



# Fortress Minerals Ltd

Bogged down by weaker iron ore prices

19 January 2022

## SINGAPORE | MINING | 3Q22 RESULTS

- 3Q22 results were below expectations. Revenue and PATMI were at 20%/12% of our FY22e forecast as ASPs were lower than expected.
- 3Q22 sales volume increased 35.3% YoY. Unit costs decreased accordingly.
- Maintain ACCUMULATE with a lower TP of S\$0.50, down from S\$0.51. We lower FY22e PATMI by 29.6%, factoring in weaker iron ore prices and higher operating expenses. We lower ASPs by 8% to US\$110/DMT. Our TP remains pegged to the industry average, which is now 10x FY22e PE, up from 8x previously.

### Results at a glance

USD '000	3Q22	3Q21	YoY	Comments
Revenue	11,053	10,304	7.3%	
- Sales volume (DMT)	126,131	93,246	35.3%	
- Average realised price (US\$/DMT)	87.44	110.06	-20.6%	Iron ore prices weakened in 3Q22
Average unit cost (US\$/WMT)	20.22	25.26	-20.0%	In line with higher production volume
Gross profit	8,247	7,734	6.6%	
PATMI	2,842	4,338	-34.5%	
EPS	0.57	0.87	-34.3%	

Source: Company, PSR

### The Positives

**+ Recovering sales volume.** Iron-ore concentrates sold increased 35.3% YoY in 3Q22. Revenue was lifted by 7.3% YoY, even with weaker iron ore prices in 3Q22.

**+ Higher gross profit margin.** Gross profits increased marginally 6.6% YoY. This was achieved with lower average unit cost, which dropped from US\$25.26/WMT in 3Q21 to US\$20.22/WMT, in spite of ASPs that fell from US\$110.06/DMT in 3Q21 to US\$87.44/DMT, in line with weaker iron ore prices.

### The Negatives

**- Lower PATMI and EPS due to higher operating expenses.** Revenue increased on a YoY basis, but PATMI fell 34.5% due to higher selling and distribution expense and other operating expenses that almost doubled to US\$4.2mn. This was due to higher ocean freight charges for export sales and royalty and commission expenses.

**- Operating cash flow decreased.** Operating cash flow decreased from US\$11.7mn to US\$6.4mn, due to lower profit after tax and higher levels of trade receivables and inventories. Free cash flow also decreased from US\$10.5mn in 3Q21 to US\$4.8mn in 3Q22.

## ACCUMULATE (Maintained)

CLOSING PRICE	SGD 0.440
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.500
TOTAL RETURN	15.9%

### COMPANY DATA

BLOOMBERG CODE:	FMIL SP
O/S SHARES (MN):	500.0
MARKET CAP (USD mn /SGD mn):	163 /220
52 - WK HI/LO (SGD):	0.89 / 0.28
3M Average Daily T/O (mn):	0.26

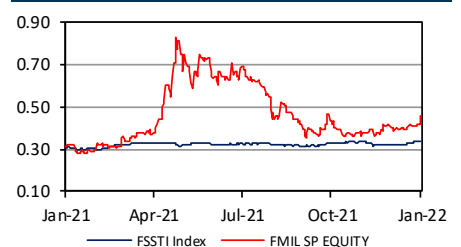
### MAJOR SHAREHOLDERS

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

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	10.0	4.8	11.4
STI RETURN	5.7	4.1	5.3

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Feb, USD (mn)	FY20	FY21	FY22e	FY23e
Revenue	25.9	47.7	50.1	55.1
Gross Profit	17.3	36.5	39.0	44.0
EBITDA	12.2	26.6	29.4	35.1
Net Profit	6.5	18.3	18.5	22.8
EPS (USD cents)	1.3	3.7	3.7	4.6
EPS (SGD cents)	1.8	4.9	5.0	6.2
P/E (x)	24.8	8.9	8.8	7.1
Dividend Yield	1.2%	2.3%	2.3%	2.8%
ROE	22.0%	37.7%	29.2%	28.1%
ROA	16.5%	30.5%	19.1%	19.7%

Source: Company, PSR

### VALUATION METHOD

10x PE Multiple FY22e

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## Outlook

**Demand for iron ore.** According to the World Steel Association, YTDNov21, global crude steel production increased 4.5% to 1.7bn tonnes. However, it has been slowing in 4Q21, led by reduction of steel production in China. According to the China Iron and Steel Association, China's steel output declined in 2021, producing an estimated 1.03bn tons of steel, which is down 3% YoY.

Total steel demand in 2022 is expected to remain at similar level as 2021, with the real estate sector expected to slow down but infrastructure investment is expected to pick up. The concentration rate of steel mills in China is expected to increase, as the smaller steel mills are acquired by the larger ones.

**Supply of iron ore.** Vale, the largest Brazilian iron ore producer, announced on 29 November 2021, that it would produce 315mn-320mn metric tonnes of iron ore in 2021. On January 10 that the company was maintaining its 320mn-325mn metric tonnes guidance for 2022. Rio Tinto, Australia's largest iron ore producer, guided for exports of 320mn-335mn metric tonnes. Iron ore shipments in 2021 totalled 321.6mn metric tonnes.

We are expecting Vale to lead the supply growth of higher grade iron ore, of 65% and above. With the emphasis on energy-consumption standards, we also expect demand for high-grade iron ore to remain resilient.

Iron ore prices have been recovering from November lows, and are expected to remain around US\$150/DMT.

**Figure 1: Iron ore prices have been recovering from November 2021 lows**

Iron Ore 65% Fe CFR North China (US\$/ton)



Source: Bloomberg, PSR

### Maintain ACCUMULATE with lower TP of S\$0.50, from S\$0.51

We have a lower TP of S\$0.50, down from S\$0.51. We lower FY22e PATMI by 29.6%. We factor in weaker iron ore prices, lowering ASPs by 8% to US\$110/DMT and higher operating expenses. Our production forecast remains unchanged. Iron ore prices have recovered from the lows in November 2021, and are trending around US\$150/DMT (Figure 1).

Our TP remains pegged to the industry average, which is 10x, up from 8x (Figure 2).

Figure 2: Industry peers now trading at 10x FY22e 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
BHP Group	12.8%	19.2%	12.5%	46.70	329,170	29.1	16.9	21.8	3.31	12.3%	22.8%	55.3%	5.8
Rio Tinto Ltd	11.9%	8.1%	9.5%	109.65	247,233	25.3	11.4	17.4	2.41	16.6%	40.7%	47.3%	7.5
Vale SA	6.4%	5.4%	8.1%	84.25	78,293	16.2	3.7	5.9	2.27	17.4%	50.9%	35.6%	5.2
Fortescue Metals	9.3%	40.8%	8.0%	20.75	88,956	8.6	18.0	24.2	2.59	24.6%	66.5%	74.1%	3.1
Mineral Resource	30.1%	48.4%	14.9%	64.35	16,921	9.6	24.0	21.5	3.78	6.1%	46.4%	57.2%	4.6
Cleveland-Cliffs	7.1%	3.1%	1.3%	22.05	11,027	-90.4	3.3	3.1	2.76	n.a.	89.8%	3.9%	74.2
NMDC Ltd	3.8%	-11.1%	5.1%	140.05	5,503	6.5	4.5	6.0	1.43	6.4%	21.8%	57.2%	4.3
Mount Gibson Iron	19.7%	1.1%	7.1%	0.46	767	8.6	-20.4	4.6	0.75	6.3%	9.2%	42.8%	5.5
Southern Alliance Mining	5.2%	-11.9%	0.7%	0.71	255	7.2	n.a.	n.a.	n.a.	2.3%	n.a.	52.4%	n.a.
Fortress Minerals	10.0%	4.8%	11.4%	0.44	163	8.9	8.8	7.1	2.85	2.3%	37.7%	56.0%	5.6
	11.7%	16.9%	10.4%			20.04	10.71	15.06	2.82	15.2%	0.4	52.3%	6.9

Source: Bloomberg, PSR (Closing prices as at 18 January 2022)

## Financials

### Statement of Total Return and Distribution Statement

Y/E Feb, (US\$'000)	FY19	FY20	FY21	FY22e	FY23e
<b>Revenue</b>	<b>20,629</b>	<b>25,925</b>	<b>47,718</b>	<b>50,052</b>	<b>55,057</b>
Cost of sales	(7,595)	(8,645)	(11,252)	(11,011)	(11,011)
<b>Gross Profit</b>	<b>13,034</b>	<b>17,280</b>	<b>36,466</b>	<b>39,041</b>	<b>44,046</b>
Administrative expenses	(1,293)	(1,775)	(1,274)	(1,502)	(1,652)
Selling and distribution expens	(5,357)	(2,081)	(4,911)	(6,257)	(6,607)
Other operating income	2,002	687	412	1,502	1,652
<b>EBIT</b>	<b>6,816</b>	<b>9,579</b>	<b>23,420</b>	<b>23,775</b>	<b>29,180</b>
Finance costs	(7)	(43)	(62)	(708)	(991)
<b>Profit before tax</b>	<b>6,809</b>	<b>9,537</b>	<b>23,358</b>	<b>23,067</b>	<b>28,189</b>
Taxation	(1,915)	(3,039)	(5,112)	(4,613)	(5,356)
Minority interest	-	-	(9)	(9)	(11)
<b>PATMI</b>	<b>4,894</b>	<b>6,497</b>	<b>18,254</b>	<b>18,463</b>	<b>22,845</b>

### Per share data

Y/E Feb	FY19	FY20	FY21	FY22e	FY23e
BVPS (US\$ cents)	1.27	5.92	9.70	12.63	16.31
BVPS (S\$ cents)	1.72	8.00	13.09	17.05	22.02
DPS (S\$ cents)	-	0.52	1.00	1.00	1.23
EPS (US\$ cents)	1.17	1.31	3.65	3.69	4.57
EPS (S\$ cents)	1.58	1.77	4.93	4.99	6.17

### Cash Flow

Y/E Feb, (US\$'000)	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
<b>Profit before tax</b>	<b>6,809</b>	<b>9,537</b>	<b>23,358</b>	<b>23,067</b>	<b>28,189</b>
Adjustments	1,330	3,322	3,532	6,293	6,644
WC changes	(811)	(1,608)	(6,811)	4,319	(8,784)
<b>Cash generated from ops</b>	<b>7,328</b>	<b>11,251</b>	<b>20,079</b>	<b>33,679</b>	<b>26,049</b>
Others	(1,034)	(2,063)	(4,093)	(4,613)	(5,356)
<b>Cashflow from ops</b>	<b>6,294</b>	<b>9,188</b>	<b>15,985</b>	<b>29,066</b>	<b>20,693</b>
<b>CFI</b>					
Capex, net	(6,401)	(6,324)	(12,737)	(35,500)	(4,500)
Others	0	147	39	78	280
<b>Cashflow from investments</b>	<b>(6,401)</b>	<b>(6,178)</b>	<b>(12,698)</b>	<b>(35,422)</b>	<b>(4,220)</b>
<b>CFF</b>					
Dividends paid	-	(1,332)	(575)	(3,706)	(4,586)
Loans, net of repayments	(22)	(252)	(30)	21,630	1,200
Others	2,212	7,121	(5,501)	(708)	(991)
<b>Cashflow from financing</b>	<b>2,190</b>	<b>5,537</b>	<b>(6,106)</b>	<b>17,216</b>	<b>(4,377)</b>
<b>Net change in cash</b>	<b>2,084</b>	<b>8,547</b>	<b>(2,818)</b>	<b>10,860</b>	<b>12,096</b>
Effects of exchange rate	5	(434)	376	-	-
<b>Ending cash</b>	<b>2,129</b>	<b>10,243</b>	<b>7,800</b>	<b>18,660</b>	<b>30,756</b>

Source: Company, PSR Estimates

### Balance Sheet

Y/E Feb, (US\$'000)	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Trade and other receivables	3,771	5,536	24,728	20,021	28,630
Cash and bank balances	2,129	10,243	7,800	18,660	30,756
<b>Total current assets</b>	<b>6,339</b>	<b>16,643</b>	<b>33,577</b>	<b>40,453</b>	<b>61,333</b>
Plant and equipment	11,366	13,498	16,605	46,397	44,937
Mining properties	6,973	6,344	6,162	6,207	6,234
Exploration and evaluation :	403	2,322	3,306	3,306	3,306
<b>Total non-current assets</b>	<b>18,742</b>	<b>22,694</b>	<b>26,285</b>	<b>56,121</b>	<b>54,689</b>
<b>Total Assets</b>	<b>25,080</b>	<b>39,337</b>	<b>59,862</b>	<b>96,575</b>	<b>116,022</b>
<b>LIABILITIES</b>					
Borrowings	-	38	653	653	653
Trade and other payables	2,217	2,928	6,272	6,607	6,607
Income tax payable	288	254	1,607	1,607	1,607
<b>Total current liabilities</b>	<b>2,506</b>	<b>8,110</b>	<b>8,732</b>	<b>9,067</b>	<b>9,067</b>
Borrowings	-	34	1,302	22,932	24,132
Lease liabilities	-	150	35	35	35
Deferred tax liabilities	505	1,467	1,385	1,385	1,385
<b>Total non-current liabilities</b>	<b>16,226</b>	<b>1,652</b>	<b>2,722</b>	<b>24,352</b>	<b>25,552</b>
<b>Total Liabilities</b>	<b>18,732</b>	<b>9,761</b>	<b>11,454</b>	<b>33,419</b>	<b>34,619</b>
<b>EQUITY</b>					
Share capital	268	22,463	22,463	22,463	22,463
Retained earnings	5,562	10,728	28,407	43,164	61,422
Reserves	518	(3,616)	(2,453)	(2,453)	(2,453)
<b>Total equity</b>	<b>6,349</b>	<b>29,575</b>	<b>48,409</b>	<b>63,156</b>	<b>81,403</b>
<b>Total equity and liabilities</b>	<b>25,080</b>	<b>39,337</b>	<b>59,862</b>	<b>96,575</b>	<b>116,022</b>

### Valuation Ratios

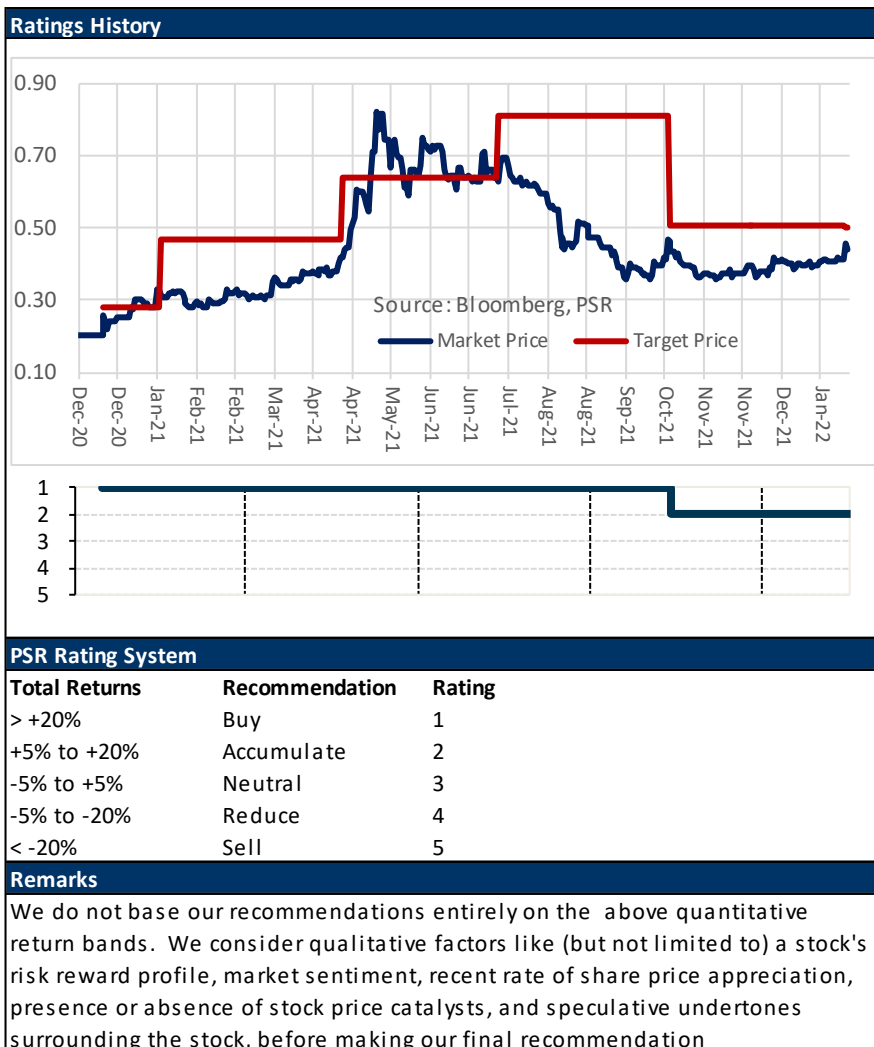
Y/E Feb	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	27.89	24.82	8.93	8.83	7.13
P/NAV (x)	25.26	5.42	3.31	2.54	1.97
EV/EBITDA (x)	12.27	7.55	4.64	3.81	4.81
Dividend yield (%)	-	1.18%	2.27%	2.27%	2.80%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	-	25.7%	84.1%	4.9%	10.0%
Gross profit	-	32.6%	111.0%	7.1%	12.8%
EBIT	-	40.5%	144.5%	1.5%	22.7%
PBT	-	40.1%	144.9%	-1.2%	22.2%
<b>Margins</b>					
Gross profit margin	63.2%	66.7%	76.4%	78.0%	80.0%
EBIT margin	33.0%	36.9%	49.1%	47.5%	53.0%
Net profit margin	23.7%	25.1%	38.3%	36.9%	41.5%

### Key Ratios

ROE	77.1%	22.0%	37.7%	29.2%	28.1%
ROA	19.5%	16.5%	30.5%	19.1%	19.7%
Gearing (%)	Net cash	Net cash	Net cash	7.8%	Net cash



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