

10 in 10 – Fortress Minerals Limited (SGX Code: OAJ)

10 Questions in 10 Minutes with SGX-listed companies



10 Questions for Fortress Minerals Limited

Company Overview

Fortress Minerals Group is a leading iron ore concentrate producer in Malaysia, renowned for its culture, innovation and ground-breaking development of its mining assets in Malaysia. The Group produces magnetite iron ore concentrate mined from the East, Valley and West Deposits in the Bukit Besi Mine, and is primarily sold to steel mills and trading companies in the People's Republic of China and Malaysia. [Link to StockFacts company page](#)

SGX Code: OAJ	BBG: FMIL SP	RIC: FORR.SI
Market cap on 7 Dec (S\$m)		102.5
Price on 7 Dec (S\$)		0.205
52 wk high/low (S\$)		0.30 – 0.18
12m ADTV (S\$)		31,627
Shares Outstanding (m)		500.0
Float		10.9%
P/E (LTM)		7.2
P/B (LTM)		2.1
Dividend Yield		1.8%

Source: Bloomberg, StockFacts, ShareInvestor (7 Dec 2020)

1. What are Fortress Minerals' competitive strengths in the iron ore mining industry? What is its strategy to manage competition with other players in Malaysia and/or China?

- Fortress emphasises on three main pillars, "Product, Place and People". We focus on producing high-grade magnetite concentrate commanding premium prices, which has seen increasing demand from steel mills. Our Bukit Besi mine has considerable exploration upside potential and is near to our customers, promoting just-in-time supply at greater cost efficiencies. We also have a team of professional and stewards comprising geologists, engineers, managers with extensive experience in the mining industry.
- We believe that we are highly competitive in both the domestic and export markets. To manage this, we are expanding our capacity to meet with continuous high demand from our steel mill customers while expanding our resource base through structural exploration programmes. This enable us to increase our market presence and remain highly competitive.

2. What is unique about Fortress Minerals' iron ore concentrate? What are the qualities that give your product a competitive edge in the market?

- We focus on producing high-grade magnetite concentrate which have strong resilient demand and command premium pricing over lower grades.
- Our high-grade magnetite concentrate has seen increasing demand from regional steel mills, as steel makers seek to reduce their greenhouse gas emissions, placing more emphasis on using high-grade magnetite concentrate to increase blast furnace productivity and reduce emissions.
- We believe our focus on high-grade magnetite concentrates will provide us with the competitive edge in both domestic and export markets.

3. Fortress Minerals has recently entered into an “Off-Take Agreement”. What are the advantages of “Off-Take Agreements”?

- Our new “Off-Take Agreement” announced in October 2020 will allow us to secure sales volume commitment of approximately 400,000 wet metric tonnes (WMT) from a domestic steel mill for a period from 1 September 2020 to 31 August 2021.
- Under this agreement, the pricing will be based on prevailing international market index prices which ensure that Fortress is not disadvantaged in term of pricing.
- The successful execution of this agreement is a testament to the demands for our high-grade iron ore concentrate and of our strong business relationships with our customers. It also demonstrates our operating efficiencies and capabilities to successfully integrate into our customers’ complex value chains to create mutual benefits in term of cost and productivity efficiencies.

4. The Group’s rights to mine, extract, process and sell iron ore from its Bukit Besi Mine is derived from its mining agreement with LTAWNT. These leases are due to expire in early 2033. What is the likelihood of it not being renewed, resulting in the Group losing its rights to operate the mine?

- Currently, Fortress has two long-life tenements with a total land area of 526.2 Ha within Bukit Besi, Terengganu, Malaysia which will be subject to renewals only in 2033, 13 years from today.
- We remain confident that our Bukit Besi’s mining rights could be renewed for a foreseeable future as our management team has extensive working relationships with the local regulatory authorities and the holder of the Mining Leases.
- In addition, we fully comply with rules and regulation which is crucial for our license to operate. This in turn enable our Group to operate without hindrance and allow us to deliver long term sustainable return to our shareholders.



Mining site overview at the Bukit Besi Mine



Product testing – Fortress Minerals’ high-grade iron ore

5. What are the Group’s plans for acquisitions, joint ventures and/or development of new mines?

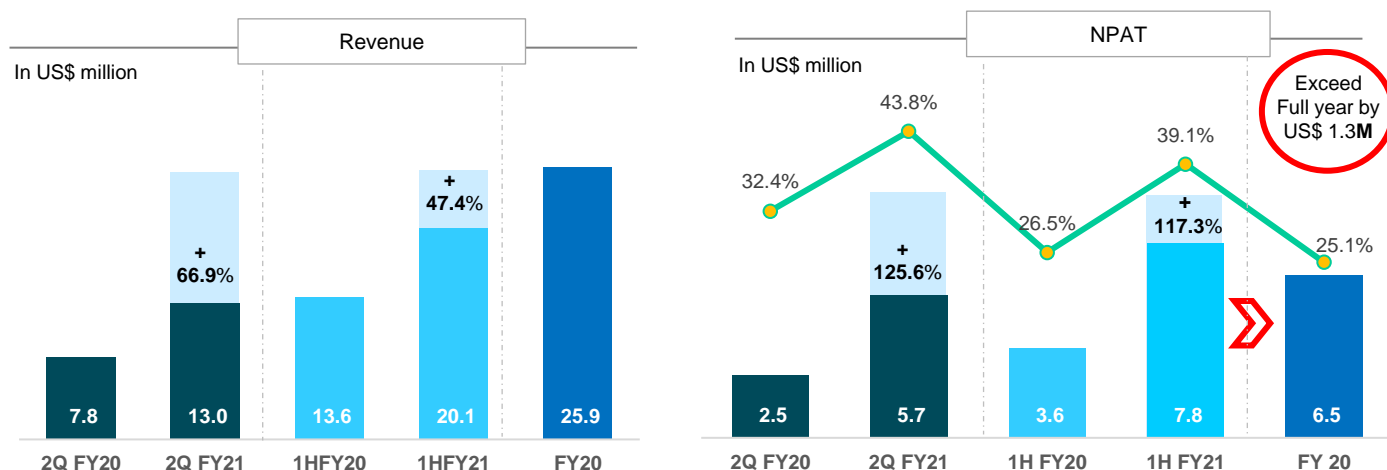
- We are constantly seeking opportunities to acquire or develop joint ventures into new mining assets in Malaysia and the region. Where there are opportunities, our in-house geologist will conduct exploration and evaluation activities.
- Our in-house team of geologists have been evaluating opportunities in iron ore and other minerals both in Malaysia and the region and we will at an appropriate juncture, inform our shareholders via an announcement.

6. What is the outlook for iron ore prices? What impact would these price trends have on your operations?

- Iron ore prices, especially our high-grade iron ore concentrate, have been performing relatively strong over the past months or so primarily due to the strong demand especially from Chinese steel mills.
- While the iron ore price index is determined by market forces, we expect high-grade iron ore concentrate to command a premium over lower grades given its higher iron content and low impurities which enhance steel makers' productivity.
- Since the iron ore price index is beyond our control, our primary focus is to optimise our output and production volume. We continue to expand and increase production throughput efficiency, yielding higher revenues and earnings.

7. Describe Fortress Mineral's recent financial performance.

- We have remained profitable since our listing on the SGX Catalist on 27 March 2019 and we have delivered strong financial results and a solid operational performance. We believe that our strong results underpinned by our ability to sustain production consistently will serve us well in all market conditions.
- In FY2020, our underlying net profit after tax (NPAT) surpassed US\$6.5 million with net profit margin of 25.1% and strong gross profit margin of 66.7%. Revenue growth has been strong at 25.7% YoY reaching US\$25.9 million with 269,615 DMT of high-grade iron ore sold.
- Our stellar results continue into 1HFY2021, with a robust gross profit margin of 75.3%, which translated into record NPAT of US\$7.8 million exceeding full year FY2020 NPAT by US\$1.3 million. Net profit margin for 1HFY2021 was 39.1% with stronger sales achieved and generated a revenue of US\$20.1 million representing 77.7% of full year FY2020's revenue.



8. What is the Group's current dividend policy? Will the Group maintain or change its policy forward?

- As stated in our IPO prospectus, we intended to recommend and distribute dividends of not less than 15.0% and 20.0% respectively of our Group's NPAT in FY2020 and FY2021 subject to dividend factor as described under Dividend policy.
- In FY2020, we distributed S\$2.6 million in dividends equivalent to a payout ratio of 29.30%, exceeding the 15% mentioned for FY2020 in the IPO prospectus.
- For 1HFY2021, no interim dividends have been declared but our Board of Directors remain committed to observe the recommendation published in our IPO prospectus. The Board will continue to monitor the Group's business activities and profitability before making any recommendations.

9. Describe Fortress Minerals' ESG Strategy?

- We aim to create long-term value by safeguarding the sustainability of our operations and garnering support of the communities in which we work.
- Fortress is committed to achieve full compliance in environmental rules and regulations governing our mine operations. In addition, our high-grade magnetite concentrate helps steel mills to reduce emissions by reducing reliance on sintered feed.
- When managing our workforce, we aim to achieve a safe and healthy work environment for our staff. We also promote an inclusive and diverse working culture in our workplaces.
- We strive to improve the quality of life, social and economic development of our communities where we operate. Fortress contributes to the local economy by hiring locals. We also providing regular training on technical, health and safety measures to our staff.

10. What do you think investors may have overlooked about Fortress Minerals' business?

- Since our listing in 2019, we have a track record in achieving strong earnings, cash flows and dividends. We are disciplined in cost management and ensure productivity efficiencies across our operations.
- We produce high-grade magnetite concentrate which command premium prices and have high demand from steel mills.
- In term of resources, our Joint Iron Reserves Committee (JORC) resource estimate expanded to 7.18 million tonnes as of 29 February 2020 despite depleted through production and sales. With our structural and systematic exploration programmes, we are comfortable with the quantity of iron ore resource defined at our Bukit Besi mine.
- The iron ore exploration activities at our Bukit Besi mine has been on-going. We discovered new resource which can replenish our mined resource and add to our new resource for future mining. We have adopted a low-cost exploration strategy to continuously add new resource net of depletion and extend our Bukit Besi mine life since our IPO in March 2019.

In mining, estimate of mineral resources must be done by a recognised consultant. JORC (Joint Ore Reserves Committee) is an Australian mining standard, and IQPR is Independent Qualified Person's Report. Studies of mineral resources must have a cut-off grade i.e. if the mineral content of the ore sample is below a certain percentage, it is not counted. (Source: Investor-One)

Source: Company data



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Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company's management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For company information, visit www.fortress.sg
Click [here](#) for 1H FY2021 Results Presentation

Notes

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