

Metro Mining¹

BUY

MMI-ASX

September 9, 2015

 Last: **A\$0.08**
 ▼ Target: **A\$0.18**

Resuming coverage: Funded through DFS

Rights issue closed, A\$5.6m raised in total, off-take MoU signed

Metro Mining has closed a fully underwritten 1 for 7 non-renounceable entitlement offer for a total of ~44.8m common shares at an offer price of A\$0.08 per share to raise ~A\$3.6m originally announced on July 16th. It has also completed a placement of 25m common shares at A\$0.08 per share for gross proceeds of A\$2m. In addition, in August, Metro signed a MoU for 1.0-1.2Mtpa offtake to 7.2% shareholder Xinha Group, one of the largest integrated aluminium companies in China. A binding long-term agreement is targeted within four months.

Cash funds Metro through DFS

With ~A\$8m in the bank Metro is now funded through to the decision to mine at Bauxite Hills, including the completion of the Definitive Feasibility Study expected in September 2015. The company will also use proceeds to advance permitting approvals and potentially secure pre-commitments for equipment and contractors. The company aims to commence mining operations in fiscal 3Q16, which we model as the commencement of construction at Bauxite Hills, with first production in DQ16.

Low capex for high IRR

Bauxite Hills offers investors exposure to near-term bauxite production with low build/dilution risk given initial capex of ~A\$20m. The project's cash break-even cost of ~US\$50/t provides good downside protection, but still allows investors to profit from a likely bauxite supply squeeze in coming years. It is evident based on recent Malaysian exports into China that producers there need >\$60/t or higher to remain economic – a potential floor price. Once in production, we would expect MMI to trade at ~1.0x NAV or ~3-5x EBITDA, implying 7-10x upside for a project with extremely low capex spend in an area with excellent infrastructure and shipping advantages to China.

Maintain BUY rating, lower PT to A\$0.18 on bauxite price

We update for the rights issue and equity raise (note that we had previously modeled a raise), maintaining our 0.4x NAV multiple. In reflection of current bauxite prices, we lower our LT assumption from US\$70/t to US\$65/t CIF China, retaining our BUY rating but lowering our PT to \$0.18/sh from A\$0.20.

What's Changed	Old	New
Rating	BUY	n.c.
Target	A\$0.20	A\$0.18

Project Details

Project Name:	Bauxite Hills
Production (Mtpa):	2.0 n.c.
Breakeven cost (\$/t CIF)	50 49
GMP Project NPV10%:	181 163

Share Data

Shares o/s (mm, b/f.d.)	358.5 / 484.0
52-week high/low	0.13 / 0.02
3M avg daily vol (m)	0.25
3M avg daily val (m)	0.05
Market cap (m)	18.6
Net cash (debt) (m)	4.7
Enterprise value (m)	11.9
Projected return	127%

Financial Data

YE Jun. 30	2014A	2015E	2016E
Revenue (A\$m)	0.3	0.5	-
EBITDA (A\$m)	(1.3)	(3.0)	(4.0)
Net income (A\$m)	(17.6)	(2.5)	(4.1)
EPS	(0.01)	(0.01)	(0.01)
CFPS	(0.00)	(0.01)	(0.01)
PER	-	-	-
P/CF	-	-	-
EV/EBITDA	-	-	-
1.0xNAV _{10%}			A\$0.46

All figures in US\$ unless otherwise noted

[Current Chart](#)
[Previous Research](#)

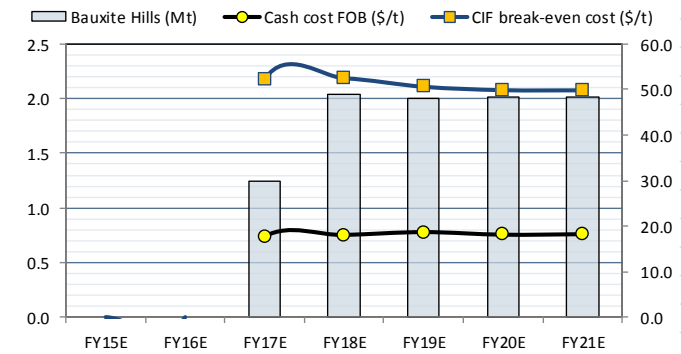
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Ticker: MMI AU	Share price	A\$0.08/sh				Stock rating:	BUY				Implied return:	127%
Analyst: Brock Salier	Market cap	A\$26m				Target price:	A\$0.18/sh				Market P/NAV	0.25x
Year to June						Year to June						
Ratio analysis	FY14A	FY15E	FY16E	FY17E	FY18E	Input costs	FY14A	FY15E	FY16E	FY17E	FY18E	
Average shares outstanding (m)	208.9	288.7	358.5	358.5	358.5	Bauxite Price CIF China (\$/t)	65	65	65	65	65	
EPS (\$/sh)	(0.01)	(0.01)	(0.01)	0.03	0.06	Bauxite Hill discount (\$/t)	15	15	15	15	15	
CFPS before working cap (\$/sh)	(0.00)	(0.01)	(0.01)	0.03	0.06	Aus to China shipping (\$/t)	16	16	12	12	12	
FCF yield (%)	-	-	-	-	1.02	AUS/USD (f-x rate)	1.15	1.23	1.42	1.42	1.42	
PE (adj.), x	-	-	-	0.0	0.0	Other data						
P/CF, x	-	-	-	0.0	0.0	Basic shares (m)	358.5				12M high: A\$0.13/sh	
EV/EBITDA, x	-	-	-	1.5	0.2	Fully diluted shares (m)	484.0				12M low: A\$0.02/sh	
EBIT margin, %	-	-	-	34%	43%	Resource / Reserve	Mt	Al₂O₃ (%)	SiO₂ (%)	SRx	THA/SRx	
ROIC (EBIT), %	-	-	-	27%	60%	Reserves (P&P)	12	49.2	14.8	7.4	5	
Income statement (yr to Jun)	FY14A	FY15E	FY16E	FY17E	FY18E	Resource (M&I + Inf)	62	50.0	12.3	7.1	5	
Revenue (A\$m)	0.3	0.5	-	57.0	103.3	Production (100% basis)	FY14A	FY15E	FY16E	FY17E	FY18E	
COGS (A\$m)	0.1	-	-	(25.4)	(40.8)	Bauxite DSO production (Mt)	-	-	-	1.24	2.04	
Gross Profit (A\$m)	0.4	0.5	-	31.6	62.5	Al ₂ O ₃ content (%)	-	-	-	38.5	39.8	
Admin expense (A\$m)	(1.9)	(1.2)	(4.0)	(5.0)	(5.0)	SiO ₂ content (%)	-	-	-	7.2	6.1	
Impairments(A\$m)	(15.4)	-	-	-	-	THA/RxSi (x)	-	-	-	5.4	6.5	
Other (A\$m)	(1.3)	(1.8)	-	24.5	49.0	Cash cost (\$/t inc royalties)	-	-	-	17.7	18.1	
PBIT (A\$m)	(18.6)	(3.1)	(4.0)	19.5	44.0	All-in breakeven cost (US\$/t)	-	-	-	52.2	52.5	
Interest expense (A\$m)	0.3	0.3	(0.1)	(2.5)	(2.4)							
Tax (A\$m)	0.6	-	-	-	(10.4)							
PAT (A\$m)	(17.7)	(2.8)	(4.1)	17.0	31.1							
F-x & minorities (A\$m)	0.1	0.3	-	-	-							
Attrib. net income (A\$m)	(17.6)	(2.5)	(4.1)	17.0	31.1							
EBITDA (A\$m)	(1.3)	(3.0)	(4.0)	20.0	45.6							
Cash flow statement (yr to Jun)	FY14A	FY15E	FY16E	FY17E	FY18E							
(Loss) / profit before tax (A\$m)	0.5	(3.1)	(4.0)	19.5	44.0							
Depreciation (A\$m)	-	0.0	-	0.5	1.7							
Changes in working capital (A\$m)	-	0.6	-	(10.3)	-							
Other (A\$m)	(1.6)	0.3	(0.1)	(12.3)	(11.1)							
CFO (A\$m)	(1.1)	(2.8)	(4.1)	7.2	32.8							
PP&E (A\$m)	(0.0)	(0.0)	(18.0)	(17.1)	(3.1)							
Exploration (A\$m)	(2.4)	(2.0)	-	-	-							
Other (A\$m)	(0.1)	0.4	0.8	-	-							
CFI (A\$m)	(2.5)	(1.6)	(17.2)	(17.1)	(3.1)							
Proceeds from share issue (A\$m)	-	-	5.3	9.5	-							
Net change in borrowing (A\$m)	-	-	20.0	10.0	(30.0)							
Other (A\$m)	-	-	-	-	-							
CFF (A\$m)	-	-	25.3	19.5	(30.0)							
Net increase in cash (A\$m)	(3.6)	(4.4)	4.0	9.6	(0.3)							
Effect of f-x on cash (A\$m)	-	-	-	-	-							
Cash at end of period (A\$m)	7.5	5.5	7.1	16.7	16.4							
Balance sheet (yr to Jun)	FY14A	FY15E	FY16E	FY17E	FY18E							
PP&E (A\$m)	9.5	10.2	29.2	45.8	47.3							
Trade & AR (A\$m)	0.1	0.4	0.1	12.0	12.0							
Inventory (A\$m)	0.0	-	-	1.0	1.0							
Cash (A\$m)	7.5	5.5	7.1	16.7	16.4							
Other (A\$m)	0.5	0.5	0.1	0.1	0.1							
Total assets (A\$m)	17.6	16.6	36.5	75.7	76.8							
AP (A\$m)	0.3	0.5	0.7	3.3	3.3							
Debt (A\$m)	-	-	20.0	30.0	-							
Provisions (A\$m)	0.1	0.1	0.0	0.0	0.0							
Other (A\$m)	-	-	-	-	-							
Total liabilities (A\$m)	0.4	0.6	20.8	33.4	3.4							
Shareholders equity (A\$m)	16.6	16.0	15.8	42.3	73.4							
Liabilities + equity (A\$m)	17.6	16.6	36.5	75.7	76.8							



SOTP valuation					
	O/ship	US\$m	NAVx	A\$m	A\$/sh
Bauxite Hills	100%	163	0.40	92	0.19
Exploration	100%	10	0.40	6	0.01
Cash	-	5	0.40	3	0.01
Equity raise	-	7	0.40	4	0.01
Cash from options	-	0	0.40	0	0.00
SG&A and central	-	(28)	0.40	(16)	(0.03)
Valuation (FD)		156		89	0.18

1.0xNAV evolution					
	2015	2016	2017	2018	2019
1xNAV + cumulative cash	0.46	0.61	0.75	0.94	1.03

Valuation sensitivities (A\$/sh) to LT Bauxite Price CIF China					
To discount rate	45	55	65	75	85
12% discount	(0.03)	0.06	0.15	0.24	0.33
10% discount	(0.04)	0.08	0.18	0.29	0.39
8% discount	(0.04)	0.09	0.22	0.35	0.48
To NAVx @ 10%	45	55	65	75	85
0.30xNAV	(0.03)	0.06	0.14	0.22	0.30
0.40xNAV	(0.04)	0.08	0.18	0.29	0.39
0.50xNAV	(0.05)	0.10	0.23	0.36	0.49

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