Company Update

Mining ▪ Singapore

KGI CHINA DEVELOPMENT FINANCIAL

Fortress Minerals Ltd.

(FMIL SP/ OAJ.SI)

China stimuli to support iron ore prices

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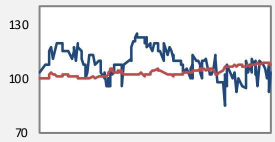
- **Stable margins.** Fortress Mineral reported a better gross profit margin of 68.8% in 1H25, despite a drop in revenue YoY. Net profit margin also improved to 27.1% in 1H25, compared to 23.2% in 1H24. The increase in margins showcased the company's efforts to improve the operational efficiency of its business.
- **China stimuli to support iron ore prices.** Since mid-September, the Chinese government has been introducing a series of economic stimulus measures to boost the economy. These included rate cuts and new monetary facilities, with a focus on increasing investment and consumption. Additional measures to issue more debt and enhance liquidity are expected to ease the financial strains on property and construction companies. This could potentially revive the construction and real estate sectors, providing support for iron ore prices.
- **New crushing plant to be commissioned in FY26.** The company is expanding its production capacity at the Bukit Besi mine with the ongoing construction of a new, more advanced crushing plant. This facility will feature state-of-the-art equipment and technology, strategically designed to support scalable future operations. The plant will be larger and relocated to optimize operational efficiency, reduce costs, minimize manpower needs, and indirectly boost production. It is expected to be commissioned in FY2026.
- Going forward, we continue to anticipate an improving cost structure as the company benefit from economies of scale, alongside the easing of inflationary pressures, as well as lesser costs involved in the expansion of Bukit Besi mine's deposits. We continue to expect the company business to remain stable in FY25 and see sales volume as the company clear their inventory at better iron ore pricings. We maintain an **OUTPERFORM** recommendation and an unchanged target price (TP) at **S$0.40.**

Financials & Key Operating Statistics

YE Feb (US$ m)	2023	2024	2025F	2026F	2027F
Revenue	53.5	53.9	51.3	61.3	63.1
PATMI	12.6	10.5	9.7	12.6	13.5
EPS (cents)	3.2	2.7	2.5	3.3	3.5
EPS growth (%)	-13.3%	-16.7%	-7.9%	30.7%	6.8%
DPS (Sing cents)	0.8	0.6	0.8	0.9	1.0
Div Yield (Y%)	2.9%	2.2%	2.9%	3.2%	3.5%
Net Profit Margin (%)	23.5%	19.4%	18.8%	20.6%	21.4%
Net Debt/ (Net Cash) Geari	15.9%	3.7%	0.5%	(5.7%)	(12.8%)
ROA (%)	13.4%	10.8%	10.2%	12.1%	11.8%
ROE (%)	20.2%	14.5%	12.3%	14.3%	13.8%

Source: KGI Research

Outperform - Company Update			
Price as of 24 Oct 24 (SGD)	0.27	**Performance (Absolute)**	
12M TP ($)	0.40	1 Month (%)	0.0
Previous TP ($)	0.35	3 Month (%)	2.4
Upside, incl div (%)	51.0%	12 Month (%)	2.4
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	141.0		
Issued Shares (mn)	523.0		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg ($mn)	0.0		
Free Float (%)	18.90%		
Major Shareholders		**Previous Recommendations**	
Y F Chee Holdings	41.4%	TP ($), 13 May 24	0.35
SDB Mining Sdn Bhd	29.6%	TP ($), 17 Nov 23	0.3
Greger International	7.2%	TP ($), 30 May 23	46.0%

1H25 results update. The company reported a revenue of US$25.3mn in 1H25, down 17.3% YoY, compared to US$30.6mn in 1H24. Gross profit margin improved to 61.7% as the company benefit from economies of scales on higher and better production capabilities, lowering its average unit cost. Net profit margin also improved to 27.1% in 1H25, compared to 23.2% in 1H24. Sales volume saw a 13.3% decrease to 271.2 thousand DMT in 1H25, compared to 312.9 thousand DWT in 1H24, as the company cut on sales volume and stockpile its processed iron ore at its mine amidst weaker iron pricings. The company aims to clear these stockpiles when iron ore prices display more strength.

Valuation & Action: We maintain an **OUTPERFORM** recommendation and an unchanged TP at **S$0.40,** based on a blended valuation, using discounted cash flow (DCF) with a terminal growth rate of 2% and a WACC of 8.8%, as well as a comparable multiples valuation, using an industry EV/Resource multiple of 3.6x.

Fortress Minerals' ability to generate cash flow to fund its future expansion plans put it at a competitive advantage over its peers. The company also has a strong balance sheet, maintaining a good cash position and debt level. Cash Ratio is at 0.51x and current ratio is at 1.68x. Unit cost is expected to decline going forward as the company reap more economies of scale. We remain upbeat about the company's short-term growth strategies and long-term growth potential.

Risks: Iron ore prices are the key driver of the company's profitability. Despite a recent rally in Iron ore prices, prices shall resume a downtrend if China's manufacturing and construction activities remain in a downturn amidst ineffective monetary and fiscal policy support. A potential global recession is another headwind for iron ore prices.

Upbeat outlook

The Malaysian domestic market remains the key driver of iron ore demand, with the Malaysian Iron and Steel Industry Federation (MISIF) projecting domestic steel consumption to increase to between 8.3mn and 9.0mn tonnes this year. This growth is supported by investments in data centers, the expansion of the semiconductor industry, and infrastructure projects such as the Penang light rail transit.

Malaysia's economy grew by 5.9% in Q2 2024, driven by robust domestic demand and strong export performance. This exceeded the 4.2% growth in Q1 and marked the highest growth rate since early 2023, indicating healthy demand for iron ore. The construction sector experienced a significant increase in activity, growing by 17.3%, while manufacturing output improved to 4.7%, up from 1.9% in Q1. The market anticipates continued strong economic performance in Q3 2024, with GDP growth expected to remain above 5.0%.

Malaysia's upbeat outlook is also supported by Malaysia's Budget 2024, which expects the country to be poised for a 4% - 5% expansion in the upcoming year. This growth is underpinned by the enhanced performance of various subsectors and the accelerated implementation of key infrastructure projects like the East Coast Rail Link (ECRL) and the Rapid Transit Link.

The 2024 budget allocates a significant amount of RM303bn (equivalent to US$64.7bn), which is the largest supply bill ever tabled in Malaysia. Notably, RM90.0bn of this budget is earmarked for development expenditures. The Budget 2024 aims to bolster the government's commitment to fiscal reforms, addressing the challenges posed by a less robust global economic outlook and Malaysia's financial constraints. This comprehensive approach is expected to contribute to an upswing in iron ore demand throughout 2024, aligning with the broader economic expansion envisioned in Malaysia's budgetary plans.

Two new offtake agreements in 1H25. In 1H25, the company secured two new 12-month offtake agreements with an independent third-party domestic steel mill. These agreements cover a total of approximately 552,000 wet metric tonnes (WMT) for the period from 1 July 2024 to 30 June 2025 and will run concurrently. These contracts are expected to positively contribute to the company's FY25 revenue.

New crushing plant to be commissioned in FY2026. The group is steadily expanding its production capabilities at the Bukit Besi Mine. In May 2024, the company commissioned two new ball mills, which are expected to increase the mine's nameplate capacity to 50,000–60,000 tonnes per month, representing a 20% increase from FY2024. These new ball mills complement the ongoing construction of a larger, more advanced crushing plant, equipped with efficient technology to support scalable future operations. The new plant, designed to enhance operational efficiency, reduce costs, lower manpower needs, and indirectly boost production, is scheduled for commissioning in FY2026.

To continue to benefit from a lower cost of sales for the rest of FY25. In FY24, Fortress Minerals experienced an increase in the cost of sales due to the expansion of its Bukit Besi mine, particularly the development of its Valley and West deposits to enhance mineral resources. Looking ahead to FY25, stripping costs related to the mine expansion are expected to decrease as the company gains a clearer understanding of the location of iron ore resources. Additionally, the installation of two ball mills has enabled the company to boost production volumes, capitalize on economies of scale, and lower its unit cost of sales. This trend is anticipated to continue throughout FY25.

Progress in Telupid and Tongod. The company has made significant progress with its exploration projects in Telupid ($40km^2$) and Tongod ($400km^2$). For the Telupid project, Phase 1 (Reconnaissance Survey) and Phase 2 (Prospecting) have been completed, and Phase 3 (Detail Mapping) is currently underway. This phase will soon enable the company to pinpoint specific areas with indications of copper, iron, and gold mineralization. Meanwhile, the Tongod project is in the final stages of Phase 1, with promising progress in identifying large laterite zones that show potential for nickel deposits.

China stimuli to support iron ore prices. Iron ore prices have rebounded since mid-September, rising from around US$90 per tonne in early September to approximately US$105 per tonne currently. This price recovery aligns with broader market movements in China, following the central government's announcement of significant stimulus measures to support the economy. These initiatives include rate cuts aimed at stimulating growth, focusing on increasing consumption and investment. Among the key measures, the People's Bank of China reduced interest rates on existing mortgages by 0.5 percentage points and lowered banks' reserve requirements to encourage lending.

The stimulus package also includes easing borrowing restrictions for stock market investments and lowering the minimum down payment for second homes from 25% to 15%. These steps are expected to boost business confidence and stimulate consumer spending. Additionally, the National Development and Reform Commission (NDRC) reaffirmed plans to introduce a private-sector promotion law, aimed at fostering a favourable environment for private-sector growth and further driving consumption.

These combined measures are expected to reinforce China's economic recovery, which in turn will drive up demand for iron ore, as China is the largest importer and consumer of the commodity. The increased demand is projected to support a sustained rise in iron ore prices.

Fortress Minerals stands to benefit from this upward trend, as higher selling prices for their iron ore concentrates will enhance their financial performance.

Figure 1: 5 Years Iron Ore Spot Price (US$/ton)

Source: KGI Research, Bloomberg

Financial Summary

FYE February					
Income Statement	**2023**	**2024**	**2025F**	**2026F**	**2027F**
Revenues	**53.5**	**53.9**	**51.3**	**61.3**	**63.1**
Cost Of Goods Sold	(15.8)	(20.7)	(20.0)	(22.4)	(22.5)
Gross Profit	**37.8**	**33.3**	**31.2**	**38.9**	**40.6**
Selling General & Admin Exp.	(8.7)	(8.4)	(8.5)	(10.1)	(10.4)
Other Operating Expense/(Income)	(8.7)	(9.5)	(9.9)	(11.9)	(12.2)
Interest Income and Others	(2.8)	(0.8)	0.0	0.1	0.2
Profit Before Income Tax	**17.6**	**14.5**	**12.9**	**17.0**	**18.2**
Income Tax Expense	(5.0)	(3.4)	(3.2)	(4.4)	(4.7)
Net Income	**12.6**	**11.2**	**9.7**	**12.6**	**13.5**
Balance Sheet	**2023**	**2024**	**2025F**	**2026F**	**2027F**
Cash and cash equivalents	5.7	7.7	1.7	6.4	13.2
Inventories	–	–	–	–	–
Trade receivables	3.9	7.2	5.1	6.1	6.2
Other receivables, deposits and prepayments	4.5	4.2	7.0	8.4	8.7
Other current assets	1.7	3.0	3.0	3.0	3.0
Total current assets	**15.8**	**22.0**	**16.8**	**23.9**	**31.0**
Property, plant and equipment	69.5	67.8	68.8	70.0	71.2
Other non-current assets	3.7	4.3	5.0	5.8	6.7
Total non-current assets	**73.2**	**72.1**	**73.8**	**75.8**	**77.9**
Total assets	**89.0**	**94.1**	**90.6**	**99.7**	**109.0**
Trade Payables	1.3	1.2	1.3	1.5	1.5
Other Payables and Accruals	8.8	7.6	7.6	7.6	7.6
Bank Borrowings & Lease Liabilities	7.8	8.2	0.7	0.7	0.7
Other current liabilities	0.1	0.0	0.0	0.0	0.0
Total current liabilities	**17.9**	**17.0**	**9.7**	**9.8**	**9.8**
Bank Borrowings & Lease Liabilities	7.8	2.1	1.4	0.7	–
Other non-current liabilities	5.8	5.9	5.0	6.0	6.2
Total non-current liabilities	**13.6**	**8.0**	**6.4**	**6.7**	**6.2**
Total liabilities	**31.5**	**25.0**	**16.1**	**16.5**	**16.0**
Share capital	22.5	29.0	29.0	29.0	29.0
Other Reserves	8.0	11.4	11.4	11.4	11.4
Retained Earnings	47.7	54.6	61.2	70.4	80.1
Equity Attributable to owners of the Company	**62.2**	**72.2**	**78.8**	**88.0**	**97.7**
Non-Controlling Interest	(0.0)	0.0	0.0	0.0	0.0
Total Equity	**62.2**	**72.2**	**78.8**	**88.0**	**97.7**
Total Liabilities and Equity	**93.7**	**97.2**	**94.9**	**104.5**	**113.8**
Cash Flow	**2023**	**2024**	**2025F**	**2026F**	**2027F**
Profit Before Income Tax	**17.6**	**13.9**	**12.9**	**17.0**	**18.2**
Depreciation & Amort.	5.3	6.4	4.6	5.5	5.7
Other Operating Cash Flows Adjustments	3.5	1.1	(0.1)	(0.2)	(0.2)
Operating cash flows before WC changes	**26.4**	**21.4**	**17.4**	**22.4**	**23.6**
Change in working capital	1.6	(2.4)	(1.7)	(2.7)	(0.4)
Cash Generated from Operations	**27.9**	**19.0**	**15.7**	**19.6**	**23.2**
Income tax paid	(5.4)	(4.6)	(3.2)	(4.4)	(4.7)
Income tax refunded	0.0	0.0	–	–	–
Cash flows from operations	**22.5**	**14.4**	**12.5**	**15.2**	**18.5**
Capital expenditure	(8.8)	(5.3)	(6.3)	(7.6)	(7.8)
Acquisition of a subsidiary	–	–	–	–	–
Proceeds from disposal of plant and equipment	0.0	0.3	–	–	–
Other investing cashflow	(1.4)	(0.5)	0.2	0.3	0.3
Cash flows from investing	**(10.2)**	**(5.5)**	**(6.1)**	**(7.3)**	**(7.5)**
Repayment of bank borrowings	(7.4)	(7.4)	(6.9)	(0.6)	(0.6)
Interest paid on bank borrowings	(1.0)	(0.9)	(0.1)	(0.1)	(0.0)
Repayment of principal portion of lease liabilities	(2.1)	(2.3)	(1.3)	(0.1)	(0.1)
Repayment of interest portion of lease liabilities	–	–	–	–	–
Dividends paid	(2.9)	(3.1)	(3.1)	(3.4)	(3.8)
Other financing cashflow	(0.0)	(0.0)	(0.9)	1.0	0.3
Cash flows from financing	**(13.4)**	**(13.7)**	**(12.3)**	**(3.2)**	**(4.2)**
Net increase in cash	**(1.0)**	**(4.8)**	**(5.9)**	**4.7**	**6.7**
Effect of Exchange Rate Changes	**(0.2)**	**0.2**	**–**	**–**	**–**
Cash and Cash Balance BOP	4.9	3.7	7.7	1.7	6.4
Cash and Cash Balance EOP	**3.7**	**5.7**	**1.7**	**6.4**	**13.2**
KEY RATIOS	**2023**	**2024**	**2025F**	**2026F**	**2027F**
DPS (SGD cents)	0.80	0.60	0.80	0.88	0.97
Dividend yield (%)	2.9%	2.2%	2.9%	3.2%	3.5%
NAV per share (SGD cents)	16.0	18.6	20.3	22.7	25.2
Price/NAV (x)	1.7	1.5	1.4	1.2	1.1
Profitability					
EBITDA Margin (%)	44.6%	38.9%	34.0%	36.5%	37.5%
Gross Profit Margin (%)	70.5%	61.7%	60.9%	63.4%	64.4%
Net Profit Margin (%)	23.5%	19.4%	18.8%	20.6%	21.4%
ROE (ex. Property FV gain) (%)	20.2%	14.5%	12.3%	14.3%	13.8%
ROA (ex. Property FV gain) (%)	13.4%	10.8%	10.2%	12.1%	11.8%
Financial Structure					
Interest Coverage Ratio (x)	18.3	15.4	94.1	185.5	395.4
Net Debt/ (Net Cash) Gearing Ratio (%)	15.9%	3.7%	0.5%	(5.7%)	(12.8%)

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