

30 August 2021

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## Fortescue Metals Group Limited

### Materials

### BUY

**FMG A\$20.00 TARGET PRICE A\$28.14**

Fortescue Metals Group Ltd. engages in the development of iron ore deposits. It operates through the China and Other geographical segments. Its projects include Chichester Hub, Solomon Hub, Port Hedland, Eliwana, Iron Bridgen and copper-gold exploration.

#### Company Data

Number of shares	3,079.0 M
Market Capitalisation	\$ 61,579.3 M
Free float (%)	50.6
12-month high/low	\$26.3/\$15.86
Average Daily Turnover (\$m)	335.6
% S&P/ASX200	2.93%
DDM Ranking	182
% All Ordinaries	2.51%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

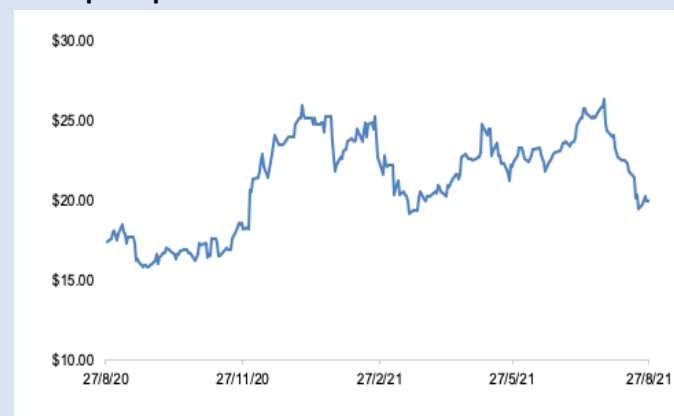
#### Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	30,529.1	29,447.8	20,749.1	17,325.7
EBITDA (\$M)	22,433.8	20,991.4	13,016.3	10,100.6
Reported NPAT (\$M)	14,178.1	13,789.8	8,049.8	5,602.8
Adjusted NPAT (\$M)	14,104.2	13,232.1	7,059.5	3,793.1
Reported EPS (c)	449.1	451.2	250.5	204.1
Adjusted EPS (c - FD)	448.0	424.6	243.7	171.3
Adjusted EPS growth (%)	195.1	179.7	60.5	12.9
Adjusted P/E (x)	4.5	4.7	8.2	11.7
Dividend (c/sh)	358.0	343.0	186.3	128.2
Gross yield (%)	25.6	24.5	13.3	9.2
Net yield (%)	17.9	17.2	9.3	6.4
ROIC (%)	64.3	55.4	31.4	22.3

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

#### Share price performance.



Source: FactSet, Barclay Pearce Capital

## FY21 Year End Financial Results

On 30<sup>th</sup> August, Fortescue Metals Group Ltd (FMG) announced their results for the full year ended 30 June 2021 with the following highlights:

Earnings	FY21	FY20
Revenue (US\$ million)	22,284	12,820
<b>Underlying EBITDA (US\$ million)</b>	<b>16,375</b>	<b>8,375</b>
Underlying EBITDA margin (%)	73	65
<b>NPAT (US\$ million)</b>	<b>10,295</b>	<b>4,735</b>
<b>Underlying NPAT (US\$ million)</b>	<b>10,349</b>	<b>4,746</b>
Basic EPS (US cents)	335	154
Basic EPS (AUD cents)	448	229

- Inclusive of the interim dividend of A\$1.47 per share, the total dividends declared for FY21 of A\$3.58 per share is an increase of 103% over FY20.

#### CEO Statement

FMG CEO Elizabeth Gaines said "In FY21, the Fortescue team delivered a second consecutive year of record performance. A strong performance by our team members across the entire supply chain contributed to Fortescue's highest ever annual shipments of 182.2 million tonnes in FY21, exceeding our guidance for the year."

"The strength of our operational performance combined with record average revenue has resulted in strong cashflow generation for the year, contributing to a record net profit after tax of US\$10.3 billion. Cash on hand increased to US\$6.9 billion at 30 June 2021, and we ended the financial year with net cash of US\$2.7 billion."

"During the year, the Fortescue team successfully delivered our newest mining operation at Eliwana, with first ore through the ore processing facility in December 2020. The operations at Eliwana have successfully ramped up with the operations team achieving the annualised rate of production through the ore processing facility of 30 million tonnes per annum within six months."

"Fortescue has signalled our intention to be a global leader in the battle against global warming, and in March 2021 we announced our bold, industry-leading target to achieve carbon neutrality by 2030"

#### FY22 Guidance

- Iron ore shipments of 180 - 185mt
- C1 cost of US\$15.00 – US\$15.50/wmt
- Capital expenditure (excluding FFI) of US\$2.8 - \$US3.2 billion, inclusive of:
  - US\$1.1 billion on sustaining capital
  - US\$200 million on hub development
  - US\$250 - US\$300 million on operational development
  - US\$180 million on exploration and studies
  - US\$1.1 - US\$1.4 billion on major projects (Iron Bridge and PEC)

## Earnings changes

For FY21, FMG reported NPAT of \$14,104.2M, which is slightly lower than market expectations of \$14,435.5M. Also, FY22 guidance is unchanged. Hence, we do not expect any significant earning revisions for the future periods.

## Valuation

30 August 2021

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We are updating our target price from \$27.94 to \$28.14 and maintaining our BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**Hold** – Describes stocks that are neither a buy nor underperform.

**Underperform** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

**Free Float (float / current shares outstanding) \*100** – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.



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Buy	40.2%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	( 100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	( 0.0% of stocks with recommendations are Barclay Pearce clients)