

# Ferrexpo PLC

06:15 23 Mar 2010

## Outlook for iron ore market boosts Ferrexpo

Full year results from mid-tier iron ore producer Ferrexpo (LSE:FXPO) helped lift the company's share price 4.7% this morning – the third best performance in the FTSE 250. Shares in the Ukraine focused company have delivered a solid performance in 2010, rising more than 50% as investors begin to price in a recovery in demand for iron ore and speculation of significantly higher contract prices this year.

Unlike many iron ore producers who cut back production in 2009 due to lower prices and demand, Ferrexpo took the decision to keep production near full capacity to keep its unit costs down. This decision to trade its way through the downturn has paid off, with the company still remaining profitable in 2009 despite the steep decline in iron ore prices.

Group revenues for the 12 month period ended 31 December 2009 fell to US\$648.7 million (2008: \$1.1 billion) while EBITDA (earnings before interest, tax, depreciation and amortisation) decreased to US\$138 million (2008: US\$503 million) and net cash flow from operations fell to US\$76.9 million (2008: US\$370.9 million), while pre-tax profit was lower at US\$80.9 million (2008: US\$375.6 million).

The results were widely expected to show weaker numbers compared to 2008 when iron ore contract prices hit a record high at the peak of the commodity bull market. During 2009, Ferrexpo's Delivered at Frontier/Free on Board ("DAF/FOB") price for its pellets averaged US\$66.3 per tonne compared to US\$124.6 per tonne in 2008.

Importantly, Ferrexpo remained committed to its dividend policy, confirming a final dividend of 3.3 (US) cents per share.

On the operational front, Ferrexpo's numbers underlined the company's decision to maintain production levels. Total production was maintained at full capacity, while 65% iron pellet production increased by 7.2%, in line with the company's stated objective to increase sales of higher margin products. Ferrexpo managed to increase its sales volumes in 2009 by 3.5%, while cutting its production costs by 18.6% to US\$34.4 per tonne. During 2009, the FTSE 250 constituent's sales and marketing teams were able to offset weak contract demand from the company's more traditional clients in Europe with increased spot market sales into China, Turkey and India.

"In the second half of 2009, there were signs of recovery in our key Traditional Markets and we returned to long-term contract deliveries which increased margins and rebalanced our sales mix. In 2010, the outlook for iron ore is positive and we are well placed to capitalise on any growth opportunities, chief executive officer Kostyantyn Zhevago summarised.

While today's results were insightful, the stock market always looks forward,

**Price:** 116.7

**Market Cap:** £686.92 m

### 1 Year Share Price Graph



### Share Information

**Code:** FXPO

**Listing:** LSE

**52 week High Low**  
305.6 94.88

**Sector:** General mining & base metals

**Website:** www.ferrexpo.com

### Company Synopsis:

*Ferrexpo PLC is a resource company, headquartered in Switzerland, with assets in Ukraine. It is principally involved in the production and export of iron ore pellets, which are used in the manufacture of steel. Its asset base comprises one of the largest iron ore resources in the world.*

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and on this front Ferrexpo did not disappoint. The company said that since the beginning of the new financial year, it had increased the number of long term contracts on its books, increasing earnings visibility, while also witnessing strong prices for iron ore. Importantly, the company confirmed that it was seeing a "slow but definite recovery in steel demand" in Europe, traditionally where it sells most of its iron ore production due to its competitive advantage of short transportation routes via rail and port in Ukraine.

"The group has resumed contract sales to its higher-margin Traditional Market customers, but retains the ability to access the seaborne market to compensate for any recurring weakness in these markets. The Group is exposed to the positive outlook for iron ore pricing. In view of higher pricing, we expect Ferrexpo to continue to trade profitably and to increase margins in the year ahead," the FTSE 250 constituent noted.

Ferrexpo also confirmed that demand for its iron ore products in January and February had been "very strong" with 63% of sales made under long-term contracts with its traditional markets. Average cash costs in the first two months of 2010 were US\$38.7 per tonne, in line with guidance.

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