

Fortescue Ltd

Recommendation: Buy | Sector: Mining

Fortescue Ltd engages in the exploration, development, production, processing, and sale of iron ore in Australia, China, and internationally. It explores for copper, gold, and lithium deposits; and rare earth elements. The company owns and operates the Chichester Hub that includes the Cloudbreak and Christmas Creek mines located in the Chichester ranges; and the Solomon Hub comprising the Firetail, Kings Valley, and Queens Valley mines located in the Hamersley ranges of Pilbara, Western Australia. It also develops and produces the Eliwana mine situated in the Pilbara region of Western Australia. In addition, the company holds a portfolio of properties situated in Argentina, Peru, Chile, and Brazil, as well as Portugal and Kazakhstan. Further, it provides port towage services; owns and operates rail and port facilities; and focuses on producing green energy and green hydrogen, including derivatives comprising green ammonia. The company was formerly known as Fortescue Metals Group Limited and changed its name to Fortescue Ltd in November 2023. Fortescue Ltd was incorporated in 1983 and is headquartered in East Perth, Australia.

Sector	Mining
Risk	Low to Medium
Market Cap (\$)	82.947B
Shares Outstanding	3,076m
Beta	0.88
EPS (TTM)	2.79
PE (TTM)	9.66
Dividend Yield (%)	8.02%
52 Week Range (\$)	18.91 - 29.95
Target Price (\$)	32.30
Stop Loss (\$)	23.90

Stock Performance Profile:

Source: Trading View

Financial Summary				
Key Items	Dec 2020	Dec 2021	Dec 2022	Dec 2023
Revenue (\$m)	19,178.7	33,336.9	26,015.4	25,239.0

Gross Profit (\$m)	10,588.7	23,173.0	14,572.5	13,544.8
EBITDA (\$m)	12,150.5	24,426.7	15,711.0	14,354.1
Operating Profit (\$m)	10,253.6	22,571.6	13,618.1	11,981.5
Financial Strength				
Debt/Equity (%)	24.0%	35.2%	29.6%	27.4%
Debt/Capital (%)	19.3%	26.0%	22.8%	21.5%
Interest Coverage (%)	105.5x	60.7x	35.1x	34.7x

Source: Company filings, StockBinge's analysis

Fortescue Ltd saw a remarkable increase in revenue from 2020 to 2021, with a growth of approximately 74%. However, the revenue declined by 22% in 2022 and further by 3% in 2023, indicating a downward trend post-2021.

The gross profit mirrored the revenue trend, peaking in 2021 with a 119% increase from 2020. The subsequent years saw decreases of 37% in 2022 and 7% in 2023. Despite the declines, the company maintained a substantial gross profit.

EBITDA also followed the revenue pattern, with a 101% rise in 2021 followed by declines of 36% and 9% in the subsequent years. This indicates that while operational efficiency might have improved significantly in 2021, the company faced challenges in maintaining this performance.

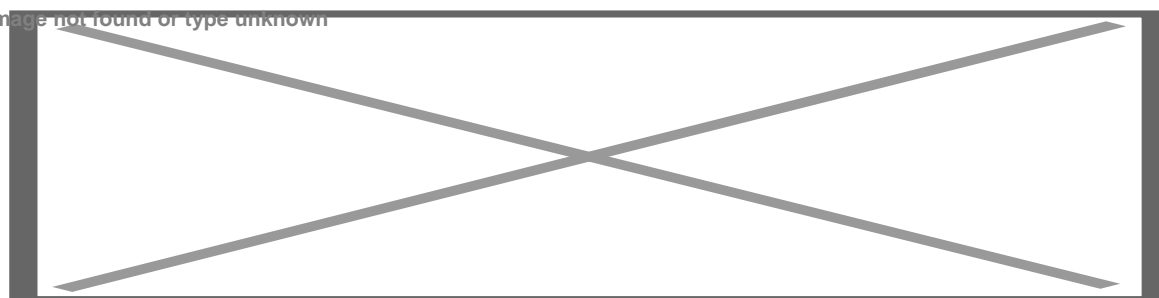
Operating profit increased by 120% in 2021, similar to the other metrics. The following years saw a decrease of 40% in 2022 and 12% in 2023. Despite these reductions, Fortescue Ltd's operating profit remained robust, indicating a strong operational framework.

The debt/equity ratio increased to 35.2% in 2021, suggesting higher leverage, but subsequently decreased to 27.4% by 2023. This indicates an initial increase in debt levels which the company managed to bring down slightly over the next two years.

Similar to the debt/equity ratio, the debt/capital ratio peaked in 2021 and then decreased, showing a cautious approach towards capital structure post-2021. The interest coverage ratio declined steadily from 2020 to 2023, indicating a reduction in the company's ability to cover interest expenses from its operating profit. Despite the decline, the coverage remained strong, suggesting that the company was still comfortably meeting its interest obligations.

Operational Analysis

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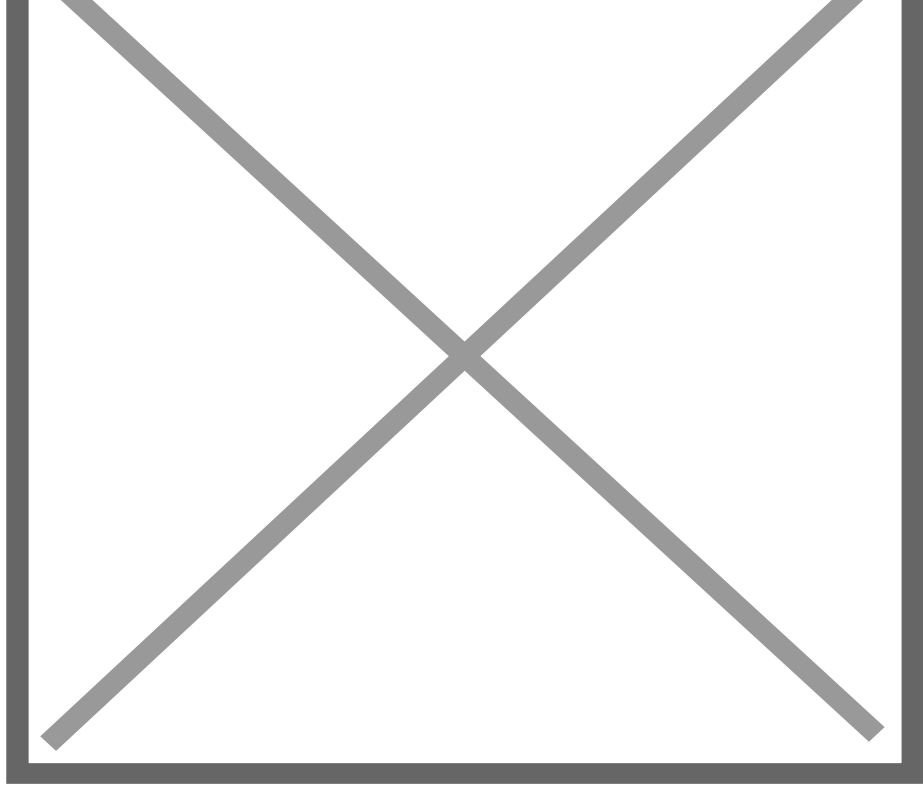
A continuous focus on safety contributed to a TRIFR for Metals of 1.5 for the 12 months ending 31 March 2024, compared to a TRIFR of 1.8 at 31 December 2023.

- Iron ore shipments of 43.3Mt in Q3 FY24 were six per cent lower than Q3 FY23 reflecting the impact of the ore car derailment on 30 December 2023 and weather disruptions.
- Implementation of the recovery plan led to a sequential increase in monthly shipments during the quarter, with record monthly shipments of 18.7Mt achieved in March 2024.
- Pilbara Hematite C1 cost of US\$18.93/wmt in Q3 FY24 was seven per cent higher than the previous quarter, impacted by lower sales volumes. The C1 cost for the nine months to 31 March 2024 was US\$18.13/wmt.
- Pilbara Hematite FY24 C1 cost guidance is unchanged at US\$18.00 - US\$19.00/wmt, based on an assumed average exchange rate of AUD:USD 0.68.
- Iron Bridge commissioning activities continue to make progress, including the completion of load commissioning of Dry Circuit B, and shipments were 0.5Mt in Q3 FY24.
- Performance of the Canning Basin Raw Water Pipeline was similar to the prior quarter, with contingency water options progressing to support increased plant uptime. Work is advancing to replace the high-pressure section of the Raw Water Pipeline to de-risk and improve performance.
- Guidance for FY24 total shipments is unchanged at 192 - 197Mt, with shipments now expected in the lower end of the range. This is inclusive of Iron Bridge shipments of approximately 2Mt (100 per cent basis), reflecting the status of the raw water pipeline.
- Guidance for Metals capital expenditure is amended to US\$2.5 - US\$2.7 billion (previously US\$2.8 - US\$3.2 billion), reflecting the lower AUD:USD exchange rate and timing.

Industry Overview

Due to abundance of natural resources and crucial role in the production of most commodities, Australia continues to be one of the most significant countries for the mining sector. The nation ranks well in the production of gold, zinc, nickel, cobalt, iron ore, and lithium. With an expected 468.1 million metric tons of lithium carbonate equivalent produced in 2023, Australia continued to be the world's leading producer of lithium. After topping the list in 2019 and 2020, Australia is now the second-largest exploration destination worldwide for the third year running. The top spot is still held by Canada. Australia received US\$2.2 billion in exploration funding in 2023 compared to US\$2.3 billion in 2022. Drilling activity suffered as a result, with reported drillholes falling to 18,196 at 486 different projects, a 29% decrease.

Australia's initial resources and exploration budgets, 2023



Source: S&P Global Market Intelligence

Risk Analysis

Fortescue Metals Group, a major player in the iron ore industry, is poised for a promising outlook driven by several key factors. The company's continued investment in innovative mining technologies and sustainable practices enhances its operational efficiency and environmental stewardship. Additionally, Fortescue's strategic expansion into renewable energy projects, such as the Fortescue Future Industries initiative, positions it well to capitalize on the global shift towards green energy. Despite potential market volatility and regulatory challenges, Fortescue's robust financial health, strong demand for iron ore, particularly from China, and its ambitious diversification plans suggest a positive trajectory for growth and resilience in the coming years.

Outlook

Fortescue Ltd experienced a significant boost in financial performance in 2021 across all key metrics. However, the subsequent years saw declines, reflecting potential market challenges or operational hurdles. The company's financial strength ratios indicate a period of increased leverage which has been managed downwards in recent years. While there is a noticeable decrease in revenue and profitability post-2021, Fortescue Ltd maintains a robust financial position with strong profitability and adequate interest coverage. Moving forward, the company should focus on stabilizing its revenue streams and maintaining operational efficiencies to sustain its financial health.

Technical Analysis

Source: Trading View

Stock Binge's View:

The stock is trading sideways but with the positive bias showing positive momentum to remain intact in the coming months, hence any dips should be providing buying opportunity at lower levels. Prices on the daily chart are forming higher top and higher bottom which indicates upside in the short to medium term to remain intact. **Based on the pattern StockBinge recommends a “BUY” at cmp \$27.24 (closing price of 20th May 2024) with stop loss \$23.90 and a target prices of \$32.30.**

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