

Monday, 10 August 2015

## Metro Mining

### Offtake MOU with Xinfa

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<b>Stock</b>	<b>MMI:ASX</b>
<b>Recommendation</b>	<b>SPEC BUY</b>
<b>Current Price</b>	<b>\$0.08</b>
<b>Target Price</b>	<b>\$0.25</b>

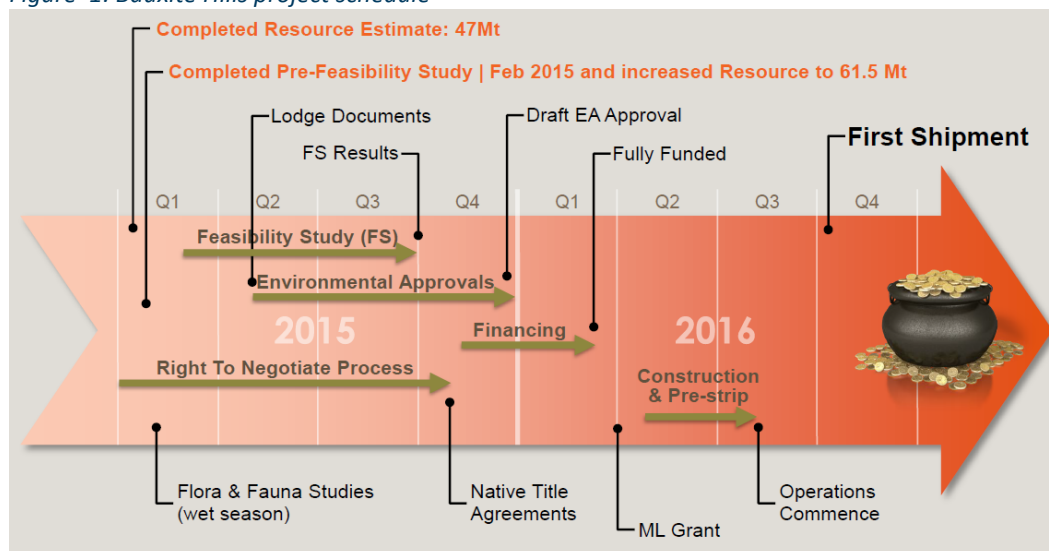
#### Event & Impact: Positive

**Offtake MOU:** MMI have signed a non-binding Memorandum of Understanding (MoU) with the Xinfa Group for approximately half of its planned annual bauxite production from the Bauxite Hills project in northern Queensland. The MOU is for 1.0-1.2Mtpa over a five year term, extendable by mutual agreement. Both parties will continue negotiations with an aim to complete a binding offtake agreement within four months. FOB pricing is to be determined and will be subject to market conditions and bauxite quality.

Xinfa is a private unlisted company and the second largest importer of bauxite into China behind Weiqiao Aluminum and Electricity Co. Xinfa's annual bauxite consumption is estimated at 25Mt, with approximately 15Mt of this is sourced from the seaborne market. They are a 7.2% shareholder in MMI and hold a non-Executive board seat. MMI currently has samples for product testing with three other Chinese parties and is expected to enter further offtake agreements this year. Argonaut anticipates ~75-80% of the planned 2Mtpa production will be sold into offtake contracts, leaving a small portion for the spot market.

**Key milestone:** Attaining off-take agreements will be critical for project financing, which is expected to commence in late-2015. It also provides the equity markets with confidence regarding the saleability of the Bauxite Hills direct shipped ore (DSO). The Draft Environmental Audit for a small scale mine is due to enter the phase of public consultation imminently and initial outcomes of Native Title negotiations are also expected this month. The BFS is on schedule for a September release and at this stage project development remains on-track for first production in late-2016.

Figure 1: Bauxite Hills project schedule



Source: MMI

**Low capex, low complexity near term development:** The Bauxite Hills project ticks a lot of boxes with low development capex, high operating margins, long life, low complexity and near term development potential. The project stands to benefit from growing seaborne demand driven by Indonesian and Vietnamese export bans and declining domestic bauxite Resources in China. Further detail in Argonaut's initiation ([Low complexity high margin bauxite](#)).

*Table 1: Key project metrics*

Key Metrics	Unit	Result
NPV (Real)	A\$m	197
IRR	%	88
Mine Life	Yrs	21
Development Capex	A\$m	27.4
LOM Sustaining Capex	A\$m	18.1
Average Cost (FOB)	A\$/t	26.7
Average Realised Price (FOB)	A\$/t	55.3
Average EBITDA margin	A\$/t	28.6
Average Annual NPAT	A\$m	37.9
Payback on Capital	Yrs	1.1

Source: MMI

The simple production process consists of the following stages:

- 1) Minimal overburden removal (low strip, less than <0.1:1)
- 2) Mining nine months per year to avoid complications of the heavy wet season
- 3) Front end loader ore mining with miner dozer assist (no drill and blast), loaded onto 130t haul trucks (Powertrans road train doubles)
- 4) 5-10km haulage to a barge loadout on the Skardon River
- 5) Crushing, screening and stockpiling
- 6) Barge 10km down the Skardon River to the Gulf of Carpentaria
- 7) Transshipping to bulk carrier vessels

## Recommendation

Argonaut maintains a SPEC BUY recommendation and \$0.25 target price. We have conservatively modelled a 15 year mine life to derive a Bauxite Hills project NPV<sub>15</sub> of \$148m. All other parameters in our model, including opex, capex and pricing, were sourced from the MMI's PFS. We have assumed 40% dilution to raise equity capital for project development (assuming 60:40 debt to equity financing), and applied maximum dilution to achieve our valuation of \$0.38/sh. We apply a 30% discount to NAV to account for permitting, funding and development risk to attain our target price.

**Important disclosure:** Argonaut acted as Joint Lead Manager & Underwriter to the Placement and Entitlement Offer to raise up to \$5.6M in July 2015 and received fees commensurate with this service. Argonaut currently holds or controls 2,307,143 MMI shares.