

Metro Mining

3rd July 2015

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Friday, July 03, 2015

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The following is an extract from the report.

QUICK READ

[Metro Mining \(ASX:MMI\)](#) is developing the Bauxite Hills project in the Cape York Peninsula, QLD, Australia.

This bauxite project ticks a lot of boxes with low development capex, high operating margins, long life, low complexity and near term development potential.

Bauxite Hills stands to benefit from growing seaborne demand driven by Indonesian and Vietnamese export bans and declining domestic Resources in China.

Located close to [Rio Tinto](#)'s Weipa project, the project can leverage off the Cape York bauxite brand and has the advantage of being a short distance to China, the target market.

Argonaut assigns a SPEC BUY recommendation and \$0.25 target price, with a view that MMI offers high margin, low sovereign risk exposure to bauxite.

EVENT & IMPACT | POSITIVE

Bauxite Hills positive PFS:

Bauxite Hills consists of two mining pods with a global Reserve of 48.2Mt at 38.4% available/extractable alumina (A.Al₂O₃) and 6.4% reactive silica (R_xSiO₂).

In February this year, MMI released a positive PFS for 2Mtpa direct shipping ore (DSO) over a 21 year mine life.

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Low production costs of \$26.7/t generate high operating margins against an average forecast price of US\$44.8/t (A\$55.3/t) FOB.

Pre-production capex is low, estimated at \$27.4m. Consequently the project generates a strong post tax NPV15 of \$197m (\$148m for a 15yr mine life) and an attractive 88% IRR.

Simplicity:

Planned operations consist of low strip (>0.1:1) free dig mining, crushing and screening, 5-10km haulage to a barge loadout facility, then transport down the Skardon River for tranship loading to bulk carriers in the Gulf of Carpentaria.

The project requires little infrastructure with only crushing and screening prior to export.

Ripe for the market:

Bauxite prices have enjoyed an upward trajectory since 2009 and have accelerated since export bans were imposed by Indonesia and Vietnam.

China is the prime market for MMI's moderate-high A.AI₂O₃ bauxite, given proximity to market and growing demand.

Internally, China's Resources are declining in both tonnage and grade, driving demand for high quality, low transport cost imports.

Timing and Opportunities:

MMI is targeting first production in late-2016 following completion of environmental permitting, Native Title agreements and offtake.

MMI is believed to be in discussions with several of China's largest Aluminium producers regarding off-take.

It is expected that one of these parties is Xinfu, who currently hold a significant equity stake and Board seat.

Following Argonaut's recent site visit, we believe there is an opportunity to partner with Bauxite Hill's privately owned neighbour, Gulf Alumina, to increase scale, gain access to established infrastructure and reduce capex.

RECOMMENDATION

Argonaut assigns a SPEC BUY recommendation to MMI. Our target price of \$0.25 represents a 30% discount to our NAV15 valuation of \$0.38/sh, accounting for permitting and off-take risk.

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