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Fortescue Metals Group (FMG)

Soft start to FY24

Recommendation
Sell (unchanged)
Price
$22.21
Target (12 months)
$16.21 (previously $15.53)

GICS Sector

Materials

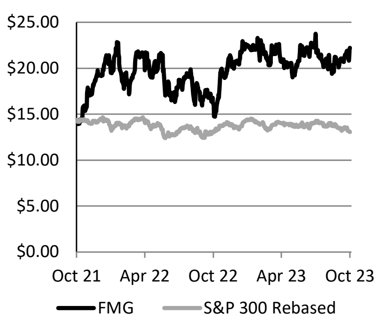
Expected Return	
Capital growth	-27.0%
Dividend yield	5.6%
Total expected return	-21.4%

Company Data & Ratios	
Enterprise value	$71,873m
Market cap	$68,384m
Issued capital	3,079m
Free float	47%
Avg. daily val. (52wk)	$163.4m
12 month price range	$14.50-$23.87

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	20.81	22.54	16.36
Absolute (%)	6.7	-1.5	35.8
Rel market (%)	10.4	5.5	34.1

Absolute Price



SOURCE: IRESS

September 2023 quarterly report

FMG reported iron ore shipments for the September 2023 quarter of 45.9Mt at C1 cash costs of US$17.93/wmt (BPe 49.0Mt at C1 US$18.02/wmt). C1 cash costs were up marginally on the prior quarter and in-line with our forecast. When adjusted for exchange rate differences, they were in the top half of FMG's FY24 guidance range. Production was a clear miss, coming in below the bottom of FY24 guidance on an annualised basis and the lowest quarterly shipments for two years. This potentially increases FMG's risk to the seasonally impacted March quarter. Iron Bridge made its first shipment of magnetite concentrate, but FY24 guidance has been lowered from 7Mt to 5Mt and initial price realisations were at the low end of expectations. FMG's net debt increased to US$2.2 billion from US$1.0 billion qoq, after the distribution of US$2.0 billion in dividends.

Still hard to see the upside

This was an uncharacteristically slow start by FMG, with production missing, costs at the upper end of guidance and Iron Bridge production downgraded. The market remains in an information vacuum in relation to the Fortescue Energy projects that are set for approval by end CY23 and the investment metrics that will (hopefully) be attached to them. We upgrade our earnings as the iron ore price finds support from looser Chinese Government credit policy, but fundamental demand indicators remain tepid. FMG's earnings, and more so its dividend outlook, are clouded by the uncertainty of capital allocation in CY24. We continue to see the current share price as a selling opportunity.

Investment thesis – Sell TP$16.21/sh (Sell TP$15.53/sh)

EPS changes in this report are: FY24: +14%, FY25: -11%; and FY26: -11%, largely on higher forecast operating costs. Our NPV-based valuation is increased by 4% from $15.53/sh to $16.21/sh on favourable adjustments to our iron ore price and AUD:USD forecasts. We retain our Sell recommendation.

Earnings Forecast

Year ending 30 Jun	2023a	2024e	2025e	2026e
Sales (US$m)	16,871	15,958	13,835	13,771
EBITDA (US$m)	9,801	7,476	5,119	5,060
NPAT (reported) (US$m)	4,796	3,948	2,155	2,110
NPAT (adjusted) (US$m)	5,522	3,948	2,155	2,110
EPS (adjusted) (UScps)	156	128	70	69
EPS growth (% Acps)	-16%	-16%	-49%	-2%
EPS (adjusted) (Acps)	232	195	100	98
PER (x)	9.6	11.4	22.2	22.7
EV/EBITDA (x)	4.8	6.3	9.1	9.2
Dividend (Acps)	175	125	76	71
Yield (%)	7.9%	5.6%	3.4%	3.2%
Franking (%)	100%	100%	100%	100%
ROE (%)	27%	21%	11%	11%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Soft start to FY24

September 2023 quarterly report

FMG has reported iron ore shipments for the September 2023 quarter of 45.9Mt at C1 cash costs of US$17.93/wmt (vs BPe 49.0Mt at C1 US$18.02/wmt). C1 cash costs were up marginally on the prior quarter and in-line with our forecast. Production was a clear miss, coming in below the bottom of FY24 guidance on an annualised basis and the lowest quarterly shipment volume for two years. It potentially increases FMG's risk to the seasonally impacted March quarter. While C1 cash costs beat the low end of FY24 guidance, once adjusted for the exchange rate difference (guidance based on 0.68 vs actual 0.65), C1 costs were in the top half of FMG's FY24 guidance range.

First shipments (0.04Mt) were achieved of high grade magnetite concentrate from Iron Bridge, although guidance for FY24 has been lowered from 7Mt to 5Mt. There was no update to the current ramp-up schedule for steady-state production of 22Mtpa to be reached by August 2025. Price realisations of US$130.84/dmt, (104% of the 65% Fe iron ore benchmark price) were below our expectations.

Table 1 – FMG Quarterly production summary

	Sep-22 Actual	Dec-22 Actual	Mar-23 Actual	Jun-23 Actual	Sep-23 Actual	Sep-23 BP est.	Variance % qoq	Variance % BP est.
Ore mined Mt (wet)	54.8	60.0	50.3	52.7	**56.2**	**49.0**	7%	15%
Overburden removed Mt (wet)	80.6	80.4	80.1	81.6	**96.8**	**142.1**	19%	-32%
Strip ratio	1.5	1.3	1.6	1.5	**1.7**	**2.9**	11%	-41%
Ore processed Mt (wet)	48.0	50.0	46.1	48.2	**48.0**	**49.0**	0%	-2%
Total ore shipped Mt (wet)	47.5	49.4	46.3	48.9	**45.9**	**49.0**	-6%	-6%
Fortescue ore shipped Mt (wet)	47.5	49.4	46.3	48.9	**45.9**	**49.0**	-6%	-6%
Total direct costs C1 US$/wt FOB	17.69	17.17	17.73	17.57	**17.93**	**18.02**	2%	0%
Iron ore price (MBIO 62% Fe CFR China) US$/t	103	99	126	111	**114**	**101**	3%	13%
FMG realised price (CFR dry) US$/t	87	87	109	96	**100**	**89**	4%	12%
Discount %	15%	12%	13%	13%	**13%**	**12%**	-1%	1%
Discount US$/t	16	12	17	15	**14**	**12**	-2%	18%
FMG realised price (CFR wet) estimate US$/t	81	80	100	89	**92**	**82**	4%	12%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

FMG's average price received for the September quarter lifted 3.5% qoq to US$99.75/dmt from US$96.34/dmt. Price realisation in the September 2023 quarter was unchanged at 87% of the Platts 62% CFR index (vs 87% in the June 2023 quarter).

At end September, FMG held cash of US$3.1billion (from US$4.3 billion qoq) and gross debt of US$5.3 billion (unchanged qoq) for a net debt position of US$2.2 billion (from net debt of US$1.0 billion qoq). During the quarter FMG distributed US$2.0 billion in dividends.

Other key takeaways from the update included:

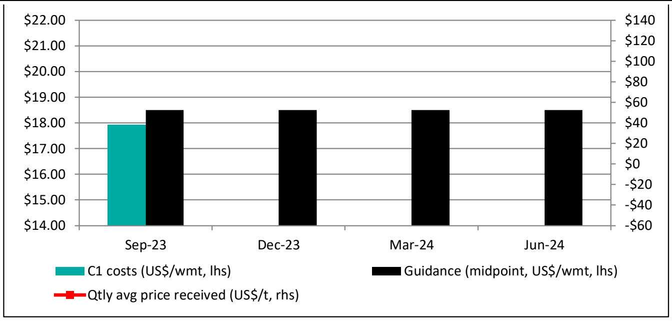
- At the Belinga iron ore project in Gabon, FMG reported that it has engaged with the new Government and exploration studies and Resource drilling are underway. However, no Resource update is expected until some time in CY24, well after the first planned shipment (~50kt) from the project, which is expected to be made by end CY23; and
- Production at Iron Bridge was impacted by the performance of its raw water pipeline. Plant rectification works impacted availability during the quarter.

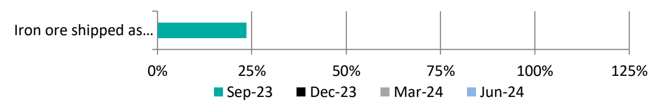
Quarterly production monitor

A breakdown of quarterly production and costs (relative to the guidance midpoint) is summarised in the chart and table below:

Figure 1 - FMG Quarterly progress monitor – FY24

Fortescue Metals (FMG)	Sep-23	Dec-23	Mar-24	Jun-24	YTD
Production					
Iron ore shipments (Mt)	45.9				**45.9**
Guidance (midpoint, Mt)	48.6	48.6	48.6	48.6	**194.5**
Cumulative progress (%)	23.6%	-	-	-	**23.6%**
Costs					
C1 costs (US$/wmt, lhs)	$17.93				**$17.93**
Guidance (midpoint, US$/wmt, l	$18.50	$18.50	$18.50	$18.50	**$18.50**
Variance vs guidance (%)	-3.1%	-	-	-	**-3.1%**





SOURCE: IRESS, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Fortescue Energy division – FID's approaching

Fortescue Energy maintains it is planning to nominate 5 projects for Final Investment Decision (FID) by end CY23. On the analyst call, Fortescue Energy CEO, Mark Hutchinson, stated that they are still competing for nomination and that there is a wide range of CAPEX budgets across the projects that are in the mix. Other than repeating that "double digit returns" were the objective, no further information was provided.

The projects previously nominated as likely to be among the five approved were:

1. The Phoenix Hydrogen Hub in the United States, acquired in July 2023. Phase one of its development is targeting production up to 12,000tpa of liquefied green hydrogen.
2. The Pecem green hydrogen project in Brazil, where environmental and social impact studies are underway.
3. The potential development of a 300MW capacity generation, green ammonia and fertiliser facility in Kenya.
4. The Holmaneset green hydrogen and green ammonia project in Norway, which has been selected for funding by the European Commission's Clean Technology Fund.
5. The Gibson Island green hydrogen and ammonia production project, in partnership with Incitec Pivot Ltd (IPL, not rated).

Still looking to declining earnings (and dividends)

We continue to forecast steady declines in EPS and DPS, fundamentally driven by a declining iron ore price, rising unit costs and an increasing allocation of capital for Fortescue Energy development projects. We see pressure on free cash flow as Fortescue Energy investments reach FID points at end CY23 and draw on operating cash flow to fund their development from FY24 onwards.

The iron ore price has been 'stronger for longer', supported by the prospect of Chinese Government policy stimulus and low port inventories. Increased access to credit has helped sentiment, but steel producer margins in China remain under pressure. Fundamental demand drivers appear soft.

Changes to our forecasts

Beyond updating for the September 2023 quarter production and cost report, we have made the following changes to our modelled assumptions:

- Increased our underlying A$ unit operating cost forecasts for FY24, reflecting the reported September quarter performance and updating for Iron Bridge operating cost guidance;
- Increased our capital expenditure assumptions, which are now in the upper half of FMG's guidance ranges;
- Increased our dividend forecasts, reflecting higher revenues and higher earnings, driven by our increased iron ore price forecast;
- Incorporated our latest iron ore price and foreign exchange rate forecasts, which includes a 4% increase to our FY24 iron ore price and 5% reduction in our AUD:USD foreign exchange rate; and
- Updated for FMG's latest capital structure and rolled our model forward.

The net changes to our forecasts are summarised in the table below:

Table 2 - Changes to earnings and valuation estimates

	Previous			New			Change		
Year ending 30 June 30	**Jun-24**	**Jun-25**	**Jun-26**	**Jun-24**	**Jun-25**	**Jun-26**	**Jun-24**	**Jun-25**	**Jun-26**
Iron ore (Fines) CFR @ 62% Fe	99	90	92	**102**	**90**	**92**	4%	0%	0%
AUD/USD	0.69	0.70	0.70	**0.66**	**0.70**	**0.70**	-5%	0%	0%
Total production (Mt wet)	196.0	208.0	208.0	**193.9**	**208.0**	**208.0**	-1%	0%	0%
Costs C1 (US$/t)	18.21	18.48	18.48	**18.08**	**18.76**	**18.76**	-1%	2%	2%
Revenue (US$m)	15,414	13,835	13,771	**15,958**	**13,835**	**13,771**	4%	0%	0%
EBITDA (US$m)	7,085	5,477	5,418	**7,476**	**5,119**	**5,060**	6%	-7%	-7%
NPAT (adjusted) (US$m)	3,653	2,413	2,369	**3,948**	**2,155**	**2,110**	8%	-11%	-11%
Adjusted EPS (Ac/sh)	171	112	110	**195**	**100**	**98**	14%	-11%	-11%
PER (x)	13.0	19.8	20.2	**11.4**	**22.2**	**22.7**	(1.6)	2.4	2.5
DPS (Ac/sh)	114	85	79	**125**	**76**	**71**	10%	-11%	-10%
Yield (%)	5.1%	3.8%	3.6%	**5.6%**	**3.4%**	**3.2%**	0.5%	-0.4%	-0.4%
Net debt (cash) ($m)	1,938	2,338	2,079	**1,911**	**2,417**	**2,244**	-1%	3%	8%
ND / (ND + E) (%)	9%	11%	9%	**9%**	**11%**	**10%**	0%	0%	1%
Valuation ($/sh)		15.53			**16.21**			4%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

While FMG still shows high leverage to the iron ore price, resulting in an 8% increase to our FY24 earnings forecast (with a lower exchange rate lifting A$ EPS by 14%) we still forecast A$ EPS and DPS declines over the forecast period. Yield remains a supporting factor for the share price, but not as significantly as we have previously seen. Our NPV-based valuation is up 4%, from $15.53/sh to $16.21/sh We retain our Sell recommendation, in conformity with our ratings structure.

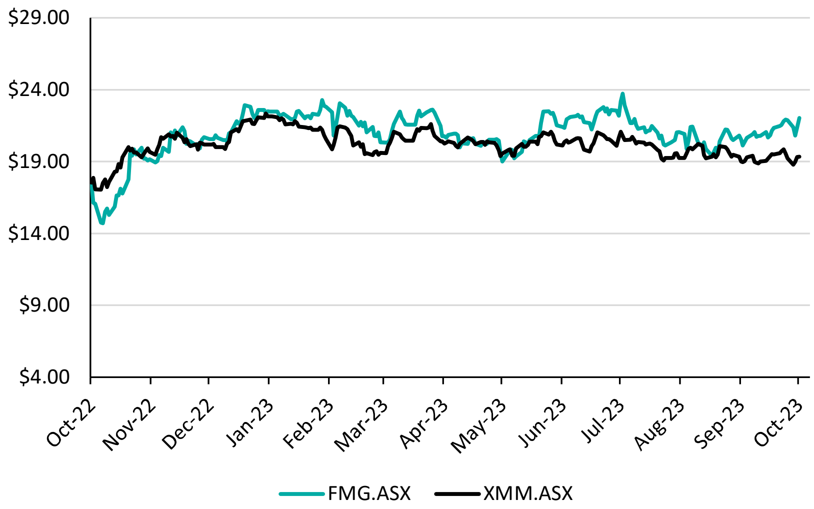
Upcoming catalysts

Key near term catalysts for FMG include:

- The maintenance of high price realisations for FMG's iron ore product suite and market developments in China, where the prospect of Government stimulus policies are supporting the near-term pricing outlook;
- The successful ramp-up and increasing magnetite concentrate sales from the Iron Bridge Project;
- Development updates for the Belinga Project in Gabon, where first shipments are targeted by end CY23;
- The December quarter 2023 production report, scheduled for release on 27 January 2024; and
- The announcement of Final Investment Decisions on five (5) of FFI's projects by the end of CY23 and confirmation of which projects they will be.

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 ~187-192Mtpa production rate for FY23, 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 – Sell TP$16.21/sh (Sell TP$15.53/sh)

EPS changes in this report are: FY24: +14%, FY25: -11%; and FY26: -11%, largely on higher forecast operating costs. Our NPV-based valuation is increased by 4% from $15.53/sh to $16.21/sh on favourable adjustments to our iron ore price and AUD:USD forecasts. We retain our Sell recommendation.

Valuation: $16.21/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, including FFI's operating costs and capital expenditure guidance. We calculate a 12-month forward, NPV-based valuation for FMG of $16.21/sh on this basis.

Table 3 – FMG sum-of-the-parts valuation

Sum-of-the-parts (+12 month Target Price)	$m	$/sh
Iron ore operations (DCF)	53,978	17.47
Exploration (estimate)	2,699	0.87
Corporate (DCF)	(4,809)	(1.56)
Subtotal	**51,867**	**16.79**
Net debt (cash)	1,793	0.58
Total (diluted)	**50,074**	**16.21**

SOURCE: BELL POTTER ESTIMATES

Resource sector risks

Risks to resources sector equities such as FMG 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 26 October 2023

Recommendation	Sell
Price	$22.21
Target (12 months)	$16.21

Table 4 - Financial summary

PROFIT AND LOSS

Year ending 30 Jun	Unit	2022a	2023a	2024e	2025e	2026e
Revenue	US$m	17,390	16,871	15,958	13,835	13,771
Expense	US$m	(6,862)	(7,070)	(8,482)	(8,716)	(8,712)
EBITDA	US$m	**10,528**	**9,801**	**7,476**	**5,119**	**5,060**
Depreciation	US$m	(1,528)	(1,744)	(1,762)	(1,889)	(1,889)
EBIT	US$m	9,000	7,020	5,714	3,230	3,171
Net interest expense	US$m	(154)	(134)	(231)	(237)	(240)
PBT	US$m	**8,846**	**6,886**	**5,483**	**2,993**	**2,931**
Tax expense	US$m	(2,649)	(2,090)	(1,535)	(838)	(821)
NPAT (reported)	US$m	**6,197**	**4,796**	**3,948**	**2,155**	**2,110**
Abnormal items	US$m	-	726	-	-	-
NPAT (adjusted)	US$m	**6,197**	**5,522**	**3,948**	**2,155**	**2,110**

PROFIT AND LOSS (INTERIM)

Half year ending	Unit	Jun-22a	Dec-22a	Jun-23a	Dec-23e	Jun-24e
Revenue	US$m	9,265	7,835	9,036	8,440	7,517
Expense	US$m	(3,483)	(3,519)	(3,551)	(4,046)	(4,435)
EBITDA	US$m	**5,782**	**4,316**	**5,485**	**4,394**	**3,082**
Depreciation	US$m	(806)	(859)	(885)	(832)	(930)
EBIT	US$m	4,976	3,457	4,600	3,562	2,152
Net interest expense	US$m	(78)	(59)	(75)	(116)	(115)
PBT	US$m	**4,898**	**3,398**	**4,525**	**3,446**	**2,037**
Tax expense	US$m	(1,478)	(1,030)	(1,060)	(965)	(570)
NPAT (reported)	US$m	**3,420**	**2,368**	**3,465**	**2,481**	**1,467**
Abnormal items	US$m	-	-	-	-	-
NPAT (adjusted)	US$m	**3,420**	**2,368**	**3,465**	**2,481**	**1,467**

CASH FLOW

Year ending 30 Jun	Unit	2022a	2023a	2024e	2025e	2026e
OPERATING CASHFLOW						
Receipts	US$m	17,603	16,849	15,951	13,880	13,771
Payments	US$m	(7,088)	(6,833)	(8,704)	(8,738)	(8,712)
Tax	US$m	(3,667)	(2,379)	(1,535)	(838)	(821)
Net interest	US$m	(202)	(205)	(231)	(237)	(240)
Other	US$m	-	-	-	-	-
Operating cash flow	US$m	**6,646**	**7,432**	**5,481**	**4,066**	**3,999**
INVESTING CASHFLOW						
Capex & exploration	US$m	(2,005)	(1,959)	(3,465)	(2,674)	(2,274)
Other	US$m	(1,065)	(1,156)	-	-	-
Investing cash flow	US$m	**(3,070)**	**(3,115)**	**(3,465)**	**(2,674)**	**(2,274)**
FINANCING CASHFLOW						
Net equity proceeds	US$m	-	-	-	-	-
Debt proceeds	US$m	1,900	-	-	-	-
Debt repayments	US$m	(134)	(898)	(59)	-	-
Dividends	US$m	(6,699)	(3,922)	(2,892)	(1,898)	(1,552)
Other	US$m	(166)	(181)	-	-	-
Financing cash flow	US$m	**(5,099)**	**(5,001)**	**(2,951)**	**(1,898)**	**(1,552)**
Change in cash	US$m	(1,523)	(684)	(936)	(506)	173

BALANCE SHEET

Year ending 30 Jun	Unit	2022a	2023a	2024e	2025e	2026e
ASSETS						
Cash & short term investments	US$m	5,224	4,287	3,351	2,845	3,018
Accounts receivable	US$m	492	536	542	498	498
Inventory	US$m	1,553	1,647	1,647	1,647	1,647
Property, plant & equipment	US$m	10,255	10,685	12,358	13,114	13,469
Exploration & evaluation	US$m	9,463	9,374	9,404	9,434	9,464
Other	US$m	1,388	1,689	1,689	1,689	1,689
Total assets	US$m	**28,375**	**28,218**	**28,992**	**29,227**	**29,785**
LIABILITIES						
Accounts payable	US$m	1,564	1,553	1,331	1,309	1,309
Borrowings	US$m	5,348	4,587	4,528	4,528	4,528
Other	US$m	4,118	4,080	4,080	4,080	4,080
Total liabilities	US$m	**11,030**	**10,220**	**9,939**	**9,917**	**9,917**
SHAREHOLDER'S EQUITY						
Share capital	US$m	1,053	1,044	1,044	1,044	1,044
Reserves	US$m	109	170	170	170	170
Retained earnings	US$m	16,175	16,775	17,830	18,087	18,645
Non-controlling interest	US$m	8	9	9	9	9
Total equity	US$m	**17,345**	**17,998**	**19,053**	**19,310**	**19,868**
Net debt	*US$m*	*124*	*300*	*1,177*	*1,683*	*1,510*
Weighted average shares	m	3,077	3,076	3,079	3,079	3,079

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2022a	2023a	2024e	2025e	2026e
VALUATION						
NPAT (adjusted)	US$m	6,197	5,522	3,948	2,155	2,110
Adjusted EPS	USc/sh	201	156	128	70	69
EPS growth	%	-40%	-23%	-18%	-45%	-2%
Adjusted EPS	Ac/sh	277	232	195	100	98
EPS growth	%	-38%	-16%	-16%	-49%	-2%
PER	x	8.0x	9.6x	11.4x	22.2x	22.7x
DPS	Ac/sh	207	175	125	76	71
Franking	%	100%	100%	100%	100%	100%
Yield	%	9%	8%	6%	3%	3%
FCF/share	USc/sh	116	140	65	45	56
FCF/share	Ac/sh	160	209	100	65	80
FCF yield	%	7%	9%	4%	3%	4%
EV/EBITDA	x	4.4x	4.8x	6.3x	9.1x	9.2x
EBITDA margin	%	61%	58%	47%	37%	37%
EBIT margin	%	52%	42%	36%	23%	23%
Return on assets	%	22%	17%	14%	7%	7%
Return on equity	%	36%	27%	21%	11%	11%
LIQUIDITY & LEVERAGE						
Net debt (cash)	US$m	879	1,034	1,911	2,417	2,244
ND / E	%	5%	6%	10%	13%	11%
ND / (ND + E)	%	5%	5%	9%	11%	10%
ND / EBITDA	x	0.1x	0.1x	0.3x	0.5x	0.4x
EBITDA/Interest	x	68.4	73.1	32.4	21.6	21.1

ASSUMPTIONS - Prices

Year ending 30 Jun	Unit	2022a	2023a	2024e	2025e	2026e
Iron ore (Fines) CFR @ 62% Fe	**US$/dmt**	**138**	**110**	**102**	**90**	**92**
AUD/USD	US$/A$	0.73	0.67	0.66	0.70	0.70

ASSUMPTIONS - Production

Year ending 30 Jun	Unit	2022a	2023a	2024e	2025e	2026e
Sales (FMG equity)	Mwt	189.0	192.1	193.9	208.0	208.0
Third party	Mwt	-	-	-	-	-
Sales (total)	Mwt	189.0	192.1	193.9	208.0	208.0
62% Fe index price (real)	US$/dt	138	110	102	86	86
FMG realised price CFR	US$/dt	100	95	89	76	76
Realised price discount	%	-28%	-14%	-12%	-12%	-12%
Costs C1 (excl. royalty)	**US$/wt**	**15.91**	**17.56**	**18.08**	**18.76**	**18.76**
Shipping	US$/wt	10.46	7.57	9.30	8.53	8.53
Royalties	US$/wt	5.98	5.85	5.87	4.72	4.70
Other	US$/wt	0.30	0.82	0.80	0.85	0.85
Cost of sales	**US$/wt**	**32.64**	**31.80**	**34.05**	**32.87**	**32.84**
Interest	US$/wt	1.13	1.82	1.35	1.26	1.26
Capex (sustaining)	US$/wt	16.24	16.22	7.15	5.50	5.50
Total all-in cost	**US$/wt**	**50.02**	**49.83**	**42.54**	**39.62**	**39.60**
Total all-in cost (@ 8% moist)	**US$/dt**	**54**	**54**	**46**	**43**	**43**
Total all-in cost (62% Fe eq.)	**US$/dt**	**69**	**62**	**52**	**48**	**48**

VALUATION

Issued capital	
Shares on issue m	3,079
Options (in the money) m	11
Total m	**3,090**

	Current		+12 months		+24 months	
Sum of parts valuation	**A$m**	**$/sh**	**A$m**	**$/sh**	**A$m**	**$/sh**
Iron ore operations (DCF)	54,491	17.64	53,978	17.47	53,332	17.26
Exploration (estimate)	2,725	0.88	2,699	0.87	2,667	0.86
Corporate (DCF)	(5,349)	(1.73)	(4,809)	(1.56)	(4,258)	(1.38)
Total enterprise value	**51,867**	**16.79**	**51,867**	**16.79**	**51,741**	**16.75**
Net debt/(cash)	3,489	1.13	1,793	0.58	2,404	0.78
Equity value	**48,378**	**15.66**	**50,074**	**16.21**	**49,336**	**15.97**

MAJOR SHAREHOLDERS

Minderoo Group Pty Ltd	36.7%
Hunan Valin Iron & Steel Group	9.0%
The Capital Group	7.6%

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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