Alleron Investment Management

Fortescue Metals Group Ltd (FMG)

Entry Date: Feb 2016
Exit Date: Still held as of 31 Mar 2017
Approximate Return: 285%

Background

Fortescue transformed itself dramatically from its early entrepreneurial roots to become a world class asset with a reducing risk profile. The company had successfully completed construction of one of the world’s largest iron ore mining operations, however throughout 2015 the market was concerned about its high debt level and the falling iron ore price.

Energy Argument

Was Fortescue under threat? The salient factors to consider were:

- Management prioritised debt repayment, using operational cashflow to reduce debt from US$9bn in December 2014 to under US$8.5bn in December 2015
- Management were pursuing an effective cost reduction strategy by reducing cash costs from US$29 a tonne to US$16 a tonne over the same period.

On this basis, it was concluded that FMG was a sound operation with a world class asset, sustainable profitability and substantial upside potential.

Entry Trigger

The release of the Dec 2015 quarterly operational results showed cost reductions compensating for falls in commodity prices along with repayment of a further US$750m in debt.

Alleron still held FMG as of 31 Mar 2017

Since entry, management have continued to drive down productions costs to be broadly in line with those of Rio Tinto and BHP. They have also continued to de-risk the company by focussing on debt repayment with over US$3bn repaid since the beginning of 2016. Correspondingly, major ratings agencies have upgraded their respective ratings on FMG debt.

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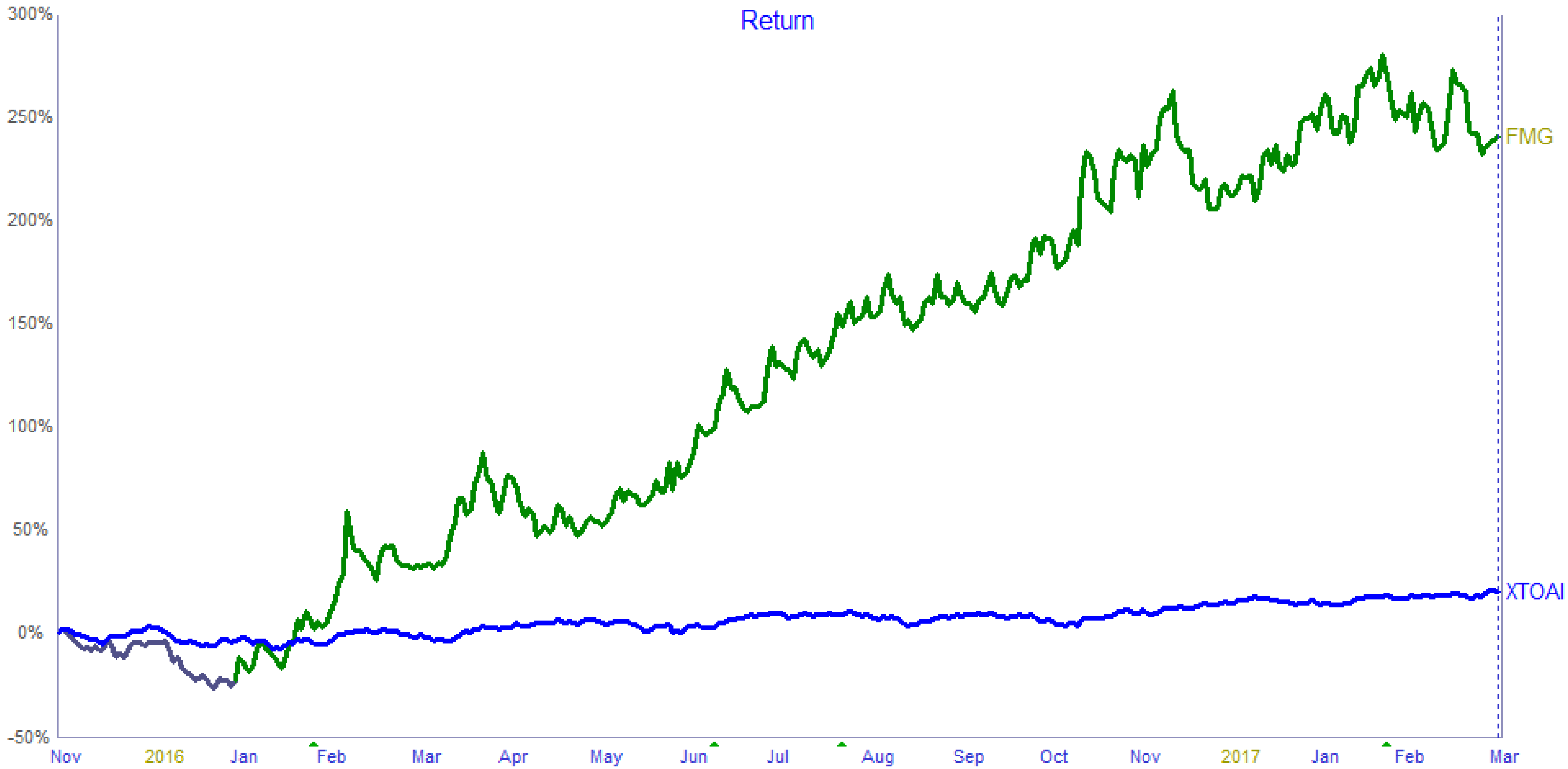

Figure 1: Alleron CTX Investment (Feb 2016 – Mar 2017)

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