

Fortress Minerals Ltd

Continued outperformance

SINGAPORE | MINING | 4QFY21 RESULTS

- 4QFY21 results beat, with FY21 revenue and PATMI at 122%/116% of our forecasts. Volume sales growth of 66.7% YoY in 4QFY21 exceeded our +12.8%. Gross margin of 78.6% and ASP of US\$120.70/DMT also beat our forecasts of 74.3% and US\$96.00/DMT.
- 4QFY21 PATMI tripled YoY to US\$6mn from higher selling prices and an 18% decline in unit production costs.
- Maintain BUY with higher TP of S\$0.64 from S\$0.47 as we roll over our 11x P/E target to FY22e, still in line with industry average. Our FY22e PATMI has been raised by 27% to US\$21.8mn as we increase our production forecast by 12% to 498,032 DMT. Iron ore prices are expected to remain elevated with a rebound in steel production and supply disruptions.

Results at a glance

USD '000	4Q21	4Q20	YoY	Comments
Revenue	17,339	8,195	111.6%	Significant increase in volume sold and higher average realised selling price
- Sales volume (DMT)	149,367	89,608	66.7%	
- Average realised price (US\$/DMT)	120.70	92.83	30.0%	
Average unit cost (US\$/WMT)	20.70	25.32	-18.2%	Productivity gains and efficiency achieved from higher production volume
Gross profit	13,624	5,502	147.6%	
Operating exp.	(5,570)	(2,118)	163.0%	
PATMI	6,076	2,138	184.2%	
Gross Margins	78.6%	67.1%	17.0%	

Source: Company, PSR

The Positives

+ Steady increase in volume. Iron ore concentrates sold increased 66.7% YoY by volume in 4QFY21 and 67.9% in FY21. This lifted revenue by 111.6% in 4QFY21 and 84.1% in FY21. QoQ, volume sold and revenue were higher by 60.2% and 68.3% respectively.

+ Spike in margins. Gross profits more than doubled from US\$5.5mn in 4QFY20 to US\$13.6mn in 4QFY21. Gross profit margins rose from 67.1% to 78.6%. This was achieved with higher realised ASPs of iron ore concentrates, which went from US\$92.83/DMT in 4QFY20 to US\$120.70/DMT in 4QFY21. Unit costs also decreased from US\$25.32/WMT to US\$20.70/WMT with the help of efficiency gains.

+ Operating cash flow turned positive. Operating cash flow turned from a negative US\$11k in 4QFY20 to a positive US\$2.7mn in 4QFY21. 4QFY21 FCF remained a negative US\$4.2mn vs. -US\$478k in 4QFY20 from a spike in capex. Full year, FCF increased to US\$7.1mn from US\$4.8mn in FY20.

The Negative

- Spike in capex. Capex jumped from US\$390k in 4QFY20 to US\$3.6mn in 4QFY21, as FML expanded its truck fleet and reinvested in its Bukit Besi mine for further exploration works.

25 April 2021

BUY (Maintained)

CLOSING PRICE	SGD 0.445
FORECAST DIV	SGD 0.012
TARGET PRICE	SGD 0.640
TOTAL RETURN	46.4%

COMPANY DATA

BLOOMBERG CODE:	FMIL SP
O/S SHARES (MN) :	500.0
MARKET CAP (USD mn / SGD mn) :	168 / 223
52 - WK HI/LO (SGD) :	0.46 / 0.19
3M Average Daily T/O (mn) :	0.93

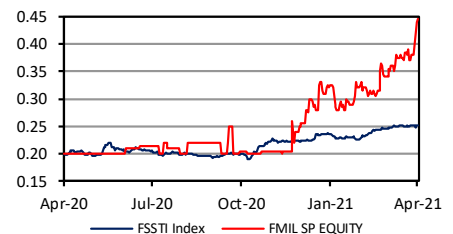
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	30.9	36.9	124.2
STI RETURN	2.4	7.4	30.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Feb, USD (mn)	FY20	FY21	FY22e	FY23e
Revenue	25.9	47.7	50.8	54.8
Gross Profit	17.3	36.5	40.1	43.3
EBITDA	12.2	26.6	31.9	34.4
Net Profit	6.5	18.2	21.8	23.8
EPS (USD cents)	1.3	3.7	4.4	4.8
EPS (SGD cents)	1.8	4.8	5.8	6.3
P/E (x)	25.4	9.2	7.7	7.0
Dividend Yield	1.2%	2.2%	2.6%	2.8%
ROE	22.0%	37.7%	35.4%	29.6%
ROA	16.5%	30.5%	22.8%	20.5%

Source: Company, PSR

VALUATION METHOD

11x PE Multiple FY22e

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

Outlook

Outlook remains positive for FML.

Demand for iron ore. According to the World Steel Association, global crude steel production increased by 10.0% to 486.9mn tonnes in the first three months of this year. This spurred continued growth in demand for iron ores. World Steel forecasts that steel demand will grow by 5.8% in 2021 to 1.874bn tonnes, after dipping by 0.2% in 2020.

China's attempts to cut steel output in 2021 have apparently tripped. According to the China Iron and Steel Association, steel production in March 2021 increased 19.1% YoY to 94.0mn tonnes. Production was 91.3mn tonnes in December 2020. In April 2021, seven steel companies in Hebei province had to be asked to cut production by 30-50% from March to December 2021.

Elsewhere, iron ore supply from Brazil, the world's largest supplier, has been made uncertain by inclement weather. This bumped up iron ore prices to a 10-year high. We expect prices to remain above US\$110/DMT. Current prices are about US\$170/DMT.

Malaysia's production of iron and steel bars and rods drifted down in 4Q20 but production has since risen. It increased by 4.3% MoM in January and 16.0% in February. This could be attributed to the Malaysian government's increased resources for the construction sector, as the economy tries to stage a recovery from the pandemic.

Acquisition of MMSB Group. FML completed its acquisition of the entire issued and paid-up share capital of the Monument Mengapur Group (MMSB) on 7 April 2021. Commercial production is expected to start in FY23e. We have not factored in contributions from the Mengapur site.

Maintain BUY with higher TP of S\$0.64, from S\$0.47

We have a higher TP of S\$0.64, from S\$0.47. FY22e PATMI has been raised by 27% as we forecast higher production volume from sustained growth in demand from Malaysian steel mills, coupled with strong iron ore prices. We expect FML's production to increase 10% in FY22e and iron ore prices (Platts Iron Ore Index, IODEX 65% Fe CFR North China) to remain elevated. Our FY22e iron ore ASP forecast is US\$102/DMT, increased from US\$98/DMT.

We continue to peg the stock at 11x FY22e P/E, the industry average. Maintain BUY with catalysts expected from increase in production and strong iron ore prices.

Figure 1: Industry peers trading at 11x P/E

Company	1 Mth	3 Mth	YTD	Share Px	Mkt. Cap.	PE	P/BV	Dividend	ROE	EV/	EBITDA	EBITDA	Margin
	Perf.	Perf.	Perf.	Local Crcy	(US\$ m)								
BHP GROUP LTD	-2.3%	27.9%	17.5%	47.56	310,915	39.1	20.3	20.7	3.80	6.2%	14.4%	8.7	49.0%
RIO TINTO LTD	-0.8%	24.4%	19.0%	121.15	253,496	25.9	13.0	18.6	3.22	8.7%	22.3%	7.0	47.3%
VALE SA	0.4%	48.4%	76.2%	106.23	103,062	21.0	4.9	6.4	2.93	8.2%	15.4%	6.0	35.6%
FORTESCUE METALS	-3.0%	47.3%	128.5%	21.66	86,151	18.2	9.5	14.2	3.44	16.3%	46.3%	6.7	64.6%
MINERAL RESOURCE	-7.0%	34.3%	124.5%	45.87	11,190	8.6	7.9	10.2	3.27	5.5%	26.4%	4.2	81.0%
CLEVELAND-CLIFFS	0.7%	95.3%	97.6%	17.09	8,526	-69.9	4.3	8.8	3.14	0.4%	-1.6%	98.8	3.1%
NMDC LTD	-7.9%	19.3%	-13.0%	140.35	5,480	11.5	7.1	7.5	1.55	5.5%	13.3%	3.8	51.3%
MOUNT GIBSON IRO	-9.2%	28.1%	-6.8%	0.90	1,372	12.6	12.7	3.8	1.44	4.8%	16.8%	4.1	35.5%
SOUTHERN ALLIANC	-3.9%	27.6%	48.0%	0.76	280	18.5	NA	NA	NA	0.8%	NA	NA	37.9%
FORTRESS MINERAL	-4.8%	43.9%	25.5%	0.45	168	9.2	9.7	NA	3.46	0.4%	46.8%	4.3	55.6%
	-1.6%	32.4%	40.2%		780,639	26.8	11.3	14.4	3.42	2.51%	20.6%	8.4	48.4%

Source: Bloomberg, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Feb, (US\$'000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	20,629	25,925	47,718	50,799	54,783
Cost of sales	(7,595)	(8,645)	(11,252)	(10,668)	(11,505)
Gross Profit	13,034	17,280	36,466	40,131	43,279
Administrative expenses	(1,293)	(1,775)	(1,274)	(1,524)	(1,644)
Selling and distribution expenses	(5,357)	(2,081)	(4,911)	(4,318)	(4,657)
Other operating income	2,002	687	412	1,524	1,644
EBIT	6,816	9,579	23,420	28,194	30,405
Finance costs	(7)	(43)	(62)	(944)	(991)
Profit before tax	6,809	9,537	23,358	27,250	29,414
Taxation	(1,915)	(3,039)	(5,112)	(5,450)	(5,589)
Profit after tax	4,894	6,497	18,245	21,800	23,825

Per share data

Y/E Feb	FY19	FY20	FY21	FY22e	FY23e
BVPS (US\$ cents)	1.27	5.92	9.70	12.30	16.14
BVPS (S\$ cents)	1.70	7.90	12.94	16.41	21.53
DPS (S\$ cents)	-	0.52	1.00	1.16	1.27
EPS (US\$ cents)	1.17	1.31	3.65	4.36	4.77
EPS (S\$ cents)	1.56	1.75	4.85	5.79	6.33

Cash Flow

Y/E Feb, (US\$'000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	6,809	9,537	23,358	27,250	29,414
Adjustments	1,330	3,322	3,532	5,554	5,580
WC changes	(811)	(1,608)	(6,811)	4,843	(7,748)
Cash generated from ops	7,328	11,251	20,079	37,647	27,245
Others	(1,034)	(2,063)	(4,093)	(3,930)	(3,930)
Cashflow from ops	6,294	9,188	15,985	33,717	23,316
CFI					
Capex, net	(6,401)	(6,324)	(12,737)	(21,734)	(2,834)
Others	0	147	39	78	435
Cashflow from investments	(6,401)	(6,178)	(12,698)	(21,656)	(2,398)
CFF					
Dividends paid	-	(1,332)	(575)	(8,701)	(4,765)
Share issuance, net	1	10,548	-	-	-
Others	2,190	(3,679)	(5,531)	17,491	(3,016)
Cashflow from financing	2,190	5,537	(6,106)	8,790	(7,781)
Net change in cash	2,084	8,547	(2,818)	20,852	13,136
Effects of exchange rate	5	(434)	376	376	376
Ending cash	2,129	10,243	7,800	29,028	42,540

Source: Company, PSR Estimates

Balance Sheet

Y/E Feb, (US\$'000)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Trade and other receivables	3,771	5,536	24,728	20,320	28,487
Cash and bank balances	2,129	10,243	7,800	29,028	42,540
Total current assets	6,339	16,643	33,577	51,126	72,945
Plant and equipment	11,366	13,498	16,605	35,283	34,725
Mining properties	6,973	6,344	6,162	5,696	5,230
Exploration and evaluation asset:	403	2,322	3,306	3,306	3,306
Total non-current assets	18,742	22,694	26,285	44,497	43,472
Total Assets	25,080	39,337	59,862	95,622	116,418
LIABILITIES					
Borrowings	-	38	653	653	653
Trade and other payables	2,217	2,928	6,272	7,112	7,670
Income tax payable	288	254	1,607	1,607	1,607
Total current liabilities	2,506	8,110	8,732	9,672	10,238
Borrowings	-	34	1,302	22,936	24,114
Lease liabilities	-	150	35	35	35
Deferred tax liabilities	505	1,467	1,385	1,463	1,453
Total non-current liabilities	16,226	1,652	2,722	24,435	25,603
Total Liabilities	18,732	9,761	11,454	34,106	35,841
EQUITY					
Share capital	268	22,463	22,463	22,463	22,463
Retained earnings	5,562	10,728	28,407	41,506	60,566
Reserves	518	(3,616)	(2,453)	(2,453)	(2,453)
Total equity	6,349	29,575	48,409	61,516	80,577
Total equity and liabilities	25,080	39,337	59,862	95,622	116,418

Valuation Ratios

Y/E Feb	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	28.54	25.40	9.18	7.69	7.03
P/NAV (x)	25.55	5.48	3.35	2.64	2.01
EV/EBITDA (x)	12.27	7.55	4.64	3.81	4.81
Dividend yield (%)	-	1.17%	2.25%	2.60%	2.84%

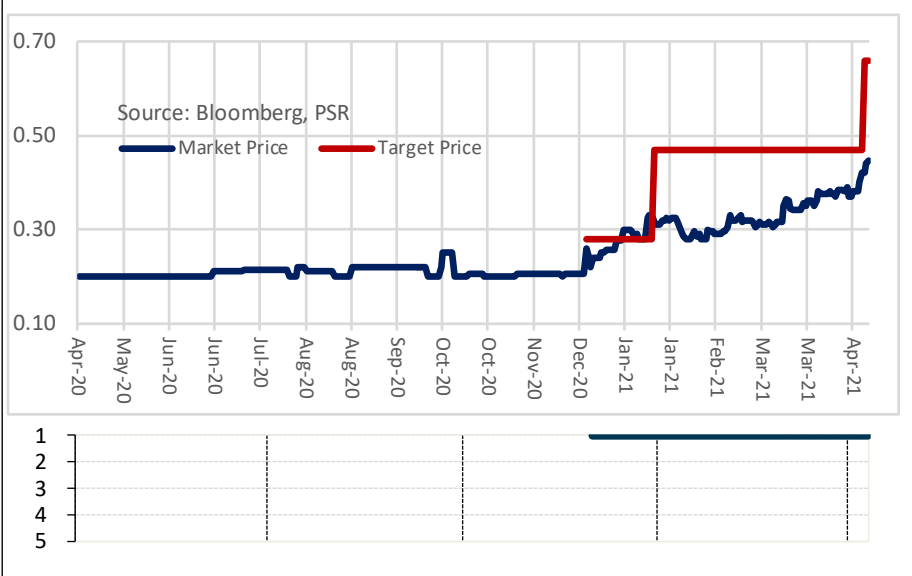
Growth & Margins (%)

Growth					
Revenue	-	25.7%	84.1%	6.5%	7.8%
Gross profit	-	32.6%	111.0%	10.1%	7.8%
EBIT	27560.9%	40.5%	110.9%	20.4%	7.8%
PBT	2006.1%	40.1%	111.3%	16.7%	7.9%
Margins					
Gross profit margin	63.2%	66.7%	76.4%	79.0%	79.0%
EBIT margin	33.0%	36.9%	49.1%	55.5%	55.5%
Net profit margin	23.7%	25.1%	38.2%	42.9%	43.5%

Key Ratios

ROE	77.1%	22.0%	37.7%	35.4%	29.6%
ROA	19.5%	16.5%	30.5%	22.8%	20.5%
Gearing (%)	Net cash	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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