Fortress Minerals Ltd.

(FMIL SP/ OAJ.SI)

Iron ore prices recovering

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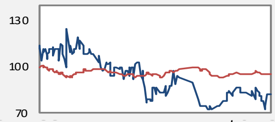
- **Stable 3Q24.** While the company saw a higher average selling price for iron ore concentrates for the quarter, this was offset by a decline in sales volume over the quarter. The company's profitability is also negatively affected by the presence of high inflationary pressures which kept average unit cost elevated. 3Q24 revenue decreased slightly by 3.4% YoY to US$10.9mn, and GPM fell slightly to 66.1%. NPAT dropped 20.9% YoY to US$2.33mn, and NPM dropped to 21.4% in 3Q24 from 26.1% in 3Q23.
- **Rallying iron ore prices.** Iron ore prices have been on a rally since Sep 2023, rising from around US$110/ton to around US$130/ton. China has been rolling out more supportive policies, including a US$137bn infrastructure spending plan. These policies have led to an increase in demand for iron ore and ensuing high prices. However, with China's economy still portraying a gloomy outlook, iron ore prices have retracted slightly since the start of 2024.
- **New agreements with local steel mills.** The company recently announced two new 9-month offtake agreements with an independent third-party domestic steel mill in Malaysia. These agreements are expected to contribute positively to the company's FY24 results.
- Going forward, interest rate cuts are likely to happen in the first half of 2024. We continue to anticipate a reduction in cost as inflationary pressures ease. Higher operational efficiency of the company's CASB mine is also expected to lower unit costs in the longer term. The company should see a decline in costs and expenses going into the calendar year of 2024. We continue to expect the company business to remain stable in 2H23**. We maintain an OUTPERFORM recommendation with an unchanged target price (TP) of S$0.35.**

Financials & Key Operating Statistics

YE Feb (US$ m)	2022	2023	2024F	2025F	2026F
Revenue	43.4	53.5	55.8	79.9	74.2
PATMI	13.9	12.6	14.8	25.9	22.2
EPS (cents)	2.8	2.4	2.8	4.9	4.2
EPS growth (%)	-23.9%	-13.3%	17.7%	74.5%	-14.3%
DPS (Sing cents)	1.0	0.8	0.7	1.2	1.3
Div Yield (Y%)	3.6%	2.9%	2.6%	4.4%	4.6%
Net Profit Margin (%)	32.0%	23.5%	26.5%	32.4%	29.9%
Net Debt/ (Net Cash) Gearing (%)	31.2%	15.7%	6.4%	0.4%	(7.8%)
ROA (%)	15.1%	13.4%	15.1%	22.8%	17.5%
ROE (%)	24.4%	20.0%	20.0%	27.7%	20.3%

Source: KGI Research

Outperform - Company Update			
Price as of 26 Jan 24 (SGD)	0.30	**Performance (Absolute)**	
12M TP ($)	0.35	1 Month (%)	-3.3
Previous TP ($)	0.46	3 Month (%)	13.5
Upside, incl div (%)	22.3%	12 Month (%)	-16.3
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	154		
Issued Shares (mn)	523		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg ($mn)	0.0		
Free Float (%)	17.9%		
Major Shareholders		**Previous Recommendations**	
Y F Chee Holdings	41.4%	TP ($), 30 May 23	0.46
SDB Mining Sdn Bhd	29.6%		
Greger International	7.2%		



3Q24 results update. The company reported a revenue of US$10.9mn in 3Q24, down 3.4% YoY. While the average realised selling price increased to US$93.45/DMT, sales volume for the quarter saw a dip by 11.7%. Due to inflationary pressures, the company saw a higher average unit cost in 3Q24. 3Q24 GPM fell but remained relatively stable at 65.9%. EBITDA fell by 9.4% YoY to US$4.73mn for 3Q24. NPAT dropped by 20.9% YoY to US$2.33mn, and NPM dropped to 21.4% in 3Q24 from 26.1% in 3Q23.

Valuation & Action: We maintain an OUTPERFORM recommendation with an unchanged TP of S$0.35, based on a blended valuation, using discounted cash flow (DCF) with a terminal growth rate of 2% and a WACC of 10%, as well as a comparable multiples valuation, using an industry EV/Resource multiple of 3.6x.

Fortress Minerals' strong balance sheet, low gearing ratio, and ability to generate cash flow to fund its future expansion plans put it at a competitive advantage over its peers. While unit cost is higher YoY due to the high inflationary pressures, we expect it to decrease in the near term as inflation has been cooling down. We are still 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 primary factor driving demand for iron ore in the country. According to Malaysia's Budget for 2024, the country is 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 303 billion ringgit (equivalent to US$64.7 billion), which is the largest supply bill ever tabled in Malaysia. Notably, RM90.0 billion of this budget is earmarked for development expenditures. The Budget 2024 aims to bolster the government's commitment to fiscal reforms, addressing both 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 9-month offtake agreements. The company has just revealed its success in securing two new 9-month offtake agreements with an independent third-party domestic steel mill in Malaysia. These agreements encompass approximately 150,000 WMT and 90,000 WMT of iron ore, respectively, and are set to run concurrently. Anticipated as contributors to the company's positive earnings in FY2024, these agreements mark a significant development.

Steady cash flow expected in 2025. The company has been ramping up the production capacity at the CASB mine to meet robust demand for high-grade iron ore. Following the completion of the integrated plant at CASB mine, the company would be able to generate higher production volumes.

Expecting China to release more policies to boost its economy. Iron ore prices have experienced a recent upswing, reaching approximately US$130 per tonne. This surge can be attributed to China's implementation of more supportive economic measures, including a substantial expenditure of US$137 billion earmarked for infrastructure development. China's economic performance exceeded expectations in 2023, achieving a GDP growth of 5.2%. Nevertheless, uncertainties persist, marked by subdued consumption levels and an ongoing decline in the property market.

Despite the challenges, China's central bank remains committed to implementing policy adjustments to stimulate recovery throughout 2024. This commitment is expected to further reinforce the economic rebound in China, subsequently driving up demand for iron ore—the country being the largest importer and consumer of this commodity. The resultant increase in demand is anticipated to contribute to 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	**2022**	**2023**	**2024F**	**2025F**	**2026F**
Revenues	**43.4**	**53.5**	**55.8**	**79.9**	**74.2**
Cost Of Goods Sold	(10.0)	(15.8)	(17.8)	(20.6)	(21.2)
Gross Profit	**33.4**	**37.8**	**38.1**	**59.3**	**52.9**
Selling General & Admin Exp.	(5.6)	(8.7)	(8.3)	(11.9)	(11.0)
Other Operating Expense/(Income)	(8.3)	(8.7)	(9.1)	(13.0)	(12.1)
Interest Income and Others	(0.8)	(2.8)	(2.8)	(3.3)	(3.1)
Profit Before Income Tax	**18.7**	**17.6**	**17.9**	**31.2**	**26.7**
Income Tax Expense	(4.8)	(5.0)	(3.0)	(5.3)	(4.5)
Net Income	**13.9**	**12.6**	**14.8**	**25.9**	**22.2**
Balance Sheet	**2022**	**2023**	**2024F**	**2025F**	**2026F**
Cash and cash equivalents	6.9	5.7	5.0	3.5	10.4
Inventories	3.1	4.7	4.4	5.1	5.2
Trade receivables	1.3	3.9	2.1	3.1	2.8
Other receivables, deposits and prepayments	6.4	4.5	5.7	8.1	7.6
Other current assets	0.0	1.7	1.7	1.7	1.7
Total current assets	**17.8**	**20.5**	**18.9**	**21.4**	**27.7**
Property, plant and equipment	68.1	69.5	73.5	83.8	88.4
Other non-current assets	6.1	3.9	5.6	8.0	10.2
Total non-current assets	**74.3**	**73.5**	**79.1**	**91.8**	**98.7**
Total assets	**92.0**	**93.9**	**98.0**	**113.2**	**126.4**
Trade Payables	1.0	1.3	1.3	1.5	1.5
Other Payables and Accruals	5.0	8.8	8.8	8.8	8.8
Bank Borrowings & Lease Liabilities	8.3	7.8	3.9	–	–
Other current liabilities	0.8	0.1	0.1	0.1	0.1
Total current liabilities	**15.0**	**17.9**	**14.0**	**10.3**	**10.4**
Bank Borrowings & Lease Liabilities	16.3	7.8	5.8	3.9	1.9
Other non-current liabilities	3.9	5.3	4.1	5.5	5.1
Total non-current liabilities	**20.2**	**13.1**	**10.0**	**9.4**	**7.0**
Total liabilities	**35.3**	**31.0**	**24.0**	**19.7**	**17.4**
Share capital	22.5	22.5	22.5	22.5	22.5
Other Reserves	4.2	7.7	7.7	7.7	7.7
Retained Earnings	38.5	48.2	59.3	78.8	94.3
Equity Attributable to owners of the Company	**56.8**	**63.0**	**74.1**	**93.5**	**109.1**
Non-Controlling Interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total Equity	**56.8**	**63.0**	**74.0**	**93.5**	**109.0**
Total Liabilities and Equity	**92.0**	**93.9**	**98.0**	**113.2**	**126.4**
Cash Flow	**2022**	**2023**	**2024F**	**2025F**	**2026F**
Profit Before Income Tax	**18.7**	**17.6**	**17.9**	**31.2**	**26.7**
Depreciation & Amort.	4.0	5.3	3.7	4.9	4.7
Other Operating Cash Flows Adjustments	0.4	3.5	–	–	–
Operating cash flows before WC changes	**23.1**	**26.4**	**21.5**	**36.1**	**31.4**
Change in working capital	5.5	1.6	0.9	(3.9)	0.7
Cash Generated from Operations	**28.6**	**27.9**	**22.4**	**32.2**	**32.0**
Income tax paid	(5.9)	(5.4)	(3.0)	(5.3)	(4.5)
Income tax refunded	–	0.0	–	–	–
Cash flows from operations	**22.7**	**22.5**	**19.4**	**26.9**	**27.5**
Capital expenditure	(15.3)	(8.8)	(9.3)	(17.6)	(11.5)
Acquisition of a subsidiary	(21.0)	–	–	–	–
Proceeds from disposal of plant and equipment	0.1	0.0	–	–	–
Other investing cashflow	0.0	(1.4)	–	–	–
Cash flows from investing	**(36.1)**	**(10.2)**	**(9.3)**	**(17.6)**	**(11.5)**
Repayment of bank borrowings	(4.9)	(7.4)	(5.5)	(5.5)	(1.9)
Interest paid on bank borrowings	(0.7)	(1.0)	–	–	–
Repayment of principal portion of lease liabilities	(1.5)	(2.1)	(0.3)	(0.3)	(0.0)
Repayment of interest portion of lease liabilities	(0.1)	–	–	–	–
Dividends paid	(3.8)	(2.9)	(3.8)	(6.4)	(6.6)
Other financing cashflow	21.3	(0.0)	(1.2)	1.4	(0.5)
Cash flows from financing	**10.4**	**(13.4)**	**(10.8)**	**(10.8)**	**(9.0)**
Net increase in cash	**(3.1)**	**(1.0)**	**(0.7)**	**(1.5)**	**6.9**
Effect of Exchange Rate Changes	**0.2**	**(0.2)**	**–**	**–**	**–**
Cash and Cash Balance BOP	7.8	6.9	5.7	5.0	3.5
Cash and Cash Balance EOP	**6.9**	**5.7**	**5.0**	**3.5**	**10.4**
KEY RATIOS	**2022**	**2023**	**2024F**	**2025F**	**2026F**
DPS (SGD cents)	1.00	0.80	0.72	1.22	1.26
Dividend yield (%)	3.6%	2.9%	2.6%	4.4%	4.6%
NAV per share (SGD cents)	11.4	12.0	14.1	17.9	20.8
Price/NAV (x)	2.4	2.3	1.9	1.5	1.3
Profitability					
EBITDA Margin (%)	54.1%	44.6%	40.4%	47.0%	44.1%
Gross Profit Margin (%)	77.0%	70.5%	68.2%	74.3%	71.4%
Net Profit Margin (%)	32.0%	23.5%	26.5%	32.4%	29.9%
ROE (ex. Property FV gain) (%)	24.4%	20.0%	20.0%	27.7%	20.3%
ROA (ex. Property FV gain) (%)	15.1%	13.4%	15.1%	22.8%	17.5%
Financial Structure					
Interest Coverage Ratio (x)	24.7	18.3	17.9	21.6	20.0
Net Debt/ (Net Cash) Gearing Ratio (%)	31.2%	15.7%	6.4%	0.4%	(7.8%)

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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