

Fortescue Ltd

Sector | Materials

CMP
\$17.75

Target
\$19.99

Risk Level
Moderate

Recommendation
BUY

Stable Performance & Positive Long-term Outlook Intact

November 21, 2024

Key Positives

- Rise in Asset Turnover (0.61x in FY24 vs. 0.60x in FY23)
- Rise in Current Ratio (2.67x in FY24 vs. 2.47x in FY23)
- Net Income Margin has increased by 275 basis points in FY24
- Rise in ROE (30.2% in FY24 vs. 27.1% in FY23)

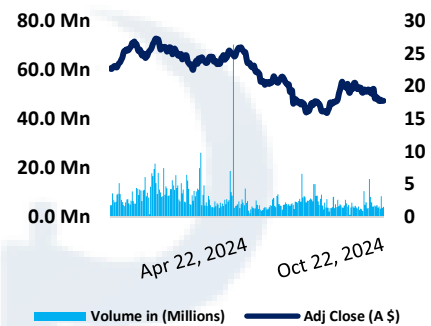
Key Negatives

- Decline in EBIT Margin (46.8% in FY24 vs. 47.5% in FY23)
- Decline in Inventory Turnover Ratio (6.39x in FY24 vs. 6.88x in FY23)
- Decline in Gross Profit Margin (52.4% FY24 vs 53.7% in FY23)

Stock Information

Ticker	ASX: FMG
Mkt Cap	\$54.65 Bn
52-Week H/L	\$15.880 - \$29.950
Beta (x)-5Y Monthly	0.88
Div. Yield (%)	5.01%
Outstanding Shares (mn)	3,078.96 Mn
Duration	9 to 12 months

Stock Performance



Key Investment Risks

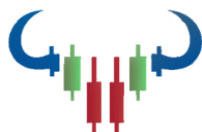
Commodity Price Volatility | Environmental Changes | Regulatory Constraints | | Supply Chain Disruptions | Technological Risks, etc.

Investment Summary

- **Decent Performance in FY24:** Revenue increased by 8% YoY, reaching USD 18,220mn in FY24 vs USD 16,871mn in FY23. This growth was supported by iron ore production and shipments and the transition to green metal during the period. Underlying EBITDA rose by 7.48% YoY and stood at USD 10,708mn in FY24 vs USD 9,963mn in FY23. Net profit after tax attributable to members surged ~18% YoY, amounting to USD 5,683mn in FY24 vs USD 4,798mn in FY23. This growth was driven by revenue growth, cost efficiency, absence of impairments, strong cash flow, and contributions from green energy projects. Total dividends per security increased to AUD 1.97 in FY24, up from AUD 1.75 in the previous year.
- **Green Energy Transition:** FMG has unveiled a USD 6.2 billion decarbonization strategy aiming for "Real Zero" emissions by 2030, which involves eliminating fossil fuels from its operations. The company has also commissioned Australia's largest hydrogen plant and a 100 MW solar farm at North Star Junction.
- **Global Expansion in Renewables:** FMG is making progress on green hydrogen projects in the U.S., Norway, Brazil, and Morocco. The company has also formed a collaboration with Morocco's OCP Group to develop green ammonia and fertilizers.
- **Full-year 2025 guidance:** Iron ore shipments are expected to range from 190 to 200 million tonnes. The C1 cost for Hematite is projected to be between US\$18.50 and US\$19.75 per wet metric tonne (wmt). FMG's total capital expenditure is forecasted to be between US\$3.2 billion and US\$3.8 billion.
- **Valuation:** We recommend a "Buy" rating on FMG assigning P/E multiple of 11.6x to FY25E EPS, which gives the target price of \$19.99 for the period of 9-12 months.

Company Overview

Fortescue Ltd (ASX: FMG) is an Australian-based company that integrates green technology, energy, and metals. It operates in two main sectors: Metals and Energy. The Metals sector focuses on the exploration, development, production, processing, sale, and transportation of iron ore, as well as the exploration of other minerals. The Energy sector is dedicated to developing projects related to green electricity, green hydrogen, and green ammonia. Fortescue Ltd is expanding its iron ore business through its growth initiatives, including the Iron Bridge project and its stake in the Belinga Iron Ore Project in Gabon. Its operations in the Pilbara region encompass the Chichester, Solomon, and Western mining hubs.



Financial Highlights (\$ Mn)

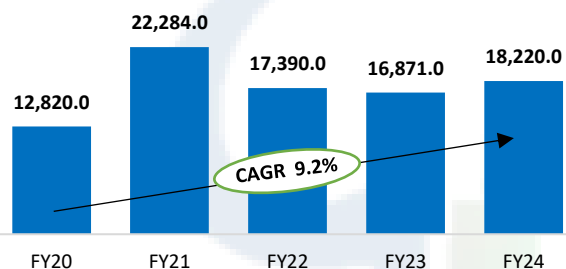
YE June (\$ Million)	FY20	FY21	FY22	FY23	FY24	Growth Trend
Revenue	12,820.0	22,284.0	17,390.0	16,871.0	18,220.0	
EBITDA	8,122.0	16,328.0	10,502.0	9,595.0	10,512.0	
EBITDA Margin (%)	63.4%	73.3%	60.4%	56.9%	57.7%	
Net Profit	4,735.0	10,295.0	6,197.0	4,798.0	5,683.0	
Net Margin (%)	36.9%	46.2%	35.6%	28.4%	31.2%	
EPS (\$)	1.54	3.35	2.01	1.56	1.85	
Payout Ratio %	77.0%	80.0%	75.0%	65.0%	70.0%	
RoE (%)	39.7%	66.5%	35.3%	27.1%	30.2%	
Total Debt	5,113.0	4,252.0	6,103.0	5,321.0	5,400.0	
Free Cash Flow	4,470.0	9,212.0	3,843.0	4,531.0	5,085.0	

Source: Company, tkr.com, V2U Research

Quick Financial Analysis

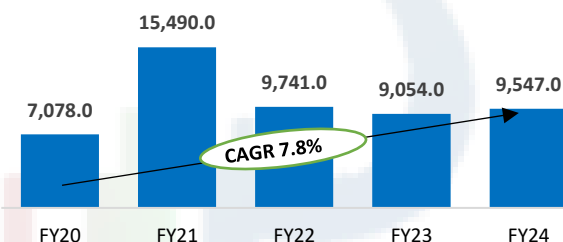
Revenue (\$mn)

Revenue has grown at CAGR of 9.2% over the past 5 years



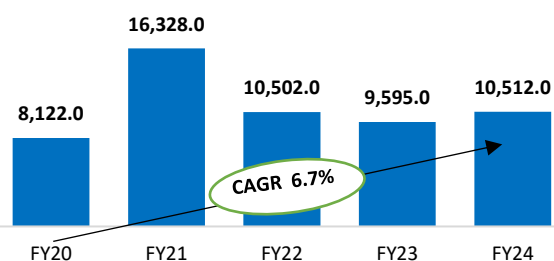
Gross Profit (\$mn)

Gross Profit has grown at CAGR of 7.8% over the past 5 years



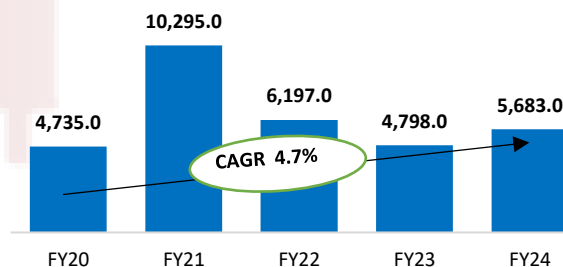
EBITDA (\$mn)

EBITDA has grown at CAGR of 6.7% over the past 5 years



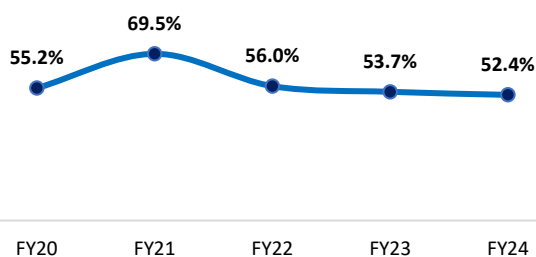
Net Income (\$mn)

Net Income has grown at CAGR of 4.7% over the past 5 years



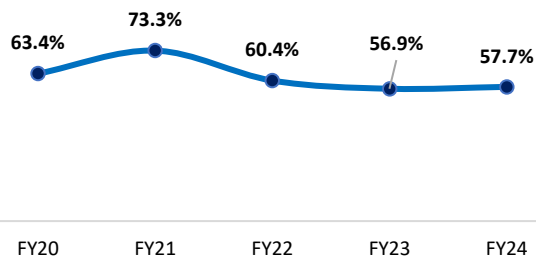
Gross Margin (%)

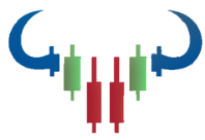
Gross margin slightly declined in last 3 years



EBITDA Margin (%)

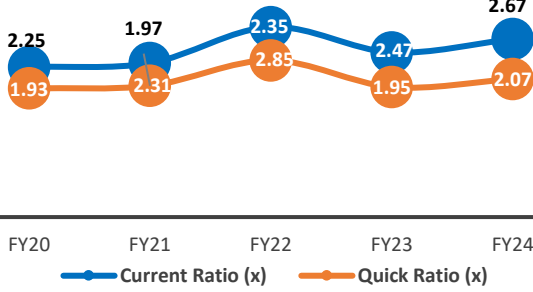
EBITDA margin has increased by 82 basis Points in FY24 vs FY23





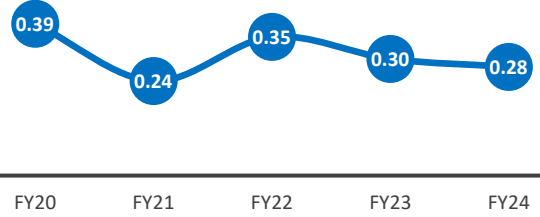
Liquidity Profile

Liquidity Ratio increased in FY24 from FY23



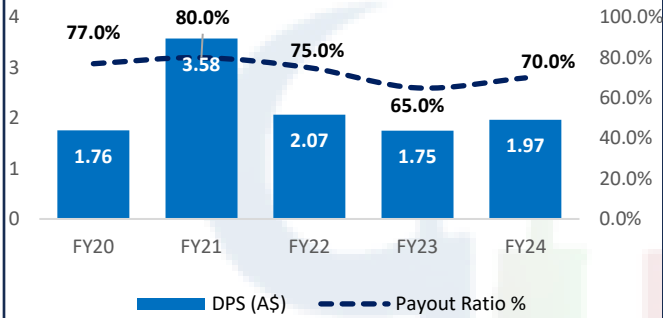
Debt to Equity (x)

Debt/equity ratio declined by 0.2x in FY24 from FY23



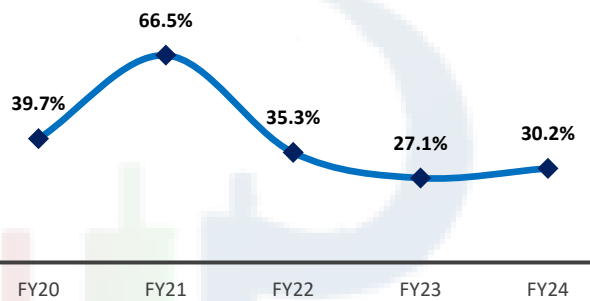
Dividend

Dividend Per Share has increased in FY24



Return on Equity (%)

ROE increased by 310 basis points in FY24 Vs FY23



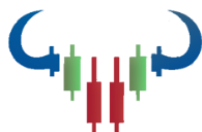
Source: Company, tkr.com, V2U Research

Valuation Methodology

P/E Multiple Based Relative Valuation

	Earnings Per Share (FY25E USD)	Price/EPS Multiple (NTM) (Peer Median) (approx.)	Market Cap (USD mn)	Shares Outstanding (million)	Target Share Price (A\$)*	Current Market Price (A\$) (20 November 2024)	Recommendation
FY25E	1.12	11.6	39,967.4	3,079.0	19.99	17.75	Buy

Data Source: tkr.com, Analysis by V2U Research, *1USD~1.54AUD as of November 20, 2024



Technical Overview

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Fortescue Metals Group Ltd, Australia, Sydney:FMG, W

BB (20, 2)



Weekly Chart, Source: investing.com

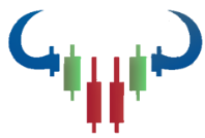
On the weekly chart highlights crucial support zones at AUD 16.05 (S1) and AUD 14.22 (S2), which could present a potential buying opportunity if the price rebounds. The Relative Strength Index (RSI-14) is currently near 37.98, suggesting oversold conditions and increasing the likelihood of a recovery. A potential entry point near AUD 17.75, with a stop-loss placed below AUD 16.00, offers an attractive risk-reward ratio. The short-term target is AUD 19.00. Resistance levels 1 and 2 could serve as potential profit-taking zones if bullish momentum resumes.

The first target (R1) is set at AUD 18.926, which aligns with the mid-line of the Bollinger Band and a recent rejection level. A secondary target (R2) is at AUD 21.80, near the upper Bollinger Band, marking a key reversal zone. There is also a support level around AUD 16.052 (S1), with another critical support near AUD 14.22 (S2). A sustained close above the current level would signal increasing buying strength and could indicate the beginning of a short-term bullish trend.

Stock Recommendation

Fortescue Ltd (ASX: FMG) delivered a decent FY24 performance. The company shipped 191.6 million tonnes of iron ore. It also achieved a record-low Total Recordable Injury Frequency Rate (TRIFR) of 1.3, reflecting strong safety performance. With a healthy balance sheet, USD 4.9 billion in cash, and low net debt, Fortescue Ltd is well-positioned for growth. Its FY25 guidance indicates stable shipments and capital investments, particularly in green energy and iron ore. The company's strategic focus on decarbonization, innovation, and expansion into green hydrogen and ammonia projects enhances long-term growth potential.

Hence, considering the aforesaid facts, revenue growth in FY24, strong cash flow, iron ore shipments, capital expenditure for growth, positive long-term outlook, and technical analysis, we anticipate the stock to continue its uptrend, and investors with risk appetite can look forward to buying the stock at the closing market price of \$ 17.75 (as of November 20, 2024) for the upside target price of \$19.99 (based on Price/EPS relative valuation method).



Technical Indicators Defined: -

Support: A level at which a downward-trending asset attracts buying interest, preventing the price from falling further.

Resistance: A level at which an upward-trending asset experiences selling pressure, preventing the price from continuing to rise.

Stop-loss: It is a level that prevents further losses caused by adverse changes in stock prices.

Bollinger band: The Bollinger band is a technical indicator that indicates a financial asset is about to enter an overbought or oversold state. There are three lines that make up a Bollinger Band on a price chart. The first line is the simple moving average (SMA), which is usually a 20-period moving average of the asset's price. It takes price data over a specific time frame and averages it out so you can see the big picture. Second is, upper band, which is defined as the band located above the middle band, often two standard deviations higher. Finally, there is the lower band, which is situated a specific number of standard deviations (usually 2) below the middle band and signifies possible overbought situations when prices approach or surpass it. Prices that go close to or go below this zone can be a sign of possible oversold situations.

RSI: The Relative Strength Index (RSI) measures the speed and strength of price fluctuations over a specific time period (typically 14 days). It analyzes the internal strength of a price movement, allowing traders to spot market momentum.

EMA: Exponential Moving Average (EMA) is a type of moving average that gives more weight and importance to the most recent data points. It is used to evaluate the bullish and bearish trends in securities over a specific timeframe.

Disclaimer: V2U Research provides an honest investment opinion based on information sourced, which cannot be guaranteed to be accurate, and hence the company will not be liable for any losses as a result of decision based on this research report. Please consult your investment advisor before investing, as investing in equities comes with risk of financial losses.

Disclosure: We sourced the above information from the company reports, presentations, stock exchange, company websites, publicly available information, and a third-party database, i.e., tkr.com. It is advisable that investors make use of a stringent stop-loss in order to safeguard their investments in the event that any adverse or unpredictable market events occur.

