

29 July 2024

Fenix Resources Ltd (FEX)

BUY

Share Price: A\$0.42

Record shipments from Iron Ridge

Target Price:

A\$0.47

A strong quarter from FEX, with record shipments of 401kt of premium-priced iron ore (ARP US\$119/t, 7% above benchmark 62% Fe) from its 100%-owned flagship Iron Ridge Mine. Along with a further 578kt of third-party ore, FEX's Geraldton Port Services is currently operating at a 3.9Mtpa run rate. With two more mines to start by early 2025, we calculate FEX will be exporting 6.6Mt of iron ore (internal and third party) by FY26F and rapidly establishing itself as a significant bulk commodities logistics provider in Western Australia's Mid-West region (Figure 1). BUY, TP revised to A\$0.47/sh (prev. A\$0.48/sh) on revised Iron Ridge margins and a lower Twin Peaks' valuation.

Strong operating performance

- Iron Ridge sales 401kt (Petra est. 350kt) – a record quarterly tonnage vs average 347kt (Figure 2).
- ARP US\$119/dmt (Petra est. US\$115/dmt) 7% above the underlying benchmark 62% Fe price of US\$111/dmt (Figure 3). Premium due to the high 45% lump: 55% fines ratio and blended grade of 63.7% Fe (Fig. 4). On the back of the higher-than-expected lump: fine ratio and concomitant ARP premium, we have increased our forecast premium over benchmark to 6% (prev. 4%).
- C1 cash costs A\$79.70/t (Fig. 5) vs Petra est. A\$76/t.
- Cash at 30 June 2024 A\$77.4 million (Mar. Q: A\$88m), post deployment of A\$24 million in growth project funding, quotation period adjustments, taxes and royalties. In addition, the sixth and seventh shipments for the quarter were dispatched late in the period with A\$14.4 million in receipts not received until early July.

Project development

- FEX advancing its mining growth projects at Shine Iron Ore Mine (targeting production Dec. Q'24) and the Beebyn-W11 deposit (targeting production Mar. Q'25).
- Development substantially complete at the Ruvidini rail siding (Figure 6). This inland port will provide FEX with ore storage and optimise deliveries to Geraldton Port.

Taking out Twin Peaks' tonnages from our forecast

- In Nov.'23, FEX secured the right to purchase and export up to 500,000t of iron ore from 10M's Twin Peaks Project (200km NE of Geraldton). The first shipment (~59,000t) from Twin Peaks was completed in March 2024. During the June quarter, 10M was placed into voluntary administration; FEX has the option to acquire Twin Peaks for A\$1. We have reduced our valuation for Twin Peaks from an NPV₈ A\$9m to a nominal A\$4.5m.

Key Dates Ahead

- Dec. Q'24 – First shipments from Shine Iron Ore Mine.
- Mar. Q'25 – First shipments from Beebyn-W11 Mine.

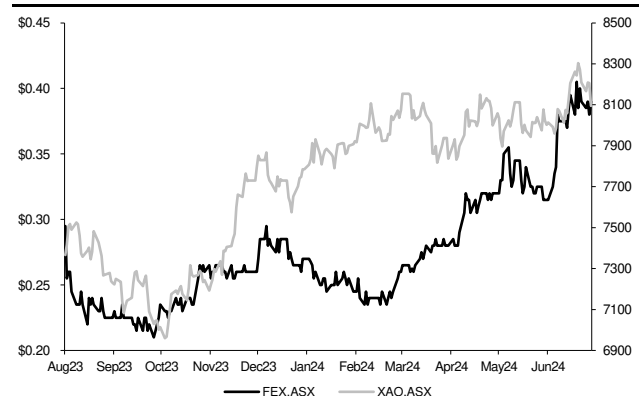
Company Data

Shares – ordinary (M)	694.6
Dilution (M)	72.4
Total (fully diluted) (M)	767
Market capitalisation (\$M)	288
12 month low/high (\$)	0.21 / 0.42
Average monthly turnover (\$M)	23.9
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year End June	FY23A	FY24F	FY25F	FY26F	FY27F
Revenue (\$M)	196.8	281.9	394.8	573.7	445.7
Costs (\$M)	-146.3	-188.4	-306.7	-463.6	-383.8
EBITDA (\$M)	50.5	93.5	88.1	110.1	61.9
NPAT (\$M)	29.2	43.0	47.6	55.3	29.2
EPS (cps)	5.1	6.2	6.8	7.7	4.1
EPS growth (%)	-50%	22%	8%	15%	-47%
PER (x)	8.1	6.7	6.1	5.4	10.2
Op. Cashflow (\$M)	32.1	58.9	72.8	81.1	53.1
OCFPS (cps)	5.6	8.5	10.3	11.4	7.4
POCFPS (x)	7.4	4.9	4.0	3.7	5.6
Enterprise Value (\$M)	233	239	219	183	185
EV / EBITDA (x)	4.6	2.6	2.5	1.7	3.0
Payout ratio (%)	39%	50%	50%	45%	64%
Dividends (cps)	2.0	3.1	3.4	3.5	2.6
Yield (%)	5%	8%	8%	8%	6%
Franking (%)	100%	100%	100%	100%	100%

FEX – performance over one year



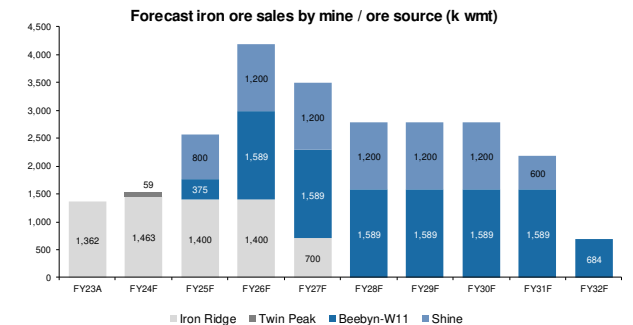
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Analysis

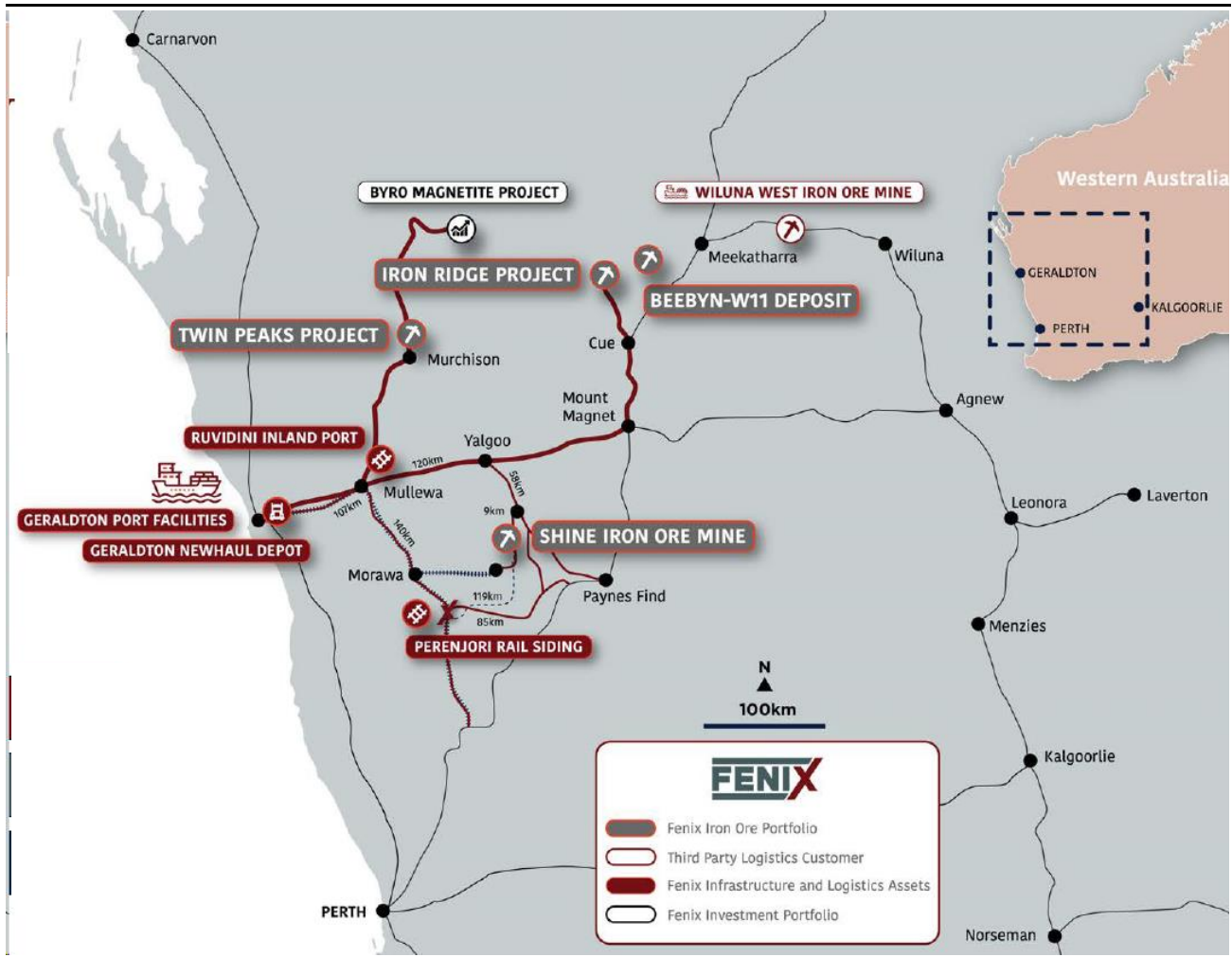
Fenix Resources (FEX)						
Year End June						
Share price (A\$)	0.42					
Issued Shares (m)	695					
Market Cap (A\$m)	288					
Options/Rights (m)	72.4 (incl. 25m to MGX @ 27.5c, 40m to Newhaul)					
Dilution (m)	0					
Fully Diluted no. of Shares (m)	767					
P&L Statement (A\$M)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Revenue	196.8	281.9	394.8	573.7	445.7	320.6
Costs	(146.3)	(188.4)	(306.7)	(463.6)	(383.8)	(297.2)
EBITDA	50.5	93.5	88.1	110.1	61.9	23.3
Depreciation & Amortisation	(15.3)	(22.0)	(25.0)	(30.0)	(20.0)	(10.0)
Operating profit	35.2	71.5	63.1	80.1	41.9	13.3
NOI	3.3	(9.9)	6.0	0.0	0.0	0.0
EBIT	39	62	69	80	42	13
Interest income	1.3	2.3	2.3	3.2	4.6	4.7
Interest expense	(1.4)	(2.5)	(3.4)	(4.3)	(4.8)	(5.2)
Tax expense	(9.3)	(18.4)	(20.4)	(23.7)	(12.5)	(3.8)
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	29.2	43.0	47.6	55.3	29.2	9.0
EPS Reported (A\$)	5.1	6.2	6.8	7.7	4.1	1.2
DPS - Declared (A\$)	2.0	3.1	3.4	3.5	2.6	1.13
Avg. no. of shares (m)*	572	689	705	715	715	725
YE no. of shares (m)*	684	695	715	715	715	735
Cash Flow Statement (A\$M)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
EBITDA	50.5	93.5	88.1	110.1	61.9	23.3
Investment in working capital	(4.9)	(16.1)	5.1	(5.3)	3.8	3.7
Tax expense	(13.5)	(18.4)	(20.4)	(23.7)	(12.5)	(3.8)
Operating Cash Flow	32.1	58.9	72.8	81.1	53.1	23.2
Capex (growth)	(3)	(34)	(29)	(10)	(20)	(5)
Exploration	(0.2)	(3)	(2)	(2)	(2)	(2)
Capex (sustaining)	(4)	(4)	(6)	(8)	(7)	(6)
Investing Cash Flow	(7)	(41)	(36)	(20)	(29)	(13)
Net interest received / (paid)	(0.1)	(0.2)	(1.1)	(1.1)	(0.2)	(0.5)
Debt drawdown / (repayment)	21.0	6.6	10.0	10.0	5.0	5.0
Dividends	(28.2)	(13.7)	(21.8)	(24.3)	(25.2)	(18.7)
Equity raised / (repaid)	(0.0)	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	(7.4)	(7.3)	(12.9)	(15.4)	(20.3)	(14.2)
Minority interest / Other	(43.2)	(9.9)	6.0	0.0	0.0	0.0
Inc/(Dec) in Cash	(25.3)	1.1	29.7	45.8	3.8	(4.0)
Balance Sheet (A\$M)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Cash & Equivalents	76.3	77.4	107.1	152.9	156.7	152.7
Receivables	13.6	22.6	23.7	34.4	26.7	19.2
Inventories	8.3	14.1	15.8	22.9	17.8	12.8
Other Current Assets	2.8	2.8	2.8	2.8	2.8	2.8
PPE and Explo/Dev.	59	78	89	79	88	91
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	26.9	26.9	26.9	26.9	26.9	26.9
Total Assets	187	222	265	319	319	305
Payables and other CL	22.2	28.9	39.3	52.8	37.2	18.1
Short Term Debt / Lease Liabilities	8.8	10.0	10.0	10.0	10.0	10.0
Long Term Debt/Lease Liabilities	12.6	18.0	28.0	38.0	43.0	48.0
Other Non Current Liabilities	2.6	2.6	2.6	2.6	2.6	2.6
Non-controlling interest (NCI)	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities incl NCI	46.2	59.5	79.9	103.4	92.8	78.7
Equity	141	162	185	216	226	227
Total Liabilities and Equity	187	222	265	319	319	305
Ratios	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
P/E (x)	8.1	6.7	6.1	5.4	10.2	33.5
Debt/Equity	15.2%	17.3%	20.5%	22.3%	23.4%	25.6%
ROE (%)	20.7%	28.4%	27.4%	27.6%	13.2%	4.0%
Iron ore price & FX	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Iron ore (US\$/dmt, 62% Fe, CFR)	110	120	101	95	90	90
ARP (US\$/dmt, CFR)	113	126	101	94	88	85
FEX premium / (discount)	2.6%	5.1%	0.4%	-0.7%	-2.4%	-5.3%
AUD:USD	0.67	0.66	0.67	0.68	0.69	0.70
FEX ARP (A\$/dmt, CFR)	167	193	151	139	128	122
Iron ore shipped (k wmt)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Group	1,362	1,522	2,575	4,189	3,489	2,789
...Iron Ridge	1,362	1,463	1,400	1,400	700	0
...Beebyn-W11 (Right to Mine)	0	0	375	1,589	1,589	1,589
...Shine	0	0	800	1,200	1,200	1,200
...Twin Peaks (Ore Purchase)	0	59	0	0	0	0
Costs (A\$/dmt, CFR)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Mining / processing/site	27	26	28	29	31	34
Road haulage / Port	59	55	42	39	36	36
C1 costs	86	82	70	67	67	69
Shipping	31	28	30	30	29	29
Royalties & Profit Sharing	17	19	17	16	14	14
Other	2	1	1	2	2	2
AISC	136	130	118	114	112	113
C1 costs (US\$/dmt)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
AISC (US\$/dmt, CFR)	92	85	79	77	77	79
AISC margin (A\$ dmt, CFR)	31	63	32	25	16	9
AISC margin (%)	18%	33%	22%	18%	12%	7%



Valuation	(A\$m)	(A\$/sh)
Iron Ridge mine inventory NPV8 (4.9M wmt)	121	0.16
Beebyn-W11 mine inventory NPV8 (10.5M wmt)	38	0.05
Shine mine inventory NPV8 (7.4M wmt)	40	0.05
Twin Peak 0.5Mt Ore Purchase Agreement (nominal)	4.5	0.01
Total iron ore mine inventory NPV8 (22.2M wmt)	203	0.28
Iron ore Resource outside of inventory (9.3M wmt)	20	0.03
Port and rail assets	20	0.03
Fleet & haulage infrastructure	30	0.04
Third party haulage & logistics contracts	17	0.02
Corporate	(15)	(0.02)
Hedge book NPV8	1.5	0.00
Enterprise value	277	0.38
Net cash / (debt) (FY25F)	69	0.09
Equity value	346	0.47

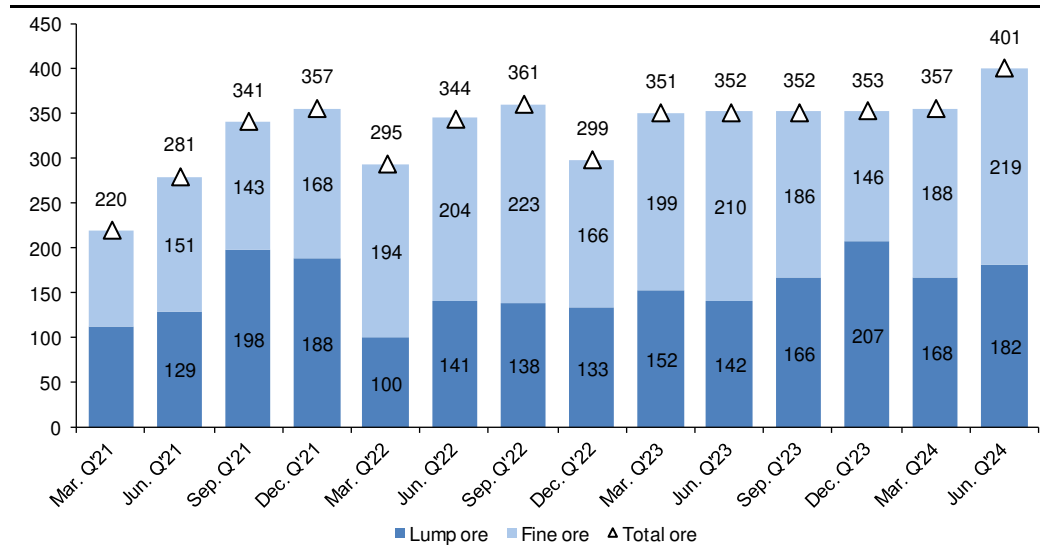
* Shares diluted for 40 million shares in Contingent Milestone Payments outstanding to Newhaul as part of FEX's June 2022 acquisition of Newhaul's 50% interest in the haulage JV (20m shares already issued in June 2023 for delivery of 3Mt ore hauled). Note: 20m of the 40m shares to be issued when aggregate 6Mt hauled, with final 20m to be issued when aggregate 10Mt hauled.

Figure 1: FEX’s mining and logistics assets in Mid-West Western Australia



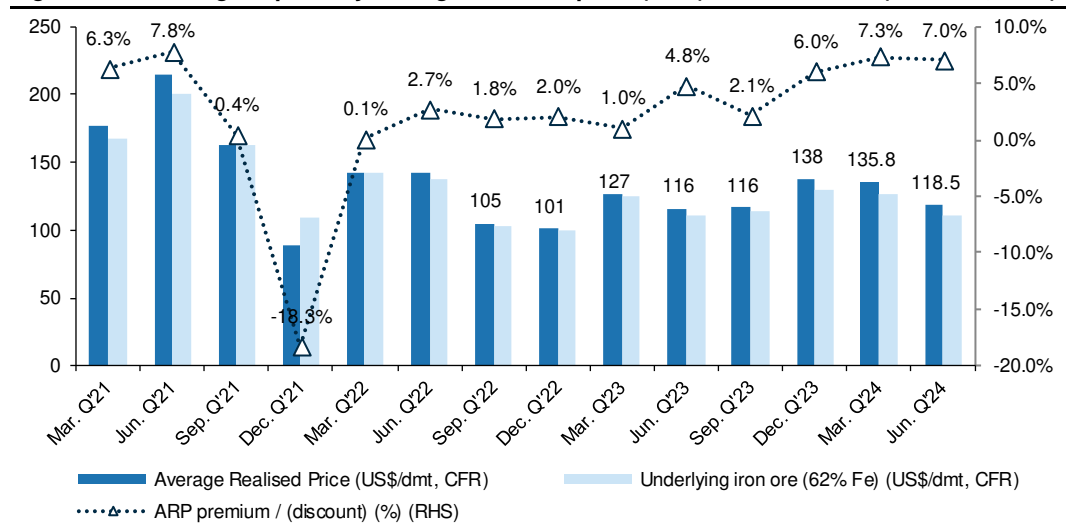
Source: Company/

Figure 2: Iron Ridge - quarterly iron ore sales ('000 wmt), Mar. Q'21 to Jun. Q'24



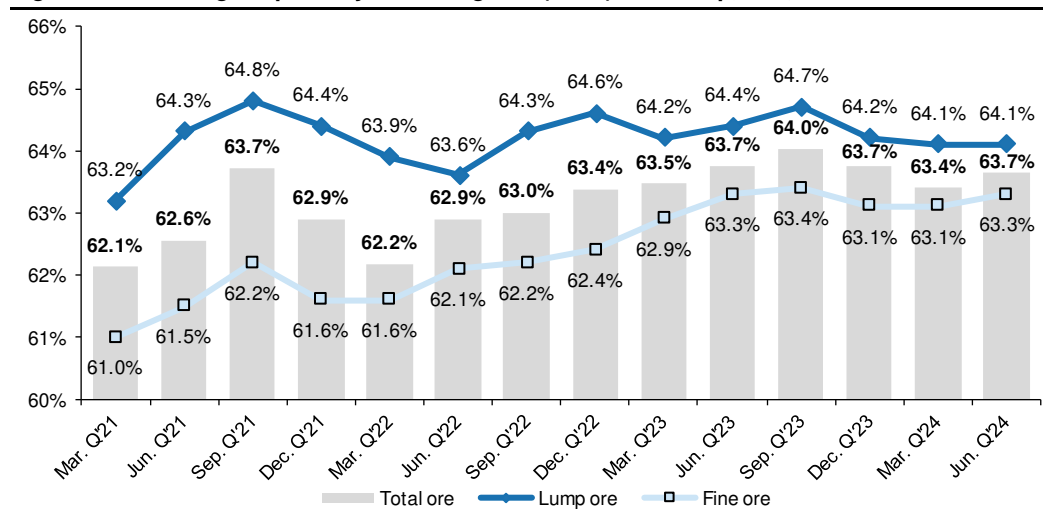
Source: Company, compiled by Petra Capital

Figure 3: Iron Ridge - quarterly average received price (ARP) vs benchmark (US\$/dmt, CFR)



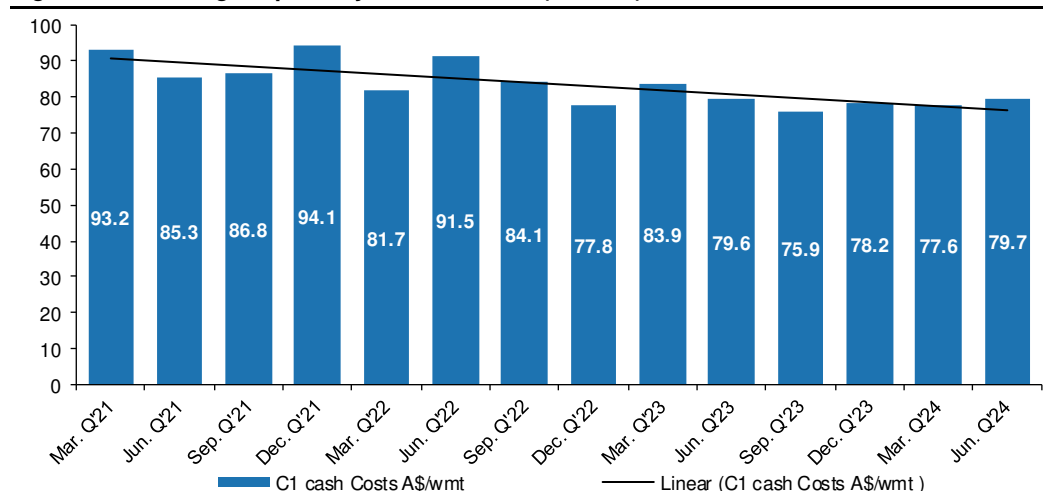
Source: Company, Iress, compiled by Petra Capital

Figure 4: Iron Ridge - quarterly iron ore grade (% Fe) - for lump, fine, and total



Source: Company, compiled by Petra Capital

Figure 5: Iron Ridge - quarterly C1 cash costs (A\$/wmt)



Source: Company, compiled by Petra Capital

Figure 6: Ruvidini Inland Port construction – July 2024



Source: Company

Summary of Changes

- Modelling updated for Jun. Q'24 actuals.
- Upward revisions to forecast Iron Ridge received prices and C1 costs.
- Removed Twin Peaks' sales (~100kt in FY24F, 350kt in FY25F).

Figure 7: Summary of Changes (FY24F-FY26F)

		FY24F			FY25F			FY26F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	281.9	284.8	-1.0%	394.8	435.0	-9.2%	573.7	568.6	0.9%
...from Iron Ore	A\$m	277.0	279.9	-1.0%	366.6	406.7	-9.9%	550.3	545.2	0.9%
...3rd party logistics	A\$m	4.9	4.9	0.0%	28.2	28.2	0.0%	23.3	23.3	0.0%
EBITDA	A\$m	93.5	93.2	0.3%	88.1	98.1	-10.2%	110.1	112.1	-1.8%
EBIT	A\$m	61.6	62.1	-0.8%	69.1	79.1	-12.6%	80.1	82.1	-2.4%
NPAT	A\$m	43.0	43.3	-0.8%	47.6	54.9	-13.2%	55.3	56.9	-2.8%
EPS	A\$/sh	6.2	6.3	-0.8%	6.8	7.8	-13.2%	7.7	8.0	-2.8%
DPS	A\$/sh	3.1	3.2	-0.8%	3.4	3.9	-13.2%	3.5	3.6	-2.8%
Valuation	A\$m	346	354	-2.1%						
Price target	A\$/sh	0.47	0.48	-2.1%						
Iron ore sales	Kt	1,522	1,562	-3%	2,575	2,925	-12%	4,189	4,189	0%
Iron ore (CFR)	US\$/t	120	120	0%	101	101	0%	95	95	0%
AUD/USD	#	0.66	0.66	0%	0.67	0.67	0%	0.68	0.68	0%
ARP (CFR)	A\$/t	193	190	1.6%	151	147	2.4%	139	138	0.9%
AISC	A\$/t	130	129	1.0%	118	115	2.8%	114	112	1.6%

Source: Petra Capital forecasts.



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