

Fortescue Ltd FMG

\$26.78

0.46 | 1.75%

(5:25PM 07-May-2024)

Trading Status: Trading

[Research Report](#)

[Research Snapshot](#)

[Company Profile](#)

Morningstar Analyst Rating™

★

(04:00PM 29-Apr-2024)

★★★★★

★★★★

★★★

★★

★

\$

9.72

13.77

18.63

25.11

Last Price

26.78

Style Box™

Morningstar Sector

Basic Materials

Market Cap

82,455 M

Fair Value

\$16.20

Fair Value Uncertainty

High

Economic Moat

None

Capital Allocation

Standard

Overview	Investment Outlook	Forecasts	Profile	Financials	Shareholders	Dividends	Other	Charts
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Analyst Note

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[Analyst Report](#)

Analyst Note

Updated: 12:38PM 24-Apr-2024

Fortescue: Iron Ore Volumes Disappointing

Inclement weather and a train derailment meant no-moat Fortescue's third-quarter fiscal 2024 was modestly behind our expectations. Shipments of 43 million metric tons were 7% down on the same quarter of fiscal 2023 and 11% below the prior quarter. Shipments for the first nine months of fiscal 2024 were 138 million metric tons, 4% down on last year, with a contribution from the new 69%-owned Iron Bridge mine remaining immaterial.

Shipment guidance reduces to be in the lower range of previously guided volumes, partially offset by decreased iron ore capital expenditure and lower operating costs in the energy business. However, the effect of updated guidance on near-term earnings is minor, and we retain our AUD 16.20 per share fair value estimate. We now forecast sales of roughly 188 million metric tons (Fortescue's share) in fiscal 2024, down from 192 million. With Iron Bridge ramping up to full production, likely in fiscal 2026 or 2027, we forecast sales to rise to about 210 million metric tons (Fortescue's share) in fiscal 2028.

The average third-quarter realized price before freight costs and excluding Iron Bridge was USD 104 per metric ton, down 4% on last year, driven by a higher discount and lower benchmark prices. With its generally lower-grade ore, around 57% to 58% iron content, Fortescue incurs a discount to the 62% benchmark price. The discount was 15% in the third quarter compared with 13% last year, with 2% lower benchmark prices also affecting realized prices. Steelmaker margins are low to negative, and steel mills are trying to minimize costs by using cheaper lower-grade iron ore and shrinking discounts rather

than maximizing steel volumes by using higher-grade iron ore when steelmaking margins are high.

We still forecast fiscal 2024 unit cash costs of between USD 18 and USD 19 per metric ton, excluding Iron Bridge. The modestly disappointing shipments in the third quarter meant unit costs were at the top of that range.

Iron ore prices have fallen materially in recent months on concerns over Chinese steel production and weak end-user demand. However, spot prices of roughly USD 110 per metric ton remain strong and are likely a driver of the approximately 50% premium to fair value at which Fortescue shares trade. Enthusiasm over Fortescue's bold green energy ambitions is likely another driver. However, in our view, it is too early to get excited about green energy, with the space highly competitive and commercially viable options not yet proven.

Bulls Say

- Fortescue provides strong leverage to the Chinese economy. If growth in steel consumption remains strong, it's also likely iron ore prices and volumes will, too.
- Fortescue is the largest pure-play iron ore company in the world and offers strong leverage to emerging world growth.
- When steel industry margins contract, it's likely that product discounts narrow significantly relative to historical averages, reducing Fortescue's competitive disadvantage relative to the majors.

Bears Say

- We think that ultimately Chinese fixed-asset investment will slow, and future iron ore volume growth and prices are likely to be much less favorable.
- Margins are significantly lower than those of diversified peers BHP, Rio Tinto, and Vale, and this could see Fortescue's margins fall much more than peers if iron ore prices fall.
- Fortescue produces an inferior, lower-iron-grade product, which attracts a discount to the benchmark 62% iron ore fines price. Lower-grade reserves mean this discount is likely to persist.

