



Fortress Minerals Ltd

Lower ore production but outlook turning positive

3 May 2022

SINGAPORE | MINING | 4Q22 RESULTS

- 4Q22 results were below expectations. Revenue and PATMI were at 12%/6% of our FY22e forecasts.
- 4Q22 sales volume decreased 72.2% YoY due to lower operating capacity caused by the spread of the Omicron variant among workers and unfavourable weather conditions.
- Upgrade to BUY with a higher TP of S\$0.66, up from S\$0.50 as we roll over our 11x P/E target to FY23e, and remains pegged to the industry average, up from 10x previously. Our FY23e PATMI has been increased by 20.7% to US\$22.3mn, as we increase our production forecast by 9.5% to 498,032 DMT. Iron ore prices are expected to remain resilient with higher infrastructure spending by the Chinese government, and slower than expected supply growth from Australia and Brazil.

Results at a glance

USD '000	4Q22	4Q21	YoY	Comments
Revenue	5,234	17,339	-69.8%	
- Sales volume (DMT)	41,469	149,367	-72.2%	
- Average realised price (US\$/DMT)	112.82	120.70	-6.5%	Iron ore prices remained resilient
Average unit cost (US\$/WMT)	31.52	20.70	52.3%	Lower production volume
PATMI	1,074	6,076	-82.3%	
PATMI margins	20.5%	35.0%	-14.5ppts	
EPS	0.21	1.22	-82.7%	

Source: Company, PSR

The Positives

+ Stronger cash flows. On a full-year basis, free cash flows surged 113% YoY to US\$15.1mn, largely due to lower trade receivables.

The Negatives

- Lower sales volume. Revenue and PATMI dropped 70% and 83% YoY respectively, due to lower sales volume which dropped 73% YoY. This could be attributed to lower capacity due to the spread of the Omicron variant and unfavourable weather conditions. Revenue and PATMI for FY22 dropped 9% and 21% YoY respectively.

- Net cash to net debt. Fortress Minerals recorded net debt of US\$15.2mn in FY22, as compared to net cash of US\$5.8mn in FY21. This is due to new bank borrowings of US\$23.3mn, mainly used to finance the acquisition of Fortress Mengapur and lower profit after tax recorded in FY22.

Outlook

Demand for iron ore. According to the World Steel Association, YTDMar22, global crude steel production decreased 5% to 458.7mn tons. In 1Q22, China's crude steel production was down 8.4% YoY to 245.0mn tons (Figure 1).

The National Development and Reform Commission has pledged to continue cutting steel output for 2022. According to the China Iron and Steel Association, the country met the target of controlling steel output last year at 1.035bn tons, down 3% YoY. In 2022, steel demand from the real estate sector is expected to slow down but infrastructure investment is expected to pick up.

BUY (Upgraded)

CLOSING PRICE	SGD 0.455
FORECAST DIV	SGD 0.012
TARGET PRICE	SGD 0.660
TOTAL RETURN	47.8%

COMPANY DATA

BLOOMBERG CODE:	FMIL SP
O/S SHARES (MN):	500.0
MARKET CAP (USD mn / SGD mn):	164 / 228
52 - WK HI/LO (SGD):	0.89 / 0.35
3M Average Daily T/O (mn):	0.32

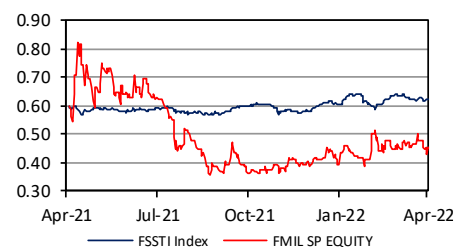
MAJOR SHAREHOLDERS

YF Chee Holdings	43.1%
SDB Mining SDN BHD	31.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.2)	15.2	15.2
STI RETURN	(0.8)	4.4	8.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Feb, USD (mn)	FY21	FY22	FY23e	FY24e
Revenue	47.7	43.4	54.8	60.3
Gross Profit	36.5	33.4	43.3	48.8
EBITDA	26.6	24.5	33.2	38.2
Net Profit	18.3	14.4	22.3	25.5
EPS (USD cents)	3.7	2.9	4.5	5.1
EPS (SGD cents)	4.9	4.0	6.2	7.0
P/E (x)	9.2	11.5	7.4	6.5
Dividend yield (%)	2.2%	1.8%	2.7%	3.1%
ROE	37.7%	25.1%	29.7%	26.8%
ROA	30.5%	15.6%	19.6%	18.7%

Source: Company, PSR

VALUATION METHOD

11x PE Multiple FY23e

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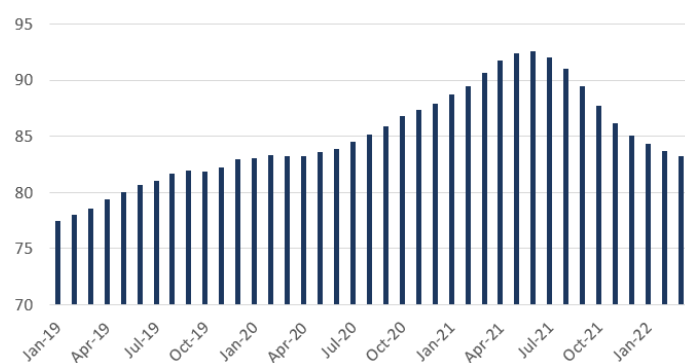
Another factor which would be hampering low-grade iron ore demand growth would be the road to decarbonisation of China’s steel industry. This includes producing more steel from electric arc furnaces (EAF), which could use half as much energy as blast furnaces and only emits 25% of carbon dioxide. In the 14th five-year plan, China has set a goal of EAF-produced steel accounting for 15-20% of national steel output. In 2020, EAF-produced steel only accounted for 9.2% of total steel output. This would support the demand for high-grade iron ore which has less impurities.

Supply of iron ore. To reduce reliance on iron ore imports, China would be increasing their iron ore production levels. YTDMar22, iron ore production was up 19% YoY to 250.5mn tons.

Supplies from the world’s two largest iron ore exporting countries have not been keeping pace. YTDApr22, Brazil iron ore exports was down 8% to 76mn tons. YTDFeb22, Australia iron ore exports was up 2.7% to 135mn tons.

The Russia-Ukraine conflict would have minimal impact on China’s iron ore supply. Imports from these two countries accounted for 2.3% of China’s total iron ore imports, while Australia and Brazil accounted for 62% and 21% respectively.

Figure 1: China steel production maintained at steady levels
12 MMA China Steel Production (mn tons)



Source: Bloomberg, PSR

Figure 2: Iron ore prices have remained resilient
Iron Ore 65% Fe CFR North China (US\$/ton)



Source: Bloomberg, PSR

Upgrade to BUY with higher TP of S\$0.66, from S\$0.50

We have a higher TP of S\$0.66, up from S\$0.50. We increase FY23e PATMI by 20.7%, as we increase our production forecast by 9.5% to 498,032 DMT. Iron ore prices are expected to remain resilient with higher infrastructure spending by the Chinese government, and slower than expected supply growth from Australia and Brazil. We expect prices to trend around US\$150/DMT (Figure 2).

Our TP remains pegged to the industry average, which is 11x FY23e P/E, up from 10x (Figure 3).

Figure 3: Industry peers trading at 11x FY23e P/E

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local Crcy	Mkt. Cap. (US\$ m)	Yr 0	P/E Yr 1	P/E Yr 2	P/B (x)	Dividend Yield	ROE	EBITDA Margin	EV/EBITDA (x)
BHP Group	-5.1%	2.3%	15.7%	47.74	340,964	30.2	15.3	17.9	3.37	14.4%	33.8%	55.3%	4.9
Rio Tinto Ltd	-3.5%	-0.8%	12.7%	112.00	256,050	12.1	13.4	17.9	2.50	18.1%	42.8%	54.4%	3.5
Vale SA	-13.1%	-0.4%	6.8%	82.92	81,510	3.4	4.4	5.7	2.20	17.0%	58.9%	56.1%	2.9
Fortescue Metals	9.2%	11.2%	12.6%	21.17	91,961	8.9	14.7	16.8	2.93	20.0%	58.4%	74.1%	2.7
Mineral Resource	15.9%	8.7%	4.5%	56.65	15,122	8.4	28.1	8.7	3.69	4.4%	27.8%	57.2%	5.2
Cleveland-Cliffs	-20.7%	52.9%	17.1%	25.92	13,601	4.6	4.3	6.9	2.15	n.a.	85.9%	24.4%	4.5
NMDC Ltd	0.9%	16.3%	20.5%	160.35	6,142	7.5	4.9	6.5	1.64	9.2%	21.8%	57.2%	4.3
Southern Alliance Mining	-2.9%	-2.9%	-2.9%	0.68	240	7.1	n.a.	n.a.	n.a.	2.4%	n.a.	52.4%	n.a.
Fortress Minerals	-2.2%	15.2%	15.2%	0.46	164	11.5	7.4	6.5	2.87	1.8%	25.1%	56.5%	6.9
	-3.6%	3.1%	13.3%			11.16	11.35	13.91	2.90	16.0%	0.4	56.8%	4.0

Source: Bloomberg, PSR (Closing prices as at 29 April 2022)

Financials

Statement of Total Return and Distribution Statement

Y/E Feb, (US\$'000)	FY20	FY21	FY22	FY23e	FY24e
Revenue	25,925	47,718	43,366	54,783	60,262
Cost of sales	(8,645)	(11,252)	(9,985)	(11,505)	(11,450)
Gross Profit	17,280	36,466	33,381	43,279	48,812
Administrative expenses	(1,775)	(1,274)	(1,114)	(1,644)	(1,808)
Selling and distribution expenses	(2,081)	(4,911)	(4,799)	(6,574)	(7,231)
Other operating income	687	412	664	1,644	1,808
EBIT	9,579	23,420	19,443	28,487	32,541
Finance costs	(43)	(62)	(788)	(988)	(1,084)
Profit before tax	9,537	23,358	18,655	27,499	31,457
Taxation	(3,039)	(5,112)	(4,275)	(5,225)	(5,977)
Minority interest	-	(9)	(12)	(11)	(13)
PATMI	6,497	18,254	14,392	22,285	25,493

Per share data

Y/E Feb	FY20	FY21	FY22	FY23e	FY24e
BVPS (USD cents)	5.92	9.70	11.46	15.00	19.05
BVPS (SGD cents)	8.00	13.09	15.47	20.25	25.71
DPS (SGD cents)	0.52	1.00	0.80	1.23	1.41
EPS (USD cents)	1.31	3.65	2.88	4.46	5.10
EPS (SGD cents)	1.77	4.93	3.97	6.15	7.04

Cash Flow

Y/E Feb, (US\$'000)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	9,537	23,358	18,655	27,499	31,457
Adjustments	1,330	3,322	3,532	5,498	5,580
WC changes	(811)	(1,608)	(6,811)	5,101	(6,943)
Cash generated from ops	7,328	11,251	20,079	29,254	26,135
Others	(1,034)	(2,063)	(4,093)	(5,920)	(5,225)
Cashflow from ops	6,294	9,188	15,985	23,334	20,911
CFI					
Capex, net	(6,401)	(6,324)	(12,737)	(15,769)	(7,000)
Others	0	147	39	13	104
Cashflow from investments	(6,401)	(6,178)	(12,698)	(36,756)	(4,896)
CFF					
Dividends paid	-	(1,332)	(575)	(3,765)	(4,573)
Loans, net of repayments	(22)	(252)	18,436	2,597	2,397
Others	2,212	7,121	(23,967)	11,544	(788)
Cashflow from financing	2,190	5,537	(6,106)	10,375	(2,965)
Net change in cash	2,084	8,547	(2,818)	(3,047)	13,050
Effects of exchange rate	5	(434)	376	-	-
Ending cash	2,129	10,243	7,800	4,910	17,961

Source: Company, PSR Estimates

Balance Sheet

Y/E Feb, (US\$'000)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Trade and other receivables	3,771	5,536	24,728	7,706	16,607
Cash and bank balances	10,243	7,800	6,911	17,961	35,897
Total current assets	16,643	33,577	17,847	37,003	58,809
Plant and equipment	13,498	16,605	23,394	23,948	26,034
Mining properties	6,344	6,162	41,155	42,906	41,628
Exploration and evaluation	2,322	3,306	3,570	3,570	3,570
Total non-current assets	22,694	26,285	74,264	76,569	77,376
Total Assets	39,337	59,862	92,111	113,572	136,184
LIABILITIES					
Borrowings	-	38	653	6,357	6,357
Trade and other payables	2,217	2,928	6,272	5,739	6,903
Income tax payable	288	254	1,607	378	378
Total current liabilities	8,110	8,732	14,392	15,556	15,523
Borrowings	-	34	1,302	15,758	18,354
Lease liabilities	-	150	35	569	569
Deferred tax liabilities	505	1,467	1,385	3,484	3,484
Total non-current liabilities	1,652	2,722	20,438	23,034	25,431
Total Liabilities	9,761	11,454	34,830	38,590	40,954
EQUITY					
Share capital	22,463	22,463	22,463	22,463	22,463
Retained earnings	5,562	10,728	28,407	39,034	56,747
Reserves	518	(3,616)	(2,453)	(4,196)	(4,196)
Total equity	29,575	48,409	57,281	74,982	95,231
Total equity and liabilities	39,337	59,862	92,111	113,572	136,184

Valuation Ratios

Y/E Feb	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	25.67	9.23	11.45	7.40	6.47
P/NAV (x)	5.61	3.43	2.90	2.21	1.74
EV/EBITDA (x)	12.93	6.11	7.48	5.28	4.18
Dividend yield (%)	1.1%	2.2%	1.8%	2.7%	3.1%

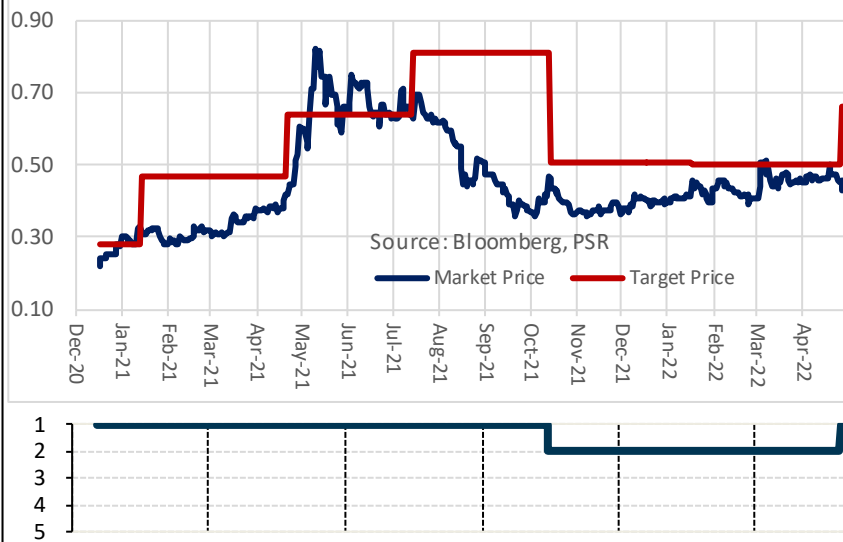
Growth & Margins (%)

	FY20	FY21	FY22	FY23e	FY24e
Growth					
Revenue	25.7%	84.1%	-9.1%	26.3%	10.0%
Gross profit	32.6%	111.0%	-8.5%	29.7%	12.8%
EBIT	40.5%	144.5%	-17.0%	46.5%	14.2%
PBT	40.1%	144.9%	-20.1%	47.4%	14.4%
Margins					
Gross profit margin	66.7%	76.4%	77.0%	79.0%	81.0%
EBIT margin	36.9%	49.1%	44.8%	52.0%	54.0%
Net profit margin	25.1%	38.3%	33.2%	40.7%	42.3%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	22.0%	37.7%	25.1%	29.7%	26.8%
ROA	16.5%	30.5%	15.6%	19.6%	18.7%
Net Gearing (%)	Net cash	Net cash	Net cash	5.5%	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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