

15 July 2024

Time to Shine

NEED TO KNOW

- FEX to restart mining at Shine Iron Ore Mine
- Capex only A\$7.4m; 100kt a month production
- Further expansion to be assessed

Restarting Shine: After an extensive review FEX has made the decision to restart the Shine Iron Ore Mine (Shine). Shine was acquired as part of the purchase of Mt. Gibson assets in 2023 and has been on care and maintenance. Given the successful mining at Iron Ridge and the efficiency of FEX's transport logistics and port infrastructure, the economic outlook for Shine was sufficiently robust to restart operations.

Key numbers stack up: The key numbers for the Shine restart are compelling. Low capex of just A\$7.4m, operating costs of A\$67.50/t (vs Iron Ridge of A\$77/t), 100kt of shipments per month (similar to Iron Ridge), and the short lead time to first production showcasing a de risked project. FEX benefits from A\$25m of development spent by the previous owner.

Potential for expansion: The current production plan is from December 2024 until the end of FY2026, however, potential Stage 2 and Stage 3 mine plans will be assessed with a strong opportunity to extend mine life at Shine.

Investment Thesis

Sinosteel deal and Shine restart unlock immediate and long-term iron ore production potential; CY25 will see 3x current production: Iron Ridge's cash generation has created a cash balance A\$88m and lays the foundation for FEX's growth. The right to mine Beebyn-W11 has the potential to expose FEX to ~300Mt of iron ore resources, with the Shine restart providing a low capex near term production growth and potential mine life extension. FEX iron ore production will be 3x the current rate in CY25 and generating similar cash margins to Iron Ridge (~A\$95/t).

Logistics, infrastructure strength underpin FEX's high-margin operations, growth, solutions for regional players: Logistics, rail and port infrastructure support a high-margin iron ore business and give FEX potential exposure to other high-value commodities and sources of further cash generation. Many projects in the Mid-West across a range of commodities will need logistics & infrastructure services to unlock their projects.

Right commodity, right place, unique position: Iron ore is the key ingredient in manufacturing steel. WA is a Tier-1 mining jurisdiction and the Mid-West has high-grade products sought after by customers.

Valuation – A\$0.68 Per Share (Previous A\$0.54)

Our valuation equally weights NPV and EV/EBITDA methodologies. We have included Shine in our valuation for the first time, which is the key driver of our valuation uplift from both the NPV and EV/EBITDA perspective. This is an example of the value FEX can continue to generate as it grows its business through adding production and utilising its logistics and port assets.

Risks

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

Report prepared by MST Access, a registered business name of MST Financial services ABN 617 475 180 AFSL 500 557. This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Fenix Resources (FEX.AX)

Equity Research Australia

Materials

Michael Bentley, Senior Analyst
michael.bentley@mstaccess.com.au



FEX Resources 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. www.Fenixresources.com.au

| | |
|---------------|--------------------------------|
| Valuation | A\$0.68 (from A\$0.54) |
| Current price | A\$0.40 |
| Market cap | A\$274m |
| Cash on hand | A\$88.3m (31 March '24) |

Additional Resources

[Video Interview with Chair John Welborn](#)

Upcoming Catalysts / Next News

| Period | |
|---------|---------------------------------------|
| Q4CY24 | Restart Shine Iron Ore Mine |
| Q1CY25 | Beebyn-W11 commencement |
| Ongoing | More third-party logistics agreements |
| CY24 | Completion of inland terminal |

Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial summary, FEX (June year-end)

| Fenix Limited | | | | | | FEX.AX | | | | | | |
|-------------------------------------|--------|-------|-------|-------|-------|---|--|-------------|-------------|-------------|------------|---------------------------------|
| Year end 30 June | | | | | | | | | | | | |
| MARKET DATA | | | | | | 12-Month Relative Performance vs S&P/ASX Metals & Mining | | | | | | |
| Share Price | A\$/sh | | | | 0.40 | | | | | | | |
| 52 Week Low | A\$/sh | | | | 0.21 | | | | | | | |
| 52 Week High | A\$/sh | | | | 0.40 | | | | | | | |
| Market Cap (A\$m) | A\$m | | | | 274 | | | | | | | |
| Net Debt / (Cash) (A\$m) | A\$m | | | | (88) | | | | | | | |
| Enterprise Value (A\$m) | A\$m | | | | 186 | | | | | | | |
| Shares on Issue (basic) | m | | | | 695 | | | | | | | |
| Performance rights and options | m | | | | 70 | | | | | | | |
| Potential shares on issue (diluted) | m | | | | 765 | | | | | | | |
| INVESTMENT FUNDAMENTALS | | | | | | | | | | | | Profit & Loss (A\$m) |
| Reported NPAT | A\$m | FY22A | FY23A | FY24E | FY25E | FY26E | Jun-22 | FY23A | FY24E | FY25E | FY26E | |
| Underlying NPAT | A\$m | 61 | 29 | 45 | 61 | 73 | 249 | 197 | 291 | 513 | 693 | |
| | | 51 | 39 | 45 | 61 | 73 | Expenses | (174) | (133) | (205) | (395) | (553) |
| Underlying EPS | ¢ps | 12.3 | 5.1 | 6.8 | 8.8 | 10.5 | EBITDA | 75 | 64 | 86 | 119 | 140 |
| EPS Reported | ¢ps | 9.8 | 6.2 | 6.5 | 8.8 | 10.5 | D&A | (6) | (15) | (21) | (33) | (40) |
| P/E Reported | x | 3.2 | 7.7 | 5.8 | 4.5 | 3.7 | EBIT | 69 | 49 | 65 | 86 | 101 |
| P/E Underlying | x | 4.0 | 6.4 | 6.1 | 4.5 | 3.7 | Interest | (0) | (0) | 0 | 1 | 4 |
| | | | | | | | Tax | (18) | (9) | (20) | (26) | (31) |
| Operating Cash Flow / Share | A\$ | 0.12 | 0.03 | 0.10 | 0.14 | 0.16 | Underlying NPAT | 51 | 39 | 45 | 61 | 73 |
| Price / Operating Cash Flow | x | 3.3 | 15.4 | 3.9 | 2.9 | 2.4 | Exceptionals | 10 | (10) | - | - | - |
| Dividend per share | ¢ps | 5.3 | 2.0 | 2.0 | 4.0 | 7.0 | Reported Profit | 61 | 29 | 45 | 61 | 73 |
| Free Cash Flow / Share | A\$ | 0.11 | 0.00 | 0.02 | 0.10 | 0.15 | Net Profit Before Tax | 69 | 49 | 65 | 87 | 105 |
| Price / Free Cash Flow | x | 3.6 | 98.9 | 16.9 | 3.9 | 2.7 | Balance Sheet (A\$m) | | | | | |
| Free Cash Flow Yield | % | 27.9% | 1.0% | 5.9% | 25.3% | 37.6% | Jun-22 | FY23A | FY24E | FY25E | FY26E | |
| | | | | | | | Cash | 102 | 66 | 72 | 133 | 213 |
| Book Value / Share | A\$ | 0.21 | 0.18 | 0.26 | 0.33 | 0.40 | Receivables | 7 | 16 | 26 | 26 | 26 |
| Price / Book | x | 1.88 | 2.18 | 1.55 | 1.20 | 0.98 | Inventory | 9 | 8 | 13 | 13 | 13 |
| NTA / Share | A\$ | 0.21 | 0.18 | 0.26 | 0.33 | 0.40 | PP&E | 26 | 85 | 142 | 133 | 103 |
| Price / NTA | x | 1.88 | 2.18 | 1.55 | 1.20 | 0.98 | Exploration | 1 | 1 | 11 | 11 | 11 |
| | | | | | | | Other | 6 | 0 | 5 | 5 | 5 |
| Year End Shares | m | 516 | 634 | 694 | 694 | 694 | Assets | 151 | 177 | 269 | 321 | 371 |
| Market Cap (spot) | A\$m | 204 | 250 | 274 | 274 | 274 | Creditors | 20 | 22 | 37 | 37 | 37 |
| | | | | | | | Debt | - | - | - | - | - |
| Net Cash / (Debt) | A\$m | 102 | 66 | 72 | 133 | 213 | Other | 23 | 40 | 55 | 55 | 55 |
| Enterprise Value | A\$m | 102 | 184 | 202 | 141 | 61 | Liabilities | 43 | 62 | 92 | 92 | 92 |
| | | | | | | | Shareholder's Equity | 108 | 115 | 177 | 229 | 279 |
| EV / EBITDA | x | 2.5x | 2.9x | 2.2x | 1.6x | 1.3x | Cashflow (A\$m) | | | | | |
| Net Debt / Enterprise Value | | (0.5) | (0.4) | (0.4) | (0.7) | (1.1) | Jun-22 | FY23A | FY24E | FY25E | FY26E | |
| PRODUCTION AND PRICING | | | | | | Iron ore | | | | | | |
| | | FY22A | FY23A | FY24E | FY25E | FY26E | Receipts from Customers | 247 | 193 | 287 | 513 | 693 |
| Ore shipped - Iron Ridge | kwmt | 1,337 | 1,362 | 1,412 | 1,400 | 1,400 | Payments to suppliers and employees | (175) | (148) | (202) | (395) | (553) |
| FOB cash cost | A\$/t | 88.8 | 81.5 | 77.0 | 76.4 | 76.7 | Interest Received | 0 | 1 | 2 | 1 | 4 |
| Ore shipped - Beebyn & Shine | kwmt | - | - | - | 1,200 | 2,300 | Other | (11) | (30) | (17) | (26) | (31) |
| FOB cash cost | A\$/t | - | - | - | 72.9 | 69.7 | Net Cash From Operations | 62 | 16 | 70 | 94 | 113 |
| Realised price (CFR) | US\$/t | 108.6 | 112.7 | 126.3 | 112.5 | 108.4 | Capex | (7) | (4) | (45) | (24) | (10) |
| Logistics | | | | | | Net Cash From Investing | | | | | | |
| Haulage volumes | kwmt | - | - | 122 | 1,550 | 2,350 | Equity | 0 | - | - | - | - |
| Shipped volumes | kwmt | - | - | 1,648 | 1,900 | 2,350 | Borrowings | - | - | (7) | - | - |
| Margin per tonne | A\$/t | n.a. | n.a. | 4.6 | 5.7 | 6.4 | Dividend | (24) | (28) | (13) | (9) | (24) |
| | | | | | | | Net Cash From Financing | (24) | (28) | (20) | (9) | (24) |
| | | | | | | | Effects of FX | (0) | 0 | - | - | - |
| | | | | | | | Net Increase / (Decrease) in Cash | 33 | (25) | (4) | 61 | 79 |

Source: FEX, MST estimates.

Time To Shine

Restart of Shine Iron Ore Mine in December 2024

After an extensive review FEX has made the decision to restart the Shine Iron Ore Mine (Shine).

Shine is an attractive short lead time, low capex growth project for FEX with similar mining scale and operational characteristics to Iron Ridge and the potential to leverage FEX's haulage and logistics capabilities.

The Numbers - An Attractive Option

The approval to proceed with the Stage 1 mine plan for Shine follows a comprehensive review of all aspects of the project, including an in-pit drilling program, product sampling, a tender process for mining and processing operations, and updated resource modelling.

The Key Highlights of the Shine Restart

The key outcomes driving the restart of Shine are compelling

- estimated capex of A\$7.4 million consisting of
 - upgrade of existing camp infrastructure
 - contractor mobilisation
 - upgrade of the Shine access road
- Stage 1 production of 100,000 tonnes per month is expected to commence in December 2024 quarter and continue until the end of FY26
- Iron ore grade of 60% Fe
- C1 cash costs of A\$67.50 /t (compared A\$78.20/t Iron Ridge due to 200km shorter haul to Geraldton port)
- Shine will double FEX's annual iron ore production
- FEX assumed Mount Gibson's existing royalty obligations in respect of the Shine iron ore rights. The price participation royalty is payable on ore mined and sold when the monthly average of the daily midpoint Platts 62% Fe CFR index price (converted to Australian dollars) exceeds \$115 per dry metric tonne - for every dollar that the Platts 62% Fe index price trades above this level, FEX must pay Gindalbie \$0.20/tonne.

Extension to Mine Life being Studied

With a 15.1mt resource there is significant opportunity to extend the mine life beyond FY26. Stage 2 and Stage 3 mine plans will be assessed following further optimisation work. FEX will need to obtain further approvals to extend the mine life.

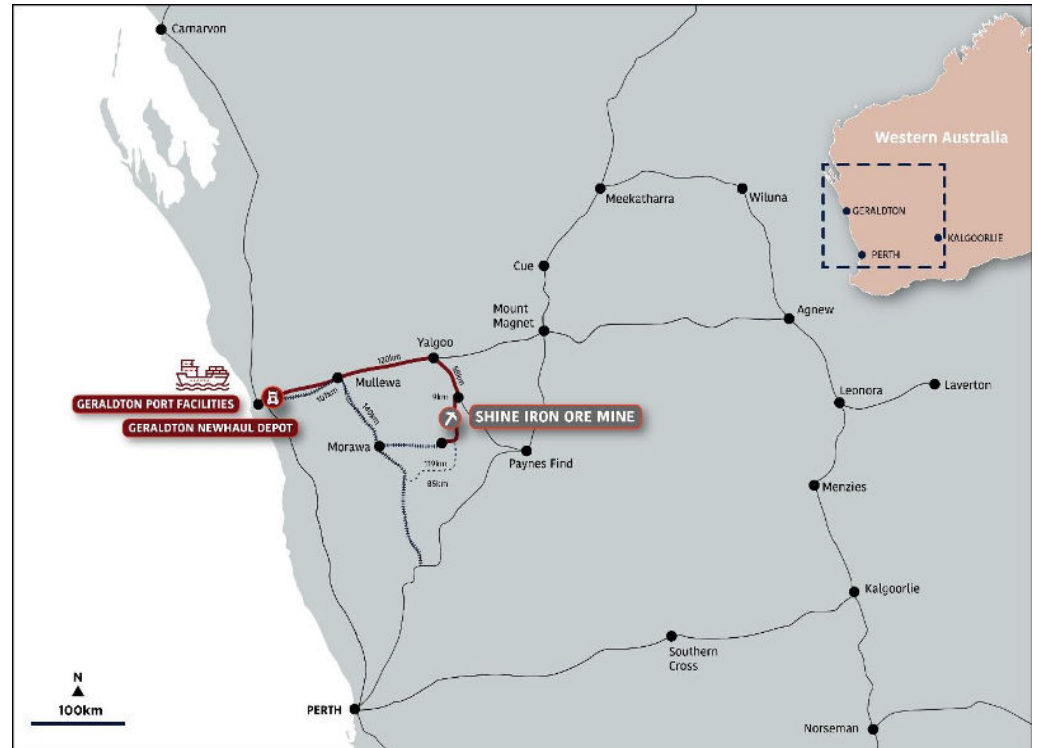
A Quick Recap on the Shine Iron Ore Mine

Shine is an open pit iron ore mine located 295km by road east of Geraldton and 70km southeast of the regional township of Yalgoo and was acquired from Mount Gibson Iron Ltd in July 2023 as part of a transaction that included Mount Gibson's rail sidings and port infrastructure.

The transaction consideration consisted of:

- upfront payment of A\$10m in cash
- upfront consideration of 60m ordinary shares in FEX
- 25m options on FEX shares, expiring 60 months from completion
- 5m options with an exercise price of A\$0.25/share expiring 5 years from date of issue
- 5m options with an exercise price of A\$0.30/share expiring 5 years from date of issue.

Figure 2: Location of Shine Iron Ore Mine



Source: FEX

A brief history of Shine

Mount Gibson acquired the iron ore mining and development rights associated with Shine from Gindalbie in March 2014 for upfront consideration of \$12m plus a further \$3m payment on first production and a price participation royalty.

Mount Gibson expanded the resource base with further drilling campaigns and completed technical and economic studies which supported a targeted direct shipping ore (DSO) mining operation.

Mining commenced in April 2021 and first shipment was completed in August 2021. Following a rapid deterioration of iron ore prices, and the negative impact of significantly increased haulage and shipping transportation charges, Mount Gibson suspended operations at Shine in October 2021. During the period from commencement of mining in April 2021 until final sales in December 2021, Mount Gibson produced ~300,000 wet metric tonnes of lump and fines products from Shine.

Figure 3: Shine open pit



Source: FEX

Figure 4: Shine Mine infrastructure



Source: FEX

Resources – 15.1 Mt of Iron Ore

The Shine Mineral Resources as at 30 June 2022 total 15.1 Mt at 58.2% Fe.

Figure 5: Shine Mineral Resource at cut off >50% Fe – 30 June 2022

| Total Resource | | | | | |
|---------------------|-------------|-------------|----------------------|------------------------------------|--------------|
| JORC Classification | Mt | FE (%) | SiO ₂ (%) | Al ₂ O ₃ (%) | P (%) |
| Measured | 5.1 | 59.2 | 8.98 | 1.6 | 0.078 |
| Indicated | 6.3 | 58.1 | 9.97 | 1.27 | 0.07 |
| Inferred | 3.6 | 56.9 | 9.58 | 1.18 | 0.063 |
| Total | 15.1 | 58.2 | 9.54 | 1.36 | 0.071 |

| Hematite | | | | | |
|---------------------|------------|-------------|----------------------|------------------------------------|--------------|
| JORC Classification | Mt | FE (%) | SiO ₂ (%) | Al ₂ O ₃ (%) | P (%) |
| Measured | 4.3 | 59.3 | 9.06 | 1.73 | 0.083 |
| Indicated | 5.1 | 58 | 10.51 | 1.35 | 0.072 |
| Inferred | 0.5 | 56.4 | 12.6 | 1.61 | 0.085 |
| Total | 9.9 | 58.5 | 9.98 | 1.53 | 0.077 |

| Magnetite | | | | | |
|---------------------|------------|-------------|----------------------|------------------------------------|--------------|
| JORC Classification | Mt | FE (%) | SiO ₂ (%) | Al ₂ O ₃ (%) | P (%) |
| Measured | 0.8 | 58.6 | 8.55 | 0.89 | 0.05 |
| Indicated | 1.2 | 58.8 | 7.71 | 0.91 | 0.061 |
| Inferred | 3.1 | 56.9 | 9.1 | 1.11 | 0.06 |
| Total | 5.1 | 57.6 | 8.68 | 1.03 | 0.058 |

Source: FEX

Geology - Similar to Iron Ridge

The Shine hematite and magnetite deposit is located within the Warriedar Fold Belt, which is part of the Archaean Yalgoo-Singleton greenstone belt. The deposit is located along a north–northwest trending sub-vertical 50–120m wide banded iron formation (BIF). The BIF forms a prominent ridge which is approximately 50–90m wide in the Shine area. The iron mineralisation (goethite, hematite and magnetite) is strata bound occurring only within the BIF unit and occurs as hematite-goethite in the upper portions of the BIF, with magnetite occurring at depth below the base of oxidation which is approximately 100m below surface.

Mining

Mining at Shine is conventional open-pit mining (using drill and blast, and load and haul), similar to FEX's operations at Iron Ridge.

Processing

The mine plan includes crushing and screening on site, designed to allow for in-pit grade control, post-crushing sampling and stockpile management to be used to achieve products with grades and deleterious elements within specification.

Haulage

Iron ore was previously trucked from Shine to Geraldton Port via the Geraldton-Mount Magnet Road using a third-party contractor. FEX expects to realise significant cost savings by using its own haulage fleet.

Shine Forms Part of FEX's Impressive Iron Ore Growth

Iron ore growth projects overview

FEX has 3 key iron ore growth projects:

- the Shine Iron ore mine, as detailed above
- 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

Focus on Beebyn-W11 – first production targeted early CY2025

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 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 continued to progress the required approvals and workstreams during the quarter. The company expects to submit a mining proposal application to bring BW11 into production in early CY25 as an additional source of product for the company.

Work on BW11 has included:

- Targeted haul road route identified, with miscellaneous licence application submitted, land access agreements been agreed (in principle) and infrastructure planning advanced
- Heritage survey planning confirmed, with discussions held Wajarri Yamaji traditional owners Environmental consultants appointed, with surveys planned during the June quarter
- Mine design and schedule optimisation finalized, with associated studies being finalised to support the mine permit application
- Feasibility study being progressed in tandem, with planned finalisation during the June quarter (all desktop work completed).

Feasibility Study (FS) – firming up the numbers; will replicate Iron Ridge

The FS is focused on firming up capex for the project, production numbers and expected operating costs.

However, FEX has stated that, given the nature of the ore body and its similarity to Iron Ridge, a mine plan and operational plan that replicates Iron Ridge is the most logical plan for the project.

500kt ore purchase agreement, Twin Peaks Iron Ore Mine – first shipment

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 Pty Ltd supplies the ore from the Woolbung Peak deposit, and FEX handles haulage, storage, port services, ship loading, marketing and sales.

FEX-Newhaul commenced haulage of ore from Twin Peaks to FEX Port Services' on-wharf storage sheds at Geraldton Port in the December quarter and made an up-front cash prepayment of A\$5m 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.

The first shipment of 59,275t was completed in the March quarter and was entirely lump material with an average grade of 61.9% Fe and was provisionally priced at a realised CFR price of ~US\$121/dMt (A\$185/dMt). Subject to the sale agreements, the final pricing of the shipment will be finalised during the current quarter which will enable FEX to calculate and pay any profit share royalty due to 10M.

Other Growth Projects in the FEX Portfolio

A\$70m haulage and logistics contract with Gold Valley

During the March quarter, FEX-Newhaul and FEX Port Services secured a A\$70m haulage and logistics contract with Gold Valley, an iron ore producer with existing operations in the Mid-West. Key terms of the contract are as follows.

- FEX-Newhaul appointed as haulage and logistics services provider for the transport of 3Mt of iron ore extracted from Gold Valley's Mid-West operations, which will be delivered by Gold Valley to FEX's inland port terminal at Ruvidini Rail Siding and then hauled by FEX
- FEX Port Services was appointed to provide services to Gold Valley in relation to the 3Mt of product which will be transported through FEX's facilities at Geraldton Port
- The agreement covers a period of up to 3 years, commencing from the date Ruvidini Rail Siding has been recommissioned for use and ending at the earlier of: (1) 3 years after the date of commencement of services; or (2) when the total number of tonnes handled under the Agreements reaches 3Mt. The parties may agree to extend the term by mutual agreement
- Gold Valley is to provide FEX with an upfront cash consideration of approximately A\$1.4m, to be used to fund the required capital expenditure at the Ruvidini Rail Siding which may be offset against the fixed fees payable under the Haulage and Logistics Agreement

Ruvidini rail siding – creating an inland terminal

Following the logistics contract with Gold Valley, FEX has commenced construction of the Ruvidini inland port terminal to support the increased logistics and port services volumes.

Ruvidini, approximately 100 km east of the Geraldton Port, covers significant acreage which was originally developed and used for storage and staging of various bulk materials prior to rail haulage to Geraldton Port. The land is accessible by road or by rail, via the siding connection to the Geraldton Rail network.

Ruvidini Rail Siding provides an opportunity for higher volumes, and flexibility for increased accessibility and efficiency of haulage and logistics throughput to Geraldton Port.

The development of Ruvidini as an inland port provides FEX with the ability to moderate the timing surrounding tonnages shipped through its Geraldton Port facilities, improving efficiency by reducing bottlenecks and providing storage of iron ore materials for minimal cost. FEX intends to work in partnership with WA Main Roads to rehabilitate and commission the Ruvidini Rail Siding, including associated road works. FEX is exploring future opportunities to extend its logistics offering to include rail haulage solutions as a means to bolster future revenue opportunities for both FEX-owned product as well as third-party producers seeking to export through the Port of Geraldton.

Increased flexibility for a minimal cost

FEX estimates the capex for the Ruvidini Inland Terminal to be A\$3.5–A\$4m. As part of the agreement with Gold Valley, Gold Valley will contribute A\$1.4m towards the cost.

In addition, there will be A\$3.5–A\$4m of roadworks to be completed. FEX will pay this capital up front, but WA Main Roads will be responsible for the upkeep and maintenance of the haul roads.

Investment Thesis Recap: Uniquely Positioned for Growth;

Cash generation and strong cost control – laying the groundwork

March 2024 Cash Balance of \$88.3m sets FEX up for Growth

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 creating a cash balance of A\$88.3m as at end-March 2024, 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 and Shine restart open up immediate and long-term iron ore growth; production to be tripled by early CY2025.

The acquisition of a right to mine 10Mt from Sinosteel's high-grade Beebyn-W11 (BW11) deposit has the potential to give 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 CY2025. 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. The Shine restart is a low capex and low operational cost restart leveraging FEX operational experience, transport and logistics expertise and port capacity. Production at both mines would use the same conventional mining methods as currently deployed at Iron Ridge.

The 2 new mines would triple current production by early CY 2025 and significantly boost cash flows.

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 signing of the 500kt iron ore purchase agreement with 10M Pty Ltd, allowing a 'stranded asset' the capacity to ship ore and generate revenue, and the A\$70m Gold Valley Logistics and port services deal. 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.

Recent events

- July 2024 - Restart of Shine Iron Ore Mine announced
- April 2024 – Posts 3QFY24 results – another strong quarter
- March 2024 – Gold Valley logistics and port services contract signed
- March 2024 – Shipment of first Twin Peaks ore
- March 2024 – Athena Resources transaction
- February 2024 – Strong half-year results
- January 2024 – Standout quarter for Iron Ridge
- November 2023 – Foundation Port Services customer; 500kt ore purchase agreement

Key catalysts for share price and valuation

- Continued strong performance of Iron Ridge – ongoing
- Commencement of Shine Iron Ore Production - CY24
- Commencement of the BW11 Project – CY25
- Further iron ore acquisitions – ongoing
- Logistics and infrastructure growth – ongoing
- Further transactions with regional producers – including other commodities – ongoing
- Exploration success around Iron Ridge – CY24
- Iron ore price increases from current levels

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
- Delays to Shine restart
- Growth projects not going ahead or being slowed
- Cost inflation
- Licence to operate
- Iron ore price decreases from current levels
- Foreign exchange rates

Valuation: A\$0.68/Share (Previous A\$0.54) Blended DCF and EV/EBITDA

Our blended valuation for FEX of A\$0.68 per share and has increased from A\$0.54 and is 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 ~70% upside to the current share price.

FEX has pursued some very significant business development opportunities 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.

Increase to Valuation Driven by Shine and Cash

Our valuation has increased substantially with the inclusion of the Shine Iron Ore Mine into our valuation. The inclusion of Shine demonstrates the value that can be generated by FEX where it adds near term production to its portfolio and utilises the efficiency of its transport, logistics and port assets.

In addition to Shine, FEX's continued strong cash generation has increased the level of cash in our valuation. The details of our DCF and EV/EBITDA valuations are below.

DCF-based net asset valuation: A\$0.59/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

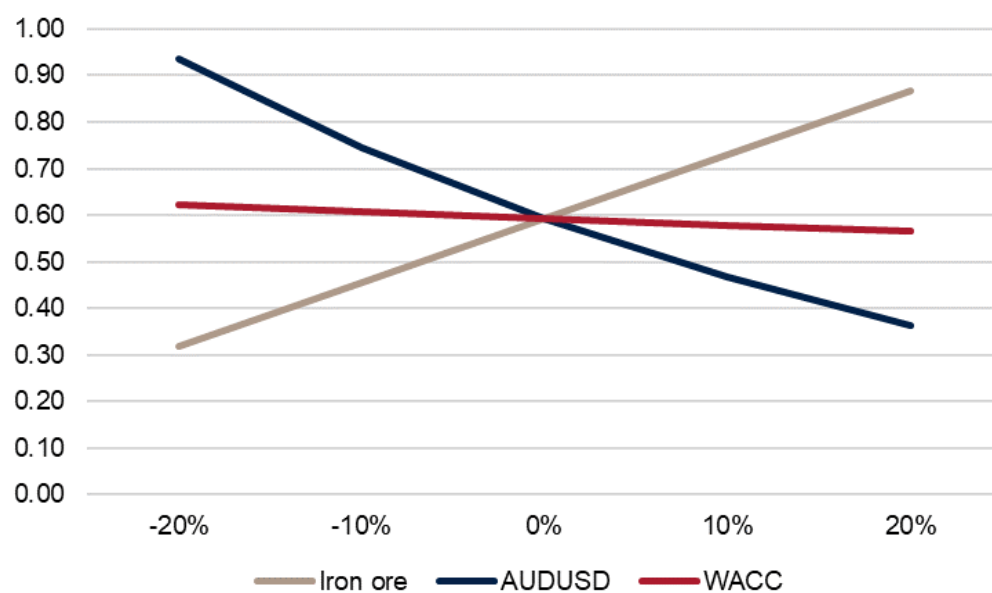
- **Iron ore price:** long-run iron ore price of US\$100/t (2023 real \$)
- **Forex:** AUD/USD of 0.70
- **Iron Ridge:** 1.44Mwmtpa of shipments, C1 cash cost of A\$76/wMt, mining to the end of 2027 (~4 years life remaining)
- **Shine:** 1.2Mwmtpa of shipments, C1 cash cost of A\$67/wmt, commencing in the Dec '24 quarter and running to the end of 2026, A\$7.4m capex
- **Beebyn:** A\$25m capex, first production 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 Gold Valley, 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 term of current contracts or life of mine, extending over the next ~10 years and with no terminal value. We highlight that the strategic and financial value of FEX's logistics assets may extend far beyond this.

Figure 6: DCF-based NPV valuation for FEX

| DCF Valuation | | | | Previous Valuation |
|-------------------------------|---------------|------------|-------------|--------------------|
| | Discount rate | A\$m | A\$/sh | A\$/sh |
| Iron Ridge | 10.0% | 78 | 0.10 | 0.13 |
| Beebyn | 10.0% | 104 | 0.14 | 0.13 |
| Shine | 10.0% | 45 | 0.06 | 0.00 |
| Logistics & other | 10.0% | 118 | 0.16 | 0.16 |
| Total operating assets | | 346 | 0.46 | 0.42 |
| Corporate | 10.0% | (31) | -0.04 | -0.04 |
| Net cash/(debt) | | 138 | 0.18 | 0.13 |
| Provisions | | (8) | -0.01 | -0.01 |
| Net Asset Value | | 446 | 0.59 | 0.51 |

Source: MST.

Figure 7: DCF Sensitivity to key inputs



Source: MST

EV/EBITDA valuation: A\$0.74/share at 3.5x FY25 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 next twelve months (NTM) EBITDA (see Figure 9).

Figure 8: FEX EV/EBITDA valuation

| EV/EBITDA valuation | A\$m | | A\$/sh | |
|---------------------------------------|------------|-------------|-------------|-------------|
| | 1H 25 | 2H 25 | | |
| EBITDA | | | | |
| Iron Ridge | 34 | 29 | 0.08 | 0.11 |
| Beebyn | 0 | 4 | 0.01 | 0.00 |
| Shine | 15 | 26 | 0.05 | 0.00 |
| Logistics services | 8 | 11 | 0.03 | 0.02 |
| Corporate/SG&A/hedging | -4 | -4 | (0.01) | (0.01) |
| Total next twelve months (NTM) | 119 | | 0.16 | 0.12 |
| Multiple | | 3.5x | | 3.5x |
| Enterprise value | | 416 | 0.55 | 0.41 |
| Net cash/(debt) | | 138 | 0.18 | 0.15 |
| Equity value | | 554 | 0.74 | 0.56 |

Source: MST.

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.

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.

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.

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.

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 production from Shine and Beebyn-W11

Any delays in moving into development of the assets 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 management.

Personal disclosures

Michael Bentley received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

Company disclosures

The companies and securities mentioned in this report, include:

Fenix Resources (FEX.AX) | Price A\$0.40 | Valuation A\$0.68;

Price and valuation as at 15 July 2024 (not covered)*

Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Fenix Resources (FEX.AX)

Other disclosures, disclaimers and certificates

Methodology & Disclosures

MST Access is a registered business name of MST Financial Services Limited (ABN 617 475 180 "MST Financial Services"), which is a limited liability company incorporated in Australia on 10 April 2017 and holds an Australian Financial Services Licence (AFSL 500 557). This research is issued in Australia through MST Access, which is the research division of MST Financial Services. The research and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by MST Access is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a financial product you should read any relevant Product Disclosure Statement or like instrument.

ECM and corporate advisory services: MST Financial Services provides equity capital markets ("ECM") and corporate advisory services through its capital markets division, MST Capital Markets ("MST Capital"). MST Capital provides these services to a range of companies including clients of MST Access. As such, MST Capital may in the future provide ECM and/or corporate advisory services and, accordingly, may receive fees from providing such services. However, MST Financial Services has measures in place to ensure the independence of its research division is maintained, including information barriers between its Capital Markets and Research teams. In addition, neither MST Access, nor any of its research analysts, receive any financial benefit that is based on the revenues generated by MST Capital or any other division of MST Financial Services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently certified. Opinions contained in this report represent those of MST Access at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results and estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of liability: To the fullest extent allowed by law, MST Access shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this report. No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by MST Access, and under no circumstances will any of MST Financial Services' officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content.

General Advice Warning

MST Access Research may not be construed as personal advice or recommendation. MST Access encourages investors to seek independent financial advice regarding the suitability of investments for their individual circumstances and recommends that investments be independently evaluated. Investments involve risks and the value of any investment or income may go down as well as up. Investors may not get back the full amount invested. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer's securities or investments. The information contained within MST Access Research is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy. Analysis contained within MST Access Research publications is based upon publicly available information and may include numerous assumptions. Investors should be aware that different assumptions can and do result in materially different results.

MST Access Research is distributed only as may be permitted by law. It is not intended for distribution or use by any person or entity located in a jurisdiction where distribution, publication, availability or use would be prohibited. MST makes no claim that MST Access Research content may be lawfully viewed or accessed outside of Australia. Access to MST Access Research content may not be legal for certain persons and in certain jurisdictions. If you access this service or content from outside of Australia, you are responsible for compliance with the laws of your jurisdiction and/or the jurisdiction of the third party receiving such content. MST Access Research is provided to our clients through our proprietary research portal and distributed electronically by MST Financial Services to its MST Access clients. Some MST Access Research products may also be made available to its clients via third party vendors or distributed through alternative electronic means as a convenience. Such alternative distribution methods are at MST Financial Services' discretion.

Access & Use

Any access to or use of MST Access Research is subject to the [Terms and Conditions](#) of MST Access Research. By accessing or using MST Access Research you hereby agree to be bound by our Terms and Conditions and hereby consent to MST Financial Services collecting and using your personal data (including cookies) in accordance with our [Privacy Policy](#), including for the purpose of a) setting your preferences and b) collecting readership data so we may deliver an improved and personalised service to you. If you do not agree to our Terms and Conditions and/or if you do not wish to consent to MST Financial Services' use of your personal data, please do not access this service.

Copyright of the information contained within MST Access Research (including trademarks and service marks) are the property of their respective owners. MST Access Research, video interviews and other materials, or any portion thereof, may not be reprinted, reproduced, sold or redistributed without the prior written consent of MST Financial Services.