

12 February 2024

Good Production + Cost Control = Strong Quarter; Growth Projects Set to Deliver

NEED TO KNOW

- Core asset Iron Ridge has standout quarter
- Results demonstrate logistics and port capacity
- Growth projects setting up to deliver

Iron Ridge – high-margin profit generator for Fenix (FEX) has a standout quarter: 2QFY24 was outstanding for this flagship asset in the Mid-West region of Western Australia (WA). The mine is a consistent producer, with relatively consistent quarter-to-quarter production and sales volumes. Strength in 2Q was driven by robust iron ore prices, a larger ratio of higher-value lump ore and strong cost control, delivering a A\$102/t cash operating margin vs an average over the life of mine to date cash margin of ~A\$50/t. Cash at 31 December was A\$63m with a further A\$10m received in January.

Logistics and port capacity showcased in this quarter: The strong results from Iron Ridge were aided by the continued strong performance of the logistics business, with 100% ownership driving cost savings. In addition, FEX's port storage and shipping capacity saw third-party shipments for the quarter of ~544kt in addition to the ~353kt of Iron Ridge product, an annualised rate of ~3.5mt.

Growth projects set to deliver: FEX acquired the right to mine 10mt of iron ore from the Beebyn-W11 (BW11) deposit, just 20km from Iron Ridge. Additionally, a 500kt ore purchase agreement from the Twin Peaks iron ore mine has been signed. Workstreams have commenced on BW11 and FEX anticipates first production in CY2024.

Investment Thesis

The high-margin iron ore cash engine lays the platform, Sinosteel deal unlocks both immediate and long-term iron ore production potential: Iron Ridge's resource provides a potential mine life of ~5 years. The acquisition of the right to mine BW11 and ongoing relationship with Sinosteel has the potential to expose FEX to ~300mt of iron ore resources in the Weld Range.

Logistics and infrastructure strength underpin FEX's high-margin operations, underlying iron ore growth and solutions for regional players: FEX's logistics, rail and port infrastructure support a high-margin iron ore business and provide optionality for FEX to have exposure to other high-value commodities. The Mid-West has many projects across a range of commodities which will require low-cost, efficient logistics and infrastructure solutions.

Right commodity, right place, unique position: Iron ore is the key ingredient in manufacturing steel. WA is a Tier-1 mining jurisdiction and long-term reliable supplier of iron ore into the steel industry, particularly to China, Japan and Korea. The Mid-West region has been an integral part of WA's iron ore supply, with its high-grade deposits keenly sought after by steel producers.

Valuation – A\$0.52 Per Share – Fully Diluted

Our valuation of A\$0.52 per share is driven by an equal weighting of our NPV valuation (iron ore and logistics businesses) and our EV/EBITDA valuation set at 3.5x FY24 EBITDA. FEX's current business and recent business development activities are not being appropriately valued by the market, in our view. We see significant future upside to share price and our valuation as FEX delivers on its strategy of extended iron ore production and third-party logistics and infrastructure solutions.

Risks

Key risks include the performance of Iron Ridge, delays to development of BW11, growth projects delayed, cost inflation, iron ore price and exchange rates.

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Equities Research Australia

Metals and Mining

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Fenix Resources (FEX) is a high-grade, high-margin iron ore producer with assets in the Mid-West mining region of Western Australia. The company's 100%-owned, flagship Iron Ridge Iron Ore Mine is a premium direct shipping ore operation located approximately 360km northeast of Geraldton. The mine hosts some of the highest-grade iron ore in Western Australia.

<https://fenixresources.com.au/>

Valuation	A\$0.52 (Unchanged)
Current price	A\$0.245
Market cap	A\$170m
Cash on hand	A\$63.2m (31 December 2023)

Upcoming Catalysts and Newsflow

Period	
Ongoing	Consistent production from Iron Ridge
CY24	Commence production at Beebyn-W11
Ongoing	Further third-party logistics agreements

Additional Resources

[Click Here for Interview with John Welborn - Executive Chairman, Fenix Resources](#)

Share Price (A\$) – 1 Year



Source: FactSet, MST Access.

Year end 30 June

MARKET DATA

Share Price	A\$/sh	0.25
52 Week Low	A\$/sh	0.21
52 Week High	A\$/sh	0.33
Market Cap (A\$m)	A\$m	170
Net Debt / (Cash) (A\$m)	A\$m	(63)
Enterprise Value (A\$m)	A\$m	107
Shares on Issue	m	695
Performance rights and options	m	70
Potential Diluted Shares on Issue	m	765

INVESTMENT FUNDAMENTALS

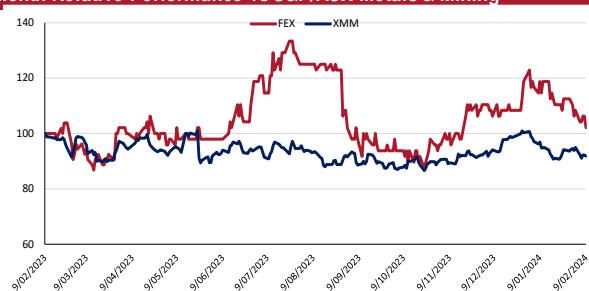
		Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Reported NPAT	A\$m	61	29	45	49	43
Underlying NPAT	A\$m	51	39	45	49	43
EPS Reported (undiluted)	¢ps	11.7¢	4.6¢	6.7¢	7.0¢	6.3¢
EPS Underlying (undiluted)	¢ps	9.8¢	6.2¢	6.4¢	7.0¢	6.3¢
P/E Reported (undiluted)	x	2.1	5.3	3.6	3.5	3.9
P/E Underlying (undiluted)	x	2.5	4.0	3.8	3.5	3.9
Operating Cash Flow / Share	A\$	0.12	0.03	0.07	0.10	0.08
Price / Operating Cash Flow	x	2.0	9.5	3.4	2.4	2.9
Free Cash Flow / Share	A\$	0.11	0.00	0.01	0.10	0.08
Price / Free Cash Flow	x	2.2	61.4	24.1	2.6	3.1
Free Cash Flow Yield	%	45.0%	1.6%	4.2%	39.1%	32.5%
Book Value / Share	A\$	0.21	0.18	0.23	0.29	0.33
Price / Book	x	1.17	1.35	1.09	0.84	0.75
NTA / Share	A\$	0.21	0.18	0.23	0.29	0.33
Price / NTA	x	1.17	1.35	1.09	0.84	0.75
Year End Shares	m	516	634	694	694	694
Market Cap (spot)	A\$m	126	155	170	170	170
Net Cash / (Debt)	A\$m	102	66	71	134	171
Enterprise Value	A\$m	25	89	99	37	(1)
EV / EBITDA	x	1.4x	1.7x	1.3x	1.2x	1.4x
Net Debt / Enterprise Value		(1.0)	(0.6)	(0.7)	(1.2)	(1.6)

PRODUCTION AND PRICING

		Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Iron ore						
Ore shipped - Iron Ridge	kwmt	1,337	1,362	1,406	1,400	1,400
FOB cash cost	A\$/t	88.8	81.5	76.5	76.4	76.7
Ore shipped - Beebyn & other	kwmt	-	-	-	850	1,100
FOB cash cost	A\$/t	-	-	-	79.4	73.0
Realised price (CFR)	US\$/t	108.6	112.7	122.3	111.3	108.4
Logistics						
Haulage volumes	kwmt	-	-	125	1,100	1,350
Shipped volumes	kwmt	-	-	1,565	1,450	1,350
Margin per tonne	A\$/t	n.a.	n.a.	4.7	8.4	8.8

Source: FEX; MST Estimates

12-Month Relative Performance vs S&P/ASX Metals & Mining



Profit & Loss (A\$m)

	Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Revenue	249	197	292	457	487
Expenses	(174)	(133)	(209)	(366)	(410)
EBITDA	75	64	82	91	77
D&A	(6)	(15)	(18)	(21)	(15)
EBIT	69	49	64	70	61
Interest	(0)	(0)	(1)	(0)	1
Tax	(18)	(9)	(19)	(21)	(19)
Underlying NPAT	51	39	45	49	43
Exceptionals	10	(10)	-	-	-
Reported Profit	61	29	45	49	43

Balance Sheet (A\$m)

	Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Cash	102	66	71	134	171
Receivables	7	16	28	28	28
Inventory	9	8	8	8	8
PP&E	26	85	114	96	85
Exploration	1	1	1	1	1
Other	6	0	5	5	5
Assets	151	177	228	273	298
Creditors	20	22	22	22	22
Debt	-	-	-	-	-
Other	23	40	49	49	49
Liabilities	43	62	71	71	71
Shareholder's Equity	108	115	157	202	227

Cashflow (A\$m)

	Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Receipts from Customers	247	193	280	457	487
Payments to suppliers and employees	(175)	(148)	(207)	(366)	(410)
Interest Received	0	1	(1)	(0)	1
Other	(11)	(30)	(22)	(21)	(19)
Net Cash From Operations	62	16	51	70	59
Capex	(7)	(4)	(29)	(3)	(4)
Exploration	(0)	(0)	-	-	-
Other	1	(10)	(15)	-	-
Net Cash From Investing	(5)	(14)	(44)	(3)	(4)
Equity	0	-	-	-	-
Borrowings	-	-	-	-	-
Dividend	(24)	(28)	(13)	(4)	(18)
Net Cash From Financing	(24)	(28)	(13)	(4)	(18)
Effects of FX	(0)	0	-	-	-
Net Increase / (Decrease) in Cash	33	(25)	(6)	63	37

December Quarter – A Standout for Iron Ridge

2QFY24 was a standout quarter for FEX's flagship asset, the Iron Ridge iron ore mine in the Mid-West region of Western Australia (WA). Results came in ahead of MST estimates across the majority of key metrics. We have not changed our FY24 estimates at this stage but see upside risk to them.

Figure 1: Comparing actuals with MST estimates

Production Summary	Units	2Q23	3Q23	4Q23	1Q24	2Q24		% difference vs.	
		Act	Act	Act	Act	Act	MSTe	QoQ	MSTe
Physicals									
Ore mined	kt	417	327	362	368	355	350	(4%)	1%
Ore produced	kt	365	327	343	434	299	350	(31%)	(15%)
Ore hauled	kt	335	332	353	386	355	350	(8%)	1%
Ore sold	kt	299	351	352	352	353	350	0%	1%
Lump proportion of sales	%	44%	43%	40%	47%	59%	47%	24%	25%
Third party shipments	kt	-	-	-	196	544	350	177%	55%
Financials									
C1 cash cost (FOB)	A\$/wmt	77.8	83.9	79.6	75.9	78.2	74.3	3%	5%
Realised price (FOB)	A\$/dmt	120.7	159.8	145.8	151.5	185.0	167.7	22%	10%
Margin (pre-QP & hedging)	A\$/dmt	36.9	71.1	59.9	70.3	102.0	89.3	45%	14%
Platts 62% benchmark (CFR)	US\$/dmt	99.0	125.5	111.0	114.0	128.3	125.0	13%	3%
Realised price (CFR)	US\$/dmt	101.0	126.8	116.3	116.4	137.8	125.0	18%	10%
Realisation of benchmark	%	102%	101%	105%	102%	107%	100%	5%	7%

Source: FEX, MST estimates.

A detailed look at the quarter

Figure 2: Iron Ridge mine – key performance highlights

Key Metric	Units	Dec Qtr FY 24	Sep Qtr FY 24	Jun Qtr FY 23
Ore Mined	kwmt	355.0	367.9	362.1
Lump Product Sales	kwmt	207.0	166.0	142.0
Fines Product Sales	kwmt	146.0	186.0	210.0
Total Product Sales	kwmt	353.0	352.0	352.0
Average CFR Price Realised	US\$ /dmt	137.8	116.4	116.3
62% Fe Benchmark Average	US\$ /dmt	128.3	114.0	111.0
Average CFR Price Realised	A\$/dmt	212.0	177.7	174.0
Average FOB Realised Price A\$	A\$/dmt	185.0	151.5	145.8
C1 Cash Cost	A\$/wmt	78.2	75.9	79.6

Source: FEX.

Production rates – consistent as ever

The Iron Ridge Mine has an orebody that is relatively simple to mine, enabling consistent levels of production. Since production began, Iron Ridge has been mining at a rate of ~1.3mtpa. 2QFY24 saw 355kt (1.4mt annualised) mined, vs. 368kt in the previous quarter.

The consistency and high grade of the ore body was demonstrated by a 64.2% Fe grade for lump ore (64.7% Fe previous quarter) and 63.1% Fe fines grade (63.4% Fe previous quarter).

Ore shipped – higher levels of more valuable lump ore coming through

2QFY24 saw 353.0kt of ore shipped (previous quarter 352.4kt). The key to this quarter was the higher ratio of higher-value lump ore consisting of 58% of shipments. This compares to a ratio of lump to total shipments of 46% over the life of the project to date (and compares with original expectations of 25%). FEX has seen the orebody improve in grade and quality over time and expects the lump ratio to be around the 45% level for the remainder of the mine life.

Iron ore pricing remains robust – a strong quarter; hedging in place

FEX's iron ore prices are determined relative to the 62% Fe fines CFR¹ benchmark. With higher-grade fines and lump ore, FEX receives a premium price for its products. FEX's average realised price for the quarter was US\$137.80/t CFR, compared to an average benchmark price of US\$128.30/t. The premium represents US\$3.17m for the quarter.

Current iron ore prices remain robust with an average benchmark price of US\$137 for January 2024 and a spot price of US\$127, compared to the December quarter average of US\$128.

FEX has adopted a hedging strategy to reduce price risk and advantageously hedge during periods of high iron ore prices. The hedging strategy secures a strong positive cashflow margin on a base level of production whilst maintaining positive exposure to spot iron ore prices. FEX's remaining hedge book for FY24 is 50,000 tonnes per month from January to June 2024 at a fixed price of A\$170.25 per tonne, representing slightly less than 50% of planned production from Iron Ridge. During the quarter, iron ore prices increased by 13%. FEX paid a total of ~A\$4m to settle three hedging contracts (September 2023, October 2023 and November 2023).

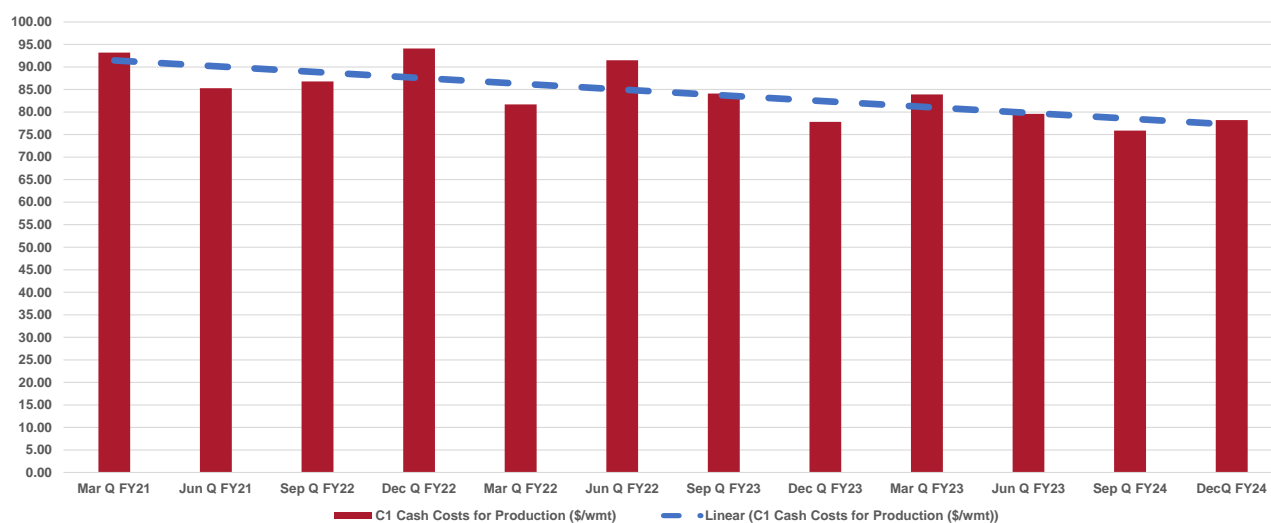
Cost control remains a strong point for FEX

FEX has focused on keeping costs low and, over the life of the project, has demonstrated its ability to bring operating costs down (see Figure 3). December-quarter C1 cash costs were A\$78.20, vs. A\$75.90 in the September quarter and A\$79.60 in the June quarter.

Continued inflationary pressure in WA has increased costs generally, and the Iron Ridge mine had a slightly higher stripping ratio this quarter compared to last quarter, pushing costs up. This was partially offset by the first full quarter of 100% ownership of Fenix Newhaul logistics, particularly through reduced administration and management costs.

In the short term, FEX expects is expecting inflation to run at or around 5%. The company intends to offset this by future cost savings through further logistics improvements. Longer term FEX is focused on overall cost reduction rather than cost stability, with the company indicating that it believes the best way will to increase production volumes and spread fixed cost over more tonnes.

Figure 3: Iron Ridge mine – costs have continued to come down over time



Source: FEX.

¹ CFR indicates the landed price in China, inclusive of shipping. Average shipping rates for the quarter were US\$17.50/t.

Logistics and port services showcased this quarter

FEX acquired Mount Gibson's rail and port assets in July 2023, which alongside FEX's 100% ownership of existing trucking and port assets give the company a total 'mine-to-port' solution. These assets are pivotal in supporting the low-cost, high-margin iron ore business and allow FEX to provide efficient transportation and port solutions for its own iron ore growth.

The December quarter showcased the value of the logistics and port assets, with full ownership of Fenix Newhaul contributing to a structurally lower cost base.

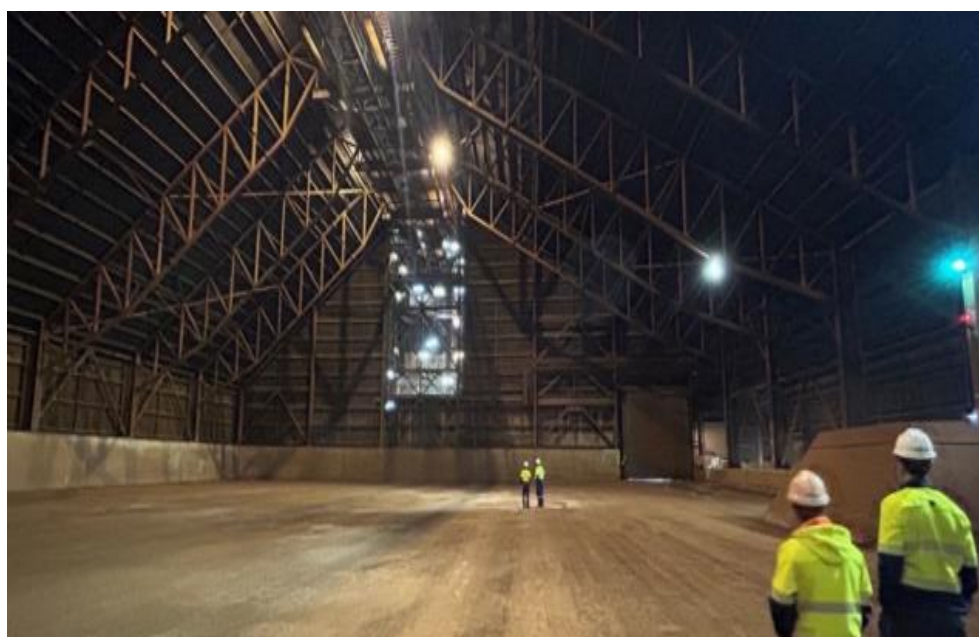
FEX set a record of shipping a total of 897,604 wmt of iron ore during the quarter via the company's on-wharf storage facilities at Geraldton Port. This consisted of 353,376 wmt of product from FEX's Iron Ridge mine and 544,228 wmt of product on behalf of third-party customers including shipments on behalf of CuFe Limited. The shipping rate represented an annualised rate of 3.5mt.

Figure 4: FEX port assets



Source: FEX.

Figure 5: Geraldton Port shed



Source: FEX.

Iron Ore Growth Projects Set to Deliver

FEX has 3 key iron ore growth projects:

- the right to mine 10mt of iron ore from the Beebyn-W11 (BW11) deposit, just 20km from Iron Ridge
- a 500kt ore purchase agreement from the Twin Peaks Iron ore mine
- the Shine Iron ore mine, acquired from Mount Gibson.

Focus on Beebyn-W11 – first production targeted CY2024

Recap of the right to mine

In October 2023, FEX secured the exclusive right to mine and export up to 10m dry metric tonnes of iron ore from Sinosteel's (SMC) high-grade BW11 iron ore deposit in the Weld Range. (Sinosteel's Weld Range Iron ore assets have a resource of ~300mt.) The BW11 deposit is located only 20km from FEX's current mining operations at the Iron Ridge Iron Ore Mine, allowing for FEX to achieve significant operational synergies for future mining activity and to use its own existing infrastructure and regional transport and logistics capabilities.

The form of the right to mine gives FEX:

- 100% control of all mining and export activities
- the right to take 100% of net profits after the payment of royalties to SMC
- the right to mine and sell up to 10m dry metric tonnes of ore from BW11 within 10 years of commencement.

Current status of the right to mine

FEX started to progress the required approvals and commenced a number of workstreams during the quarter. The company expects to submit a mining proposal to bring BW11 into production in CY24 as an additional source of product for the company.

Work on BW11 has included:

- environmental assessments and requisite monitoring commenced
- preparation commenced of more detailed mine design, production sequence and schedule
- a potential haulage route and required road construction assessed
- truck and trailer build slots secured and orders for new loaders placed
- accommodation and workshop options evaluated
- initial engagement with the Wajarri Yamaji to secure Native Title approval
- engagement with responsible parties and land owners to meet land requirements
- a scoping study on the project commenced.

500kt ore purchase agreement Twin Peaks Iron Ore Mine – haulage of ore commenced

The agreement involves the purchase of 500,000 tonnes of high-grade hematite iron ore from the Twin Peaks Direct Shipping Iron Ore Project in WA.

10M will supply the ore from the Woolbung Peak deposit, and FEX will handle haulage, storage, port services, ship loading, marketing and sales.

Fenix-Newhaul has commenced haulage of ore from Twin Peaks to Fenix Port Services' on-wharf storage sheds at Geraldton Port. FEX made an up-front cash prepayment of A\$5m during the quarter, repayable in instalments approximately equivalent to A\$1m per 50,000 tonne shipment of ore from Twin Peaks. The Twin Peaks ore purchase provides an immediate boost to FEX's iron ore production and revenues, with first shipment of iron ore from Twin Peaks expected in the first half of CY2024.

Shine Iron Ore Mine – blending options the key

FEX acquired the Shine Iron Ore Mine in July 2023. Shine is currently on care and maintenance and has a Mineral Resource Estimate of 15 million tonnes at 58%. Shine represents an attractive growth opportunity for FEX, with similar mining scale and operational characteristics to Iron Ridge and the potential to leverage the company's haulage and logistics capabilities and provide blending options.

Recapping Our Investment Thesis: Uniquely Positioned for Growth; Valuation of A\$0.52/Share

Company overview: a unique, high-quality asset base

FEX operates a unique, fully integrated mining and logistics business. High-quality iron ore products are transported by road to Geraldton using the company's 100%-owned Fenix-Newhaul haulage and logistics business. FEX also operates its own loading and storage facilities at the Geraldton Port with storage capacity of 400,000 tonnes and loading capacity of more than 5mtpa.

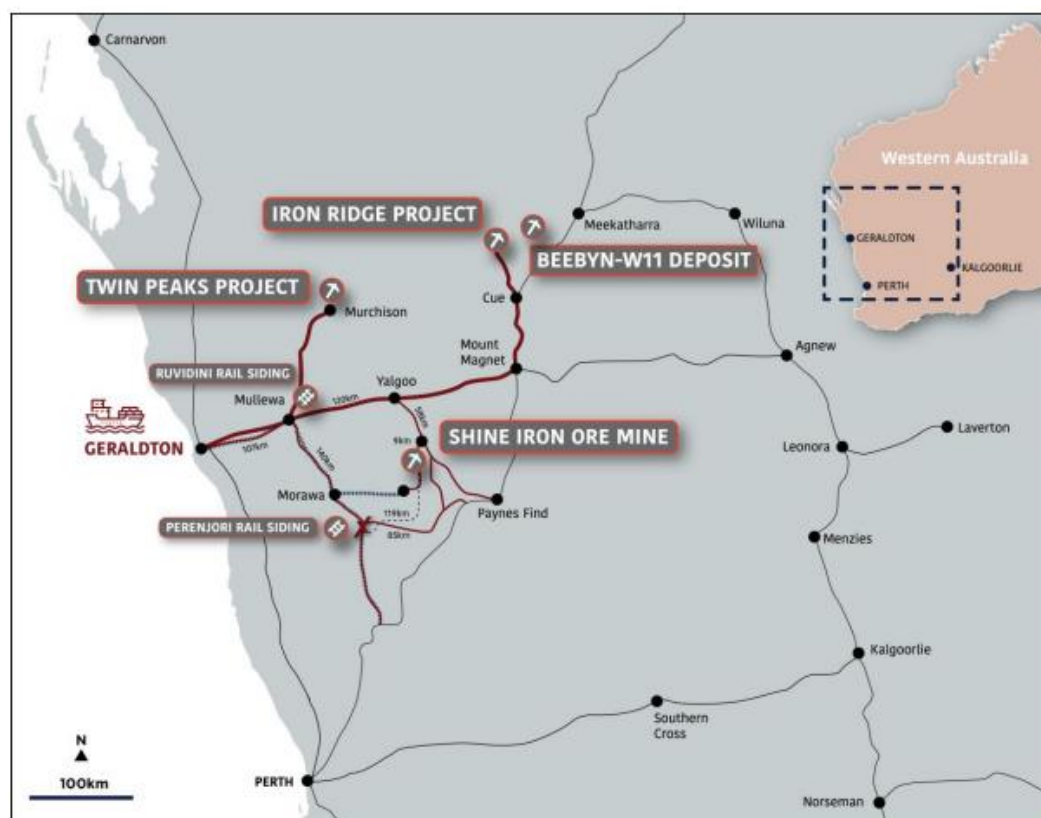
FEX's **iron ore assets** include:

- Flagship Iron Ridge mine
- right to mine 10mt of iron ore at Sinosteel's Mt. Weld Beebyn-W11
- Twin Peaks Iron Ore Mine – right to purchase 500kt
- Shine iron ore mine.

FEX's **logistics assets** include:

- trucking: 30 x 200-tonne quad road trains
- port: warehouse storage capacity of ~400,000 tonnes and on-wharf ship loading infrastructure with in-loading access via truck or rail and access to Berths 4 and 5 for ship loading at Geraldton Port
- rail: 2 rail sidings with access to the main Mid-West rail network connecting to Geraldton Port.

Figure 6: FEX's iron ore and logistics assets



Source: FEX.

Strong cash generation, Sinosteel deal, dominant logistics position set up FEX for immediate and long-term growth

Iron ore cash generation and strong cost control – laying the groundwork

Iron Ridge's resource provides a potential mine life of ~5 years. Iron Ridge began production in December 2020 and has produced >3mt of iron ore at a consistent run rate of 1.3mtpa. FEX's robust financial position has been driven by consistent cash generation and strong cost control (cash at A\$63.2m as at December 2023), with average A\$50/t margins over the life of the asset. The platform has been built for the company to grow its iron ore production and unique truck, rail and ports business.

FEX's iron ore is high quality, with a greater than 63% Fe content, putting it amongst the highest-grade iron ore exported from Australia. The Mineral Resource Estimate (MRE) is 6.6mt @ 65.1% Fe.

Sinosteel deal opens up immediate and long-term iron ore growth potential

The acquisition of a right to mine 10mt from Sinosteel's high-grade Beebyn-W11 (BW11) deposit has the potential to provide FEX exposure to a portion of the 300mt high-grade iron ore resource contained within the greater Weld Range project, sufficient to support over 25 years of production. BW11 is ~20km from Iron Ridge and geologically similar. FEX intends to commence production from BW11 during 2024, significantly boosting production and cash flows. Production would use the same conventional mining methods as currently deployed at Iron Ridge. This right to mine and ongoing relationship with Sinosteel has the potential to grow long-term iron ore production and provide low-cost mine-to-port logistics.

Logistics and infrastructure strength provides for growth, unlocks regional options

FEX acquired Mount Gibson's rail and port assets in July 2023, which alongside FEX's existing trucking and port assets give it a total 'mine-to-port' solution. These assets are pivotal in supporting the low-cost, high-margin iron ore business and allow FEX to provide efficient transportation and port solutions for its own iron ore growth.

The Mid-West region of WA hosts a diverse array of mining projects at various stages of development, many in need of cost-effective transportation solutions. Leveraging FEX's logistics and infrastructure capabilities, FEX can offer efficient, low-cost services to third parties, facilitating the seamless movement of products from mine to port and unlocking their projects. This approach positions FEX to expand its logistics business, optimise its assets at the Geraldton Port, and boost cash flow and profitability. A key demonstration of this is the recent signing of the 500kt iron ore purchase agreement with 10M Pty Ltd, allowing a 'stranded asset' the capacity to ship ore and generate revenue.

Furthermore, the integration of transport solutions may provide opportunities for FEX to participate in regional projects and additional commodities on favourable terms.

WA's Mid-West – a Tier-1 mining jurisdiction

FEX's operations are situated in WA's Mid-West region, a Tier-1 mining jurisdiction. The region boasts substantial high-grade iron ore deposits, numerous operational gold mines, ongoing exploration projects, base and battery metals and industrial minerals. Modern infrastructure (well-developed road networks, railways and ports) facilitates the efficient transportation and export of mined products. Of particular significance is the coastal city of Geraldton, which hosts a crucial deep-water port that plays a vital role in exporting the region's mining products to international markets.

Iron ore – the most crucial input to steel

FEX's key product is iron ore. The Mid-West has been an integral part of WA's iron ore supply to international markets, and its high-grade products are eagerly sought after by steel producers.

Iron ore is the primary raw material used in the production of steel, one of the most widely used materials in construction, manufacturing, and infrastructure. Iron ore is a globally traded commodity, and its production and export have a significant impact on the global economy.

China is the world's largest steel producer due to the scale of its manufacturing industry and many construction and infrastructure projects, as well as its rapid urbanisation and substantial manufacturing exports. China's enormous steel output and iron ore consumption exert a substantial influence on global steel and iron ore markets. Japan, Korea, India and Europe also have extensive steel industries.

In the last 3 years, the benchmark 62% Fe price has remained above US\$100/t for all except for approximately 2 months in total, where the lowest price it hit was US\$74/t.

ESG: doing the right thing – greening steel, benefitting communities

Environmental: The steel industry currently contributes to ~8% of global carbon emissions. FEX's iron ore is exceptionally high grade with very low impurities and can supply low-carbon electric arc furnaces, resulting in lower emissions. The steel industry is highly focused on reducing its carbon footprint, and high-quality iron ore is a key input to achieving that goal. Solar-powered Iron Ridge infrastructure includes a weighbridge, telecommunications towers and water transfer pumps.

Social: The Iron Ridge project has generated >200 new full-time jobs and is a partner in Mid-West initiatives relating to sponsoring local business as well as Chamber of Commerce initiatives.

Recent events

- February 2024 – Standout quarter for Iron Ridge
- November 2023 – Foundation Port Services customer; 500kt ore purchase agreement
- October 2023 – Appointment of John Welborn and Craig Mitchell as Executive Directors; acquisition of right to mine up to 10mt of iron ore from BW11 deposit
- September 2023 – Sale of Extension Hill assets and environmental liabilities
- July 2023 – Completion of Mount Gibson iron ore and ports assets acquisition
- June 2023 – 3mt milestone achieved

Key catalysts for share price and valuation

- Continued strong performance of Iron Ridge
- Commencement of the BW11 Project
- Further iron ore acquisitions
- Logistics and infrastructure business growth
- Further transactions with regional producers – including other commodities
- Exploration success around Iron Ridge
- Iron ore price appreciation

Key risks to our view

We note that the risks outlined below are mitigated by a strong management team, tight cost control, financial management and a dominant position in Mid-West logistics and infrastructure.

- Performance of Iron Ridge and maintaining high margins
- Delays to development of BW11
- Growth projects not going ahead or being slowed
- Cost inflation
- Licence to operate
- Health and safety
- Iron ore price
- Foreign exchange rates

Valuation: A\$0.52/Share – Blended DCF and EV/EBITDA

We retain our blended valuation for FEX of A\$0.52 per share, based on a 50:50 weighting of our DCF-derived NPV and our EV/EBITDA valuations. This methodology balances the short-term earnings and commodity price outlook for FEX's existing businesses with the medium- to long-term, through-the-cycle free cash flow generation of the company's assets at long-run commodity prices over the remaining reserve life. Our valuation implies ~100% upside to the current share price.

FEX has pursued some very significant business development opportunities in the last ~6 months since acquiring the Mid-West iron ore and port assets from Mount Gibson. These new opportunities have the potential to create significant value for the business and have not been appropriately valued by the market, in our view.

DCF-based net asset valuation: A\$0.52/share (50% of our base case)

We value FEX using DCF methodology across the company's key assets, net of cash, debt, and including other assets/liabilities. We apply a discount rate of 10.0% (nominal WACC) to life-of-mine/project cash flows. We include Iron Ridge, Beebyn, and the logistics business.

Key assumptions

- **Iron price:** long-run iron price of US\$100/t (2023 real \$)
- **Forex:** AUD/USD of 0.70
- **Iron Ridge:** 1.4Mwmtpa of shipments, C1 cash cost of A\$73/wmt, mining to the end of 2027 (~4 years life remaining)
- **Beebyn:** A\$25m capex, first production late 2025, ramping up to 1.1Mwmtpa of shipments for ~10 years, C1 cash cost of ~A\$73/wmt
- **Logistics:** We include growth in third-party logistics volumes (including Beebyn and the 10M ore purchase agreement) to ~2.5-3.0Mwmtpa hauled and shipped, at an average blended margin of A\$15.0/t (25% EBITDA margins). We discount these cashflows over the next ~10 years with no terminal value, although we highlight that the strategic and financial value of FEX's logistics assets may extend far beyond this.

Figure 7: DCF-based NPV valuation for FEX

DCF Valuation			Jun-24	
	Discount rate	A\$m	A\$/sh	
Iron Ridge	10.0%	115	0.16	
Beebyn	10.0%	101	0.14	
Logistics & other	10.0%	110	0.15	
Total operating assets		325	0.45	
Corporate	10.0%	(35)	-0.05	
Net cash/(debt)		99	0.14	
Provisions		(12)	-0.02	
Net Asset Value		378	0.52	

Source: MST Access.

EV/EBITDA valuation: A\$0.53/share at 3.5x FY24 EBITDA (50% of our base case)

We use a sum-of-the-parts (SOTP) valuation approach to valuing the two distinct earnings streams as FEX develops both its iron ore and logistics businesses. We apply a 3.0x multiple to iron ore EBITDA, and a 8.5x multiple to logistics EBITDA to account for the expected growth in that business despite limited contribution in FY24. This results in a combined EV/EBITDA target multiple for the group of 3.5x FY24 EBITDA (see Figure 8). This compares to peers as shown in Figure 9.

Figure 8: FEX EV/EBITDA valuation

EV/EBITDA valuation			Jun-24
	A\$m		A\$/sh
EBITDA	1H 24	2H 24	
Iron Ridge	48	40	0.12
Beebyn	0	0	0.00
Logistics services	1	6	0.01
Corporate/SG&A/hedging	-7	-7	(0.02)
Total next twelve months (NTM)	83		0.11
Multiple	3.5x		
Enterprise value	289		0.40
Net cash/(debt)	99		0.14
Equity value	389		0.53

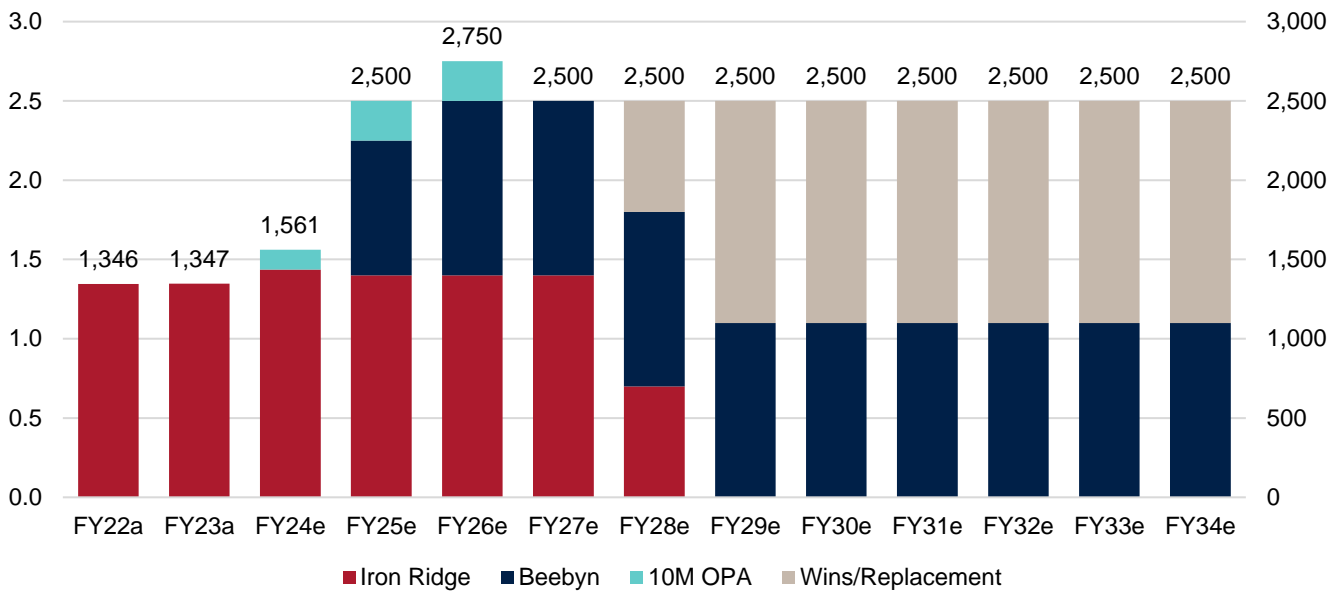
Source: MST Access.

Figure 9: Peer group EV/EBITDA valuation multiples

Iron ore			Mining services & logistics		
Ticker	EV A\$m	EV/FY24 EBITDA	Ticker	EV A\$m	EV/FY24 EBITDA
FMG	91,538	6.3	SVW	17,515	9.6
CIA	4,284	4.6	QUB	7,021	13.9
MGX	492	1.2	DBI	3,173	11.5
GRR	255	n.a.	MLG	144	2.8
			NWH	1,251	4.3
Average		4.0	Average		8.4

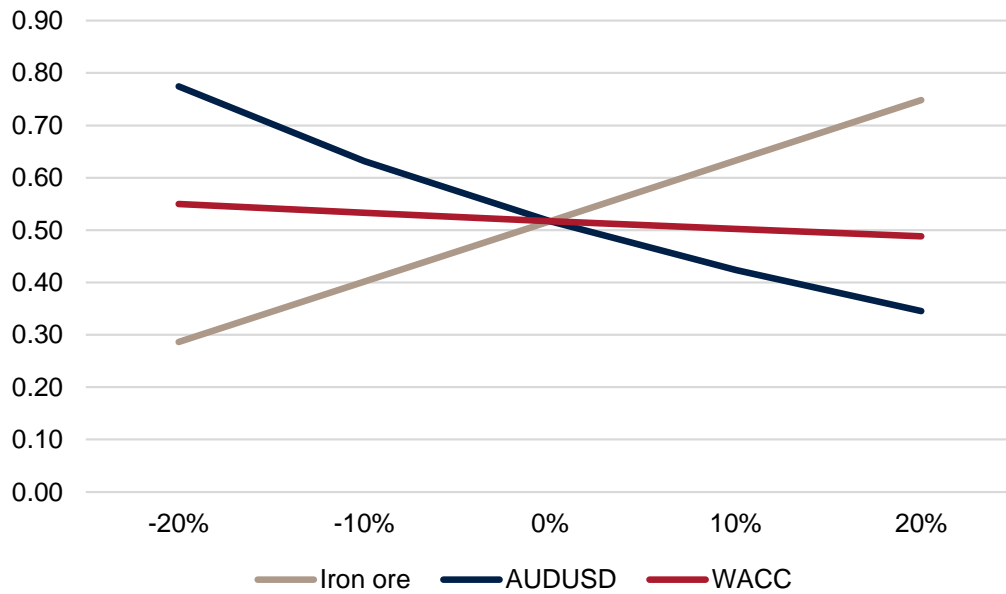
Source: MST Access, FactSet.

Figure 10: MST production forecasts for FEX ('000t)



Source: MST Access, FEX.

Figure 11: Key sensitivities for our valuation



Source: MST Access.

Key catalysts for share price and valuation

FEX's growth profile is strong and there are several key catalysts both in the short and medium term that have the potential to both drive the share price towards our valuation and to increase our valuation.

Continued strong performance of Iron Ridge

As the core asset of the group and the chief cash generator, the continued strong performance of Iron Ridge is key to the valuation and the performance of the stock.

Commencement of the Beebyn-W11 Project

As a significant leg up in production and cash generation, the BW11 Project is the key next leg of growth for FEX and its commencement is a key to our valuation.

Iron ore price

The iron ore price is the central input to FEX's revenue. Short- and long-term increases in the iron ore price would drive both the share price and valuation.

Further iron ore acquisitions

Our valuation is predominantly based on the current business and known projects. Further acquisition of iron ore projects would enhance the valuation.

Logistics and infrastructure growth

A major foundation for FEX's growth is the capacity of the logistics and port and rail infrastructure. Deals such as the CuFe port access show FEX's ability and capacity to deliver these types of transactions.

Further transactions with regional producers – including other commodities

FEX's position in the Mid-West enables it to unlock regional producers' projects via its ownership of the logistics and port and rail infrastructure. This also positions FEX to participate in regional producers' projects and diversify the revenues across commodities outside of iron ore.

Exploration success around Iron Ridge

Iron Ridge has significant exploration potential with the Pharos Project Tenements covering 640 km contiguous to the tenements comprising Iron Ridge and contain numerous known iron ore deposits. FEX has secured the sole and exclusive right to explore for iron ore.

Key risks to our view

We outline the key risks to the share price and valuation below. We note that these risks are mitigated by a strong management team, cost control, financial management and a dominant position in Mid-West logistics and infrastructure.

Performance of Iron Ridge and maintaining high margins

As the core asset of FEX, any performance issues at Iron Ridge will influence cash generation. Strong cost control and hedging has reduced the risks of this.

Delays to development of Beebyn-W11

Any delays in moving into development of the asset would be negative for cash generation and would have a negative effect on our valuation.

Growth

An investment highlight of FEX is its capacity to grow. Lack of growth may reduce the investment appeal of FEX.

Cost inflation

Cost inflation is a global theme and is particularly concerning in the mining industry. If operational or capital costs increase without a corresponding increase in the commodity price, the project's margins will be reduced. FEX has demonstrated strong cost control in this environment.

Iron ore price

This is the most important valuation sensitivity.

Foreign exchange rates

Iron ore is priced in USD, meaning that the exchange rate is a risk to the AUD price received by FEX. FEX offsets this risk by hedging part of the production.

Health and safety

Health and safety is of high importance with respect to mining operations and any issues can be detrimental to those operations. FEX manages this risk through a strong, OH&S-focused culture, Fenix-Newhaul safety technology (simulator, IT systems, etc), and industry leading.

Financials – Strong Cash Balance Supports Strategic Growth

Current cash position strong

Cash as at 31 December 2023 was A\$63.2m (vs. A\$59.6m at 30 September 2023).

During the December quarter, FEX paid:

- A\$5m to Sinosteel as the first tranche of the Beebyn-W11 right-to-mine agreement
- A\$5m in loan funding provided to 10M Pty Ltd, as part of the ore purchase agreement
- A\$8m in taxes and royalty payments
- A\$4m in the settlement of hedging swap contracts
- A\$2m of net capital expenditure and transaction costs, mainly related to M&A fees and the acquisition of new prime mover trucks, net of the disposal of existing fleet, as part of the expansion of the company's haulage fleet.

These cash flows did not include sales receipts of A\$10.4m for the last shipment for the quarter, as the funds for this shipment were received in early January 2024.

In our view, the strong cash balance gives FEX a strong foundation to support growth initiatives and to consider accretive acquisitions.

Hedging – 300,000t hedged for the remainder of FY24

The company's existing iron ore hedge book comprises a total of 300,000 tonnes, structured as 50,000 tonnes per month from January to June 2024 at a fixed price of A\$170.25 per tonne.

The hedge book now represents slightly less than 50% of planned production from Iron Ridge. This secures a strong positive cashflow margin on a base level of production whilst maintaining positive exposure to spot iron ore prices.

Appendix 1: Reserves and Resources

Resources and reserves at Iron Ridge

5-year life based on Mineral Resource – ~A\$323m of operating cash flow potential

We consider that, given the strong performance to date, FEX will be able to extract the entire resource. This would give Iron Ridge an estimated remaining mine life of some 5 years from June 2023.

Based on the FY2023 cash operating margin, this would deliver ~A\$323m of operating cash flow over the remainder of the resource life.

3-year life based on reserves – ~A\$203m of operating cash flow potential

On a more conservative basis, and considering mining Ore Reserves only, at a rate consistent with the past, the mine has a remaining life of just over 3 years.

Based on the FY2023 cash operating margin, this would deliver ~A\$203m of operating cash flow over the remainder of the reserve life.

We have assumed a 4 year life for our valuation.

Figure 12: Iron Ridge Mineral Resource – 58% Fe cut-off applied

As at 30 June 2023

JORC Classification	Mt	FE (%)	AL ₂ O ₃ (%)	LOI (%)	P (%)	SiO ₂ (%)	TiO ₂ (%)
Inferred	0.3	61.4	2.82	4.43	0.05	4.75	0.10
Indicated	6.3	65.3	2.04	1.66	0.04	2.68	0.09
Total	6.6	65.1	2.07	1.78	0.04	2.77	0.09

As at 30 June 2022

JORC Classification	Mt	FE (%)	AL ₂ O ₃ (%)	LOI (%)	P (%)	SiO ₂ (%)	TiO ₂ (%)
Inferred	0.30	61.60	2.77	4.24	0.05	4.66	0.10
Indicated	8.00	65.00	2.23	1.69	0.04	2.88	0.09
Total	8.30	64.80	2.25	1.78	0.04	2.95	0.09

Source: FEX.

Figure 13: Iron Ridge Ore Reserves – 58% Fe cut-off applied

As at 30 June 2023

JORC Classification	Mt	FE (%)	AL ₂ O ₃ (%)	LOI (%)	P (%)	SiO ₂ (%)	TiO ₂ (%)
Probable	4.14	64.80	2.17	1.71	0.04	2.84	0.09
Total	4.14	64.80	2.17	1.71	0.04	2.84	0.09

As at 30 June 2022

JORC Classification	Mt	FE (%)	AL ₂ O ₃ (%)	LOI (%)	P (%)	SiO ₂ (%)	TiO ₂ (%)
Probable	5.64	64.60	2.40	1.76	0.04	3.09	0.09
Total	5.64	64.60	2.40	1.76	0.04	3.09	0.09

Source: FEX.

Appendix 2: Resources and Reserves Definition

Figure 14: A quick definition of a Resource and a Reserve

A **Mineral Resource** is a concentration or occurrence of material of intrinsic economic interest in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. Mineral Resources are sub-divided, in order of increasing geological confidence, into the categories of Inferred, Indicated and Measured.

- An **Inferred Mineral Resource** is the part of a Mineral Resource for which quantity, grade (or quality) and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological or grade continuity.
- An **Indicated Resource** is simply an economic mineral occurrence that has been sampled (from locations such as outcrops, trenches, pits and drill holes) to a point where an estimate has been made, at a reasonable level of confidence.
- A **Measured Resource** is an Indicated Resource that has undergone enough further sampling that a 'competent person' (defined by the norms of the relevant mining code, usually a geologist) has declared it to be an acceptable estimate, at a high degree of confidence.

A **Mineral Reserve** is the economically mineable part of a Measured Mineral Resource and/or Indicated Mineral Resource.

- A **Probable Mineral Reserve** is the economically mineable part of an Indicated Mineral Resource, and in some circumstances, a Measured Mineral Resource. It includes diluting material and allowances for losses which may occur when the material is mined. A Probable Mineral Reserve has a lower level of confidence than a Proved Mineral Reserve but is of sufficient quality to serve as the basis for a decision on the development of a deposit.
- A **Proved Mineral Reserve** is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which occur when the material is mined.

Source: Industry.

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