Reporting Season

CommSec

FORTESCUE METALS (FMG)

20 AUGUST 2018

RESULTS	Full Year 2018	Full Year 2017	CHANGE
Net Profit After Tax (NPAT) (US$m)	878	2,093	-58%
Underlying NPAT (US$m)	1,080	2,134	-49%
Underlying NPAT Consensus	1,072		
Underlying EBITDA (US$m)	3,182	4,744	-33%
Revenue (US$m)	6,887	8,447	-18%
Revenue Consensus	7,049		
Final Dividend ($)	0.12	0.25	-52%

Fortescue (FMG) revenue falls as Chinese environmental restrictions bite

- **Fortescue Metals Group (FMG)** reported a 58% decline in full year net profit after tax to US$878 million. In removing the impact of one of outcomes such as refinancing and early debt repayment costs, underlying net profit after tax came in at US$1.1 billion. Revenue over the year fell 18%, reflecting a lower average realised iron ore price, which fell to US$44/dmt from US$53/wmt in the previous year. The key factor driving the fall in prices has been the dynamic in the Chinese steel markets, where authorities are focussed on improved environmental outcomes by incentivising the use of better quality or higher iron content ores.
- **FMG is attempting to meet** this challenge through the introduction of West Pilbara Fines, an ore which has higher iron content. West Pilbara Fines will initially be produced by blending ore from the Firetail mine with higher iron content ore from newly developed areas to the west of the Cloudbreak mine. FMG expects the 60% ore to be produced in the second half of FY19, and it is hoped it will enhance operating margins. This will be a stopgap solution until the Eliwana mine and rail project comes on line in 2020.
- **FMG shipped of 170 million tonnes (mt)** of ore over the year , while pushing annual C1 costs (operating costs of mining, processing, rail and port, including administration charges and production overheads) to a record low of US$12.36/wmt. In addition to lower royalty payments, these outcomes were balanced by increased shipping costs which rose by 24%. FMG is forecasting similar shipments in 2019 of 165-173mt, although costs are seen to be higher at US$12-13.00/wmt. Underlying EBITDA of US$3.2 billion was lower than FY17 due to the decrease in revenue.
- **FMG's gross debt decreased** to US$4 billion from US$4.5 billion in 2017. At the same time FMG restructured its debt portfolio on investment grade terms and lowered annual interest costs by US$130 million. **FMG maintained its dividend** pay-out ratio at 50% to 80% of full year earnings. FMG says that the pay-out ratio will be determined each reporting period based on balancing performance, capital management, growth and shareholder returns. FMG declared a final fully franked dividend of $0.12 per share, down 52% on the pcp. The total payment for FY18 was $0.23 per share, reflecting a 62 per cent pay-out of full year net profit after tax.