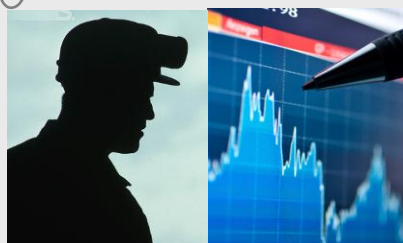


# Rocks & Stocks

## Rocks & Stocks



### CALL TO ACTION

*Metro Mining ticks several boxes for what we look for in a mining junior; 1) exposure to positive commodity dynamics; 2) a realistic path to production, 3) multiples of upside from a nominal market value; and 4) a credible board and management.*

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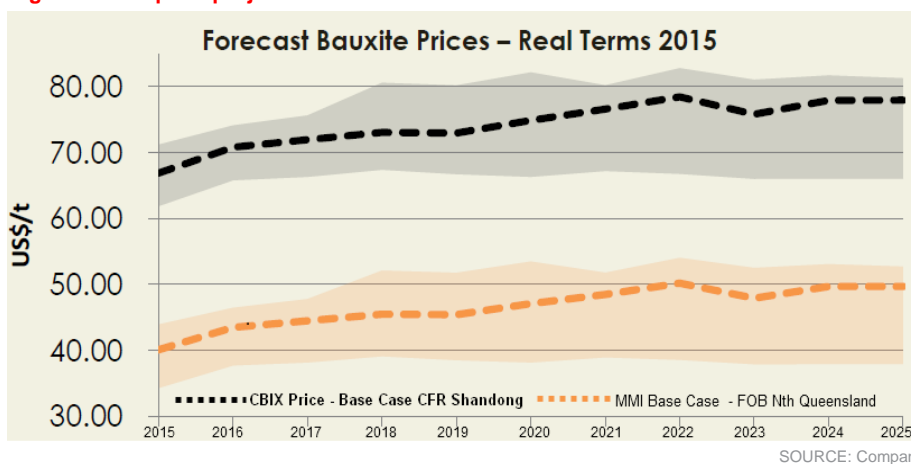
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## Metro Mining – Undiscovered bauxite beauty

*Metro Mining's pre-feasibility on its Bauxite Hills project in Cape York identified multiples of upside relative to its nominal A\$6m EV. The simple, low capex development would see MMI exploit compelling bauxite market dynamics. Equity market recognition, and therefore the ability to fund the development, is the biggest hurdle, however MMI looks to be poised to re-rate given the potential upside in our view.*

**Fig 1: Bauxite price projections**



### Bauxite Hills – a potential company maker

Bauxite Hills is located around 95km north of Weipa, one of the world's most prolific regions for bauxite endowment. MMI's pre-feasibility evaluated a 2Mtpa operation over 21 years with a capex of \$27.4m. The operation involves simple open pit mining, barging via the Skardon River and transshipment into bulk carriers for export. This option requires minimal port infrastructure and lower initial capex than other operations. MMI forecasts an after tax NPV<sub>15%</sub> of A\$197m, average annual NPAT of ~\$38m and payback within 1.1 years of an estimated startup. MMI's cornerstone shareholder Xinfu Group which operates a number of large Aluminium smelters across China has also shown interest in offtake agreements, lending support for future product marketing.

### Compelling seaborne bauxite dynamics support robust price growth

Some of the biggest producers in the world are echoing a bullish tone on bauxite demand since Indonesia brought in its export ban on raw ores 12 months ago. Large producers like Alumina Ltd point out that whilst there are many deposits of bauxite around the globe, very few of them offer a sufficient investment return, a clear path to government approvals and ready access to infrastructure, hence the possibility of new large scale projects looks unlikely. Meanwhile stockpiles of Chinese bauxite stood at 30Mt in late 2014 and are dropping by around a million tonnes each month. Chinese refineries are also struggling to source material from non-traditional destinations such as Malaysia and Thailand which is driving up the price.

### How to play it

**We think that Metro Mining (MMI) looks cheap** at an enterprise value of only A\$6m versus the potential value identified at Bauxite Hills. We anticipate the stock to re-rate via project de-risking as permitting and project study milestones are met over the next 12 months. Bauxite projects traditionally have high barriers to entry due to infrastructure hurdles however Bauxite Hills looks relatively simple via its free-dig mining, handling and barging process. Followers of the sector will have noticed the rebounding fortunes of Alumina producers such as AWC and we take the view that it won't be long before interest in the sector filters down to bauxite pre-development plays such as MMI.

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