



Fortitude Gold Corporation (FTCO)

Updated February 28th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$4.43	5 Year CAGR Estimate:	11.5%	Market Cap:	\$107.1 M
Fair Value Price:	\$5.25	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	02/16/2024
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	02/29/2024
Dividend Yield:	10.8%	5 Year Price Target	\$5.25	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	B	Rating:	Buy

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 generated \$73.1 million in revenues last year, almost the majority of which were from gold, and is based 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 February 27th, 2024, Fortitude Gold posted its full-year results for the period ending December 31st, 2023. For the quarter, revenues came in at \$73.1 million, 1.7% lower compared to last year. The decline in revenues was driven by an 8.7% decline in ounces of gold sold. However, a 39.8% increase in ounces of silver sold combined with 7.6% higher gold and 5.3% higher silver prices largely offset this setback.

Moving to the bottom line, the company recorded a mine gross profit of \$41.2 million compared to \$35.4 million last year due to lower production costs.

Hence, the company enjoyed an expansion in margins, leading to net income advancing to \$17.0 million, up from \$14.7 million last year. On a per-share basis, net income came in at \$0.71, compared to \$0.61 last year. Our initial estimates point toward FY2024 EPS of \$0.70.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	---	---	---	---	\$0.48	\$0.75	\$0.61	\$0.71	\$0.70	\$0.70
DPS	---	---	---	---	---	---	---	\$0.31	\$0.48	\$0.48	\$0.48	\$0.48
Shares¹	---	---	---	---	---	---	21.2	24.1	24.2	24.2	24.2	24.5

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. Management believes this trait will differentiate the company from its mining peers from an investors' standpoint. The

¹ Share count is in millions.

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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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	---	---	9.7	10.0	8.1	6.3	7.5
Avg. Yld.	---	---	---	---	---	---	---	4.2%	7.8%	8.3%	10.8%	9.1%

Fortitude Gold currently trades at 6.3 times our expected EPS for fiscal 2024. This multiple is mostly in-line with the single-digit multiples of its industry peers. That said, despite the company's short trading history, the fact that its future earnings potential is influenced by a commodity that fluctuates, additional risks attached to an OTC listing (e.g., liquidity risks), and rising rates, we believe that its current multiple is rather humble. Our fair multiple remains at 7.5X. The 10.8% yield becomes particularly compelling when considering Fortitude's production outlook and hold prices remain strong.

Safety, Quality, Competitive Advantage, & Recession Resiliency

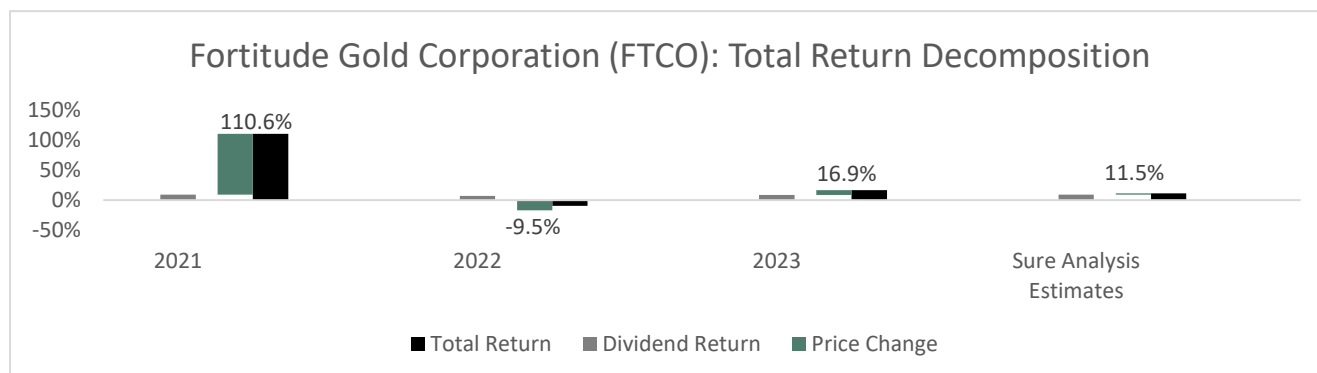
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	---	41%	79%	68%	69%	69%

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 \$135.0 million in total assets against just \$14.5 million in total liabilities, resulting in a strong equity value of \$120.6 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 the highest yield by far amongst its peers. That said, future earnings will be highly correlated to the movement of gold prices. We forecast annualized returns of 11.5% through 2029, to be mainly powered by Fortitude's dividend yield, and do a lesser extent, by a potential valuation tailwind. FTCO earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	---	---	---	---	15	54	82	74
Gross Profit	---	---	---	---	---	---	0	16	41	35
Gross Margin	---	---	---	---	---	---	3.2%	30.0%	49.4%	47.3%
SG&A Exp.	---	---	---	---	---	---	2	3	11	6
D&A Exp.	---	---	---	---	---	---	4	10	15	13
Operating Profit	---	---	---	---	---	---	(3)	11	24	18
Operating Margin	---	---	---	---	---	---	-18.7%	19.7%	28.9%	24.3%
Net Profit	---	---	---	---	---	---	(3)	10	18	15
Net Margin	---	---	---	---	---	---	-19.9%	18.9%	21.8%	20.3%
Free Cash Flow	---	---	---	---	---	---	(28)	7	20	17
Income Tax	---	---	---	---	---	---	-	0	6	3

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---	---	---	84	113	122	131
Cash & Equivalents	---	---	---	---	---	---	1	28	40	45
Accounts Receivable	---	---	---	---	---	---	-	0	0	0
Inventories	---	---	---	---	---	---	11	23	38	47
Total Liabilities	---	---	---	---	---	---	18	15	10	15
Accounts Payable	---	---	---	---	---	---	5	2	2	2.5
Long-Term Debt	---	---	---	---	---	---	2	1	0	0
Shareholder's Equity	---	---	---	---	---	---	66	98	112	116
LTD/E Ratio	---	---	---	---	---	---	0.03	0.01	0.00	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	---	---	10.4%	15.2%	11.6%
Return on Equity	---	---	---	---	---	---	---	12.5%	17.0%	12.9%
ROIC	---	---	---	---	---	---	---	12.3%	16.9%	12.9%
Shares Out.	---	---	---	---	---	---	---	21.2	24.1	24.2
Revenue/Share	---	---	---	---	---	---	0.63	2.26	3.41	3.07
FCF/Share	---	---	---	---	---	---	(1.15)	0.27	0.83	0.69

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

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