BELL POTTER

10 May 2021

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Fortescue Metals Group (FMG)

On track for bumper dividend

Recommendation
Hold (Buy)
Price
$24.79
Target (12 months)
$23.96 (previously $23.85)

GICS Sector

Materials

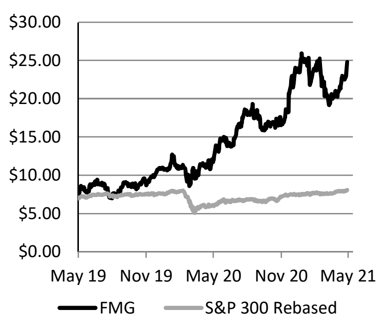
Expected Return	
Capital growth	-3.3%
Dividend yield	17.5%
Total expected return	14.2%

Company Data & Ratios	
Enterprise value	$77,600m
Market cap	$76,328m
Issued capital	3,079m
Free float	55%
Avg. daily val. (52wk)	$208m
12 month price range	$11.56-$26.40

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	20.53	22.71	11.03
Absolute (%)	20.8	9.2	124.8
Rel market (%)	16.5	3.0	91.3

Absolute Price



SOURCE: IRESS

Iron ore price continues to enhance dividend expectations

The extraordinary iron ore price action we have continued to see through the June quarter has prompted us to further refine our financial performance forecasts for FMG as we head towards the end of FY21. Marking-to-market the iron ore price for the June 2021 quarter to date shows the average price now sits at ~US$184/dmt. This compares with our previous forecast of US$160/dmt and the current spot price of US$212.90/dmt (source: Metal Bulletin/Fastmarkets). This lifts our 2HFY21 forecast to US$179/t, up 9% from US$164/dmt previously. Our higher forecast iron ore price flows through to modest earnings and dividend increases. It is partially offset by a higher AUD:USD forecast and the slightly higher costs reported in the March 2021 quarterly. Our FY21 dividend increases 4% to A404cps, inclusive of a fully franked final dividend payment of A257cps (from A241cps), a 10.4% yield on its own.

FY21 upside relatively capped from here

We have also considered a scenario of the current spot price being maintained. Rolling the current spot price of US$212.9/dmt forward over the balance of the June quarter results in an average iron ore price of US$200.50/dmt for the quarter and an average of US$184.0/dmt for 2HFY21. While this scenario results in an improved performance for FMG it shows that the benefits are limited, with metrics improving just ~1% across FY21 compared to our latest base case. This includes a final FY21 dividend payment of A262cps, just A5cps (1.9%) higher than our base case. It implies that upside to our latest forecasts are, to a degree, capped and that even with positive price volatility the range of FMG's key performance metrics are narrowing and, in our view, priced in.

Investment thesis – Hold TP$23.96/sh (from Buy, $23.85/sh)

Our NPV-based target price increases incrementally to $23.96/sh and our FY21 and FY22 earnings forecasts increase 4% and 7% respectively on this update. While the dividend remains a compelling price support, recent share price appreciation has reduced our forecast total shareholder return to 14.2% and we lower our recommendation from Buy to Hold, in conformity with our recommendation structure.

Earnings Forecast

Year ending 30 Jun	2020a	2021e	2022e	2023e
Sales (US$m)	12,820	22,227	19,196	13,434
EBITDA (US$m)	8,312	16,540	13,696	8,403
NPAT (reported) (US$m)	4,735	10,714	8,823	4,989
NPAT (adjusted) (US$m)	4,735	10,714	8,823	4,989
EPS (adjusted) (UScps)	154	348	287	162
EPS growth (%)	49%	126%	-18%	-43%
EPS (adjusted) (Acps)	229	465	393	223
PER (x)	10.8	5.3	6.3	11.1
EV/EBITDA (x)	7.4	3.7	4.5	7.3
Dividend (Acps)	176	404	301	156
Yield (%)	7.1%	16.3%	12.1%	6.3%
Franking (%)	100%	100%	100%	100%
ROE (%)	36%	58%	52%	28%

SOURCE: BELL POTTER SECURITIES ESTIMATES

On track for bumper dividend

Iron ore price continues to enhance dividend expectations

The extraordinary iron ore price action we have continued to see through the June quarter has prompted us to further refine our financial performance forecasts for FMG as we head towards the end of FY21. Strong demand being experienced by Chinese steel producers and the healthy profit margins they are achieving is incentivising them to maximise production while also being relatively insensitive to raw material input costs – allowing the iron ore price to rise.

Marking-to-market the iron ore price for the June 2021 quarter to date shows the average price for the quarter now sits at ~US$184/dmt. This compares with our previous forecast for the quarter of US$160/dmt and the current spot price of US$212.90/dmt (source: Metal Bulletin/Fastmarkets). Even taking a conservative view and forecasting a straight-line decline for the rest of the June quarter to ~US$176/dmt results in an average quarterly price of US$190/dmt, some US$30/dmt (~19%) above our recently updated forecast. This outcome lifts our 2HFY21 forecast to US$179/t, up 9% from US$164/dmt previously.

Recent price strength also has implications for 1HFY22, as we smooth our forecasts for a less aggressive decline over that period and that forecast also increases 9%. For now, we leave our 2HFY22 forecasts unchanged. Our updated forecasts are summarised below:

Table 1 – Bell Potter iron ore (Fines) CFR @ 62% price forecast

	2HFY21	1HFY22	2HFY22	1HFY23	2HFY23
Old	164	140	110	95	95
New	179	153	110	95	95
Change	9%	9%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Our latest forecast and latest consensus is shown in the chart below:

Figure 1 - Updated iron ore price forecasts vs latest consensus

SOURCE: CONSENSUS ECONOMICS AND BELL POTTER SECURITIES ESTIMATES

Marginally offset by stronger AUD:USD

We also apply a marked-to-market AUD:USD exchange rate for this update which results in an incremental lift (<1%) compared to our previous AUD:USD forecast and an EPS decrease of just A2cps for FMG.

12-month forward dividend of A$4.35 and 17.5% fully-franked yield (base case)

Note that our forecast dividend yield is calculated on a forward 12-month basis and captures a final payment of A$2.57/sh for FY21 and an interim payment of A$1.78/sh for 1HFY22 (total 12-month forward payout A$4.35/sh and 17.5% fully franked yield).

Key performance and valuation metrics from our latest base case analysis are summarised in the table below:

Table 2 - Latest FMG Base Case - key metrics

	Jun-21	Jun-22	Jun-23
Iron ore price (US$/dmt)	$152.20	$131.25	$95.00
Exchange rate (AUD:USD)	0.75	0.73	0.73
Revenue (US$m)	$22,227	$19,196	$13,434
EBITDA (US$m)	$16,540	$13,696	$8,403
NPAT (adjusted) (US$m)	$10,714	$8,823	$4,989
Adjusted EPS (Ac/sh)	465.3	392.5	223.5
PER (x)	5.3	6.3	11.1
DPS (Ac/sh)	404	301	156
Yield (%)	16.3%	12.1%	6.3%
Valuation		**$23.96**	

SOURCE: BELL POTTER SECURITIES ESTIMATES

Current iron ore prices for the rest of 4QFY21

We have also considered the scenario of the current spot price being maintained. Rolling the current spot price of US$212.9/dmt forward over the balance of the June quarter results in an average iron ore price of US$200.50/dmt for the quarter and an average of US$184.0/dmt for 2HFY21.

Table 3 – Current spot price (US$212.90/dmt) extended to end FY21 – key metrics

	Jun-21	Jun-22	Jun-23
Iron ore price (US$/dmt)	$154.85	$131.25	$95.00
Exchange rate (AUD:USD)	0.75	0.73	0.73
Revenue (US$m)	$22,429	$19,196	$13,434
EBITDA (US$m)	$16,728	$13,696	$8,403
NPAT (adjusted) (US$m)	$10,850	$8,824	$4,989
Adjusted EPS (Ac/sh)	471.2	392.6	223.5
PER (x)	5.3	6.3	11.1
DPS (Ac/sh)	409	301	156
Yield (%)	16.5%	12.1%	6.3%
Valuation		**$24.01**	

SOURCE: BELL POTTER SECURITIES ESTIMATES

While this scenario obviously results in an improved performance for FMG it shows that the benefits are limited, with metrics improving ~1% across FY21 (FY22, FY23 unchanged). This includes a final FY21 dividend payment of A$262cps, just A5cps (1.9%) higher than our base case. It implies that upside to our latest forecasts are, to a degree, capped.

Recommendation lowered to Hold

The dividend remains a key price support but the results for FY21 are largely in, and with the recent positive price action in FMG, our forecast TSR drops to 14.2% (comprising 17.5% dividend yield, -3.3% capital return). In conformity with our recommendation structure, we lower our recommendation to Hold.

March 2021 quarterly report

We also update for the March 2021 quarter report. FMG achieved March 2021 quarterly production of 42.3Mt shipped at C1 cash costs of US$14.90/wmt (vs BPe 42.5Mt at C1 US$14.28/wmt). This equalled the (seasonally weak) March quarter record of FY20 and set a new record for the first 9 months of a financial year of 132.9Mt shipped. C1 costs were up 16% qoq on lower shipping volumes and a stronger Australian dollar. Costs were consistent with guidance, though higher than our forecasts.

Production and cost guidance is unchanged at 178-182Mt at C1 cash costs of US$13.50-US$14.00/wmt, based on an AUD:USD exchange rate of 0.70.

Table 4 – FMG Quarterly production summary

	Mar-20 Actual	Jun-20 Actual	Sep-20 Actual	Dec-20 Actual	Mar-21 Actual	Mar-21 BP est.	Variance % qoq	Variance % BP est.
Ore mined Mt (wet)	41.9	57.2	58.4	50.0	53.6	42.5	7%	26%
Overburden removed Mt (wet)	77.5	84.7	74.5	69.1	69.2	63.8	0%	9%
Strip ratio	1.8	1.5	1.3	1.4	1.3	1.5	-7%	-14%
Ore processed Mt (wet)	42.4	42.7	46.0	44.2	44.6	42.5	1%	5%
Total ore shipped Mt (wet)	**42.3**	**47.3**	**44.3**	**46.4**	**42.3**	**42.5**	**-9%**	**0%**
Fortescue ore shipped Mt (wet)	42.3	47.3	44.3	46.4	42.3	42.5	-9%	0%
Total direct costs C1 US$/wt FOB	**13.27**	**13.02**	**12.74**	**12.81**	**14.90**	**14.28**	**16%**	**4%**
Iron ore price (MBIO 62% Fe CFR China) US$/t	89	93	118	134	167	164	25%	2%
FMG realised price (CFR dry) US$/t	**73**	**81**	**106**	**122**	**143**	**144**	**17%**	**-1%**
Discount %	18%	14%	11%	9%	14%	12%	5%	2%
Discount US$/t	16	13	12	12	24	20	101%	21%
FMG realised price (CFR wet) estimate US$/t	67	74	97	112	132	133	17%	-1%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Capital expenditure guidance was however increased again, by ~6%, to US$3.5-3.7 billion on a higher AUD:USD, ongoing expenditure at Iron Bridge and budgeted investments by Fortescue Future Industries (FFI).

FMG's average price received increased 17% qoq to US$143/dmt for the March quarter. Price realisation in the March 2021 pulled back to 86% of the Platts 62% CFR index quarter from 91% in the December 2020 quarter. This is consistent with FMG's historical commentary that high steel mill margins are a factor in demand for higher grade ores driving a wider pricing spread. It is also in-line with the average discount received by FMG over the previous 8 quarters of 13% and in-line with historic long-term guidance.

FMG ended the March quarter with cash of US$3.6 billion and gross debt of US$4.6 billion for a net debt positon of US$1.0 billion (from net debt of US$0.1 billion at end December). During the quarter FMG issued US$1.5 billion Senior Unsecured Notes at an interest rate of 4.375 per cent with a maturity of April 2031. This has extended FMG's debt maturity profile and lowered its overall cost of capital.

Overall we viewed the report as a positive update. Production was in-line with our (seasonally lower) expectations and while costs were up more than expected they remain well within the guidance range. If there was a disappointment, it was the further upwards revision of CAPEX, but FMG is relatively insensitive to this at the moment. The June quarter is historically a strong one for FMG and we have lifted our FY21 forecast shipments to 180Mt (from 179Mt).

Changes to our forecasts

Beyond updating our forecasts for our latest marked-to-market iron ore price and the March 2021 quarterly report, we have made the following changes to our modelled assumptions:

- Increased our forecast June 2021 quarter iron ore shipments from 46.0Mt to 47.0Mt, for FY21 shipments of 180Mt, the midpoint of FMG's 178-182Mt guidance range;
- Increased our FY21 CAPEX forecast by US$100m, to equal the midpoint of FMG's updated guidance range of US$3.5-3.7 billion; and
- Updated our dividend and earnings forecasts which are upgraded on our latest price assumptions.

The net impact to our production and earnings estimates are summarised below.

Table 5 - Changes to earnings estimates

	Previous			New			Change		
Year ending June 30	**Jun-21**	**Jun-22**	**Jun-23**	**Jun-21**	**Jun-22**	**Jun-23**	**Jun-21**	**Jun-22**	**Jun-23**
Iron ore (Fines) CFR @ 62% Fe	145	125	95	152	131	95	5%	5%	0%
AUD/USD	0.74	0.73	0.73	0.75	0.73	0.73	1%	0%	0%
Total production (Mt wet)	179.2	179.0	180.0	180.0	179.0	180.0	0%	0%	0%
Costs C1 (US$/t)	13.48	13.63	13.39	13.58	13.63	13.39	1%	0%	0%
Revenue (US$m)	21,585	18,298	13,434	22,227	19,196	13,434	3%	5%	0%
EBITDA (US$m)	15,986	12,871	8,403	16,540	13,696	8,403	3%	6%	0%
NPAT (adjusted) (US$m)	10,320	8,224	4,988	10,714	8,823	4,989	4%	7%	0%
Adjusted EPS (Ac/sh)	451	366	223	465	393	223	3%	7%	0%
PER (x)	5.5	6.8	11.1	5.3	6.3	11.1	(0.2)	(0.5)	(0.0)
DPS (Ac/sh)	388	284	156	404	301	156	4%	6%	0%
Yield (%)	15.7%	11.5%	6.3%	16.3%	12.1%	6.3%	0.6%	0.7%	0.0%
Net debt (cash) ($m)	(1,448)	427	(78)	(1,725)	404	(125)	19%	-5%	59%
ND / (ND + E) (%)	-9%	2%	0%	-10%	2%	-1%	-2%	0%	0%
Valuation ($/sh)		23.85			23.96			0%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our higher forecast iron ore price is the primary driver of our modest earnings, dividend and target price increases. The higher iron ore price is partially offset by a higher AUD:USD forecast and the slightly higher costs reported in the March 2021 quarterly. This flows through to our dividend forecasts, for which we maintain our assumed 80% payout ratio. This is at the top end of FMG's 50%-80% payout policy and in-line with guidance. Our FY21 dividend increases 4% to A404cps, inclusive of a final dividend payment of A257cps, fully franked (a 10.4% yield on its own). Our NPV-based target price increases incrementally to $23.96/sh.

While the dividend remains a compelling price support, recent share price appreciation has reduced our forecast total shareholder return to 14.2% and we lower our recommendation from Buy to Hold, in conformity with our recommendation structure.

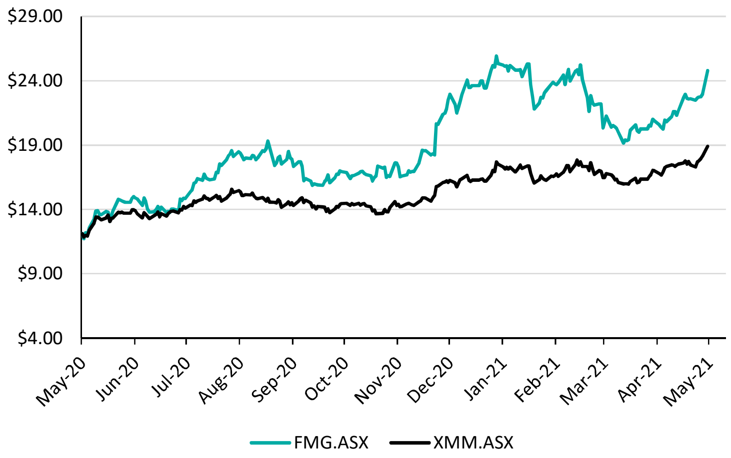
Upcoming catalysts

Key near term catalysts for FMG include:

- The sustainability of favourable market factors through FY21, primarily an elevated iron ore price (but also a low oil price and steady exchange rate) that are needed to sustain our dividend forecast;
- Improved grade and quality discounts being sustained in the market;
- Any further updates on the Iron Bridge magnetite project, currently the subject of a technical and commercial review that is underway and scheduled to be completed in 12 weeks (May 2021);
- The June 2021 quarter report, due in late July 2021;
- Production updates from the Eliwana project which is now ramping up production, as well as the Queens Valley mining area at the Solomon Hub; and
- Progress updates in relation to the investments being made into FFI, given its increased prominence in the wider business.

FMG vs the ASX Metals and Mining Index

Figure 2 - FMG relative share price performance vs ASX Metals and Mining Index (XMM)



SOURCE: IRESS

Fortescue Metals Group Ltd (FMG)

Company description: Iron ore major in the Pilbara, WA

FMG is an independent iron ore producer in the Pilbara region of Western Australia. The company is currently achieving its targeted ~175-180Mtpa production rate, following ten years of development and expansion. It has successfully reduced its debt and built a strong balance sheet. FMG is now targeting the production of a +60% Fe product and has become more active in exploration for other commodities.

Investment thesis – Hold TP$23.96/sh (from Buy, $23.85/sh)

Our NPV-based target price increases incrementally to $23.96/sh and our FY21 and FY22 earnings forecasts increase 4% and 7% respectively on this update. While the dividend remains a compelling price support, recent share price appreciation has reduced our forecast total shareholder return to 14.2% and we lower our recommendation from Buy to Hold, in conformity with our recommendation structure.

Valuation: $23.96/sh

Our FMG valuation incorporates DCF models of FMG's Chichester and Solomon production hubs, including future production from the Eliwana and Iron Bridge projects. We also make an estimate of exploration/expansion upside and an estimate of corporate overhead costs. We calculate a 12-month forward, NPV-based valuation for FMG's assets of $23.96/sh on this basis.

Risks

Risks to resources sector equities include, but are not limited to:

- **Funding and capital management risks:** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations:** The future earnings and valuations of exploration, development and producing Resources companies are

subject to fluctuations in underlying commodity prices and foreign currency exchange rates.

- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. NIC's assets are located in Sulawesi, Indonesia, which has in the past implemented regulatory changes related to mining project ownership, fiscal terms and mineral export requirements.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating. NIC's assets are in Indonesia, a G20 country with one of the largest economies in SE Asia. Its sovereign debt is rated investment grade by the major ratings agencies.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Fortescue Metals Group
as at 10 May 2021

Recommendation	Hold
Price	$24.79
Target (12 months)	$23.96

Table 6 - Financial summary

Date		**10/05/21**
Closing price	**A$/sh**	**24.79**
Market cap	**A$m**	**76,328**
Recommendation		**Hold**

PROFIT AND LOSS

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Revenue	US$m	9,965	12,820	22,227	19,196	13,434
Expense	US$m	(3,947)	(4,508)	(5,687)	(5,500)	(5,030)
EBITDA	US$m	**6,018**	**8,312**	**16,540**	**13,696**	**8,403**
Depreciation	US$m	(1,196)	(1,400)	(1,346)	(1,339)	(1,346)
EBIT	US$m	4,822	6,912	15,193	12,356	7,057
Net interest expense	US$m	(253)	(222)	(121)	(102)	(128)
PBT	US$m	**4,569**	**6,690**	**15,073**	**12,254**	**6,929**
Tax expense	US$m	(1,382)	(1,955)	(4,358)	(3,431)	(1,940)
NPAT (reported)	US$m	**3,187**	**4,735**	**10,714**	**8,823**	**4,989**
Abnormal items	US$m	202	-	-	-	-
NPAT (adjusted)	US$m	**3,389**	**4,735**	**10,714**	**8,823**	**4,989**

PROFIT AND LOSS (INTERIM)

Half year ending	Unit	Dec-19a	Jun-20a	Dec-20a	Jun-21e	Dec-21e
Revenue	US$m	6,485	6,335	9,335	12,892	10,948
Expense	US$m	(2,278)	(2,230)	(2,724)	(2,963)	(2,921)
EBITDA	US$m	**4,207**	**4,105**	**6,611**	**9,929**	**8,026**
Depreciation	US$m	(657)	(743)	(672)	(674)	(645)
EBIT	US$m	3,550	3,362	5,939	9,254	7,382
Net interest expense	US$m	(123)	(99)	(75)	(46)	(46)
PBT	US$m	**3,427**	**3,263**	**5,864**	**9,209**	**7,336**
Tax expense	US$m	(974)	(981)	(1,780)	(2,578)	(2,054)
NPAT (reported)	US$m	**2,453**	**2,282**	**4,084**	**6,630**	**5,282**
Abnormal items	US$m	-	-	-	-	-
NPAT (adjusted)	US$m	**2,453**	**2,282**	**4,084**	**6,630**	**5,282**

CASH FLOW

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
OPERATING CASHFLOW						
Receipts	US$m	8,853	12,704	21,950	19,521	13,544
Payments	US$m	(3,874)	(4,417)	(5,908)	(5,615)	(5,073)
Tax	US$m	(376)	(1,685)	(4,655)	(3,431)	(1,940)
Net interest	US$m	(230)	(187)	(150)	(102)	(128)
Other	US$m	-	-	54	-	-
Operating cash flow	US$m	**4,373**	**6,415**	**11,291**	**10,372**	**6,402**
INVESTING CASHFLOW						
Capex & exploration	US$m	(1,040)	(1,768)	(3,099)	(2,335)	(1,418)
Other	US$m	57	(200)	(507)	-	-
Investing cash flow	US$m	**(983)**	**(1,968)**	**(3,606)**	**(2,335)**	**(1,418)**
FINANCING CASHFLOW						
Net equity proceeds	US$m	-	-	-	-	-
Debt proceeds	US$m	56	1,625	1,500	-	-
Debt repayments	US$m	(85)	(905)	(1,915)	-	(500)
Dividends	US$m	(2,220)	(1,925)	(5,479)	(10,166)	(4,456)
Other	US$m	(143)	(76)	(127)	-	-
Financing cash flow	US$m	**(2,392)**	**(1,281)**	**(6,021)**	**(10,166)**	**(4,956)**
Change in cash	US$m	998	3,166	1,664	(2,129)	28

BALANCE SHEET

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
ASSETS						
Cash & short term investments	US$m	1,874	4,855	6,513	4,384	4,413
Accounts receivable	US$m	925	545	911	586	476
Inventory	US$m	772	828	953	953	953
Property, plant & equipment	US$m	11,340	9,894	19,423	20,388	20,430
Exploration & evaluation	US$m	4,731	6,169	15	45	75
Other	US$m	52	1,107	154	154	154
Total assets	US$m	**19,694**	**23,398**	**27,970**	**26,511**	**26,501**
LIABILITIES						
Accounts payable	US$m	986	1,057	889	774	730
Borrowings	US$m	3,952	4,234	3,907	3,907	3,407
Other	US$m	4,155	4,863	4,811	4,811	4,811
Total liabilities	US$m	**9,093**	**10,154**	**9,607**	**9,492**	**8,948**
SHAREHOLDER'S EQUITY						
Share capital	US$m	1,181	1,167	1,104	1,104	1,104
Reserves	US$m	42	62	12	12	12
Retained earnings	US$m	9,365	12,002	17,226	15,882	16,415
Non-controlling interest	US$m	13	13	21	21	21
Total equity	US$m	**10,601**	**13,244**	**18,363**	**17,019**	**17,552**
Net debt	*US$m*	*2,078*	*(621)*	*(2,606)*	*(477)*	*(1,006)*
Weighted average shares	m	3,090	3,077	3,079	3,079	3,079

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
VALUATION						
NPAT (adjusted)	US$m	3,389	4,735	10,714	8,823	4,989
Adjusted EPS	USc/sh	103	154	348	287	162
EPS growth	%	198%	49%	126%	-18%	-43%
Adjusted EPS	Ac/sh	145	229	465	393	223
EPS growth	%	223%	59%	103%	-16%	-43%
PER	x	17.2x	10.8x	5.3x	6.3x	11.1x
DPS	Ac/sh	114	176	404	301	156
Franking	%	100%	100%	100%	100%	100%
Yield	%	5%	7%	16%	12%	6%
FCF/share	USc/sh	110	145	250	261	162
FCF/share	Ac/sh	153	215	334	358	223
FCF yield	%	6%	9%	13%	14%	9%
EV/EBITDA	x	10.2x	7.4x	3.7x	4.5x	7.3x
EBITDA margin	%	60%	65%	74%	71%	63%
EBIT margin	%	48%	54%	68%	64%	53%
Return on assets	%	16%	20%	38%	33%	19%
Return on equity	%	30%	36%	58%	52%	28%
LIQUIDITY & LEVERAGE						
Net debt (cash)	US$m	2,078	258	(1,725)	404	(125)
ND / E	%	20%	2%	-9%	2%	-1%
ND / (ND + E)	%	16%	2%	-10%	2%	-1%
ND / EBITDA	x	0.3x	0.0x	-0.1x	0.0x	0.0x
EBITDA/Interest	x	23.8	37.4	137.0	134.2	65.6

ASSUMPTIONS - Prices

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Iron ore (Fines) CFR @ 62% Fe	**US$/dmt**	**80**	**94**	**152**	**131**	**95**
AUD/USD	US$/A$	0.72	0.67	0.75	0.73	0.73

ASSUMPTIONS - Production

Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Sales (FMG equity)	Mwt	167.7	178.2	180.0	179.0	180.0
Third party	Mwt	-	-	-	-	-
Sales (total)	Mwt	167.7	178.2	180.0	179.0	180.0
62% Fe index price (real)	US$/dt	82	91	149	129	91
FMG realised price CFR	US$/dt	65	79	132	113	81
Realised price discount	%	-21%	-14%	-12%	-12%	-11%
Costs C1 (excl. royalty)	**US$/wt**	**13.09**	**12.87**	**13.58**	**13.63**	**13.39**
Shipping	US$/wt	6.45	6.68	7.21	6.93	6.89
Royalties	US$/wt	3.88	4.74	8.04	7.93	5.44
Other	US$/wt	0.02	0.17	0.19	0.18	0.18
Cost of sales	**US$/wt**	**23.45**	**24.46**	**29.02**	**28.67**	**25.90**
Interest	US$/wt	1.51	1.32	1.11	1.23	1.19
Capex (sustaining)	US$/wt	6.20	11.04	13.17	5.50	5.50
Total all-in cost	**US$/wt**	**31.16**	**36.82**	**43.30**	**35.40**	**32.59**
Total all-in cost (@ 8% moist)	**US$/dt**	**34**	**40**	**47**	**38**	**35**
Total all-in cost (62% Fe eq.)	**US$/dt**	**41**	**46**	**53**	**43**	**39**

VALUATION

Issued capital	
Shares on issue m	3,079
Options (in the money) m	15
Total m	**3,094**

	Current		+12 months		+24 months	
Sum of parts valuation	**A$m**	**$/sh**	**A$m**	**$/sh**	**A$m**	**$/sh**
Iron ore operations (DCF)	77,576	25.07	69,223	22.37	65,857	21.29
Exploration (estimate)	3,879	1.25	3,461	1.12	3,293	1.06
Corporate (DCF)	(822)	(0.27)	(791)	(0.26)	(754)	(0.24)
Total enterprise value	**80,633**	**26.06**	**71,893**	**23.24**	**68,395**	**22.11**
Net debt/(cash)	1,272	0.41	(2,234)	(0.72)	561	0.18
Equity value	**79,360**	**25.65**	**74,127**	**23.96**	**67,835**	**21.92**

MAJOR SHAREHOLDERS

Minderoo Group Pty Ltd	36%
Hunan Valin Iron & Steel Group	9%
Combined	45%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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