



Fortitude Gold Corporation (FTCO)

Updated November 9th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$5.62	5 Year CAGR Estimate:	5.5%	Market Cap:	\$135.9 M
Fair Value Price:	\$4.95	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	11/20/2024
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	11/29/2024
Dividend Yield:	8.5%	5 Year Price Target	\$4.95	Years Of Dividend Growth:	N/A
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 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 November 5th, 2024, Fortitude Gold released its Q3 results for the period ending September 30st, 2024. For the quarter, revenues came in at \$10.2 million, 52% lower compared to last year. The decline in revenues was primarily due to a 62% drop in gold sales volume and a 54% decrease in silver sales volume. However, these reductions were partially offset by a 26% increase in gold prices and a 23% rise in silver prices.

Moving to the bottom line, the company recorded a mine gross profit of \$4.8 million compared to \$11.8 million last year due to lower net sales. Therefore, the company reported a net income of just \$946,000 versus a net income of \$5.7 million last year. On a per-share basis, net income was \$0.04 compared to net income of \$0.24 last year. We believe the company has an EPS power potential of about \$0.55. However, EPS in FY2024 could be notably lower. We have updated this year's estimate to \$0.20.

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	\$0.20	\$0.55
DPS	---	---	---	---	---	---	---	\$0.31	\$0.48	\$0.48	\$0.48	\$0.48
Shares¹	---	---	---	---	---	---	21.2	24.1	24.2	24.2	24.3	24.5

Fortitude Gold was initially estimating that its annual gold production will be sustained close to 40K ounces well through 2028. However, this outlook has now been deferred as the company awaits permits from regulatory agencies to mine deeper in the Isabella Pearl deposit as well as expand mine operations with permit approval to build its second mine, its County Line project. For this reason, we have lowered this year's estimate, as well as our previous medium-term assumptions.

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

¹ Share count is in millions.

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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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	---	---	9.7	10.0	8.1	10.2	9.0
Avg. Yld.	---	---	---	---	---	---	---	4.2%	7.8%	8.3%	8.5%	9.7%

Fortitude Gold currently trades at 10.2 times our EPS power estimate. This multiple is mostly in-line with the single-digit to low-teens multiples of its industry peers. That said, despite Fortitude'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 the current multiple could be fairly rich. Our fair multiple currently stands at 9.0x earnings. The 8.5% yield appears compelling when considering Fortitude's production outlook and hold prices remain strong.

Safety, Quality, Competitive Advantage, & Recession Resiliency

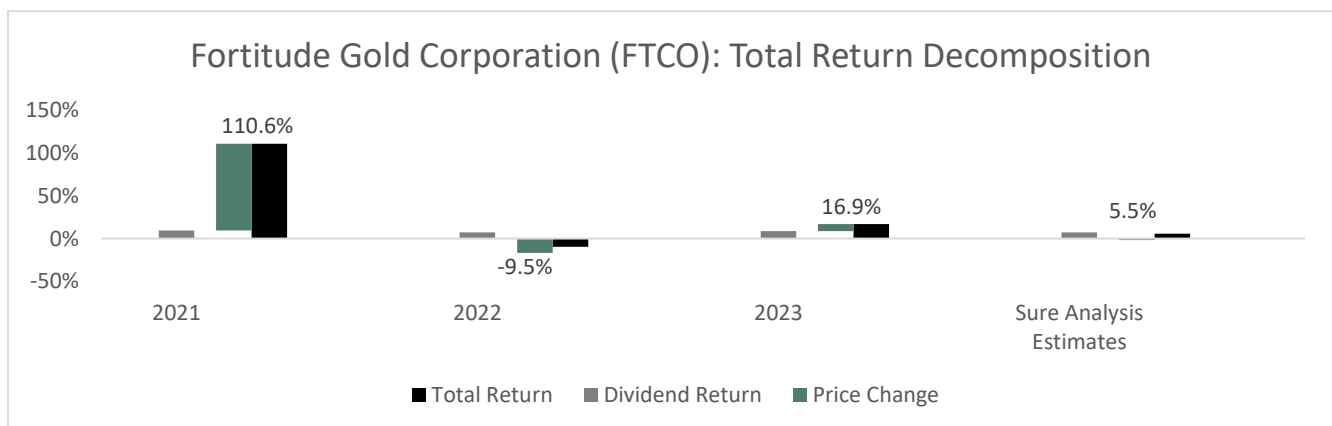
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	---	41%	79%	68%	87%	87%

We consider Fortitude Gold's payouts speculative. They could easily be cut assuming an extended, bad 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:GORO) 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 \$127.1 million in total assets against just \$13.7 million in total liabilities, resulting in a strong equity value of \$113.4 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 5.5% through 2029, to be mainly driven by Fortitude's dividend yield, and do a lesser extent, by a potential valuation headwind. FTCO earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	---	---	---	---	15	54	82	74	73
Gross Profit	---	---	---	---	---	0	16	41	35	41
Gross Margin	---	---	---	---	---	3.2%	30.0%	49.4%	47.3%	56.2%
SG&A Exp.	---	---	---	---	---	2	3	11	6	5
D&A Exp.	---	---	---	---	---	4	10	15	13	12
Operating Profit	---	---	---	---	---	(3)	11	24	18	19
Operating Margin	---	---	---	---	---	-18.7%	19.7%	28.9%	24.3%	26.0%
Net Profit	---	---	---	---	---	(3)	10	18	15	17
Net Margin	---	---	---	---	---	-19.9%	18.9%	21.8%	20.3%	23.3%
Free Cash Flow	---	---	---	---	---	(28)	7	20	17	18
Income Tax	---	---	---	---	---	-	0	6	3	4

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	---	---	---	---	84	113	122	131	135
Cash & Equivalents	---	---	---	---	---	1	28	40	45	49
Accounts Receivable	---	---	---	---	---	-	0	0	0	0
Inventories	---	---	---	---	---	11	23	38	47	24
Total Liabilities	---	---	---	---	---	18	15	10	15	14
Accounts Payable	---	---	---	---	---	5	2	2	2.5	4
Long-Term Debt	---	---	---	---	---	2	1	0	0	0
Shareholder's Equity	---	---	---	---	---	66	98	112	116	121
LTD/E Ratio	---	---	---	---	---	0.03	0.01	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	---	---	---	10.4%	15.2%	11.6%	12.8%
Return on Equity	---	---	---	---	---	---	12.5%	17.0%	12.9%	14.4%
ROIC	---	---	---	---	---	---	12.3%	16.9%	12.9%	14.4%
Shares Out.	---	---	---	---	---	---	21.2	24.1	24.2	24.2
Revenue/Share	---	---	---	---	---	0.63	2.26	3.41	3.07	3.02
FCF/Share	---	---	---	---	---	(1.15)	0.27	0.83	0.69	0.73

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

Disclaimer

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