

25 October 2024

Fenix Resources Ltd (FEX)

BUY

Share Price: A\$0.27

On growth path with new mines

Target Price: A\$0.42

A strong quarter from FEX, with shipments of 346kt of premium-priced iron ore (ARP US\$106/t, 6% above benchmark 62% Fe) from its 100%-owned flagship Iron Ridge Mine. Margins have fallen in a softer iron ore price environment, but pleasingly, C1 costs fell QoQ reflecting management's strong operational focus. FEX is now moving quickly to lift tonnes; a maiden shipment from the restarted Shine Mine is targeted for early Nov. with first production from the new Beebyn-W11 Mine in early 2025. With cash at A\$72m, and no corporate debt, an enlarged FEX will give investors increasing pure-play iron ore exposure. In addition, FEX's road, rail, and port infrastructure sees FEX well positioned to unlock a host of business development opportunities in Western Australia's Mid-West region (Fig. 1). **BUY, TP revised to A\$0.42/sh (prev. A\$0.44/sh).**

Strong Sep. Q'24 performance at Iron Ridge

- Iron Ridge sales of 346kt (Petra 350kt), in line with the quarterly historical average (Figure 2).
- ARP US\$106/dmt (Petra US\$108/dmt) 6% above the underlying benchmark 62% Fe iron ore price (Figure 3). Premium due to the high 45% lump;55% fines ratio and blended grade of 63.6% Fe (Figure 4).
- C1 cash costs of A\$78.8/wmt FOB (Jun.Q A\$79.7/wmt) vs. Petra A\$71/t. Costs higher than our forecast due to higher than forecast mined and hauled tonnes. Despite the QoQ fall in C1 costs, operating margins have fallen due to a marked decline in the iron ore price (Figure 5).
- Cash A\$72m (Jun.Q A\$77.4m) post deployment of A\$11 in growth projects (Ruvidini Inland Port, expansion of Newhaul Road logistics, capitalised Shine and Beebyn-W11 development costs) plus quotation period adjustments, taxes and royalties.

Project development

- FEX advancing its mining growth projects at Shine Iron Ore Mine (maiden sales in early November) and the Beebyn-W11 deposit (targeting production Mar. Q'25).
- Development substantially complete at the Ruvidini rail siding (Figure 1). This inland port will provide FEX with ore storage and optimise deliveries to Geraldton Port.

TP sensitivity to the iron ore price

- Our NPV₈-derived valuation of A\$0.42/sh assumes an iron ore price of US\$110/t in CY24 (US\$100/t in Dec. Q'24), US\$100/t in CY25 and US\$90/t L/T (Figure 6).
- A ±10% change in the iron ore price impacts our target price by ±50%; at constant spot iron ore prices of US\$100/t, our target price lifts to A\$0.57/sh (Figure 7).

Key Dates Ahead

- November 2024 – First shipments from Shine
- Mar. Q'25 – First production from Beebyn-W11

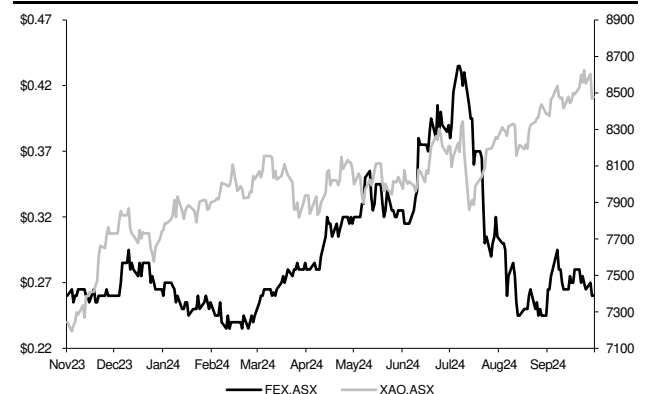
Company Data

Shares – ordinary (M)	720.6
Rights/Options (M)	93.9
Diluted for rights/options (M)	815
Market capitalisation (\$M)	195
12 month low/high (\$)	0.21/ 0.45
Average monthly turnover (\$M)	15
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year End June	FY24A	FY25F	FY26F	FY27F	FY28F
Revenue (\$M)	259.2	383.7	573.7	445.7	320.6
Costs (\$M)	-191.8	-306.8	-473.2	-386.8	-300.2
EBITDA (\$M)	67.4	76.9	100.5	58.9	20.3
NPAT (\$M)	33.6	38.9	47.1	25.7	5.9
EPS (cps)	4.9	5.3	6.4	3.5	0.8
EPS growth (%)	-50%	10%	20%	-45%	-77%
PER (x)	5.5	5.1	4.2	7.7	34.3
Op. Cashflow (\$M)	59.6	36.7	69.0	55.5	25.3
OCFPS (cps)	8.6	5.0	9.4	7.5	3.4
POCFPS (x)	3.1	5.4	2.9	3.6	8.0
Enterprise Value (\$M)	159	171	143	136	140
EV / EBITDA (x)	2.4	2.2	1.4	2.3	6.9
Payout ratio (%)	na	32%	29%	43%	124%
Dividends (cps)	0.0	1.7	1.8	1.5	1.0
Yield (%)	na	6%	7%	6%	4%
Franking (%)	100%	100%	100%	100%	100%

FEX – performance over one year

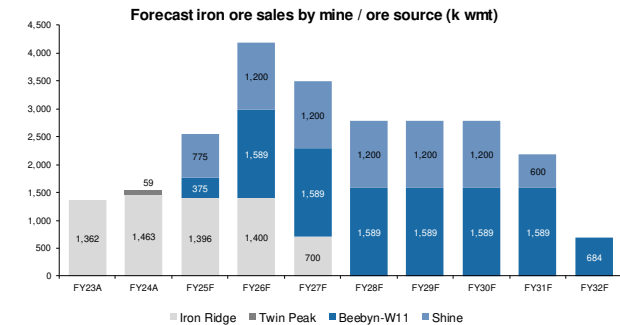


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Analysis

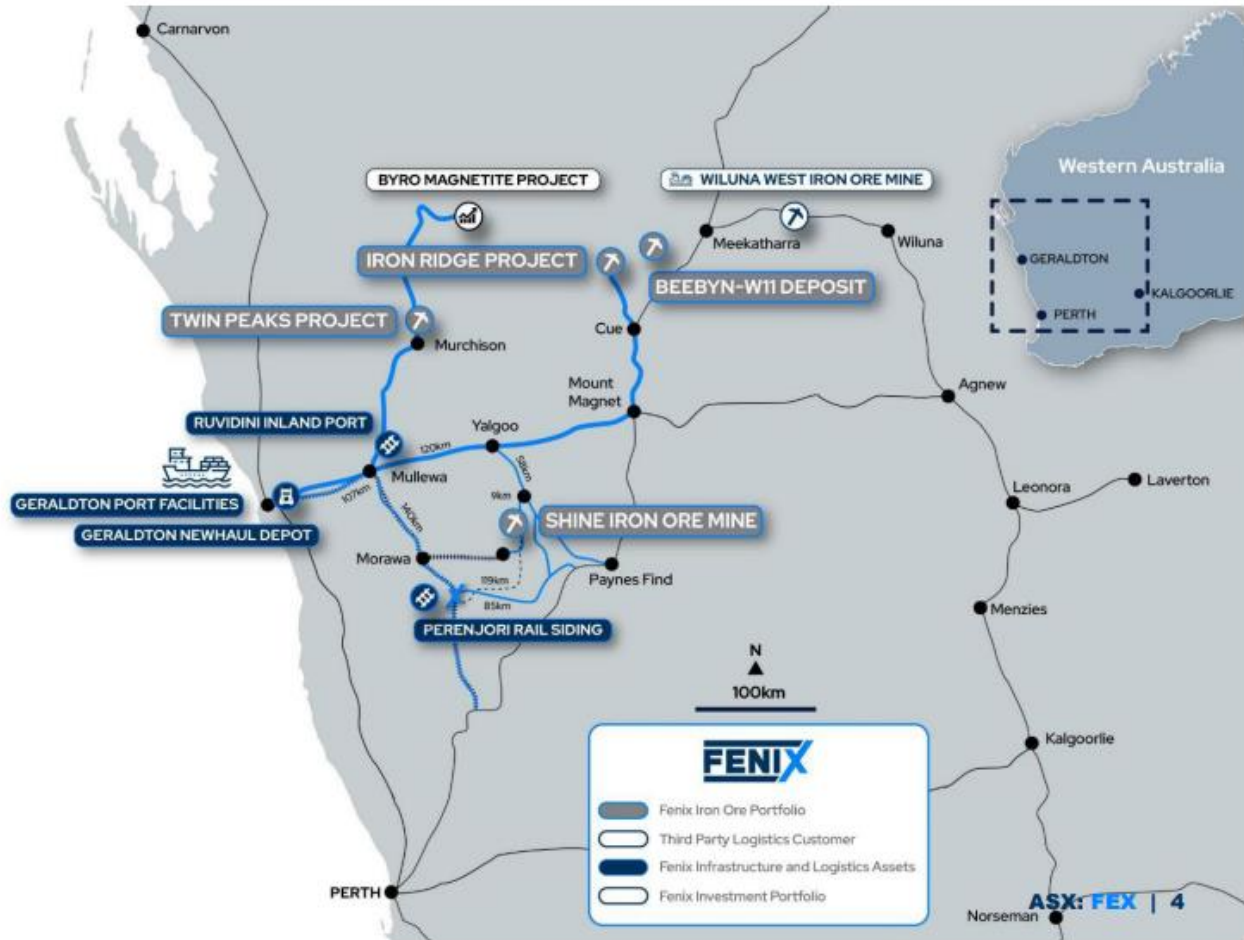
Fenix Resources (FEX)																																																
Year End June																																																
<table border="0"> <tr> <td>Share price (A\$)</td> <td colspan="6">0.27</td> </tr> <tr> <td>Issued Shares (m)</td> <td colspan="6">721</td> </tr> <tr> <td>Market Cap (A\$m)</td> <td colspan="6">195</td> </tr> <tr> <td>Options/Rights (m)</td> <td colspan="6">93.9 (incl. 12.5m Options to MGX)</td> </tr> <tr> <td>Dilution (m)</td> <td colspan="6">0</td> </tr> <tr> <td>Fully Diluted no. of Shares (m)</td> <td colspan="6">815</td> </tr> </table>							Share price (A\$)	0.27						Issued Shares (m)	721						Market Cap (A\$m)	195						Options/Rights (m)	93.9 (incl. 12.5m Options to MGX)						Dilution (m)	0						Fully Diluted no. of Shares (m)	815					
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P&L Statement (A\$M)																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
Revenue	259.2	383.7	573.7	445.7	320.6	320.6																																										
Costs	(191.8)	(306.8)	(473.2)	(386.8)	(300.2)	(300.2)																																										
EBITDA	67.4	76.9	100.5	58.9	20.3	20.3																																										
Depreciation & Amortisation	(24.4)	(25.0)	(30.0)	(20.0)	(10.0)	(10.0)																																										
Operating profit	43.0	51.9	70.5	38.9	10.3	10.3																																										
NOI	5.8	6.0	0.0	0.0	0.0	0.0																																										
EBIT	49	58	71	39	10	10																																										
Interest income	2.0	2.3	2.3	3.4	3.6	3.5																																										
Interest expense	(2.3)	(4.7)	(5.6)	(5.6)	(5.6)	(5.6)																																										
Tax expense	(15.0)	(16.7)	(20.2)	(11.0)	(2.5)	(2.5)																																										
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0																																										
Reported NPAT	33.6	38.9	47.1	25.7	5.9	5.8																																										
EPS Reported (A\$)	4.9	5.3	6.4	3.5	0.8	0.8																																										
DPS - Declared (A\$)	0.0	1.7	1.8	1.5	1.0	1.0																																										
Avg. no. of shares (m)*	691	728	736	736	746	756																																										
YE no. of shares (m)*	721	736	736	736	756	756																																										
Cash Flow Statement (A\$M)																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
EBITDA	67.4	76.9	100.5	58.9	20.3	20.3																																										
Investment in working capital	11.9	(23.5)	(11.3)	7.6	7.5	0.0																																										
Tax expense	(19.7)	(16.7)	(20.2)	(11.0)	(2.5)	(2.5)																																										
Operating Cash Flow	59.6	36.7	69.0	55.5	25.3	17.9																																										
Capex (growth)	(30)	(38)	(15)	(25)	(10)	(10)																																										
Exploration	(6)	(2)	(2)	(2)	(2)	(2)																																										
Capex (sustaining)	(4)	(6)	(8)	(7)	(6)	(6)																																										
Investing Cash Flow	(40)	(45)	(25)	(34)	(18)	(18)																																										
Net interest received / (paid)	(0.3)	(2.4)	(3.3)	(2.2)	(2.0)	(2.1)																																										
Debt drawdown / (repayment)	20.6	10.0	10.0	0.0	0.0	0.0																																										
Dividends	(13.7)	(6.3)	(13.0)	(12.2)	(9.2)	(7.4)																																										
Equity raised / (repaid)	21.6	0.0	0.0	0.0	0.0	0.0																																										
Financing Cash Flow	28.2	1.3	(6.3)	(14.4)	(11.2)	(9.5)																																										
Minority interest / Other	(47.0)	6.0	0.0	0.0	0.0	0.0																																										
Inc/(Dec) in Cash	0.7	(1.1)	37.7	7.1	(3.9)	(9.6)																																										
Balance Sheet (A\$M)																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
Cash & Equivalents	77.0	75.9	113.5	120.6	116.7	107.1																																										
Receivables	22.4	34.5	51.6	40.1	28.9	28.9																																										
Inventories	7.5	15.3	22.9	17.8	12.8	12.8																																										
Other Current Assets	0.7	0.7	0.7	0.7	0.7	0.7																																										
PPE and Explo/Dev.	128	148	143	157	165	173																																										
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	0.0																																										
Other Non Current Assets	31.2	31.2	31.2	31.2	31.2	31.2																																										
Total Assets	267	306	363	368	355	354																																										
Payables and other CL	39.9	42.7	56.5	46.3	35.7	35.7																																										
Short Term Debt / Lease Liabilities	13.3	13.3	13.3	13.3	13.3	13.3																																										
Long Term Debt/Lease Liabilities	28.6	38.6	48.6	48.6	48.6	48.6																																										
Other Non Current Liabilities	7.3	7.3	7.3	7.3	7.3	7.3																																										
Non-controlling interest (NCI)	0.0	0.0	0.0	0.0	0.0	0.0																																										
Total Liabilities incl NCI	89.1	101.9	125.7	115.5	104.9	104.9																																										
Equity	178	204	237	252	251	249																																										
Total Liabilities and Equity	267	306	363	368	355	354																																										
Ratios																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
P/E (x)	5.5	5.1	4.2	7.7	34.3	35.2																																										
Debt/Equity	23.6%	25.5%	26.1%	24.6%	24.7%	24.9%																																										
ROE (%)	18.9%	20.4%	21.3%	10.5%	2.3%	2.3%																																										
Iron ore price & FX																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
Iron ore (US\$/dmt, 62% Fe, CFR)	120	100	95	90	90	90																																										
ARP (US\$/dmt, CFR)	126	101	94	88	85	85																																										
FEX premium / (discount)	5.1%	0.7%	-0.7%	-2.4%	-5.3%	-5.3%																																										
AUD:USD	0.66	0.67	0.68	0.69	0.70	0.70																																										
FEX ARP (A\$/dmt, CFR)	193	150	139	128	122	122																																										
Iron ore shipped (k wmt)																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
Group	1,522	2,546	4,189	3,489	2,789	2,789																																										
...Iron Ridge	1,463	1,396	1,400	700	0	0																																										
...Beebyn-W11 (Right to Mine)	0	375	1,589	1,589	1,589	1,589																																										
...Shine	0	775	1,200	1,200	1,200	1,200																																										
...Twin Peaks (Ore Purchase)	59	0	0	0	0	0																																										
Costs (A\$/dmt, CFR)																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
Mining / processing/site	26	29	29	31	34	34																																										
Road haulage / Port	55	45	40	36	36	36																																										
C1 costs	82	73	69	67	69	69																																										
Shipping	28	29	30	29	29	29																																										
Royalties & Profit Sharing	19	17	16	15	15	15																																										
Other	1	1	2	2	2	2																																										
AISC	130	121	116	113	114	114																																										
C1 costs (US\$/dmt)																																																
	FY24A	FY25F	FY26F	FY27F	FY28F	FY29F																																										
AISC (US\$/dmt, CFR)	85	82	79	78	80	80																																										
AISC margin (A\$ dmt, CFR)	63	29	23	15	8	8																																										
AISC margin (%)	33%	19%	16%	12%	6%	6%																																										



Valuation	(A\$m)	(A\$/sh)
Iron Ridge mine inventory NPV8 (4.9M wmt)	112	0.15
Beebyn-W11 mine inventory NPV8 (10.5M wmt)	26	0.03
Shine mine inventory NPV8 (7.4M wmt)	39	0.05
Twin Peak 0.5Mt Ore Purchase Agreement (nominal)	4.5	0.01
Total iron ore mine inventory NPV8 (22.2M wmt)	182	0.24
Iron ore Resource outside of inventory (9.3M wmt)	20	0.03
Port and rail assets	25	0.03
Fleet & haulage infrastructure	35	0.05
Third party haulage & logistics contracts	17	0.02
Corporate	(15)	(0.02)
Hedge book NPV8	2.2	0.00
Enterprise value	265	0.35
Net cash / (debt) (FY26F)	52	0.07
Equity value	317	0.42

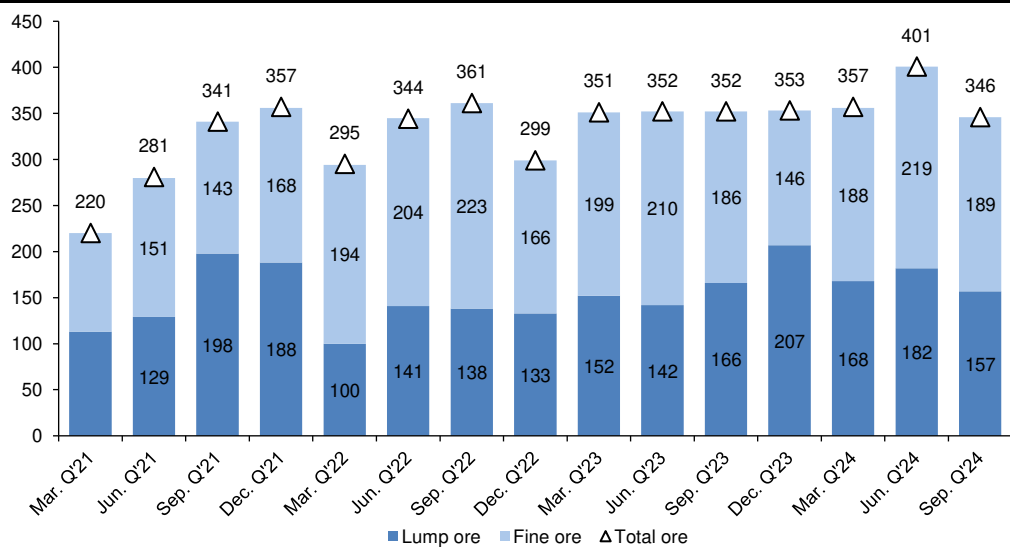
* Shares diluted for 34.9 million shares in Contingent Milestone Payments outstanding to Newhaul as part of FEX's June 2022 acquisition of Newhaul's 50% interest in the haulage JV (20m shares already issued in June 2023 for delivery of 3Mt ore hauled). Note: part issue when aggregate 6Mt hauled, with final issue when aggregate 10Mt hauled.

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



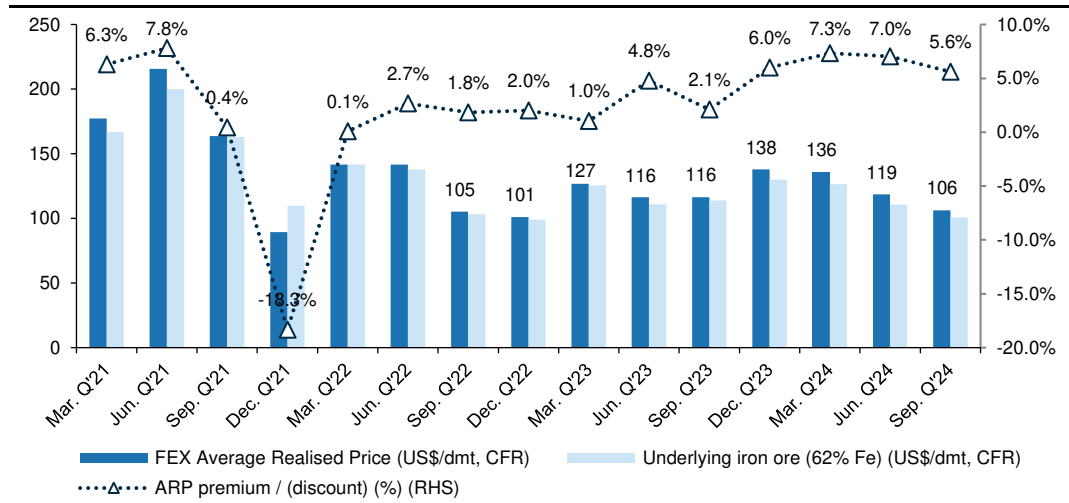
Source: Company

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



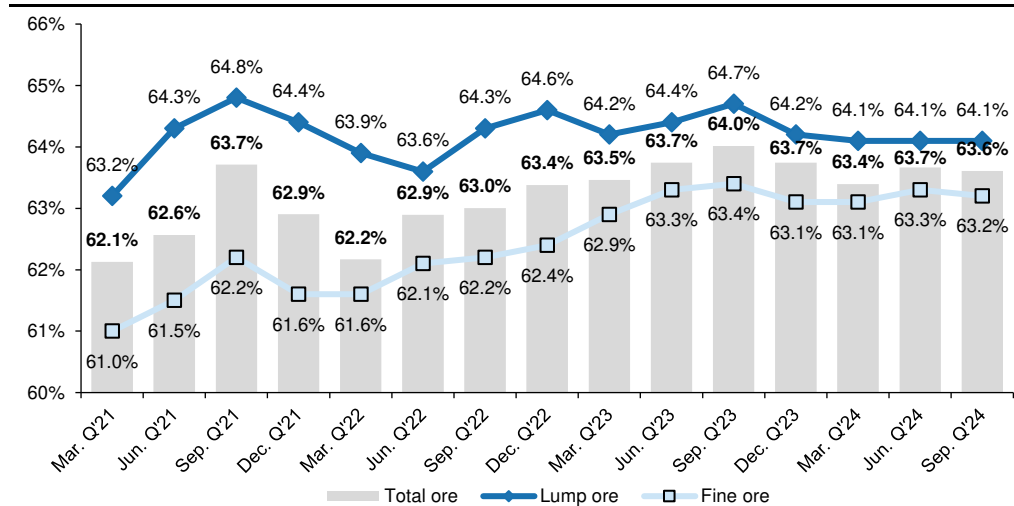
Source: Company, compiled by Petra Capital

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



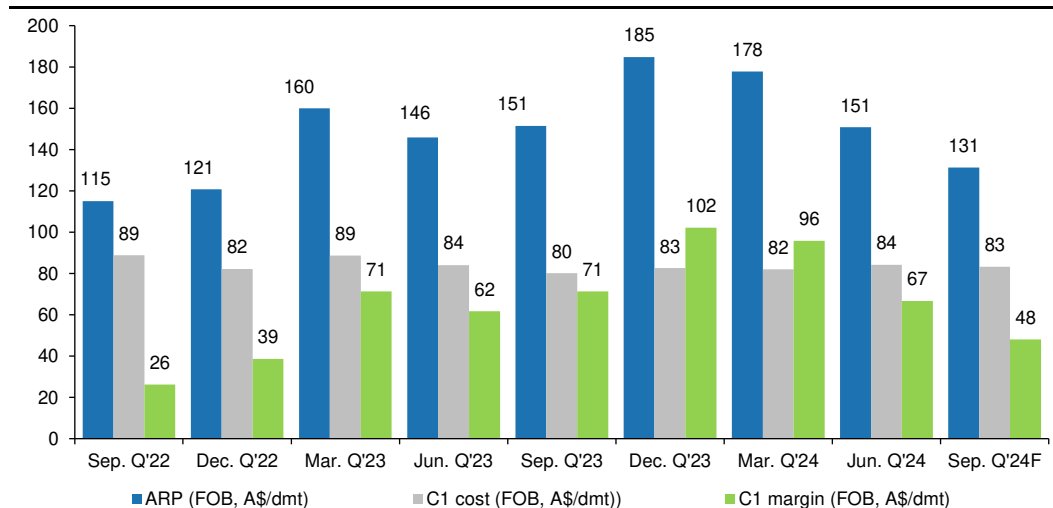
Source: Company, Iress, compiled by Petra Capital

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



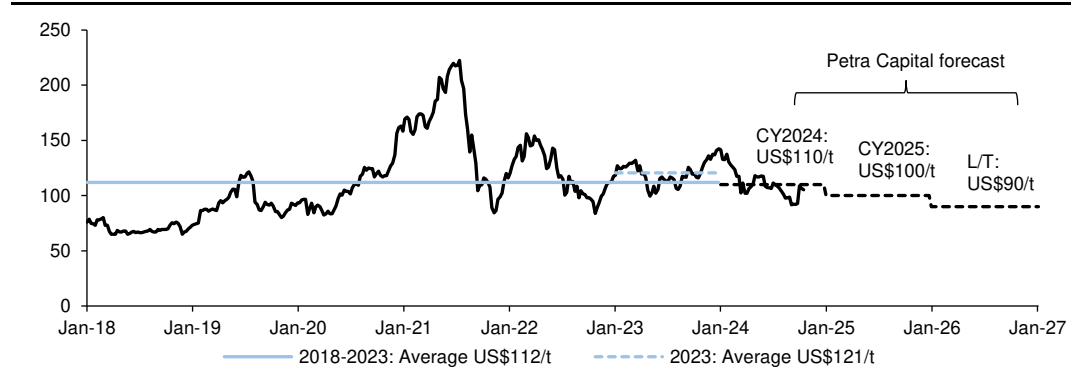
Source: Company, compiled by Petra Capital

Figure 5: Iron Ridge - quarterly received price, C1 costs and C1 margin (FOB, A\$/dmt)



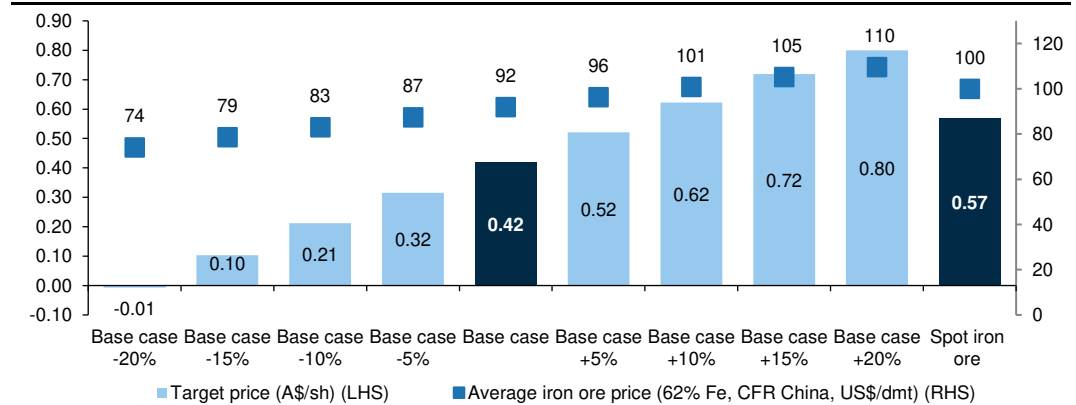
Source: Company, compiled by Petra Capital

Figure 6: Benchmark iron ore price 2018-present (62% Fe, CFR China US\$/t) & Petra forecast



Source: Iress, Petra Capital forecasts

Figure 7: Target price sensitivity to the benchmark iron ore price



Source: Petra Capital forecasts

Summary of Changes

- Modelling updated for Sep. Q'24 actuals.
- Modest revision to FY25F sales (Iron Ridge, Shine) and costs drive TP 5% lower to A\$0.42/sh.

Figure 8: Summary of Changes (FY24F-FY26F)

		FY25F			FY26F			FY27F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	383.7	389.9	-1.6%	573.7	573.7	0.0%	445.7	445.7	0.0%
EBITDA	A\$m	76.9	86.4	-11.1%	100.5	107.1	-6.2%	58.9	58.9	0.0%
EBIT	A\$m	57.9	67.4	-14.2%	70.5	77.1	-8.6%	38.9	38.9	0.0%
NPAT	A\$m	38.9	45.6	-14.7%	47.1	51.8	-9.1%	25.7	25.9	-0.7%
EPS	A\$/sh	5.3	6.3	-14.7%	6.4	7.0	-9.1%	3.5	3.5	-0.7%
DPS	A\$/sh	1.7	2.0	-14.7%	1.8	2.0	-9.1%	1.5	1.5	-0.7%
Valuation	A\$m	317	335	-5.2%						
Price target	A\$/sh	0.42	0.44	-5.2%						
Iron ore sales	kwmt	2,546	2,575	-1.1%	4,189	4,189	0%	3,489	3,489	0%
China 62% Fe (CFR)	US\$/dmt	100	101	-0.5%	95	95	0%	90	90	0%
ARP (CFR)	US\$/dmt	101	101	-0.2%	94	94	0%	88	88	0%
ARP (CFR)	A\$/dmt	150	151	-0.6%	139	139	0%	128	128	0%
AISC (CFR)	A\$/dmt	121	119	2.3%	116	115	1%	113	113	0%

Source: Petra Capital forecasts.



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