



Fortitude Gold Corporation (FTCO)

Updated June 1st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$6.60	5 Year CAGR Estimate:	5.1%	Market Cap:	\$158.5 M
Fair Value Price:	\$6.05	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	06/31/2022 ¹
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	06/18/2022
Dividend Yield:	7.3%	5 Year Price Target	\$6.05	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Fortitude Gold Corporation was spun-off from Gold Resource Corporation into a separate public company in December 2021. Fortitude Gold is a junior gold producer with operations in Nevada, U.S.A, one of the world's premier mining-friendly jurisdictions. The company targets high-grade gold open pit heap leach operations averaging one gram per tonne of gold or greater. Its property portfolio currently consists of 100% ownership in six high-grade gold properties. All six properties are within an approximate 30-mile radius of one another within the prolific Walker Lane Mineral Belt. The company generates around \$82 million in annual revenues, 99% of which are from gold, and is headquartered in Colorado Springs, Colorado. It pays dividends on a monthly basis. Shares are trading over the counter (OTC) and are not listed on a major exchange.

On May 4th, 2022, Fortitude Gold Corporation reported its Q1-2022 results for the period ending March 31st, 2022. Revenues came in at \$15.4 million, 25.6% lower year-over-year. While the company realized 3.2% higher gold prices, at an average of \$1,863/oz., it sold around 8.3K ounces of gold, a decrease of 28% year-over-year. This is due to a drop in total gold production, which declined by 14.3% to 11.5K ounces. Despite the lower production, the company maintained its 2022 Annual Outlook, targeting a production of 40K gold ounces. Moving to the bottom line, while the company recorded a mine gross profit of \$6.8 million compared to \$10.9 million last year amid lower sales, general and administrative expenses plunged from \$6.1 million last year to just \$1.2 million. However, note that last year's inflated number was primarily the result of non-recurring stock-based compensation totaling \$5.2 million relating to building out the company's staffing needs post-spin-Off. Accordingly, net income came in at \$2.6 million, or \$0.11 per share, around 8.3% higher year-over-year. Based on the company's Q1 results, gold production outlook (40K ounces versus 46.5K produced last year), and current gold prices, we forecast EPS of \$0.55 for fiscal 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	---	---	\$0.48	\$0.75	\$0.55	\$0.55
DPS	---	---	---	---	---	---	---	---	---	\$0.31	\$0.48	\$0.48
Shares²	---	---	---	---	---	---	---	---	21.2	24.1	24.2	24.2

Fortitude Gold estimates that its annual gold production will be maintained close to 40K ounces well through 2028. Thus, excluding any potential acquisitions, the company's medium-term results will mostly be determined by the underlying gold prices and modest expansions at existing mines. On the one hand, higher gold prices and operating efficiencies could boost the company's bottom line. On the other hand, lower gold prices and increased costs, especially during the current inflationary environment, could pressure profitability. For this reason, our medium-term assumptions employ constant results ahead. In terms of its dividend, the company has a unique policy: Returning as much cash to shareholders as soon as possible while balancing the capital needs of operations, reinvesting capital back into the business for organic growth, and paying taxes. Jason Reid, the company's CEO, has clearly stated they aim to counter the criticism of mining equities providing no yield, thus targeting an attractive yield while dividends are being paid monthly.

¹ Estimated dates.

² Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Management believes this trait will differentiate the company from its mining peers from an investors' standpoint. The current \$0.04 monthly rate implies an annualized dividend of \$0.48 per share. We estimate stable payouts ahead, matching our stable EPS estimate.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	---	---	9.7	12.0	11.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	4.2%	7.3%	7.9%

Fortitude Gold currently trades at around 12 times our expected EPS for fiscal 2022. This is more or less in line with its industry peers. However, due to the company's short trading history, its future earnings potential influenced by a commodity that fluctuates, and additional risks attached to an OTC listing from an investor's standpoint (e.g., liquidity risks), we have set our fair multiple at a humbler 11X. In line with the company's goal to feature a high dividend yield, shares of Fortitude currently yield a substantial 7.3%. The yield could grow more sizable following a modest valuation compression.

Safety, Quality, Competitive Advantage, & Recession Resiliency

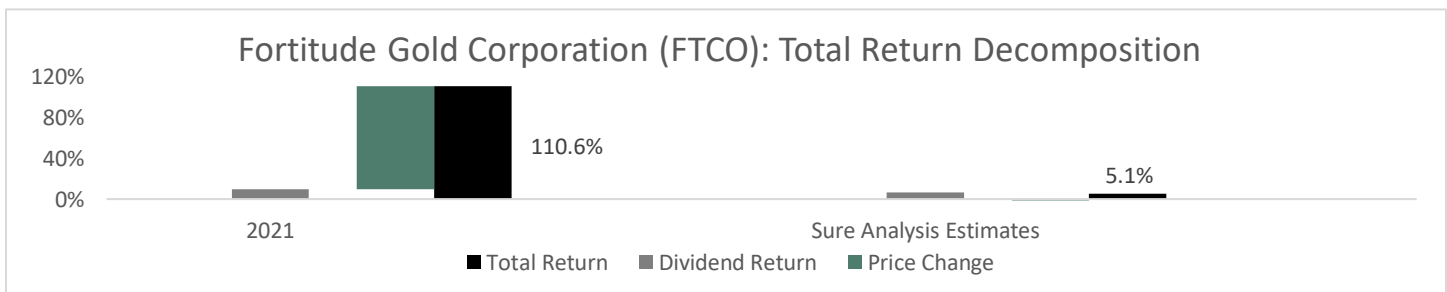
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	---	---	41%	87%	87%

We consider Fortitude Gold's current payouts relatively reliable, as they should be covered even following a noteworthy decline in gold prices. However, they could easily be cut during a prolonged, unfavorable environment for the commodity. The company's competitive advantage lies in management's expertise and robust shareholder value creation track record. During their leadership role in Gold Resource Corporation (NYSE:GRO) prior to the spin-off, they generated over \$1 billion in revenues, recorded ten consecutive years of profitability, and distributed over \$116 million in dividends to shareholders, among other developments. Its properties also feature exceptionally high-ore grade and near-surface deposits, resulting in low-cost operations relative to its peers. Additionally, the balance sheet is pristine, with \$121.7 million in total assets against just \$9.5 million in total liabilities, resulting in a strong equity value of \$112.2 million. The company is not necessarily vulnerable to a recession, as future results are mostly subject to gold prices. Still, gold prices are likely to decline during a recession.

Final Thoughts & Recommendation

Fortitude Gold Corporation appears like an optimal pick for investors who seek exposure to gold miners combined with regular payouts, with the company featuring by far the highest yield amongst its peers. That said, future earnings will be highly correlated to the movement of gold prices. Additionally, valuation headwinds could offset some of the dividend returns. Accordingly, we forecast annualized returns of around 5.1% through 2027. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue								15	54	82
Gross Profit								0	16	41
Gross Margin								3.2%	30.0%	49.4%
SG&A Exp.								2	3	11
D&A Exp.								4	10	15
Operating Profit								(3)	11	24
Operating Margin								-18.7%	19.7%	28.9%
Net Profit								(3)	10	18
Net Margin								-19.9%	18.9%	21.8%
Free Cash Flow								(28)	7	20
Income Tax								-	0	6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets								84	113	122
Cash & Equivalents								1	28	40
Accounts Receivable								-	0	0
Inventories								11	23	38
Total Liabilities								18	15	10
Accounts Payable								5	2	2
Long-Term Debt								2	1	0
Shareholder's Equity								66	98	112
LTD/E Ratio								0.03	0.01	0.00

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets									10.4%	15.2%
Return on Equity									12.5%	17.0%
ROIC									12.3%	16.9%
Shares Out.									21.2	24.1
Revenue/Share								0.63	2.26	3.41
FCF/Share								(1.15)	0.27	0.83

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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