\$1.47 per share, the total dividends declared for FY21 of A\$3.58 per share is an increase of 103% over FY20. This represents a payout of 80% of FY21 NPAT (FY20: 77%) and is consistent with Fortescue's capital allocation framework.

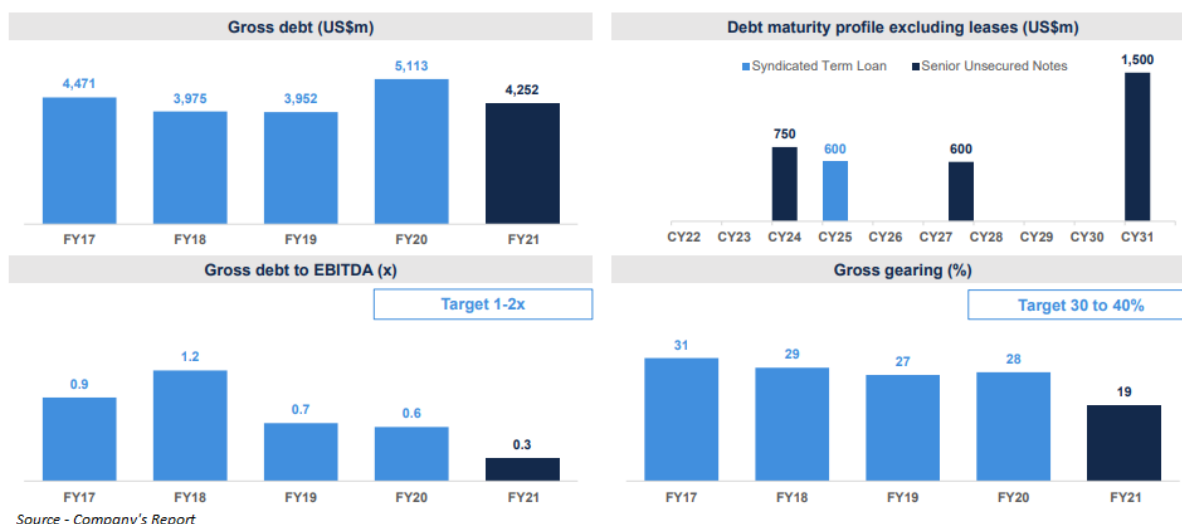


Source – Company's Report

INVESTMENT RATIONALE:

- Update on Iron Bridge Magnetite project (Iron Bridge)** – Iron Bridge represents a strategic investment with compelling returns for Fortescue and the Joint Venture Development of the Iron Bridge Magnetite Project is well underway, with magnetite Ore Reserves of 716 million tonnes and Mineral Resources of 5.4 billion tonnes unchanged. Iron Bridge will deliver 22mtpa of a 67% Fe magnetite concentrate, expanding its product range with production scheduled to commence by December 2022. This further enhances the Company's range of products through its integrated operations and marketing strategy and increases its overall production and shipping capacity to meet strong demand from customers. The iron ore market fundamentals support the investment in the Iron Bridge project, and the Company's management anticipates strong demand for this high value-in-use product, which will attract a premium to the Platts 65% Fe CFR Index.
- Balance Sheet and Cash Flow** – Fortescue's balance sheet is structured on low-cost, investment-grade terms while maintaining flexibility to support ongoing operations and the capacity to fund future growth. On 30 June 2021, Fortescue had US\$7.9 billion of liquidity, being cash on hand of US\$6.9 billion, and a US\$1 billion undrawn Revolving Credit Facility. Total debt was US\$4,252 million, inclusive of US\$810 million of leases. The Gross gearing ratio was 19%. In March 2021, Fortescue issued US\$1.5 Billion Senior Unsecured Notes at an interest rate of 4.375% with a maturity of

April 2031. Use of proceeds includes the refinancing of the Company's 4.75% Senior Unsecured Notes due 2022 and the 5.125% Senior Unsecured Notes due 2023, together with transaction costs.



- Continuously Delivering Strong Operational Performance** – Fortescue's strong operating performance continued, with mining, processing, railing, and shipping combining to deliver the highest ever annual shipments of 182.2 million tonnes in FY21, exceeding its guidance for the year. The performance benefited from the commissioning of the Eliwana mine in December 2020, which contributed to an increase in ore mining and processing. The operations at Eliwana have successfully ramped up with the operations team achieving the annualized rate of production through the ore processing facility of 30 million tonnes per annum within six months.
- New Projects** – The Company's US\$4.0 billion investment in the world-class Eliwana Mine and Rail and Iron Bridge Magnetite projects, will continue to position Fortescue as the only major iron ore company with a breadth of product offering to meet all market segments from its Australian operations. This is a key differentiator for Fortescue, that will ensure that the Company will continue to deliver growth in earnings and cash flow and enhanced returns to its shareholders through all market cycles. The Company's US\$2.6 billion Iron Bridge Magnetite Project is under development and will deliver 22mtpa of high-grade 67% Fe magnetite concentrate product, further enhancing the range of products available to its customers.
- Steps Towards taking a Global Leadership Position in the Renewable Energy** – Fortescue Future Industries (FFI) is taking a global leadership position in the renewable energy and green products industry by harnessing the world's renewable energy

resources to produce green electricity, green hydrogen, green ammonia, and other green industrial products. FFI is a key enabler of Fortescue's decarbonization strategy and during FY21, FFI achieved significant progress on heavy industry decarbonization initiatives and advanced its global portfolio of renewable energy and green hydrogen projects. Fortescue's capital allocation framework includes an allocation of 10% of NPAT to fund FFI. The FY21 allocation to FFI was US\$1.0 billion, with the expenditure of US\$122 million in FY21. The Company aims to make renewable green hydrogen the most globally traded seaborne energy commodity in the world.

ACE'S RECOMMENDATION:

Through the Iron Bridge Magnetite project and Fortescue Future Industries, the Company is investing in the growth of its iron ore operations, as well as pursuing ambitious global opportunities in renewable energy and green industries. During the year, Fortescue celebrated several significant operational milestones, including the delivery of its newest mining operation at Eliwana. The strong operating performance across its supply chain, along with the successful ramp-up and integration of Eliwana contributed to Fortescue's outstanding results in FY21. The strength of its operational performance combined with record average revenue has resulted in strong cash flow generation for the year, contributing to a record net profit after tax of US\$10.3 billion.

The Company's strong balance sheet has enabled the Company to invest in the future growth of the business. The Company's core iron ore business continues to drive strong results and deliver benefits for all its stakeholders. With an eye on the future, the Company is committed to its goal of achieving carbon neutrality by 2030 and is pursuing exciting new opportunities in renewable energy and green industries, creating the next new major export market opportunity for Australia. We recommend the stock as **BUY** at the closing price of \$17.99.

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