FORTRESS MINERALS LTD.

Rise of an iron-ore producer

SINGAPORE | MINING | INITIATION

- Growing demand from steel mills in Malaysia to spur higher sales volumes. We project 54% volume growth from FY20 to FY22e.
- Low production cost of US$28.81/WMT. Reserves to expand with only 5% of its mining concession area explored so far.
- Initiate coverage with BUY and TP of S$0.28. Valued at 11x FY21e PE, in-line with industry average. Fortress is smaller in size but is growing faster and enjoy higher returns than industry.

Company Background

Fortress Minerals (FML) is an iron ore concentrate producer in Malaysia. As FY2019 was the Group's maiden year of commercial production, profitability margins were partly crimped by initial ramp-up costs and gestation. Its mining concession is located in Bukit Besi, Terangganu, Malaysia, with 7.18MT of reserves and 13 years of concession life.

FML explores, mines, produces and sells magnetite iron-ore concentrate. Steel is the world's most commonly used metal and iron ore is a key ingredient in steel-making. FML sells primarily to steel mills in Malaysia and China.

Investment Merits

1. **Healthy volume growth of 40% expected in FY21e to meet construction demand.** 1HFY21 production volume surged 57% YoY to 231,007 WMT. Demand was driven by new offtake agreements with steel mills in Malaysia. We expect FML to increase production by 54% from FY20 to FY22e. Malaysia's 9M2020 production of iron and steel bars and rods grew 5.5% YoY. On the basis of projected GDP growth of 6.5%-7.5% and construction-sector growth of 13.9% in 2021, demand for steel and iron ores is expected to increase.
2. **High profitability due to low-cost structure and proximity to customers.** Unit cost of US$28.8/WMT against ASPs of US$95.9/DMT yielded gross profit margins of 66.7% of (industry average of about 50%) in FY20. Another advantage FML has is the close proximity of its Bukit Besi mine – of about 100km – to domestic steel-mill customers. The quality of its iron ores (TFe grade of 65.0%), consistent supply and short delivery time are expected to ensure captive buyers from steel mills in Malaysia. Iron ores from Australia require a delivery time of about 10-20 days vs. daily trucking services in Malaysia.
3. **Considerable exploration upside potential with 5% of concession area explored.** FML completed its plant expansion in late FY2020. Of its concession area of 526.2 ha at Bukit Besi, less than 5% has been explored. There is thus substantial potential for mining as larger tracts are explored. FML's mining rights will only expire in early 2033.

We initiate coverage with a BUY rating and TP of S$0.28. Our TP is based on 11x FY21e PE, in-line with industry average.

The report is produced by Phillip Securities Research under the 'Research Talent Development Grant Scheme' (administered by SGX).

14 December 2020

BUY (Initiation)

LAST CLOSE PRICE	SGD 0.205
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 0.275
TOTAL RETURN	36.6%

COMPANY DATA

Bloomberg CODE:	FMIL SP
O/S SHARES (MN) :	500.0
MARKET CAP (USD mn / SGD mn) :	77 / 103
52 - WK HI/LO (SGD) :	0.3 / 0.18
3M Average Daily T/O (mn) :	0.01

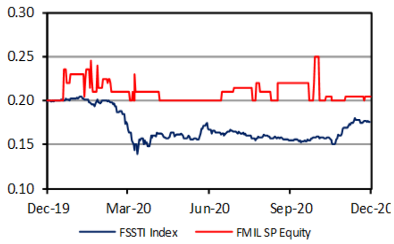
MAJOR SHAREHOLDERS

Y F Chee Holdings	43.1%
SDB Mining SDN BHD	31.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.5	(6.8)	3.3
STI RETURN	4.8	13.9	(6.8)

PRICE VS. STI



KEY FINANCIALS

Y/E Feb, USD (mn)	FY19	FY20	FY21e	FY22e
Revenue	20.6	25.9	36.4	40.0
Gross Profit	13.0	17.3	24.4	27.6
EBITDA	8.2	12.2	16.1	18.5
Net Profit	4.9	6.5	9.3	10.8
EPS (USD cents)	1.2	1.3	1.9	2.2
EPS (SGD cents)	1.6	1.8	2.5	2.9
P/E (x)	12.8	11.4	8.0	6.9
Dividend Yield	-	2.5%	2.4%	2.8%
ROE (%)	77.1%	22.0%	24.5%	22.6%
ROA (%)	19.5%	16.5%	20.4%	19.4%

Source: Company, PSR

VALUATION METHOD

11x PE Multiple FY21e

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About FML

FML was incorporated in Singapore on 13 November 2017 as a private limited company. It was listed on the Catalist on 27 March 2019. It operates its mine through its subsidiary, Fortress Mining.

Business operations are located in Kuala Lumpur, Malaysia, though its Bukit Besi mine is situated in Bukit Besi, Terengganu, Malaysia.

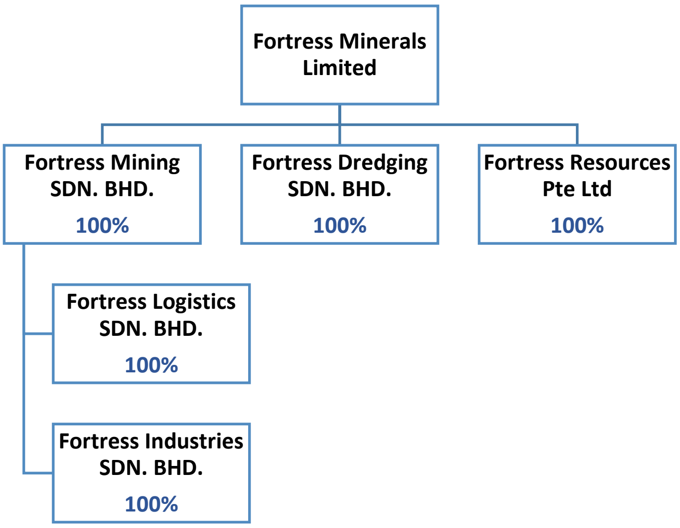
Units used in this report.

MT	*Metric tonnes*
DMT	*Dry metric tonnes*
WMT	*Wet metric tonnes*

An approximate 10% reduction is applied to adjust from WMT to DMT, for moisture content.

(WMT is usually quoted for production, while iron ore prices are based on DMT)

Figure 1: Group structure



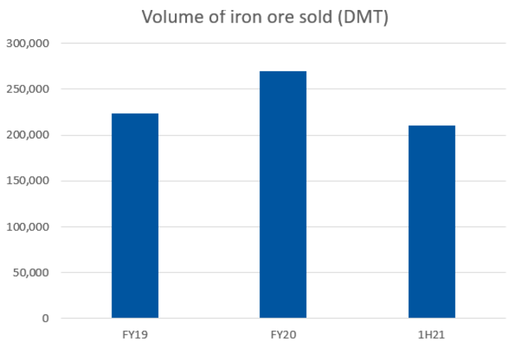
Source: Company, PSR

REVENUE

With the company's first shipment of iron-ore concentrate in 2QFY19, revenue in FY20 increased 25.7% YoY to US$25.9mn. Sales revenue is calculated from average realised prices (per dry metric tonne, DMT) multiplied by the volume of iron ores sold. Average realised prices are benchmarked to the Platts Iron Ore index (IODEX), Daily Iron Ore Price Assessment for composition of 65% Fe CFR (cost and freight terms) North China.

Net profit in 1HFY21 was higher than the whole of FY20 on the back of higher volume sold. The latter compensated for lower average realised selling prices.

Figure 2: Surge in iron ores produced and sold in 1H21

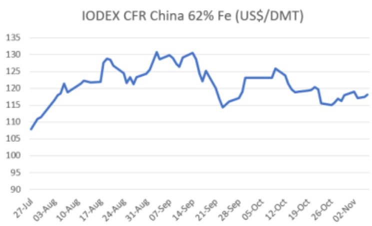


Source: Company, PSR

IODEX iron-ore prices have been above the US$110/DMT mark for the past two months (Figure 3). As iron-ore prices hit a seven-year high, FML is expected to realise higher revenue.

1HFY21 revenue was US$20.1mn. There was a 60% YoY surge in sales volume for 2QFY21, which good weather conditions partly contributed to. Assuming FML maintains production levels prior to 2QFY21, it should be able to achieve revenue of US$36.4mn for FY21e (Figure 4).

Figure 3: IODEX prices in 2H2020



Source: S&P, PSR

Figure 4: Revenue projected to increase by 40% in FY21e

(US$ '000)	FY19	FY20	FY21e	FY22e
Revenue	20,629	25,925	36,398	40,038
Cost of sales	(7,595)	(8,645)	(12,375)	(13,613)
Gross profit margin (%)	63.2%	66.7%	67.0%	69.0%

Source: Company, PSR

There was no revenue contribution in FY20 from steel mills in China (Figure 5). In 9MFY21, FML sold iron-ore concentrates to 3-4 major customers in Malaysia. It has been focusing on demand from domestic steel mills since 2019.

Figure 5: Revenue contributions from China and Malaysia

(US$ '000)	FY19	FY20
China	15,865	0
Malaysia	4,765	25,925
Total	20,629	25,925

Source: Company, PSR

Offtake agreement. FML announced on 1 September 2020 that one of its subsidiaries, Fortress Resources, had inked a new one-year offtake agreement with a domestic steel mill in Malaysia. Fortress Resources will deliver 400,000 WMT of iron ore to this customer over 1 September 2020-31 August 2021. This volume is more than the total volume it sold in FY2020. The selling price of the iron ore concentrates will be based on a formula guided by the average of the available daily price of Platts for 65% Fe CFR North China, adjusted subject to the Fe content of each shipment of the deliverables.

We estimate a 10% YoY increase in volume sold for FY22e (Figure 6).

Figure 6: Projected volume sold

	FY19	FY20	FY21e	FY22e
Volume of iron ore (DMT)	223,859	269,615	377,461	415,207

Source: Company, PSR

EXPENSES

Main expense items in 1H21 were royalties payable to the State Government of Terengganu, and holder of mining leases for its concession, ocean freight, transportation, labour, plant and overheads.

FML pays a royalty fee directly to the State Government of Terengganu at the rate of 5.0% of revenue or as specified by the government, and holder of the mining leases at triple the rate of the former.

Figure 7: Breakdown of expenses

(US$ '000)	FY19	FY20	1H21
Selling and distribution expenses			
Commission expense	241	312	265
Handling and transportation expense	1,490	447	529
Ocean freight	2,433	0	619
Royalty expense	1,183	1,205	890
Other operating expenses			
Upkeep of machinery	568	958	579
Upkeep of motor vehicles	250	703	311

Source: Company, PSR

FML constantly takes steps to reduce its unit costs, including continuous implementation of productivity improvement and cost management strategies. The company managed to reduce average unit costs by 7.0% from FY19 to FY20. With larger volumes production, it should be able to benefit from economies of scale.

Figure 8: Comparison of production unit costs and iron-ore volumes

Unit Cost	**FY18**	**FY19**	**FY20**
Fortress Minerals (US$/WMT)	-	30.99	28.81
Southern Alliance (US$/DMT)	58.50	58.45	42.72
BHP (US$/tonne)	14.26	14.16	12.63
Rio Tinto (US$/tonne)	13.30	14.40	
Volume of iron ore sold	**FY18**	**FY19**	**FY20**
Fortress Minerals ('mn DMT)	-	0.22	0.27
Southern Alliance ('mn DMT)	0.48	0.54	0.86
BHP ('mn tonnes)	236.8	238.8	250.6
Rio Tinto ('mn tonnes)	279.4	271.0	

Source: Company, PSR

BALANCE SHEET

Assets. Fixed assets doubled from FY18 to FY20 (Figure 10), with plant and equipment increasing from US$7.3mn to US$13.5mn. This was the result of plant expansion.

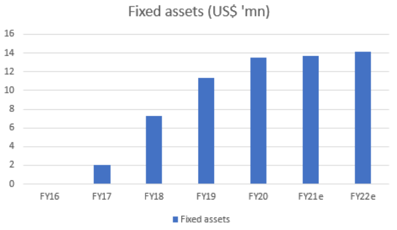
Figure 9: Increase in plant and equipment the result of higher capex in preceding years

(US$ '000)	FY18	FY19	FY20	1H21
CAPEX, net	(4,725)	(5,446)	(4,391)	(803)
Plant and equipment	7,301	11,366	13,498	13,549

Source: Company, PSR

Liabilities. FML has very low levels of borrowings. It had a net cash position of US$2.1mn in FY20.

Figure 10: Fixed assets doubled from FY18 to FY20

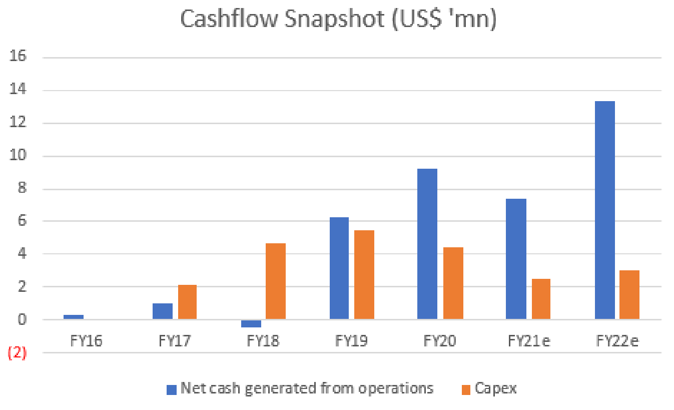


Source: Company, PSR

CASH FLOW

Cash flows have been strong since listing in 2019, considering commercial production only started in FY19 (April 2018). Cumulative operating cash flow from FY18 to FY20 was US$15mn. Capex averaged US$5mn for the same period.

Figure 11: Cash generated was utilised for plant expansion



Source: Company, PSR

Investment Thesis

1. **Healthy volume growth of 40% expected to meet construction demand.** 1HFY21 production volume surged 57% YoY to 231,007 MT. The increase was used to fulfil new offtake agreements with steel mills in Malaysia. We expect production to increase by 54% from FY20 to FY22e. 9M2020 production of iron and steel bars and rods in Malaysia grew 5.5% YoY. Based on the expected GDP growth of 6.5%-7.5% and construction-sector growth of 13.9% in 2021, demand for steel and iron ores is expected to increase.

2. **High profitability due to low-cost structure and proximity to customers.** Unit cost of US$28.8/WMT against ASPs of US$95.9/DMT yielded gross profit margins of 66.7% in FY20. Another advantage FML has is the close proximity of its Bukit Besi mine – of about 100km – to domestic steel-mill customers. The quality of its iron ores (TFe grade of 65.0%), consistent supply and short delivery time are expected to ensure captive buyers from existing steel mills in Malaysia. Iron ores from Australia require a delivery time of 10-20 days vs. daily trucking services in Malaysia.

3. **Considerable exploration upside potential with 5% of the concession area explored.** FML completed its plant expansion in late FY2020. Of its concession area of 526.2 ha at Bukit Besi, only less than 5% has been explored. There is thus substantial upside potential for mining as larger tracts are explored. FML's mining rights will only expire in early 2033.

Risks

1. **Covid-19 disruptions.** Malaysia's movement control disrupted FML's operations from 18 March to 29 April 2020. In November 2020, there was an outbreak of the virus in a workers' accommodation, which led to widespread infection. FML's business operations are highly dependent on local workers, some of whom reside in their staff dormitories. Any unexpected outbreak of the virus may result in a suspension of its business operations again.

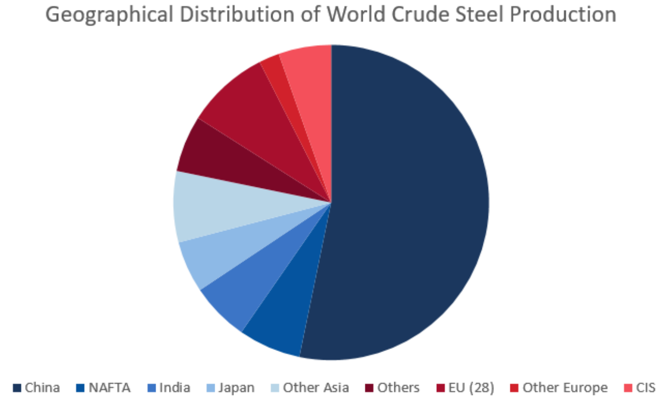
2. **Iron-ore prices may fall from current peak levels.** Iron-ore prices affect the company's revenue directly. Iron ore prices have reached seven-year high, aided by fast-recovering steel markets and stimulus measures in China. A shortage of supply caused by Covid-19 measures which disrupted shipments of iron-ore concentrates to China and global supply chains also contributed to increased prices. In the medium term, supply is expected to recover. Though a demand recovery could be slow as most countries are still trying to contain the virus, demand for steel from China is expected to remain strong. This should keep prices above US$110/DMT.

INDUSTRY

Iron ore is the source of primary iron for the world's iron and steel industries. About 98% of iron ores produced are converted into pig iron for steel-making, which is widely used in the construction of buildings, bridges, household appliances, transport vehicles, etc.

China is the world's largest producer and consumer of crude steel. It accounts for 53.3% and 49.2% of the world's production volume and demand respectively. It is also the world's largest importer of iron ores, making up about 70% of the world's demand. Demand from China has been supporting the uptrend in iron-ore prices since 2016.

Figure 12: China contributes 53.3% to global steel supply



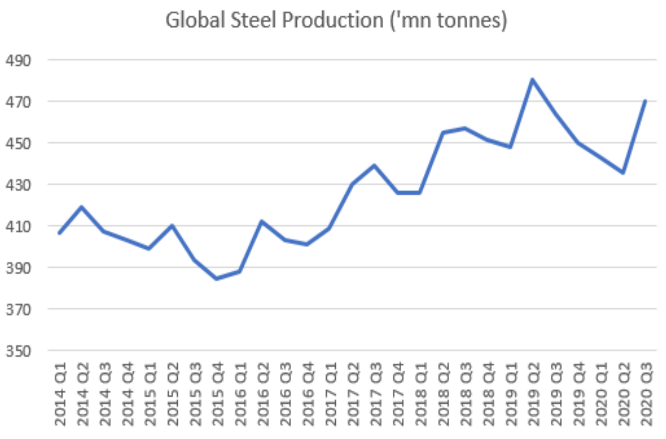
Source: World Steel Association, PSR

Figure 13: China accounts for half the world's crude steel demand

Source: Bloomberg, PSR

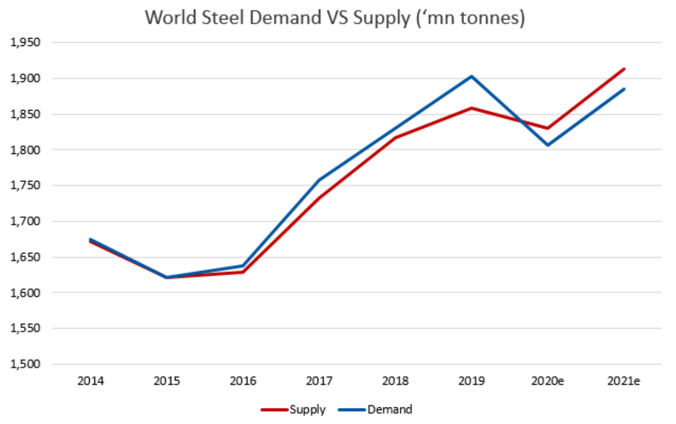
Steel production. With the manufacturing sector reeling from Covid-19 measures, steel production fell sharply in 2Q2020 (Figure 14). Recovery has been uneven across the countries, depending on their containment of the virus, stimulus measures, etc. As such, world steel consumption is expected to contract by 5% this year, before expanding in 2021 (Figure 15).

Figure 14: Quarterly global steel production



Source: World Steel Association, PSR

Figure 15: Supply of crude steel to exceed demand in 2020

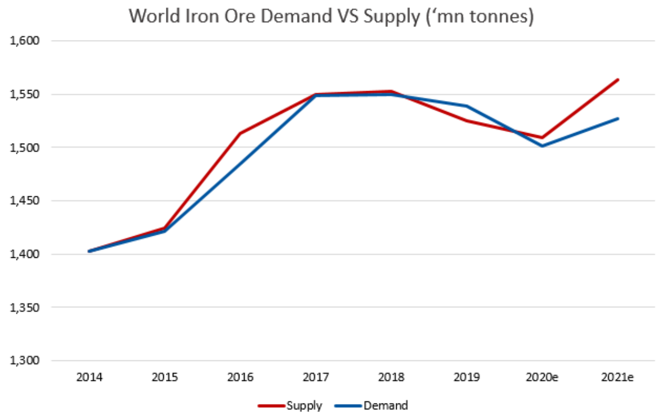


Source: Bloomberg, PSR

Iron ore. Being one of the first countries in the world to resume economic activities after its successful containment of the coronavirus, China's domestic demand for iron ores and imports has been increasing since 2Q2020. China's persistent demand combined with a seasonal drop in supply from Australia and Brazil have bumped up iron-ore prices. Throughout the pandemic, the prices of iron ore have been remarkably resilient, trading with low volatility.

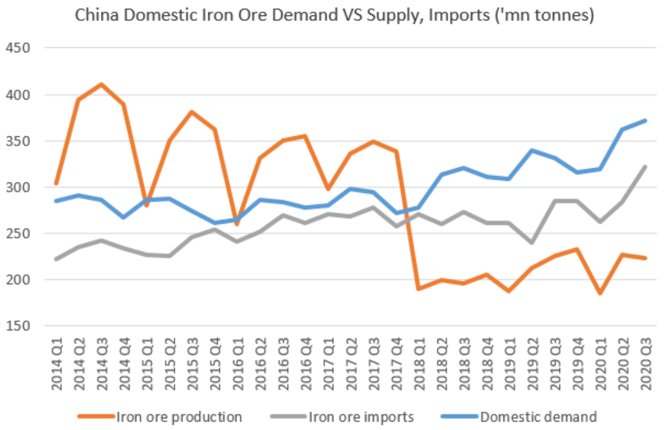
Mid-term, iron-ore prices are expected to dip from their peak due to a restocking of supplies. In the short term, demand from China is expected to remain robust. For the rest of the world, we expect demand for iron ores to recover only from 2021.

Figure 16: Supply of iron ores to exceed demand



Source: Bloomberg, PSR

Figure 17: China's domestic demand continues to grow in 2020



Source: Bloomberg, PSR

Figure 18: China occupies 70% of the world's iron-ore market

Source: Bloomberg, PSR

Malaysia. The construction industry is the basic source of steel demand in Malaysia. In Malaysia's Budget 2020, the government pledged to continue or revive mega-infrastructure projects such as the Bandar Malaysia central transport hub project. It is projected that steel consumption in the country will grow from 9.4mn tonnes in 2017 to 12.4mn tonnes in 2025, at a CAGR of 3.5%.

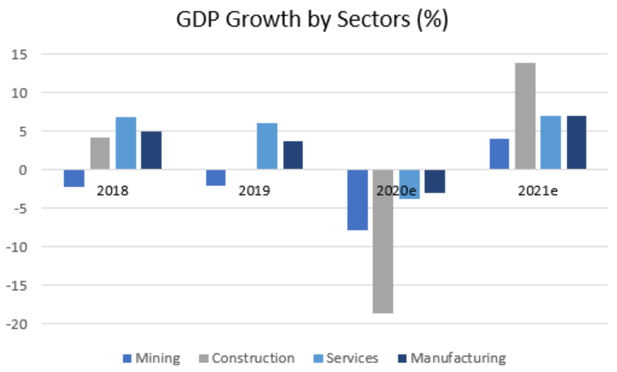
Under Malaysia's more recent Budget 2021, the government has pledged to allocate more resources to "restart" the economy. GDP is expected to contract by 4.5% in 2020 due to the pandemic, before returning to 6.5-7.5% growth in FY21.

Outlook. The construction sector is expected to shrink 18.7% in 2020, led by significant contractions in all subsectors: civil engineering, residential and non-residential buildings. The sector is expected to return to growth of 13.9% in 2021.

Mining GDP is expected to contract by 7.8% in 2020 and increase by 4.1% in 2021.

For the first 9 months of 2020, the production of iron and steel bars and rods in Malaysia grew by 5.5% YoY. On the basis of a recovery in the economy and construction sector in 2021, demand for steel and iron ore is expected to increase.

Figure 19: Construction sector to contract the most in 2020



Source: Ministry of Finance, Malaysia, PSR

FML faces competition from both PRC and global iron ore producers. There are 3 other main competitors in Malaysia. There are no figures available regarding the market share of these companies.

Fortress mainly serves their group of captive customers in Malaysia and has achieved remarkable growth in a short span of 2 years. The desire to achieve greater economies of scale through higher production volume will drive all iron-ore producers to continue their expansion plans, in terms of increasing processing capacity and acquisitions.

Valuation

We initiate coverage of FML with a BUY recommendation. Our TP is pegged to 11x FY21e PE (Figure 20).

FML has been trading at a discount to its larger peers in Australia and Brazil due to its smaller scale, liquidity and short history. With the higher (ROE) returns and faster growth than the industry, we believe FML should trade in-line with peers.

In the near term, the company may be affected by iron-ore prices coming down from their peak. Mid-term, demand and the price of iron ore should grow as Malaysia and China ramp up their steel production.

FML's expanded capacity in the last two years has positioned the company well to meet higher demand. It also has considerable exploration upside in its mining concession, as only 5% of its concession has been explored so far.

Figure 20: Industry peers trading at 11x PE

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local Crcy	Mkt. Cap. (US$ m)	PE Yr 0	PE Yr + 1	PE Yr + 2	P/BV Yr 0	Dividend Yield	ROE Yr 0	EV/ EBITDA	EBITDA Margin
BHP Group	16.2%	17.2%	10.0%	41.50	155,917	19.6	14.1	15.6	4.4	3.4%	16.7%	6.6	49.0%
Rio Tinto	19.4%	16.2%	15.5%	113.20	136,042	17.0	12.0	12.0	4.7	1.3%	18.3%	6.2	36.7%
Vale S.A.	33.4%	37.0%	59.2%	81.98	85,617	-64.9	9.0	6.6	2.2	1.7%	8.4%	4.6	13.2%
Foretescue Metals	32.7%	32.4%	114.7%	20.61	47,136	10.0	7.6	12.3	4.8	8.5%	39.8%	5.0	64.6%
Cleveland-Cliffs Inc	62.8%	123.5%	61.8%	12.55	5,992	20.5	-46.2	5.1	6.2	0.0%	-21.0%	33.9	25.9%
Mining Resources	29.3%	29.9%	113.7%	34.56	4,842	6.5	9.2	12.7	2.9	3.1%	55.4%	5.0	81.0%
National Mineral Development Corp	22.1%	23.4%	-14.0%	106.85	4,437	9.2	8.4	8.3	1.2	5.0%	13.3%	6.2	51.3%
Mount Gibson Iron	30.7%	25.3%	-4.2%	0.82	718	11.5	8.0	3.5	1.4	3.7%	13.1%	3.1	35.5%
Southern Alliance Mining	-1.6%	8.9%	22.0%	0.31	113	7.4	NA	NA	NA	1.9%	NA	NA	37.9%
Fortress Minerals	2.5%	-6.8%	-12.8%	0.21	77	11.8	NA	NA	2.7	NA	33.0%	6.1	48.0%
	23.2%	24.0%	34.0%		440,890	21.0	11.2	10.9	3.6	2.6%	16.3%	5.4	37.4%

Source: Bloomberg, PSR

Appendix 1: Bukit Besi mine

FML re-established mining operations at its Bukit Besi mine in 2017. It began to employ geologists, procure and operate drilling rigs, perform drilling campaigns and conduct mining work in that year. Prior to that, the company had invested significantly in acquiring the technical knowledge and expertise to develop its business.

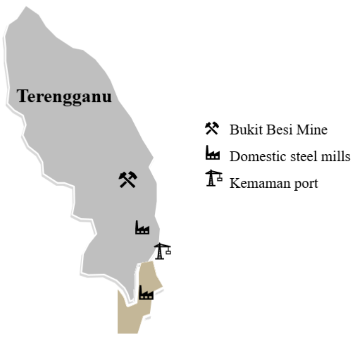
Current operations consist of two open pit mining areas in its concession area, with conventional excavation and trucking of feed to a magnetite processing plan. Iron concentrates are produced and transported by road at the rate of 40,000 WMT every four weeks. Production is exported to China via the Port of Kemaman.

Figure 21: Corporate milestones

Year	Event
2016	Awarded mining rights to Bukit Besi Mine
2017	Began development of mine infrastructure in Bukit Besi Mine
2018	Commenced commercial production of iron ore concentrate with TFe grade of at least 65.0% in Apr 2018

Source: Company, PSR

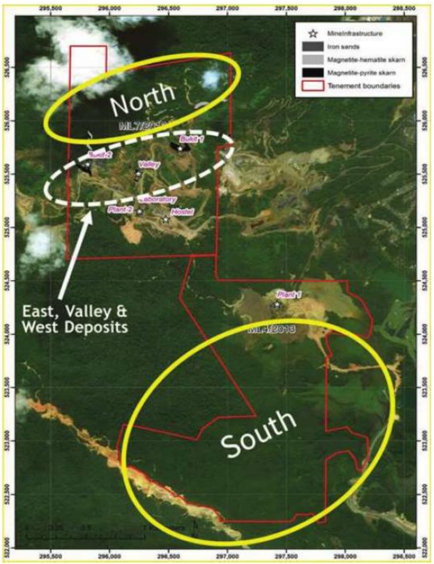
Figure 22: Strategic location of the Bukit Besi mine



Source: Company, PSR

Source: Company

Figure 23: Location of East, West and Valley deposits



Source: Company, PSR

The mine is close to two steel mills. The company's iron-ore processing facility is located within its Bukit Besi concession area. This is complete with facilities such as an office, employees' living quarters, etc. Access to all public infrastructure and urban facilities contributes to operating efficiency.

Highways nearby facilitate access to the mine at all times. All iron-ore cargoes can be easily transported to the nearest Kemaman Port by road. There are also two airports, Sultan Haji Ahmad Shah Airport in Kuantan and Sultan Mahmud Airport in Kuala Terengganu, both of which are 1.5-hours away by road from the Bukit Besi mine.

Appendix 2: Mining process

Stage 1: Blasting of mineralised area

From its in-house geologists' resource models, FML identifies mineralised areas. Blasting is carried out by externally appointed qualified and licensed personnel. The blasted materials are transported for stockpiling.

Step 2: Removal and stockpiling of blasted materials

Blasted materials generally consist of:

1. Overburden such as iron (strip)
2. Gangue material
3. Ore-containing materials and other non-iron-ore-containing materials
4. Diluted iron ores
5. Other types of mineral-containing ore

This stage is the primary stage of processing. Blasted materials that contain iron ores are transported to a stockpile in preparation for crushing at its processing plant.

Average stripping ratio is 4:1, which means that mining one tonne of iron ore will require mining four tonnes of waste rock.

Step 3: Crushing process at crushing plant

Blasted materials containing iron ores will be transported to its crushing plant. This is the secondary stage of processing. The blasted materials generally have a TFe grade of not less than 20.0%. These are fed into the crushing plant to be crushed, sorted and stockpiled into:

1. Iron ore fines and lumps of TFe grade 48.0% to 50.0%
2. Dry dump comprising non-iron ore materials

Step 4: Concentrate processing

Iron ore fines and lumps of TFe grade between 48.0% and 50.0% are transported from the crushing plant to the processing plant, which is 2km away.

Concentrate processing is carried out in the following steps:

(a) Iron ore fines and lumps are wet ground in ball mills into iron ore slurry
(b) Slurry is fed into magnetic separators to separate magnetic (containing iron ores) and non-magnetic slurry (containing materials that are washed into the tailing dam as waste)
(c) Magnetic slurry is fed into a further series of ball mills and magnetic separators before the end-product of iron ore super fines with TFe grades of between 65.0% and 66.0% is achieved. Non-magnetic tailings are pumped into the tailing dam as waste
(d) Resulting iron ore super fines are further processed to reduce their impurities to become iron-ore concentrates
(e) Iron-ore concentrates are dried and stockpiled

Figure 23: Removal of blasted materials

Source: Company

Figure 23: Crushing plant

Source: Company

Figure 24: Integrated processing plant

Source: Company

Figure 25: Iron ore fines and lump stockpile

Source: Company

Financials

Statement of Total Return and Distribution Statement

Y/E Feb, (US$'000)	FY18	FY19	FY20	FY21e	FY22e
Revenue	-	**20,629**	**25,925**	**36,398**	**40,038**
Cost of sales	-	(7,595)	(8,645)	(12,375)	(13,613)
Gross Profit	-	**13,034**	**17,280**	**24,387**	**27,626**
Administrative expenses	(399)	(1,293)	(1,775)	(2,511)	(2,763)
Selling and distribution expens	-	(5,357)	(2,081)	(3,094)	(3,403)
Other operating income	959	2,002	687	1,092	1,201
EBIT	**25**	**6,816**	**9,579**	**19,873**	**15,455**
Finance costs	(382)	(7)	(43)	(48)	(50)
Profit before tax	**(357)**	**6,809**	**9,537**	**13,274**	**15,405**
Taxation	(54)	(1,915)	(3,039)	(3,982)	(4,621)
Profit after tax	**(411)**	**4,894**	**6,497**	**9,292**	**10,783**

Per share data

Y/E Feb	FY18	FY19	FY20	FY21e	FY22e
BVPS (USD cents)	0.31	1.27	5.92	7.61	9.57
BVPS (SGD cents)	0.41	1.70	7.90	10.15	12.77
DPS (SGD cents)	-	-	0.52	0.50	0.58
EPS (USD cents)	(0.10)	1.17	1.31	1.88	2.18
EPS (SGD cents)	(0.13)	1.56	1.75	2.50	2.91

Cash Flow

Y/E Feb, (US$'000)	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	**(357)**	**6,809**	**9,537**	**13,274**	**15,405**
Adjustments	408	1,330	3,322	2,643	2,977
WC changes	(226)	(811)	(1,608)	(7,094)	(2,038)
Cash generated from ops	**(175)**	**7,328**	**11,251**	**8,822**	**16,343**
Others	(282)	(1,034)	(2,063)	(4,452)	(3,930)
Cashflow from ops	**(457)**	**6,294**	**9,188**	**4,370**	**12,413**
CFI					
Capex, net	(4,725)	(5,446)	(4,391)	(2,500)	(3,000)
Others	(6,076)	(955)	(1,787)	(235)	(410)
Cashflow from investments	**(10,801)**	**(6,401)**	**(6,178)**	**(2,735)**	**(3,410)**
CFF					
Dividends paid	-	-	**(1,332)**	**(1,332)**	**(1,000)**
Share issuance, net	0	1	10,548	-	-
Others	11,248	2,190	(3,679)	(4,939)	(50)
Cashflow from financing	**11,248**	**2,190**	**5,537**	**(6,271)**	**(1,050)**
Net change in cash	**(10)**	**2,084**	**8,547**	**(4,636)**	**7,953**
Effects of exchange rate	5	5	(434)	400	100
Ending cash	**41**	**2,129**	**10,243**	**6,007**	**14,060**

Source: Company, PSR Estimates

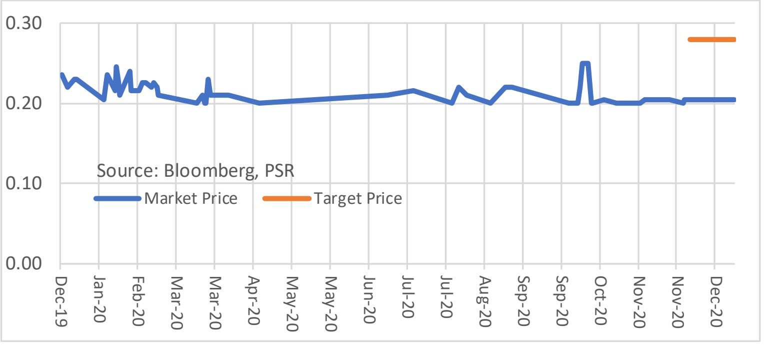
Balance Sheet

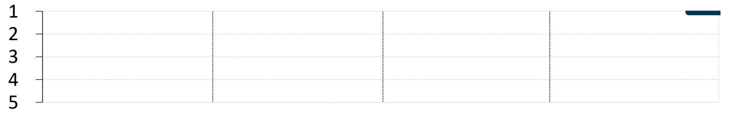
Y/E Feb, (US$'000)	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Trade and other receivables	2,411	3,771	5,536	14,947	15,054
Cash and bank balances	41	2,129	10,243	6,007	14,060
Total current assets	**2,817**	**6,339**	**16,643**	**22,228**	**30,515**
Plant and equipment	7,301	11,366	13,498	13,692	14,142
Mining properties	7,009	6,973	6,344	6,400	7,000
Exploration and evaluation a	-	403	2,322	2,700	3,200
Total non-current assets	**14,310**	**18,742**	**22,694**	**23,392**	**25,120**
Total Assets	**17,128**	**25,080**	**39,337**	**45,621**	**55,635**
LIABILITIES					
Borrowings	-	-	38	85	85
Trade and other payables	786	2,217	2,928	4,113	4,524
Income tax payable	-	288	254	1,280	1,280
Total current liabilities	**15,513**	**2,506**	**8,110**	**5,950**	**6,189**
Borrowings	-	-	34	93	85
Lease liabilities	17	-	150	35	35
Deferred tax liabilities	55	505	1,467	1,546	1,546
Total non-current liabilities	**71**	**16,226**	**1,652**	**1,674**	**1,666**
Total Liabilities	**15,585**	**18,732**	**9,761**	**7,624**	**7,856**
EQUITY					
Share capital	268	268	22,463	22,463	22,463
Retained earnings	668	5,562	10,728	18,688	28,471
Reserves	607	518	(3,616)	(3,155)	(3,155)
Total equity	**1,543**	**6,349**	**29,575**	**37,996**	**47,779**
Total equity and liabilities	**17,128**	**25,080**	**39,337**	**45,620**	**55,635**

Valuation Ratios

Y/E Feb	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	-152.33	12.80	11.40	7.97	6.87
P/NAV (x)	48.42	11.77	2.53	1.97	1.56
EV/EBITDA (x)	2808.37	12.27	7.55	4.64	3.81
Dividend yield (%)	-	-	2.54%	2.42%	2.81%
Growth & Margins (%)					
Growth					
Revenue	-	-	25.7%	40.4%	10.0%
Gross profit	-	-	32.6%	41.1%	13.3%
EBIT	-	27560.9%	40.5%	39.1%	16.0%
PBT	-	2006.1%	40.1%	39.2%	16.1%
Margins					
Gross profit margin	-	63.2%	66.7%	67.0%	69.0%
EBIT margin	-	33.0%	36.9%	54.6%	38.6%
Net profit margin	-	23.7%	25.1%	25.5%	26.9%
Key Ratios					
ROE	-26.7%	77.1%	22.0%	24.5%	22.6%
ROA	-2.4%	19.5%	16.5%	20.4%	19.4%
Gearing (%)	0.9%	Net cash	Net cash	Net cash	Net cash

Ratings History





PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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