

Fortress Minerals Ltd

Strong iron-ore prices



16 July 2021

SINGAPORE | MINING | 1QFY22 RESULTS

- 1QFY22 PATMI beat, at 30% of our FY22e forecast as ASPs were higher than expected. Revenue was up 144% YoY, PATMI up 234% YoY.
- 1QFY22 sales volume increased 61.6% YoY. Last year, mining was halted in 1QFY21 by movement controls, for 1.5 months. PATMI more than doubled YoY from higher selling prices and gross margins.
- Maintain BUY with a higher TP of S\$0.81, up from S\$0.64. We raise FY22e PATMI by 41%, factoring in stronger iron-ore prices. We raise ASPs by 37% to US\$140/DMT. Our TP remains pegged to the industry average, which is now 10x FY22e PE, down from 11x previously. Catalysts are expected from an increase in production and strong iron-ore prices.

Results at a glance

USD '000	1Q22	1Q21	YoY	Comments
Revenue	17,283	7,090	143.8%	Significant increase in volume sold and higher average realised selling price
- Sales volume (DMT)	120,665	74,661	61.6%	
- Average realised price (US\$/DMT)	143.00	94.97	50.6%	
Average unit cost (US\$/WMT)	25.55	24.88	2.7%	Higher unit costs due to appreciation of MYR against USD
Gross profit	13,905	5,044	175.7%	
Operating exp.	(4,671)	(2,200)	112.3%	
PATMI	7,200	2,158	233.7%	
Gross Margins	80.5%	71.1%	13.2%	

Source: Company, PSR

The Positives

+ Steady increase in volume. Iron-ore concentrates sold increased 61.6% YoY in 1QFY22. This lifted revenue by 143.8%. QoQ, volume sold and revenue were down 19.2% and 0.3% respectively, mainly due to seasonality.

+ Spike in margins. Gross profits almost tripled from US\$5.0mn in 1QFY21 to US\$13.9mn, with gross profit margins up from 71.1% to 80.5%. This was achieved with higher realised ASPs for iron-ore concentrates, which went from US\$94.97/DMT in 1QFY21 to US\$143.00/DMT. Unit costs climbed from US\$24.88/WMT to US\$25.55/WMT, mainly due to RM strength against the US\$.

+ Operating cash flow increased. Operating cash flow catapulted from US\$1.6mn in 1QFY21 to US\$9.3mn in 1QFY22, with the help of higher profits before tax. FCF also increased from US\$1.4mn in to US\$9.2mn.

The Negative

- From net cash to net debt. Bank borrowings increased to US\$22.8m for financing its acquisition of Fortress Mengapur in January 2021. From net cash of US\$9.4mn in 1QFY21, the company booked net debt of US\$10mn in 1QFY22. Still, we are expecting a net-cash position for the full year of FY22e, on the back of higher cash from higher net profit on a full-year basis.

BUY (Maintained)

CLOSING PRICE	SGD 0.680
FORECAST DIV	SGD 0.016
TARGET PRICE	SGD 0.810
TOTAL RETURN	21.5%

COMPANY DATA

BLOOMBERG CODE:	FAMIL SP
O/S SHARES (MN):	500.0
MARKET CAP (USD mn / SGD mn):	251 / 340
52 - WK HI/LO (SGD):	0.89 / 0.19
3M Average Daily T/O (mn):	2.16

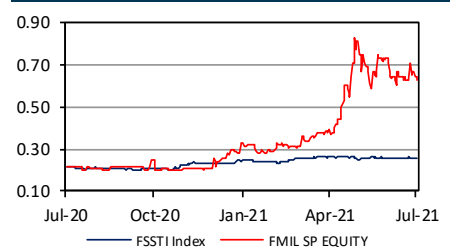
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(11.3)	73.1	113.5
STI RETURN	0.0	0.3	12.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Feb, USD (mn)	FY20	FY21	FY22e	FY23e
Revenue	25.9	47.7	69.7	71.2
Gross Profit	17.3	36.5	55.8	57.0
EBITDA	12.2	26.6	44.1	45.3
Net Profit	6.5	18.2	30.8	31.8
EPS (USD cents)	1.3	3.7	6.2	6.4
EPS (SGD cents)	1.8	4.8	8.2	8.4
P/E (x)	38.8	14.0	8.3	8.1
Dividend Yield	0.8%	1.5%	2.4%	2.5%
ROE	22.0%	37.7%	44.8%	33.8%
ROA	16.5%	30.5%	28.9%	23.9%

Source: Company, PSR

VALUATION METHOD

10x PE Multiple FY22e

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Outlook

Demand for iron ores. According to the World Steel Association, global crude steel production increased 13% to 826.2mn tonnes in the first five months of this year. This spurred demand for iron ores. World Steel forecasts that steel demand will grow by 5.8% in 2021 to 1.874bn tonnes, after dipping 0.2% in 2020, and further grow by 2.7% in 2022 to 1.924.6bn tonnes.

China has been struggling to cut steel production in 2021 without much success. According to World Steel, its steel production in the first five months 2021 rose 11.8% YoY to 464.6mn tonnes. Production was 99.5mn tonnes in May 2021, up 7.8% YoY.

There are also uncertainties in global iron-ore supply. In 1Q21, major Brazilian iron-ore producer, Vale, recorded 28.4% QoQ decline in iron ore sales, due to operational issues and maintenance at its S11D mine.

As such, we expect prices to remain above US\$140/DMT. Current prices are about US\$200/DMT.

Other updates

MCO 3.0. Malaysia was placed under MCO 3.0 from 1 June to 28 June 2021. This affected mining at FML's Bukit Besi mine. Thereafter, its government extended MCO indefinitely until certain benchmarks are met.

On 5 July 2021, certain states such as Terengganu and Pahang, where FML's mines are located, moved to Phase 2 of a 4-phase National Recovery Plan. Parameters for transitioning to the different phases of the National Recovery Plan will be applied at the state level, to allow individual states where local Covid cases have been stable to transition earlier.

With this, mining at Bukit Besi resumed at an approved worker capacity of 80% on 5 July 2021. Mining has since gradually returned to normalcy.

Fortress Mengapur. FML maintains its target of commencing iron-ore production at Mengapur by end-FY22e. Contributions from Mengapur have not been factored in.

Maintain BUY with higher TP of S\$0.81, from S\$0.64

We have a higher TP of S\$0.81, up from S\$0.64. Our FY22e PATMI has been raised by 41% as we incorporate stronger 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\$140/DMT, up from US\$102/DMT. Spot prices are currently US\$210/DMT.

We continue to peg the stock at the industry average, which is now 10x FY22e PE, down from 11x previously. Maintain BUY with catalysts expected from an increase in production and strong iron-ore prices.

Figure 1: Industry peers now trading at 10x P/E

Company	1 Mth	3 Mth	YTD	Share Px	Mkt. Cap.	P/E			P/B	Dividend	ROE	EBITDA	EV/
	Perf.	Perf.	Perf.	Local Crcy	(US\$ m)	Yr 0	Yr 1	Yr 2	(x)	Yield		Margin	EBITDA (x)
BHP Group	4.7%	8.9%	21.4%	51.53	349,142	43.9	20.0	17.6	3.98	5.7%	14.4%	49.0%	8.7
Rio Tinto Ltd	3.7%	11.4%	15.2%	131.14	284,397	29.1	11.5	16.3	3.37	8.0%	22.3%	47.3%	7.0
Vale SA	3.2%	6.4%	31.6%	115.12	119,926	22.8	4.4	5.4	2.85	7.7%	29.1%	35.6%	6.7
Fortescue Metals	10.2%	22.8%	9.8%	25.72	106,027	22.4	10.4	12.4	3.94	13.7%	46.3%	64.6%	6.7
Mineral Resource	19.7%	35.0%	62.9%	61.00	15,422	11.5	10.0	9.9	4.35	4.1%	26.4%	81.0%	4.2
Cleveland-Cliffs	-4.4%	21.5%	50.1%	21.85	10,912	-89.4	3.4	5.8	4.57	n.a.	-1.8%	3.1%	100.8
NMDC Ltd	-4.4%	22.4%	51.1%	172.95	6,799	8.1	5.7	7.7	1.70	4.5%	21.8%	57.2%	4.1
Mount Gibson Iron	3.3%	4.4%	2.2%	0.94	1,496	13.3	11.9	2.9	1.52	4.6%	16.8%	35.5%	4.1
Southern Alliance Mining	5.2%	74.4%	183.3%	1.02	369	25.0	n.a.	n.a.	n.a.	0.6%	n.a.	37.9%	n.a.
Fortress Minerals	-11.3%	73.1%	113.5%	0.68	251	14.0	8.3	8.1	5.19	1.5%	37.7%	56.0%	4.3
	4.9%	11.7%	20.8%			29.89	10.42	12.30	3.62	7.5%	0.2	48.5%	8.6

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	69,724	71,219
Cost of sales	(7,595)	(8,645)	(11,252)	(13,945)	(14,244)
Gross Profit	13,034	17,280	36,466	55,780	56,975
Administrative expenses	(1,293)	(1,775)	(1,274)	(2,092)	(2,137)
Selling and distribution expens	(5,357)	(2,081)	(4,911)	(5,927)	(6,054)
Other operating income	2,002	687	412	2,092	2,137
EBIT	6,816	9,579	23,420	39,394	40,238
Finance costs	(7)	(43)	(62)	(944)	(991)
Profit before tax	6,809	9,537	23,358	38,451	39,248
Taxation	(1,915)	(3,039)	(5,112)	(7,690)	(7,457)
Profit after tax	4,894	6,497	18,245	30,761	31,791

Per share data

Y/E Feb	FY19	FY20	FY21	FY22e	FY23e
BVPS (US\$ cents)	1.27	5.92	9.70	13.74	18.85
BVPS (S\$ cents)	1.70	7.90	12.94	18.32	25.15
DPS (S\$ cents)	-	0.52	1.00	1.63	1.69
EPS (US\$ cents)	1.17	1.31	3.65	6.15	6.36
EPS (S\$ cents)	1.56	1.75	4.85	8.17	8.44

Cash Flow

Y/E Feb, (US\$'000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	6,809	9,537	23,358	38,451	39,248
Adjustments	1,330	3,322	3,532	5,554	5,542
WC changes	(811)	(1,608)	(6,811)	(2,075)	(10,844)
Cash generated from ops	7,328	11,251	20,079	41,930	33,946
Others	(1,034)	(2,063)	(4,093)	(3,930)	(3,930)
Cashflow from ops	6,294	9,188	15,985	38,000	30,016
CFI					
Capex, net	(6,401)	(6,324)	(12,737)	(21,734)	(2,834)
Others	0	147	39	78	473
Cashflow from investments	(6,401)	(6,178)	(12,698)	(21,656)	(2,361)
CFF					
Dividends paid	-	(1,332)	(575)	(10,493)	(6,358)
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)	6,998	(9,374)
Net change in cash	2,084	8,547	(2,818)	23,342	18,281
Effects of exchange rate	5	(434)	376	376	376
Ending cash	2,129	10,243	7,800	31,519	50,176

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	24,278	27,890	37,034
Cash and bank balances	2,129	10,243	7,800	31,519	50,176
Total current assets	6,339	16,643	33,577	61,849	89,702
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 :	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	106,346	133,174
LIABILITIES					
Borrowings	-	38	653	653	653
Trade and other payables	2,217	2,928	6,272	9,761	9,971
Income tax payable	288	254	1,607	2,591	2,591
Total current liabilities	2,506	8,110	8,732	13,305	13,523
Borrowings	-	34	1,302	22,936	24,114
Lease liabilities	-	150	35	35	35
Deferred tax liabilities	505	1,467	1,385	1,385	1,385
Total non-current liabilities	16,226	1,652	2,722	24,356	25,534
Total Liabilities	18,732	9,761	11,454	37,661	39,057
EQUITY					
Share capital	268	22,463	22,463	22,463	22,463
Retained earnings	5,562	10,728	28,407	48,675	74,107
Reserves	518	(3,616)	(2,453)	(2,453)	(2,453)
Total equity	6,349	29,575	48,409	68,685	94,117
Total equity and liabilities	25,080	39,337	59,862	106,346	133,174

Valuation Ratios

Y/E Feb	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	43.62	38.82	14.03	8.33	8.06
P/NAV (x)	39.04	8.38	5.12	3.61	2.63
EV/EBITDA (x)	12.27	7.55	4.64	3.81	4.81
Dividend yield (%)	-	0.76%	1.47%	2.40%	2.48%

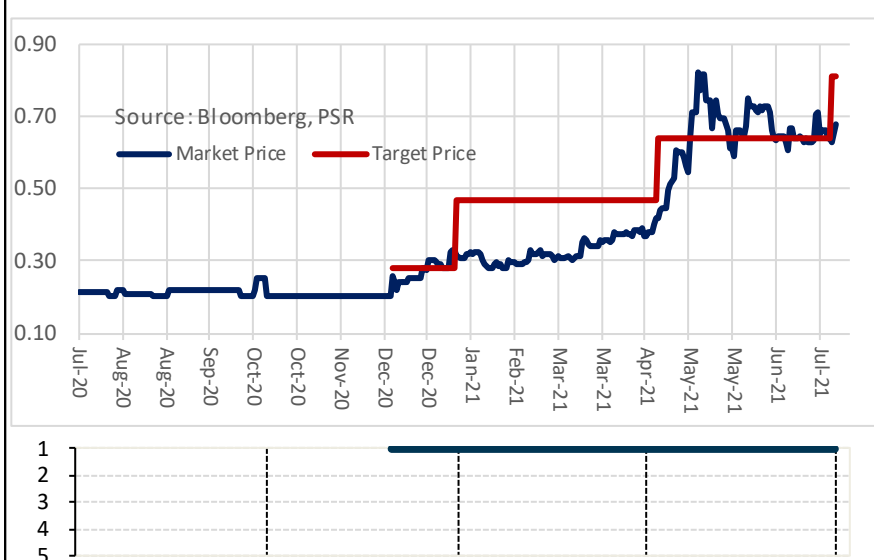
Growth & Margins (%)

Growth					
Revenue	-	25.7%	84.1%	46.1%	2.1%
Gross profit	-	32.6%	111.0%	53.0%	2.1%
EBIT	27560.9%	40.5%	110.9%	68.2%	2.1%
PBT	2006.1%	40.1%	111.3%	64.6%	2.1%
Margins					
Gross profit margin	63.2%	66.7%	76.4%	80.0%	80.0%
EBIT margin	33.0%	36.9%	49.1%	56.5%	56.5%
Net profit margin	23.7%	25.1%	38.2%	44.1%	44.6%

Key Ratios

ROE	77.1%	22.0%	37.7%	44.8%	33.8%
ROA	19.5%	16.5%	30.5%	28.9%	23.9%
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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