



Fortress Minerals Ltd.

Ore production almost doubled this quarter

SINGAPORE | MINING | 3Q21 RESULTS

- 3Q21 results were better than expectations. Revenue was up 150.9% YoY, PATMI up 477.9% YoY. 9M21 PATMI formed 77.5% of our FY21e forecast.
- 3Q21 sales volume increased a stellar 93.8% YoY on the back of increased domestic demand for steel.
- Maintain BUY with a higher TP of S\$0.47, up from S\$0.28. We raise FY21e PATMI by 69.2% to capture its 3Q outperformance. Our TP remains pegged to 11x FY21e, the industry average. Catalysts are expected from a 50% jump in production in FY21e and iron ore prices (Platts Iron Ore Index, IODEX 65% Fe CFR North China) remaining above US\$110/DMT. The company announced a proposed US\$30mn acquisition of Malaysia iron ore and copper producer.

Results at a glance

USD '000	3Q21	3Q20	YoY	9M21	9M20	YoY
Revenue	10,304	4,106	150.9%	30,379	17,730	71.3%
Gross profit	7,734	2,368	226.7%	22,843	11,778	93.9%
Operating exp.	(2,220)	(1,632)	36.1%	(7,102)	(4,539)	56.5%
PATMI	4,338	751	477.9%	12,177	4,360	179.3%
Gross Margins	75.1%	57.7%	30.2%	75.2%	66.4%	13.2%
Sales volume (DMT)	93,246	48,121	93.8%	303,389	180,007	68.5%
Average realised price (US\$/DMT)	110.06	84.65	30.0%	100.34	96.96	3.5%
Average unit cost (US\$/WMT)	25.26	32.30	-21.8%	23.26	29.97	-22.4%

Source: Company, PSR

The Positives

+ Continued volume growth. Iron ore concentrate volumes sold increased 93.7% YoY in 3Q21. This translated to revenue growth of 150.9% YoY. Volume and revenue were both lower QoQ due to monsoon disruptions to production that typically occur at year-end.

+ Spike in margins. Gross margins increased from 57.7% to 75.1% in 3Q21. Revenue for the quarter more than doubled, driven by higher prices for high-grade iron ore concentrates. Their ASP was a record US\$110.06/DMT as iron ore prices reached a 7-year high. Average unit cost was also lower YoY through increased iron ore production.

+ Operating cash flow increased 7x. 3Q21 operating cash flow of US\$11.7mn was 7x the US\$1.6mn achieved a year ago. Net cash slightly dipped from US\$9.9mn to US\$9mn while FCF turned around from -US\$328k in 3Q20 to US\$10.4mn in 3Q21.

The Negative

- Nil.

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19 January 2021

BUY (Maintained)

CLOSING PRICE	SGD 0.310
FORECAST DIV	SGD 0.008
TARGET PRICE	SGD 0.470
TOTAL RETURN	54.3%

COMPANY DATA

BLOOMBERG CODE:	FML SP
O/S SHARES (MN):	500.0
MARKET CAP (USD mn / SGD mn):	117 / 155
52 - WK HI/LO (SGD):	0.35 / 0.18
3M Average Daily T/O (mn):	0.49

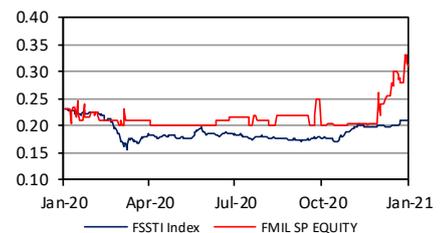
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	29.2	55.0	35.8
STI RETURN	5.2	19.6	(3.9)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Feb, USD (mn)	FY19	FY20	FY21e	FY22e
Revenue	20.6	25.9	39.2	43.2
Gross Profit	13.0	17.3	29.4	32.8
EBITDA	8.2	12.2	23.3	25.7
Net Profit	4.9	6.5	15.7	17.2
EPS (USD cents)	1.2	1.3	3.2	3.5
EPS (SGD cents)	1.6	1.8	4.2	4.6
P/E (x)	19.9	17.7	7.3	6.7
Dividend Yield	-	1.7%	2.7%	3.0%
ROE	77.1%	22.0%	35.4%	28.3%
ROA	19.5%	16.5%	29.9%	24.9%

Source: Company, PSR

VALUATION METHOD

11x PE Multiple FY21e

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Proposed acquisition of Malaysian subsidiary of Monument Mining Ltd

Monument Mining Ltd (MMY CN, Not Rated) is an established Canadian gold producer that operates gold mines. It also acquires, explores and develops other base metals. FML has entered into a conditional sale and purchase (SPA) agreement with the company for the acquisition of the entire Monument Mengapur (MMSB). MMSB owns a 100% stake in the Mengapur copper and iron project in Pahang, Malaysia. Cash consideration is US\$30mn. FML will pay a royalty fee of 1.25% of gross revenue from all products produced at Mengapur to Monument Mining.

Other than magnetite, Mengapur contains a significant amount of copper, gold and silver resources. FML will mine only magnetite for the production of its iron ores. Ores containing other materials encountered during mining will be stockpiled for future use.

With this acquisition, FML's magnetite resources will surge from 7.18mn tonnes from its Bukit Besi mine as of February 2020 to 17.93mn tonnes. Geochemical analysis and metallurgical tests have proven that the Mengapur magnetite is extremely similar to that from the Bukit Besi mine, which has demonstrated to be economical. FML's Buki Besi mine has been able to yield consistently-high-grade magnetite iron ore concentrates.

Mengapur is strategically located 65km away from the Kuantan port, the main bulk iron ore export port on Malaysia's East Coast. It is also within close proximity of the two largest steel mills in Malaysia, both of which are FML's customers.

Mining leases and environmental approvals for open-pit mining have been obtained. With its existing processing plants and other facilities, the Mengapur site is ready for development. It is immediately available for magnetite production after refurbishment.

This is the company's first proposed acquisition. If executed according to plan, it should help transform FML into a regional player in iron ores, coupled with its efforts to explore and develop iron ore assets across Malaysia. Mengapur should also complement FML's existing portfolio of advanced iron ore projects.

Outlook

Iron ore prices are expected to taper down in 2021 as supply balances out demand. We expect them to drop from the current US\$190/DMT (Platts IODEX 65% Fe CFR North China) to the region of US\$110/DMT. This would translate to lower ASPs of US\$95/DMT for FML, from US\$110.06/DMT in 3Q21. However, FML's revenue should still increase with higher iron ore volumes sold following its announcement of an offtake agreement in September 2020. Operating expenses are also expected to be stable with the help of improved economies of scale.

Maintain BUY with higher TP of S\$0.47 from S\$0.28

We maintain BUY with a higher TP of S\$0.47, up from S\$0.28, after we increase FY21e PATMI by 69.2% to factor in its 3Q21 outperformance. We continue to peg the stock at 11x FY21e PE, the industry average. We expect production to jump 50% in FY21e and iron ore prices (Platts Iron Ore Index, IODEX 65% Fe CFR North China) to remain above US\$110/DMT, providing stock catalysts.

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)

Financials

Statement of Total Return and Distribution Statement

Y/E Feb, (US\$'000)	FY18	FY19	FY20	FY21e	FY22e
Revenue	-	20,629	25,925	39,229	43,152
Cost of sales	-	(7,595)	(8,645)	(9,807)	(10,788)
Gross Profit	-	13,034	17,280	29,422	32,795
Administrative expenses	(399)	(1,293)	(1,775)	(1,177)	(1,295)
Selling and distribution expenses	-	(5,357)	(2,081)	(3,334)	(3,668)
Other operating income	959	2,002	687	1,177	1,295
EBIT	25	6,816	9,579	20,203	22,655
Finance costs	(382)	(7)	(43)	(48)	(50)
Profit before tax	(357)	6,809	9,537	20,155	22,605
Taxation	(54)	(1,915)	(3,039)	(4,434)	(5,425)
Profit after tax	(411)	4,894	6,497	15,721	17,180

Per share data

Y/E Feb	FY18	FY19	FY20	FY21e	FY22e
BVPS (US\$ cents)	0.31	1.27	5.92	8.90	12.14
BVPS (S\$ cents)	0.41	1.70	7.90	11.87	16.19
DPS (S\$ cents)	-	-	0.52	0.84	0.92
EPS (US\$ cents)	(0.10)	1.17	1.31	3.18	3.47
EPS (S\$ cents)	(0.13)	1.56	1.75	4.24	4.63

Cash Flow

Y/E Feb, (US\$'000)	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	(357)	6,809	9,537	20,155	22,605
Adjustments	408	1,330	3,322	3,018	2,873
WC changes	(226)	(811)	(1,608)	(7,460)	(2,210)
Cash generated from ops	(175)	7,328	11,251	15,712	23,268
Others	(282)	(1,034)	(2,063)	(4,452)	(3,930)
Cashflow from ops	(457)	6,294	9,188	11,260	19,339
CFI					
Capex, net	(10,801)	(6,401)	(6,324)	(2,878)	(3,500)
Others	0	0	147	143	193
Cashflow from investments	(10,801)	(6,401)	(6,178)	(2,735)	(3,307)
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	2,254	14,982
Effects of exchange rate	5	5	(434)	400	100
Ending cash	41	2,129	10,243	12,897	27,979

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	14,875	15,012
Cash and bank balances	41	2,129	10,243	12,897	27,979
Total current assets	2,817	6,339	16,643	29,144	44,501
Plant and equipment	7,301	11,366	13,498	13,692	14,142
Mining properties	7,009	6,973	6,344	6,400	6,700
Exploration and evaluation i	-	403	2,322	2,700	3,200
Total non-current assets	14,310	18,742	22,694	23,392	24,535
Total Assets	17,128	25,080	39,337	52,537	69,036
LIABILITIES					
Borrowings	-	-	38	85	85
Trade and other payables	786	2,217	2,928	4,380	4,880
Income tax payable	-	288	254	1,500	1,500
Total current liabilities	15,513	2,506	8,110	6,437	6,765
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	8,111	8,431
EQUITY					
Share capital	268	268	22,463	22,463	22,463
Retained earnings	668	5,562	10,728	25,117	41,297
Reserves	607	518	(3,616)	(3,155)	(3,155)
Total equity	1,543	6,349	29,575	44,425	60,605
Total equity and liabilities	17,128	25,080	39,337	52,537	69,036

Valuation Ratios

Y/E Feb	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	-236.56	19.88	17.70	7.31	6.69
P/NAV (x)	73.22	17.80	3.82	2.54	1.86
EV/EBITDA (x)	2808.37	12.27	7.55	4.64	3.81
Dividend yield (%)	-	-	1.68%	2.71%	2.96%

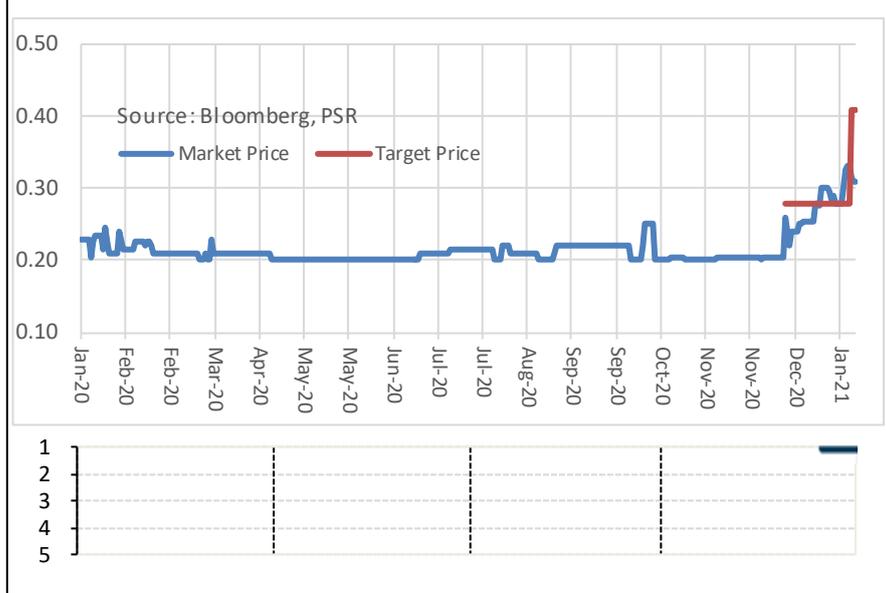
Growth & Margins (%)

	FY18	FY19	FY20	FY21e	FY22e
Growth					
Revenue	-	-	25.7%	51.3%	10.0%
Gross profit	-	-	32.6%	70.3%	11.5%
EBIT	-	27560.9%	40.5%	110.9%	12.1%
PBT	-	2006.1%	40.1%	111.3%	12.2%
Margins					
Gross profit margin	-	63.2%	66.7%	75.0%	76.0%
EBIT margin	-	33.0%	36.9%	51.5%	52.5%
Net profit margin	-	23.7%	25.1%	40.1%	39.8%

Key Ratios

	FY18	FY19	FY20	FY21e	FY22e
ROE	-26.7%	77.1%	22.0%	35.4%	28.3%
ROA	-2.4%	19.5%	16.5%	29.9%	24.9%
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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