December 2024 Quarterly Production Report

Investor and Analyst Call Transcript

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[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Fortescue Ltd December 2024 Quarterly Production Report.

All participants are in a listen-only mode. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad.

I would now like to hand the conference over to Mr Andrew Driscoll, Director Corporate Finance. Please, go ahead.

Andrew Driscoll: Thank you Melanie, and welcome all. I'm joined today in Perth by Dino Otranto, CEO Metals, and Apple Paget, Group CFO. Mark Hutchinson, CEO Energy is travelling, and Hutch will join us for our interim financial results call next month.

Now similar to the format that we trialled on the call last quarter, I'm going to share a summary of the operational performance for some context, before there will be plenty of opportunity for those that have dialled into the call to ask questions of the Executive and some of the Senior Leadership here in the office.

Look, starting with safety, our Total Recordable Injury Frequency Rate was 1.0 for the 12 months ending 31 December, and that's a 44 per cent improvement over the same time last year. Importantly, our other safety KPIs are also performing strongly. This is an outstanding result. It reflects the entire team's commitment and unwavering focus to safety.

Iron ore shipments were 49.4 million tonnes in the quarter. Contributing to first-half shipments of 97.1 million tonnes. Now that's 3 per cent higher than H1 last year, and in fact is Fortescue's highest ever half-year shipments.

This included shipments from Iron Bridge of 1.5 million tonnes in Q2 and 3.2 million tonnes in the half. At Iron Bridge, we safely and successfully completed a major shutdown of the ore processing facility and concentrate handling facility in the quarter.

Commissioning activities are focusing on the air classification circuit or ACL, and downstream aerobelt conveyors. Pleasingly, the water management strategy continues to provide sufficient water to the processing facility.

I should note, the strong operational performance in both the Hematite operations and at Iron Bridge was achieved despite some variable wet weather impact in November and December. As always, the team was prepared and managed these impacts. Operations were supported by healthy supply chain inventory and there was limited disruption to outload during the quarter.

Onto costs, the Hematite C1 cost was US$18.24 in Q2, that's down 10 per cent quarter on quarter, reflecting increased ore mining volumes and a lower strip ratio, consistent with the Mine Plan, together with the favourable Aussie dollar exchange rate.

Moving to revenue, the price realisations improved on the prior quarter. The Hematite average revenue was US$87 a tonne, realising 85 per cent of the average Platts 62% Index. Iron Bridge Concentrate revenue of US$117 was 99 per cent of the average Platts 65% Index, and that's up from 97 percent in the prior quarter and is 113 per cent of the Platt 62%.

We continue to make real progress towards Real Zero. We achieved milestones in the quarter, this included a major heavy mobile equipment contract awarded to XCMG, which will support the transition of our diesel mining fleet to zero emissions by 2030.

Work continues to advance our portfolio of green technologies and we are progressing the green energy projects in a disciplined manner. This includes feasibility studies at the Holmaneset Project in Norway and the Pecém Project in Brazil. We will provide further on the project portfolio next month when we report our financial results.

In December, we published our FY24 Modern Slavery Statement, reaffirming Fortescue's ongoing commitment to respect human rights and address modern slavery.

On the balance sheet, cash was US$3.4 billion at 31 December 2024, and net debt was US$2.0 billion. Now that's after capital expenditure of US$1.0 billion in the quarter and noting that capex for the half totalled US$1.8 billion.

Finally, you can see that guidance for FY25 shipments, C1 costs, and capital expenditure remains unchanged.

On that note, Melanie, we're ready to move to the Q&A part of the call.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

Please limit yourself to two questions per person. If you wish to ask further questions, please re-join the queue.

Your first question comes from Rahul Anand with Morgan Stanley. Please, go ahead.

Rahul Anand: (Morgan Stanley) Good morning, team. Thanks for the opportunity. Two questions from me. Firstly on Iron Bridge, I understand your water use is related to your beneficiation which is then, I guess, related to your tonnes produced.

So my question there is, are you prioritising throughput over grades currently during the ramp up? I.e. is pricing in line with the 65% Index due to the grade that you're selling during the ramp up or should we be extrapolating this to the life of mine?

Then, the second question is for Apple, just on net debt. Look, it remained largely flat quarter on quarter, can I have an understanding perhaps, for some of the contributing factors in terms of, obviously, you had a strong shipment period, you had better than expected price realisations and costs were also significantly better quarter on quarter.

Just want to understand how that met that number staying flat, or is it working capital, or what are some of the contributing factors? That's my two. Thanks.

Dino Otranto: Thanks, Rahul. Dino here. Look, no issue with grade at Iron Bridge whatsoever. So I wouldn't read anything into that for your long-term projections. In fact, grades and qualities have been going exceptionally well in the ramp up. Over to you, Apple.

Apple Paget: Thanks, Rahul. You're absolutely right. In terms of our cash position of US$3.4 billion, we'll find out and you'll find out a bit more in the interim accounts next month but looking at the key drivers, working capital – there is a build of around US$300 million predominantly by two items. The first is a decrease in payables, that is timing-related, and the second part is a modest build in inventory reflective of the strong volumes.

There was also a third and that's to note that the effects impact on the Aussie dollar assets which includes cash, which has depreciated in terms of the Aussie dollar of the period.

Operator: Thank you. Your next question comes from James Redfern with Bank of America. Please, go ahead.

James Redfern: (Bank of America) Good morning Andy, Dino, and Apple. Look, the core Pilbara iron ore performed well in the quarter which is great. So I've got two other questions. My first question is regarding Gabon.

It seems the operations in Gabon are really winding down and I'm just wondering if you could please provide an update on what's happening there. I understand that it's a very small business for Fortescue, but just given the commentary in the past, it looks like operations are being wound up there. That's my first question. Thank you.

Dino Otranto: So categorically, no, the operations are not being wound up. We did talk on the last call about the early-stage production trial was very successful and we got the first shipment out within months after signing the mining convention. But it was always our intent not to continue that operation.

It was a high-cost trucking operation to focus on the exploration activities which we're roughly halfway through our three-year study period. So, we are doing a lot of drilling in the ore body and as we stated, the ore body continues to meet our expectations on the grade and the quantity available. Thanks.

James Redfern: (Bank of America) Okay, thanks Dino. Maybe a question on Fortescue Energy in Mark's absence, please. Just wondering with regards to the green ammonia projects in Norway and Brazil, the feasibility studies are ongoing. I'm just sort of wondering if Fortescue's confidence in these two projects in terms of being viable is higher or lower compared to a few months ago? Thanks.

Dino Otranto: Look, as Andy indicated, we'll give a more comprehensive view around the project status of Europe and Norway, Pecém in Brazil, and projects in the US as well. And maybe you're referring to the Trump inauguration, obviously, we're monitoring that situation. What we have a firm belief on is that this is a pro-economic government.

We need to demonstrate the economic returns of all our projects. That's what we've been saying from the very start around our energy and growth opportunities that we have. So watch this space, mate, for a month or so.

Operator: Thank you. Your next question comes from Kaan Peker with RBC. Please, go ahead.

Kaan Peker: (RBC) Good morning Andy, Dino, and Apple. The first one is on capex running below full-year guidance. Just what percentage is Aussie denominated and is that guidance based off the US$0.68 as same as unit costs?

Apple Paget: Well, thank you very much, Kaan. The H1 spend is US$1.8 billion and there is no change to our FY25 guidance of US$3.7 billion to US$4.3 billion for the Group. We will provide a detailed breakdown next month as we report the interim financial results in February.

In terms of FX on capex, look, similar to C1 there is a significant portion of our capex that is incurred in Aussie dollars. So a lower FX will result naturally in a tailwind. Examples of capex spend will be infrastructure, maintenance, labour shutdowns, et cetera.

We can't really provide a guidance on the sensitivity, as it depends on the nature of the spend, but it will be a large portion and our FX guidance in terms of FY25 hasn't changed at $0.68.

Kaan Peker: (RBC) Sure thank you. The second one is obviously there's been wet weather in East Pilbara in 2Q and also after, can you maybe talk about some of the impact after and how the stockpiles and the assets are prepared or have weathered that period? Thanks.

Dino Otranto: Yeah, thanks Kaan. With me I've got Rosli Wheelock, Director of Operations up there. Rosli, over to you mate.

Rosli Wheelock: Yes, g'day Kaan, just on Q2 mate, as you alluded to, we did see some weather impacts across the supply chain. Essentially, what we saw was the Pilbara experiencing high variability in weather, so along the coast not too bad and the weather impacts that we saw at the Port in particular was reflective of our assumptions and that's reflective also in, I guess, our Q2 and half one record results.

Across the mines, unseasonal weather and in some cases in the Pilbara, three to four times the rainfall that we would expect, so that did have an impact on our mines and also on our processing. But we continue to have really healthy stocks at the mines and equally you asked the question about the recent weather event just over the weekend, that did have impact at the Port but also aligned with our assumptions.

Thankfully we were able to continue inload, so we were able to build really healthy stocks at the Port, which set us up really well for February and March. So doing really well on that and really thankful for the work that the team have done to achieve really great results for the half.

Operator: Thank you. Your next question comes from Rob Stein with Macquarie. Please go ahead.

Robert Stein: (Macquarie Group) Thank you, Dino, Andy and Apple. Just a question on realisations for the Iron Bridge product. Is this a placement discount that you're receiving in terms of trying to get the product into market? Is it a discount on product variability, so not grade so to speak, but just variability as you're ramping up the plant? Can you give us some guidance on why it deviates on what you should be getting on an iron adjusted basis?

Dino Otranto: Yeah, thanks Rob, just reiterate the comment I made earlier around product quality hasn't really missed a beat. It's certainly more of a market scenario we're seeing at the moment. But I've got Ben Kuchel who heads up the marketing here to give a bit more colour. Ben.

Ben Kuchel: Thanks Dino, thanks Rob. Just echoing Dino's comments, the pricing outcomes you've seen are not a function of grade. Volumes of Iron Bridge product are increasing in line with the ramp up and so consequently new customers are trying the product, but from my perspective, the pricing that you're seeing is not reflective of pushing a newer product into the market. At this stage, it's far more a function of the total market dynamic. While we have seen improvements in demand and pricing for concentrates and pellet feed for Iron Bridge in this quarter, the market overall remains quite volatile.

Robert Stein: (Macquarie Group) Thank you and just a quick one just on opex from energy in first half, is that going to be an even split re your guidance or is there some front-end loading there? Can you give colour on the profile of that US$700 million opex guidance?

Apple Paget: Yes, thank you. The thing to note is that we'll see more next month when we disclose our interim financials and we remain on track on guidance, no change to the US$700 million, but we're seeing a very even split. Thanks.

Operator: Thank you. Your next question comes from Lyndon Fagan with J.P. Morgan. Please go ahead.

Lyndon Fagan: (J.P. Morgan) Good morning everyone. First question is just again on Iron Bridge product. How long will you persist at selling below what it's theoretically worth before looking at blending it with some of your hematite products? Maybe if you could talk about the possibilities there and whether there're being looked at.

Second question I had, just those 100 bits of kit that you've bought, just maybe giving us a bit more colour on what that is, when they're hitting the ground and any kind of diesel savings related to that that we should be thinking about. Thanks.

Dino Otranto: Lyndon, Happy New Year, mate. Look, first off, on Iron Bridge, a bit early right now to talk about blending opportunities, but certainly the strategy was always to have optionality in our portfolio and that's what this gives. You're right, we're monitoring the very slight below realisations that we'd been expecting, so we're just going to monitor the market there.

In terms of the XCMG deal, I'm not sure if we've been public with [the specifics] of the 100-odd bits of gear, but what those equipment classes are, are some of the ancillary fleet. So you can imagine and you can do your own numbers around fuel consumptions of some of those, but really it was to square away the total portfolio of equipment that we need, water carts, dozers, graders, et cetera.

Operator: Thank you. Your next question comes from Lachlan Shaw with UBS. Please go ahead.

Lachlan Shaw: (UBS) Yes, morning team, thanks for your time. So look just wanted to start, two questions from me. So just on hematite realised price and I suppose the market overall, a tad weak in the quarter. Is that just a provisional pricing issue going on there? Then more generally, what's your latest thoughts on the market, particularly for benchmark, but also for low-grade discounts as we're moving through the year? I'll come back with a second question.

Dino Otranto: Yes, let me just kick off and then come back to Ben. I mean relativity around price realisations, I think we've fared pretty well, to be honest, in the quarter. As I stated, our products are moving relatively quickly. Steel, I know that there's a lot of speculation, scuttlebutt around the Chinese market. We are seeing a diversification happening over the last couple of years. But certainly working much, much closer with our customers than we ever have before. But Ben can talk a bit more to the mid-term.

Ben Kuchel: Yes, thanks Dino. I mean look I think the correlation between discounts for lower-grade material and steel margins is one that people often reference. When we look into 2025, profitability of the steel industry is still likely to remain challenged, so we ultimately feel that demand for lower-grade product will be very robust in 2025, which in turn should be very supportive of discounts for our lower-grade products.

As Dino mentioned, the liquidity and demand for our products, what we're seeing currently, very strong, especially given the season, which is in the lead up to Spring Festival in China, typically a little bit weaker, but demand for our products still very robust.

Lachlan Shaw: (UBS) Great, thank you and the second question I have, so just on the C1 costs in the hematite business, pleasing performance there, 10 per cent for quarter on quarter, can you break that out in terms of FX impact versus underlying? Thank you.

Apple Paget: Happy New Year, Lachlan, good to hear from you. Yes, we did have a strong quarter, as Andy mentioned, of US$18.24 for C1 and the decrease was largely driven by the lower strip ratio of 1.5 down from 2.0. In terms of FX, yes, there was a tailwind where the Aussie dollar was about one to two cents lower and just a reminder on the sensitivities of FX on C1, the majority of our costs are incurred in Aussie dollars and for every one cent movement in FX, it impacts C1 by about 20 cents per tonne.

Operator: Thank you. Your next question comes from David Coates with Bell Potter Securities. Please go ahead.

David Coates: (Bell Potter Securities) Excellent, thanks very much, good morning everyone. A couple of my questions have already been answered, but I just want to delve a little further into Iron Bridge and there was mention there of volatility in the market for that product. Can you just maybe give us a bit more insight into some of the factors that are driving that volatility and what you're seeing driving the price for Iron Bridge product?

Dino Otranto: Yes, thanks for the question. In the previous quarter we spoke about the supply and demand dynamic for concentrate and pellet feed being largely oversupplied in Q1. Some of that supply and demand imbalance has sorted itself out and that's certainly one of the reasons why we've seen improved pricing. But the volatility associated with the pricing is very much a function of shifts in supply and demand.

As I mentioned earlier, in relation to the lower grade price discounts, profitability of Chinese steel mills remains challenged in the near term, so that's certainly going to continue to have an impact on Iron Bridge pricing outcomes.

Andrew Driscoll: David, the reference to volatility was not related to the Iron Bridge product itself but concentrate premiums.

David Coates: (Bell Potter Securities) Yes, understood, thanks Andy. That's it from me.

Operator: Thank you. Your next question comes from John Tumazos with Very Independent Research. Please go ahead.

John Tumazos: (Very Independent Research) Thank you for taking my question. The benchmark iron ore price is down US$60 from calendar 2021 and US$20 from calendar 2022 and if we were to use the US$20 from calendar 2022 as a reference, that's about US$2.5 billion less after-tax cash flow, or say US$1.25 billion less reinvest-able if the dividend payout were one half.

In terms of funding energy at US$1.2 billion, given that the iron ore price is lower and who knows if it falls more or not, but just where we are now, how do you evaluate the leverage of financing the energy investment, first whether the energy has its own independent financing, whether you lower the dividend payout, whether you borrow, whether you lower the energy spending or defer some mining capex? I'm just a little nervous that the business has changed and the spending is larger.

Apple Paget: Thank you, John. A very good question and it all comes back down to our capital allocation and having a disciplined capital allocation framework. That's centred around first and foremost maintaining a very strong balance sheet and capital returns back to shareholders, consistent with our dividend payout ratio of 50 to 80 per cent of NPAT, which is decided by the Board.

It's also good to note in terms of the support of growth, we look at that in terms of capital allocation and clearly increasing debt remains an option for us, but we do have a very strong capacity in our balance sheet, and we're set up that way to take that on and look at other options as well.

Operator: Thank you. Your next question comes from Paul Young with Goldman Sachs. Please go ahead.

Paul Young: (Goldman Sachs) Yes, morning Dino and Apple, Happy New Year. Dino, just one or a few questions I should say on Iron Bridge. It actually seemed to perform pretty well in the quarter, despite the major shutdown, so can you just add a little bit of colour and a bit more detail around how long that shut was and also how the water bank strategy is going and update there?

Then lastly, I presume the front end of the circuit, the dry circuit has been tested at close to full capacity, the wet circuit has, so where are the main focus points as far as individual pressing units of testing through commissioning that you still need to sort out? Thanks.

Dino Otranto: Young-y, next to me I've got Graham Howard, who runs the shop there, so I'll maybe hand over to Graham, mate.

Graham Howard: Thanks Dino, thanks Paul for your question, Graham Howard here, Director of Operations at Iron Bridge. Firstly, just on the shut in November, it was a planned and scheduled shut, it was 280 hours and it went off fantastically well, on plan and on schedule and delivered safely. Heaps of work done there on rectifications around dust and improvements, so it was a fantastic shut. It set ourselves up for December record, which was fantastic.

You spoke about water, so the water banking strategy is proving successful, no impacts to production through the December quarter and hot off the press, as of December, we actually received from Department of Water and Environment Regulation (DWER) our second 10-gigalitre licence as well, so that gives us a full 20-gigalitre licence, which is 95 per cent of our water supply out of that West Canning Basin, so that was a fantastic result for Iron Bridge.

Paul Young: (Goldman Sachs, Analyst) Okay, thanks Graham. Maybe just a follow up then, what was production in December? I don't want to annualise that of course, but just curious? Then also just the air classifiers and the wet circuit, just any colour you can add on performance?

Graham Howard: Yes, I'll stay away from the number for December, we'll get that information to you when it's appropriate. But when it comes to the air classification circuit, a heap of work done in there during the quarter to continue to ramp it up, addressing some wear rates and stuff like that, just normal operational ramp up activities and we're absolutely starting to push that asset as it's required.

Operator: Thank you. Your next question comes from David Feng with CICC. Please go ahead.

David Feng: (CICC) Good morning everyone, thanks for taking my question. Just a quick follow up on the strip ratio. Could you remind us why the strip ratio rose to 2.0 times in September quarter and shall we expect that ratio will stay at the current level of 1.5 in the remaining quarters of FY25?

Dino Otranto: Thanks David. Look again, I wouldn't read too much into that. Full year is exactly as per planned, you do get seasonal movements in the mine plan because of what we saw in the September quarter, David.

David Feng: (CICC) Understood, thank you very much.

Operator: Thank you. Your next question comes from Lachlan Shaw with UBS. Please go ahead.

Lachlan Shaw: (UBS, Analyst) Thanks for taking my follow-up question. I just wanted to ask, so peers have been pushing replacement projects through permitting heritage consultation and there are starting to be some impacts that are manifesting there. Maybe can you update us on progress there? Obviously, it's longer dated, but just how is it going in terms of permitting approvals heritage around Mindy South, Nyidinghu, et cetera? Thank you.

Dino Otranto: Thanks Lachlan, and I guess I want to note that it has been some time since we've had the need to bring in a replacement mine, which goes to the good work around driving costs down and continuing to look for near mine opportunities, which have been successful over the last few years. But we do have one coming up in Mindy South towards the end of the decade, which we've talked about before. That has given us more time to work with our partners in and around the area and also the Government around aligning the approvals.

But I would note, as many others have said, the approvals landscape has changed significantly post Juukan Gorge, and it is certainly on our agenda the high priority for us to continue to work through not only for hematite operations, but some of our decarbonisation aspirations around solar and wind and also with the next ore body at Iron Bridge.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Andrew for closing remarks.

Andrew Driscoll: Thank you very much, Melanie and thank you all for joining the call and webcast. As you've heard, the team has achieved an outstanding operational performance in the first half, which means we're strongly positioned to deliver on our FY25 guidance.

We'll report our interim financial results on 20 February, and we look forward to speaking with you all then.

Operator: That does conclude our conference for today. Thank you for participating, you may now disconnect.

[END OF TRANSCRIPT]