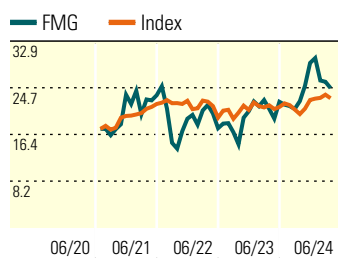


Fortescue Ltd FMG ★★ (12:38PM 24-Apr-2024)

Snapshot

Fair Value Uncertainty	High
Moat Rating	None
Fair Value \$	16.20
Capital Allocation	Standard
Market Cap \$Mil	75,743
Morningstar Style Box	
Price \$ (4:00PM 23-Apr-2024)	24.60
52 Week High/Low \$	29.95/18.91
Shares Issued Mil	3,079
Morningstar Sector	Basic Materials
Morningstar Industry	Other Industrial
	Metals & Mining
GICS Sector	Materials

Price vs. Market



	06/22	06/23	06/24e	06/25e
NPAT (\$Mil)	8,581.9	8,244.3	9,595.4	7,155.4
EPS ¢	278.4	267.5	311.4	232.2
EPS Chg %	-37.7	-3.9	16.4	-25.4
DPS ¢	207.0	175.0	202.8	151.1
Franked %	100.0	100.0	100.0	100.0
Div Yld %	10.7	8.9	8.2	6.1
P/E x	7.0	7.4	7.9	10.6

Source: Morningstar estimates 23-Apr-2024.

Profile

Fortescue Ltd (FMG, formerly Fortescue Metals Group Ltd) is an ASX-listed company which is into exploration, development, production, processing and sale of iron ore, and the transition to a global green renewables and resources Company through the activities of FFI.

Fortescue: Iron Ore Volumes Disappointing

Investment Perspective By Jon Mills (04-Apr-2024)

After first ore in 2008, Fortescue has significantly expanded production to become the world's fourth-largest iron ore miner. Fortescue built its assets during the iron ore boom, meaning the unit cost of its installed capital base is generally higher than the established majors, who benefit from investments made when industry capital costs were much lower. Operating leverage is high, with margins well below those of peers BHP, Rio Tinto, and Vale, mainly due to the production of lower-grade iron ore, which attracts a material discount to the 62% benchmark. Considerable debt repayment in recent years has lowered financial leverage and the balance sheet is strong. Development of the 22 million metric tons a year Iron Bridge magnetite mine should add a higher-cost but higher-value 67% grade iron product. More recently, Fortescue is pursuing ambitions in green energy though its plans are at an early stage.

Analyst Note (12:38PM 24-Apr-2024)

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.

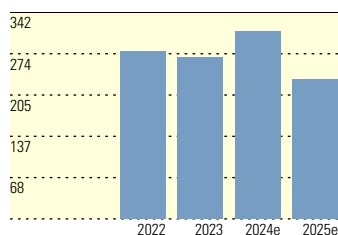
Iron ore prices have fallen materially in recent months on concerns over Chinese steel production and weak end-user demand. However, spot prices of roughly USD 110 per metric ton remain strong and are likely a driver of the approximately 50% premium to fair value at which Fortescue shares trade. Enthusiasm 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.

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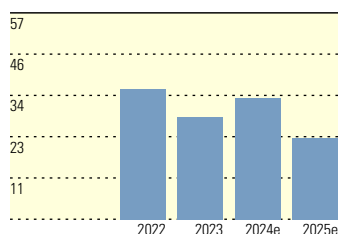
Key Valuation Assumptions

Cost of Equity %	11.0
Weighted Avg Cost of Capital %	9.4
Long Run Tax Rate %	30.0
Stage II EBI Growth Rate %	2.5
Stage II Investment Rate %	-250.0
Perpetuity Year	15.0

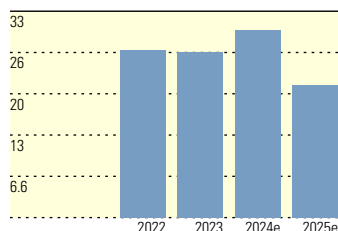
EPS ¢



Return on Equity (ROE) %



Return on Invested Capital (ROIC) %



Fortescue's FVE Reduced by 6% on Lower Near-Term Iron Ore Prices; Shares Overvalued

Business Strategy and Outlook (04-Apr-2024)

Fortescue is the world's fourth-largest iron ore exporter. Margins are well below industry leaders BHP and Rio Tinto, and some way behind Vale, meaning Fortescue sits in the highest half of the cost curve. This is a primary driver of our no-moat rating. Lower margins primarily result from price discounts from selling a lower-grade (57% to 58% iron) product compared with the 62% iron ore benchmark. The lower grade is effectively a cost for customers through a greater proportion of waste to transport and process, additional energy/coal per unit of steel and lower blast furnace productivity. This results in a lower realized price versus the benchmark. In the 10 years ended June 2023, the company realized an approximate 23% discount versus the 62% benchmark.

Fortescue increased rapidly thanks to favorable iron ore prices, aggressive expansion, and historically low interest rates. Expansion from 55 million metric tons of capacity in fiscal 2012 to around 190 million metric tons by 2023 was unprecedented. Fortescue built much of its capacity around the China boom peak and baked in a higher capital base than peers. This means returns are likely to lag the industry leaders who benefited from building significant capacity when the capital cost per unit of output was lower.

Fortescue has done an admirable job of reducing cash costs materially versus peers. However, product discounts remain a competitive disadvantage. The addition of about 22 million metric tons a year of iron ore production from the 69%-owned Iron Bridge joint venture allows Fortescue blending options. Iron Bridge grades are much higher, around 67%, meaning Fortescue could blend most of its iron ore to increase its average grade to between 58% and 59%.

Fortescue is a China fixed-asset investment play, with practically all of the company's iron ore sold there. In the long term, we see demand for steel in China declining as the country's stock of infrastructure matures and with the rate of urbanization past its peak.

The company's strategy is to transform into a diversified iron ore and clean energy company. Its green energy initiatives are at an early stage, but the company has big ambitions in the space.

Economic Moat

We assign Fortescue a no-moat rating. The iron ore produced by its mines generally has less iron content than the 62% iron ore benchmark while also having higher percentages of impurities such as sulphur, alumina and phosphorous. As a result, Fortescue's iron ore is lower quality than that produced by its major competitors such as BHP, Rio Tinto and Vale. This competitive disadvantage results in its iron ore tending to sell at a material discount to the 62% benchmark price, with the average discount over the 10 years to fiscal 2023 being about 23%. The exception is Iron Bridge, which will produce a 67% product. As it is a magnetite deposit, once mined the ore requires beneficiation (where the mined material is crushed into smaller particles and then the valuable ore is separated from the waste). This means cash operating costs for Iron Bridge are materially higher than for the company's other conventional mines. Moreover, Iron Bridge will only account for around 10% of total production on a 100% basis once fully ramped up. As a commodity producer, Fortescue is a price-taker and needs low-cost mines with long lives and a low installed capital base to support the longer-term excess returns needed to justify an economic moat. Once product discounts are taken into account, and assuming Vale's costs normalize, Fortescue sits around the 75th percentile of the industry cost curve. We note that the company averaged ROIC of about 24% in the 10 years ended June 30, 2023 and around 35% in the five years ended June 20, 2023. However, the last decade has been characterized by average iron ore prices that are far in excess of our long-term midcycle estimate of USD 60 per metric ton. Iron ore prices averaged about USD 110 per metric ton over the five years to 2022 and around USD 100 per metric ton over the 10 years to 2022. These prices have mainly been driven by generally increasing crude steel production in China, helped in recent years by the iron ore majors expanding production at

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much slower rates than they did in the early part of the last decade. If we assume prices instead converge toward our midcycle estimate of roughly USD 70 per metric ton from 2028, we estimate that Fortescue will generate a ROIC below its WACC of around 9.5%. Accordingly, we don't assign a moat to Fortescue. Given the Chichester, Solomon and Western Hubs are hematite mines and also share the same railway and port infrastructure, we treat them as one integrated production center when assessing their moatworthiness. Most of the assets—approximately 70% of the invested capital base—sits within port and rail, essentially in perpetuity infrastructure assets. The remainder of the invested capital base sits with the mines. New mines are periodically developed to continue to feed and utilize the installed infrastructure base. We assess the Iron Bridge mine separately. It is a different type of mine (magnetite) with materially different product price, unit operating costs, unit capital costs and margins. Also, it uses separate infrastructure (namely, a pipeline) to transport its concentrate to Port Hedland. Looking at these hubs/mines in turn: Chichester, Solomon and Western Hubs—these mines produce ore with an iron content of around 57%-58%, lower than the 62% benchmark. This lower-quality ore generally receives a discounted price from steelmakers as they have to use more iron ore and coking coal to produce a metric ton of steel compared with higher-grade iron ore, while also resulting in higher CO2 emissions. Once we adjust for the lower iron ore content, the cash costs for extracting ore from these mines place Fortescue's conventional operations well into the upper half of the iron ore cost curve. We also note that Fortescue's assets are relatively new compared with those of BHP, Rio, and Vale, who constructed much of their mines' infrastructure when unit capital costs were far lower, resulting in Fortescue having a higher unit capital cost, too. This lack of cost advantage, and our reticence to forecast iron ore prices remaining above the marginal cost in the longer term, means we don't think they will generate excess returns in 10 years, and so we don't deem them moatworthy. Iron Bridge—producing ore with an iron content of 67%, we estimate it will represent around 15% of midcycle EBIT. We assume that Iron Bridge ore will earn a premium of around USD 32 per metric ton above our assumed midcycle 62% benchmark price

of roughly USD 70 per metric ton. However, with unit costs more than double those of the company's conventional mines, we don't think it will generate ROIC above WACC for at least 10 years and so also don't deem it moatworthy. Fortescue Energy—we estimate that the company will spend about USD 6.3 billion on Fortescue Energy over the five-year forecast period. Fortescue Energy is focused on investing in green energy and materials, specifically in relation to green hydrogen and green ammonia, with the goal of producing 15Mt of green hydrogen by 2030. Its efforts in this regard are at an early stage and have no certainty of success. However, given the expenditure is small on a relative basis, we assume that Fortescue will earn its cost of capital. Hence we believe that Fortescue Energy doesn't contribute nor detract when determining whether Fortescue is moatworthy. Exploration projects—these are an immaterial part of Fortescue and way too early in their potential development to assign any of them a moat. Typically, exploration projects are high risk and involve significant exploration and development expenditure to bring into production—if viable. In the absence of success, expenditure on exploration represents a net drag on overall returns on invested capital for the group. However in this case, Fortescue's expenditure is relatively modest relative to earnings, spending about USD 170 million in fiscal 2023 versus about USD 7 billion in EBIT.

Fair Value and Profit Drivers (04-Apr-2024)

We reduce our fair value estimate for no-moat Fortescue to AUD 16.20 per share, down from USD 17.30, driven by lower near-term iron ore prices.

We now assume iron ore averages about USD 100 per metric ton from 2024 to 2026 based on the futures curve, down from roughly USD 120. However, we raise our assumed midcycle iron ore price to roughly USD 70 per metric ton from 2028, up from around USD 63 previously. This is based on our updated estimate of the marginal cost of production, driven by inflation pushing up and steepening the industry cost curve. Strong demand from China, which accounts for around 70% of the seaborne iron ore trade, is supportive of near-term prices. However, longer term we expect demand from China to moderate as steel production peaks and starts to

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decline as its economy moves away from one reliant on fixed-asset investment to a more consumption-based economy. China's falling population along with rising scrap-based production also contribute to reduced demand for iron ore, in our view. We also think additional supply is likely, led by Simandou and Vale. Hence we expect a long-term price substantially below the current spot around USD 100 per metric ton.

Cash flow is discounted at an 9.4% weighted average cost of capital, based on a long-term capital structure comprising 25% debt and 75% equity. The pretax cost of debt assumption is 8%. Our 11% cost of equity reflects very high systematic risk, specifically Fortescue's lower margins relative to industry leaders BHP, Rio Tinto, and Vale, and somewhat higher debt levels relative to peers. Our fair value estimate equates to an enterprise value/EBITDA exit multiple of 6 in fiscal 2026.

Risk and Uncertainty

We rate Fortescue's Morningstar Uncertainty Rating as High. The price of iron ore and unit costs are the primary drivers of our fair value estimate. The key risk to cash flow is a slowdown in Chinese fixed-asset investment and the consequential impact of steel demand, iron ore demand and ultimately the iron ore price. The expansion of low-cost iron ore supply is another key risk, namely the recovery in output from Brazil, after the Vale tailings dam disaster in 2019, and in the longer term from the likely development of iron ore mines in Africa. Fortescue's cash margins are lower than the low-cost industry majors and so it will be most affected if iron ore prices fall materially.

In the global financial crisis, demand for steel declined rapidly, affecting iron ore prices. Industry pricing power will be tested if Chinese demand for steel slows and total consumption eventually shrinks as we expect. The company wisely focused on debt repayment and financial risk is now low. Provided Fortescue does not embark on another large debt-fueled expansion, or substantial green energy acquisitions, the balance sheet is strong and maintainable.

Fortescue is exposed to a number of low-probability environmental, social, and governance, or ESG, risks

which are not material compared with the major fair value estimate drivers: iron ore price; operating leverage; and capital intensity. The dominant source of emissions in the value chain is downstream from iron ore production—their customers' emissions in steelmaking. Should a carbon price be implemented on the customers' use of iron ore, Fortescue could be at a competitive disadvantage. Their lower-grade iron ore comes with relatively higher emissions in the steelmaking process. Due to the lack of diversification in regions where Fortescue operates, community opposition or labor strikes and disputes could pose a threat to operations and future developments.

Financial Strength

Fortescue's balance sheet is strong, thanks to the elevated iron ore price and accelerated debt repayments. Net debt peaked near USD 10 billion in mid-2013, roughly coinciding with the start of expanded production. Net debt as of the end of December 2023 was USD 0.6 billion, which compares favorably to trailing 12 months EBITDA of around USD 11.5 billion. We think net debt/EBITDA will remain comfortable for the foreseeable future and forecast the ratio to remain below 0.5 through to fiscal 2028. That said, given the operating leverage in Fortescue, we think there is a reasonable argument that Fortescue should run with minimal debt on average through the cycle.

Capital Allocation (04-Apr-2024)

We assign Fortescue Metals Group a Standard Capital Allocation Rating. Fortescue has benefited from high iron ore prices in recent years which, along with a focus on debt repayment and cost reductions, have resulted in a sound balance sheet. The firm is increasingly focused on dividends, which we think is appropriate and in shareholders' interests, given that future external conditions are likely to be less favorable. Should the company revert to significant procyclical rapid expansions or acquisitions, we would likely downgrade the Standard rating. We see the Iron Bridge development as a modest add on to the existing operations, but do not think it enhances the company's competitive position. We think it reflects a fair rather than exceptional investment, in keeping with our Standard rating. In addition, the

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company's investments in green technology are early stage. While laudable from an ESG perspective, particularly given the company's aims to lower carbon emissions, it's not yet clear whether these investments will bring competitive advantage or add shareholder value. After previous management stripped costs from the business, the recovery in iron ore prices from 2016 sees Fortescue on a sound operational and financial footing. The focus has now shifted to shareholder returns and incremental expansion through Iron Bridge. The company's rapid expansion during the boom peaks, driven by founder and Chairman Andrew Forrest's exuberance, and its lower-grade iron ore products bake in a permanent cost disadvantage for Fortescue relative to the lower-cost majors. Fortescue's invested capital base is inflated as a result of investing during a boom, and dilutes returns. High levels of debt funding were a tailwind for returns on equity and earnings per share in the boom.

this discount is likely to persist.

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

General Financials

	Historical					Forecast		
Per Share	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
Sales ¢	455.1	622.9	967.3	781.2	817.3	904.3	826.9	786.5
Adjusted Earnings ¢	144.0	229.0	446.9	278.4	267.5	311.4	232.2	208.7
Free Cash Flow ¢	160.2	220.7	392.0	159.9	206.2	246.7	179.0	196.3
Net Tangible Assets ¢	478.6	640.2	769.4	767.6	857.4	978.3	1,062.7	1,135.3
Book Value ¢	478.3	639.9	769.5	778.8	871.5	992.6	1,077.0	1,149.6
Dividends ¢	114.0	176.0	358.0	207.0	175.0	202.8	151.1	135.2
Franking %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Growth %	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
Sales Revenue	57.9	36.5	55.2	-19.4	4.6	10.6	-8.6	-4.9
EBITDA	107.2	47.5	76.0	-33.3	-10.3	27.2	-20.3	-6.9
Pre-Tax Profit	223.0	56.3	97.4	-38.0	-15.9	33.2	-25.4	-10.1
Adjusted EPS	222.3	59.1	95.1	-37.7	-3.9	16.4	-25.4	-10.1
DPS	395.6	54.4	103.4	-42.2	-15.5	15.9	-25.5	-10.5
Free Cash Flow per share	332.2	37.4	77.5	-59.3	28.9	19.6	-27.4	9.6
Profit & Loss (\$Mil)	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
Sales Revenue	14,102.7	19,246.7	29,875.3	24,082.5	25,188.1	27,869.6	25,483.3	24,237.5
EBITDA	8,423.9	12,422.7	21,868.9	14,579.7	13,084.5	16,640.8	13,270.3	12,360.0
Depreciation	1,674.1	2,092.4	1,831.3	2,116.1	2,603.8	2,649.5	2,804.1	2,973.2
Amortisation	—	—	—	—	—	0.0	0.0	0.0
EBIT	6,749.7	10,330.3	20,037.5	12,463.6	10,480.7	13,991.3	10,466.2	9,386.8
Interest Expense	390.5	406.5	321.8	241.0	410.6	384.0	347.3	309.1
Interest Income	36.4	74.7	21.5	19.4	222.5	100.4	103.2	109.9
Profit Before Tax	6,395.6	9,998.5	19,737.2	12,242.1	10,292.6	13,707.7	10,222.1	9,187.7
Tax	1,934.5	2,921.8	5,935.1	3,668.5	3,120.3	4,112.3	3,066.6	2,756.3
Reported NPAT	4,461.1	7,076.7	13,802.1	8,581.9	7,160.3	9,595.4	7,155.4	6,431.4
Non-Recurring Items After Tax	0.0	0.0	0.0	0.0	-1,083.9	0.0	0.0	0.0
Adjusted NPAT	4,461.1	7,076.7	13,802.1	8,581.9	8,244.3	9,595.4	7,155.4	6,431.4
Free Cash Flow	4,962.9	6,819.8	12,105.7	4,930.1	6,355.3	7,602.6	5,517.9	6,049.1
Effective Tax Rate %	30.2	29.2	30.1	30.0	30.3	30.0	30.0	30.0
Cash Flow (\$Mil)	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
Receipts from Customers	12,392.2	18,986.7	29,737.2	24,377.5	25,155.3	27,798.1	25,559.7	24,275.3
Payments to Suppliers	-5,422.7	-6,601.4	-7,200.7	-9,815.8	-10,201.6	-11,429.7	-12,031.7	-11,940.0
Other Operating Cashflow	-848.3	-2,797.8	-5,652.2	-5,358.0	-3,857.9	-4,242.1	-3,449.6	-2,907.6
Net Operating Cashflow	6,121.2	9,587.5	16,884.3	9,203.7	11,095.8	12,126.3	10,078.5	9,427.7
Capex	-1,460.0	-2,896.4	-4,861.2	-3,876.2	-4,255.0	-4,722.2	-4,731.5	-3,518.0
Acquisitions & Investments	79.8	-13.5	0.0	-358.7	-307.6	0.0	0.0	0.0
Sales of Investments & Subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	4.2	-31.4	-1.3	-16.6	-88.1	0.0	0.0	0.0
Net Investing Cashflow	-1,376.0	-2,941.3	-4,862.6	-4,251.5	-4,650.6	-4,722.2	-4,731.5	-3,518.0
Proceeds from Issues	-180.6	-65.8	-162.2	-191.1	-225.4	0.0	0.0	0.0
Proceeds from Borrowings	0.0	1,245.0	-1,047.1	2,631.2	-1,134.7	-757.2	-759.8	-759.2
Dividends Paid	-3,107.5	-2,877.0	-7,620.3	-9,277.1	-5,855.5	-6,249.5	-4,657.1	-4,166.9
Other Financing Cashflow	-60.2	-216.7	-411.6	-224.3	-250.8	0.0	0.0	0.0
Net Financing Cashflow	-3,348.3	-1,914.5	-9,241.2	-7,061.3	-7,466.4	-7,006.7	-5,416.9	-4,926.1
Net Increase Cash	1,415.2	4,455.2	2,781.9	-2,362.6	-1,398.9	397.4	-69.9	983.6
Cash at Beginning	1,189.8	3,077.3	6,507.6	9,850.4	8,177.1	6,492.5	6,912.9	6,837.8
Exchange Rate Adjustment	18.2	-276.5	1.3	-253.4	-377.7	0.0	0.0	0.0
Cash at End	2,623.2	7,256.0	9,290.8	7,234.5	6,400.4	6,889.9	6,843.0	7,821.4

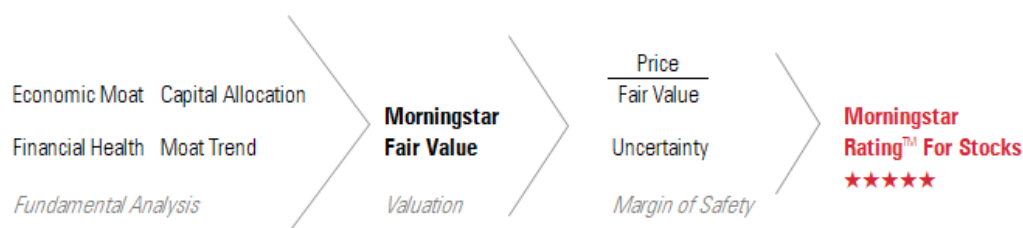
General Financials

	Historical					Forecast		
Balance Sheet (\$Mil)	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
Cash & Equivalents	2,623.2	7,256.0	9,290.8	7,234.5	6,400.4	6,889.9	6,843.0	7,821.4
Accounts Receivable	1,292.0	811.5	955.9	648.1	776.4	859.0	785.4	747.1
Inventory	1,080.6	1,237.5	1,624.9	1,501.2	1,775.2	1,646.9	1,791.2	1,742.0
Other Short-Term Operating Assets	60.2	106.1	139.4	170.3	132.9	134.8	135.2	135.1
Total Current Assets	5,056.0	9,411.1	12,011.0	9,554.1	9,084.8	9,530.5	9,554.9	10,445.6
Property Plant & Equipment, Net	22,495.8	25,516.4	25,991.4	28,597.1	31,313.8	33,837.1	35,877.6	36,395.2
Goodwill, Net	—	—	—	—	—	0.0	0.0	0.0
Other Intangibles	8.4	10.5	13.4	355.9	446.4	452.8	454.3	454.0
Other Long-Term Operating Assets	—	—	—	—	—	0.0	0.0	0.0
Deferred Tax Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Non-Operating Assets	7.0	31.4	36.2	788.0	1,284.0	1,302.4	1,306.8	1,305.8
Total Assets	27,567.2	34,969.4	38,052.0	39,295.1	42,129.0	45,122.9	47,193.6	48,600.6
Accounts Payable	1,380.2	1,579.7	2,571.4	2,165.9	2,318.6	2,151.0	2,339.6	2,275.3
Short-Term Debt	120.4	278.0	223.9	239.6	246.3	249.9	250.7	250.5
Other Short-Term Operating Liabilities	2,203.2	2,319.5	2,406.5	941.7	1,118.2	1,134.3	1,138.1	1,137.3
Total Current Liabilities	3,703.8	4,177.3	5,201.8	3,347.2	3,683.2	3,535.2	3,728.4	3,663.1
Total Long-Term Debt	5,411.5	7,363.6	5,476.6	8,212.2	7,697.8	7,051.3	6,315.1	5,551.2
Long-Term Operating Liabilities	1,250.0	1,177.7	1,297.8	1,260.2	1,628.8	1,652.3	1,657.8	1,656.5
Deferred Tax Liabilities	2,362.8	2,457.0	2,299.2	2,455.3	2,248.4	2,280.8	2,288.4	2,286.7
Long-Term Non-Operating Liabilities	—	—	—	—	—	0.0	0.0	0.0
Total Liabilities	12,728.2	15,175.6	14,275.4	15,274.9	15,258.3	14,519.6	13,989.8	13,157.5
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	18.2	19.4	10.7	11.1	13.4	13.6	13.7	13.7
Total Equity	14,839.0	19,793.8	23,776.6	24,020.2	26,870.7	30,603.2	33,203.9	35,443.2
Profitability %	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
EBITDA Margin	59.7	64.5	73.2	60.5	52.0	59.7	52.1	51.0
EBIT Margin	47.9	53.7	67.1	51.8	41.6	50.2	41.1	38.7
Net Profit Margin	31.6	36.8	46.2	35.6	28.4	34.4	28.1	26.5
Free Cash Flow Margin	35.2	35.4	40.5	20.5	25.2	27.3	21.6	25.0
Return on Equity	32.6	40.9	63.4	35.9	28.2	33.4	22.4	18.7
Return on Assets	17.6	22.6	37.8	22.2	17.6	22.0	15.5	13.4
Return on Invested Capital(w/Goodwill)	28.6	31.3	60.4	26.8	26.5	30.1	21.2	18.4
ROIC (w/Goodwill) Less WACC	19.2	22.0	51.0	17.4	17.1	20.7	11.8	9.0
Leverage & Liquidity	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
Net Debt to Capital %	16.4	1.9	-17.8	4.8	5.4	1.3	-0.8	-6.0
Net Debt/(Net Debt + Equity) %	16.4	1.9	-17.8	4.8	5.4	1.3	-0.8	-6.0
Net Debt/Equity %	19.6	2.0	-15.1	5.1	5.8	1.3	-0.8	-5.7
Net Debt/EBITDA x	0.3	0.0	-0.2	0.1	0.1	0.0	-0.0	-0.2
EBIT/Net Interest Expense x	19.1	31.1	66.7	56.2	55.7	49.3	42.9	47.1
Current Ratio (Current Assets/Current Liabilities) x	1.4	2.3	2.3	2.9	2.5	2.7	2.6	2.9
Dividend Payout Ratio %	79.2	76.9	80.1	74.4	65.4	65.1	65.1	64.8
Net Cash Per Share ¢	-93.9	-12.5	116.2	-39.5	-50.1	-13.3	9.0	65.5
Valuation	06/19	06/20	06/21	06/22	06/23	06/24	06/25	06/26
Price/Earnings x	3.8	4.5	4.5	7.0	7.4	7.9	10.6	11.8
PEG Ratio x	0.0	0.1	0.0	-0.2	-1.9	0.5	-0.4	-1.2
EV/EBITDA x	2.4	2.6	2.7	4.2	4.8	4.6	5.8	6.3
EV/EBIT x	2.9	3.1	2.9	4.9	6.0	5.5	7.4	8.2
Free Cash Flow Yield %	29.3	21.5	19.4	8.2	10.4	10.0	7.3	8.0
Dividend Yield %	20.9	17.2	17.8	10.7	8.9	8.2	6.1	5.5
Price/(OCF per share) x	2.8	3.3	3.7	6.5	5.5	6.3	7.5	8.0
Price/(FCF per share) x	3.4	4.6	5.1	12.1	9.6	10.0	13.7	12.5
Price/Sales x	1.2	1.6	2.1	2.5	2.4	2.7	3.0	3.1
Price/NTA x	1.1	1.6	2.6	2.5	2.3	2.5	2.3	2.2
Price/Book x	1.1	1.6	2.6	2.5	2.3	2.5	2.3	2.1

Equities Research Methodology

We believe that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star, or Buy-rated, stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star, or Sell-rated, stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts. In this document, we provide a detailed overview of how the Morningstar Rating for stocks is derived, and also outline the analytical work that feeds into our coverage of stocks.

Morningstar Research Methodology



Morningstar's Economic Moat™ Rating

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess profits as returns on invested capital, or ROICs, above our estimate of a firm's cost of capital, or WACC (weighted average cost of capital). Without a moat, profits are more susceptible to competition. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Measuring a Moat

Determining Fair Value

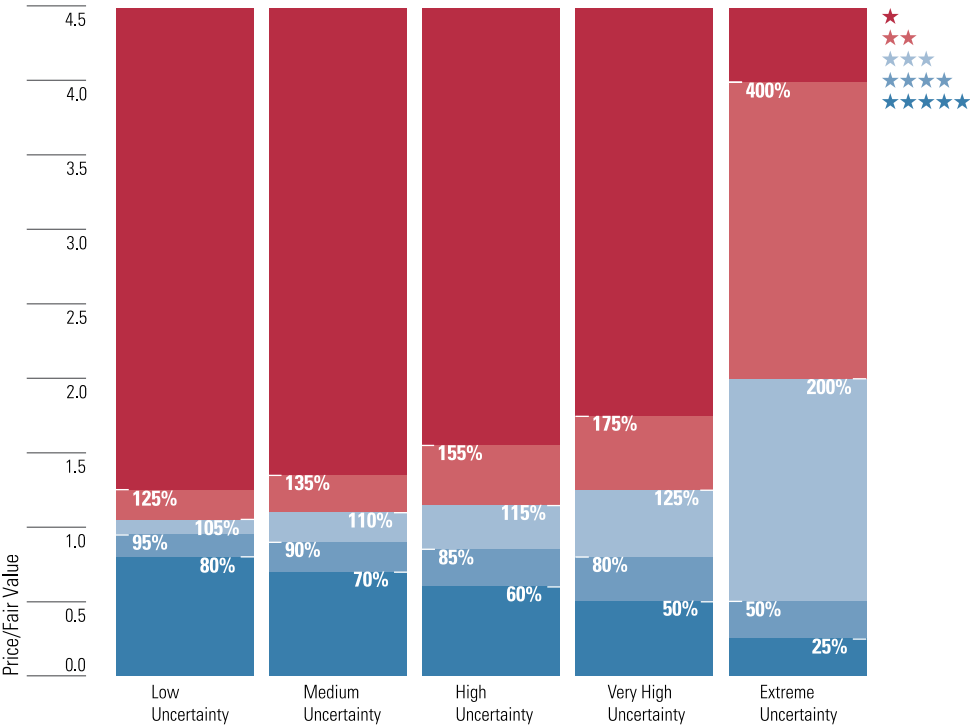
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' independent primary research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process.

The Uncertainty Rating

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. Analysts use the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Our Uncertainty Rating is meant to consider anything that can increase the potential dispersion of outcomes for the intrinsic value of a company, and anything that can affect our ability to predict these outcomes accurately. These can include cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes. We have five different ratings: Low, Medium, High, Very High, or Extreme. Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases.

Equities Research Methodology

Morningstar Equity Research Star Rating Methodology



Equities Research Methodology

Generating the Morningstar Star Rating

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the recommendation, or star rating, is automatically re-calculated at the market close on every day the market is open.

Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted. Furthermore, we would expect our fair value estimates to generally rise over time, due to the time value of money. Specifically, over the course of a year, barring major changes to analyst assumptions, we would expect our fair value estimates to increase at the level of our estimate of a firm's cost of equity (net of shareholder returns attributed to dividends). So, for a stock that pays no dividends with a \$100 fair value estimate today and an estimated 10% cost of equity, we would expect our fair value estimate to rise to \$110 in 12 months, all else equal.

It is also worth noting that there is no predefined distribution of our recommendations. That is, the percentage of stocks that earn a Buy rating can fluctuate daily, so the recommendations, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many Buy-rated stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

Our recommendations /star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential. This rating encourages investors to consider an overweight position in the security relative to the appropriate benchmark.

★★★★ Appreciation beyond a fair risk-adjusted return is likely, in our opinion. This rating encourages investors to own the firm's shares, possibly overweight relative to the appropriate benchmark after fully considering more attractively priced alternatives, such as our Buy recommendations.

★★★ Indicates that we believe investors are likely to receive a fair risk-adjusted return (approximately cost of equity). Concentrated portfolios might consider exiting these positions if more attractively priced alternatives are available.

★★ We believe investors are likely to receive a less than fair risk-adjusted return and should consider directing their capital elsewhere. Securities with this recommendation should generally be underweight, assuming less expensive alternatives are available for the portfolio strategy being employed.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss. This rating encourages investors to strongly consider exiting portfolio positions in the security in nearly all strategies.

Capital Allocation

Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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Reasons For Our Opinion and Ratings

Morningstar believes reasonable efforts were made by its analysts to carefully research information contained in their analysis and by the Quantitative Research team in creating methodologies and choosing supporting data. The information on which the analysis is based has been obtained from sources which are believed to be reliable such as, for example, the fund's offer document and shareholder reports (or their equivalents), company website, interviews with company personnel, and relevant and appropriate press sources as well as data, statistics, and information within Morningstar's own database. While Morningstar, its analysts, and the Quantitative Research team has obtained data, statistics and information from sources it believes to be reliable, the data, statistics, and information has not been audited or independently verified.

Morningstar Medalist Rating Methodology

The Morningstar Medalist Rating is underpinned by the three pillars — People, Process, and Parent. Morningstar's global analyst team believes these three pillars are crucial to predicting the future gross performance of strategies and their associated vehicles.

In accordance with the Morningstar Medalist Rating Methodology, Morningstar assigns pillar ratings to vehicles in

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The Morningstar Medalist Rating is accompanied by two newly implemented data points: Data Coverage % and Analyst-Driven %. The Data Coverage % data point is a summary metric describing the level of data completeness used to generate the overall rating. The Analyst-Driven % data point displays the weighted percentage of a vehicle's pillar ratings assigned.

Vehicles expected to receive a Morningstar Medalist Rating should meet the following criteria:

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- If an analyst assessment is absent on any Pillar the machine-learning model will assign the Pillar Rating. A Medalist Rating will be produced when 80% or greater Data Coverage exists at the fund level.

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