

Metro Mining¹

BUY

MMI AU

November 9, 2015

 Last: **A\$0.07**
 Target: **A\$0.18**

DFS shows improved economics & confidence

Increased mine life drives NPV of A\$235m and IRR of 148%

Metro's DFS released last week shows 1.95Mtpa over 25 years, producing 49.1Mt. Capex is only A\$33.9m with opex of US\$22.92/t against an estimated FOB price of US\$44/t for an impressive 52% gross margin. Compared to the PFS, the DFS shows a 10% drop in reactive silica (RxSi) to 6.4%, a slightly longer life and slightly higher capex. Overall the quote-driven study validates the PFS, and should increase investors' confidence in the project.

Furthermore the drop in RxSi increases confidence in the ability to find buyers for the product, the markets for which have recovered from 3Q15 troughs. With its proximity to China and incredibly low capital intensity, we think this project stands out not just above peers, but in the junior mining space.

EIS progressing after interdepartmental review dismissed

In September, the Queensland government requested a full EIS, and this decision has now upheld. Metro has commenced work on the EIS (first documents consisting of an Initial Advice Statement and a draft Terms of Reference), and aims to submit in 1H16 for 3Q16 target grant date. Land rights issues should be completed ahead of this with the Section 31D native title formalities targeting completion this year.

Focus turns to 4-5 Mtpa scenario

With a full EIS underway, there is no longer a 2Mtpa cap. Metro will submit terms of reference for a 5Mtpa scenario and is preparing a scoping study for a 4-5 Mtpa operation. Either way we expect operations to start up a 2Mtpa, with upsizing at modest incremental capex. For example, if we lift production from 2Mtpa to 4Mtpa in FY20 for A\$15m capex, our NPV10% would lift from US\$132m to US\$187m, with plateau EBITDA of A\$81m. With the bottleneck being barge-loading infrastructure, the company has sensibly scoped the port area for 5.5Mtpa giving optionality to expand even further in due course.

Maintain BUY rating and A\$0.18/sh PT

We update our model for the new mine plan, modelling A\$17.5m of equity at modest premium (A\$0.10/sh). Using a 0.5x NAV multiple to balance the now complete DFS and fully diluted methodology, but permitting, timing and build risk ahead, we maintain our BUY rating A\$0.18/sh target price. Even on a FD basis, we estimate Metro is currently trading at only 0.3xNAV.

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

Project Details

Project Name:	Bauxite Hills	
Production (Mtpa):	2.0	n.c.
Breakeven cost (\$/t CIF)	49	51
GMP Project NPV10%:	163	132

Share Data

Shares o/s (mm, b/f.d.)	358.5 / 539.1	
52-week high/low	0.13 / 0.02	
3M avg daily vol (m)	0.21	
3M avg daily val (m)	0.05	
Market cap (m)	17.6	
Net cash (debt) (m)	4.6	
Enterprise value (m)	11.1	
Projected return	144%	

Financial Data

YE Jun. 30	2014A	2015E	2016E
Revenue (A\$m)	0.3	0.5	-
EBITDA (A\$m)	(1.3)	(3.0)	(4.8)
Net income (A\$m)	(17.6)	(2.5)	(4.9)
EPS	(0.01)	(0.01)	(0.01)
CFPS	(0.00)	(0.01)	(0.01)
PER	-	-	-
P/CF	-	-	-
EV/EBITDA	-	-	-
1.0xNAV _{10%}	-	-	A\$0.34

All figures in US\$ unless otherwise noted

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

Brock Salier, PhD
brock.salier@gmpeurope.com

+44-207-016-1904

Justin Chan
justin.chan@gmpeurope.com

+44-207-647-2806

What's changed

The mine life has been extended to 25.2 years with total mining inventory of 49.1Mt up from 22 years and 42.0Mt, respectively. Average annual production is down to 1.95Mtpa from 2.00Mtpa in an effort to comply with the (no longer applicable) EA production cap, so we model 2Mtpa. Opex per tonne of product is up to A\$29.75/t or US\$22.31/t from A\$26.69/t and US\$21.62/t, respectively, a 12% decrease in AUD terms and a 0.4% decrease in USD terms. Initial capex increased to A\$33.9m from A\$27.4m due to increased granularity on load out areas. Reactive silica decreased from 7.1% to 6.4% increasing the marketability of the finished product – this came from dropping the total resource tonnes by removal of now well-defined peripheral lower-grade skins on the ore body. The DFS is quote driven and increases the level of confidence from the previously desktop PFS.

Total resource tonnage was reduced in June 2015 to 53.6Mt from 61.5Mt due to a lower reactive silica ceiling cut-off as noted above, thus potentially increasing demand for the DSO product. This is expected to improve realisable DSO pricing as well as the intangible benefit of increased saleability. We model FOB as US\$65/t CIF price for benchmark product, less US\$15/t discount for Metro's lower quality product, less shipping of US\$12/t, then adjusted for THA and RxSi bonus/penalty against benchmarked 39.3% THA and 6.7% RxSi. This drives a FOB price to Bauxite Hills of US\$39.5/t, which aligns well with the ~US\$41/t that Malaysian producers are now receiving for washed product. We note that Malaysian producers are now upgrading the quality of their product thus easing pressure on prices with Chinese demand remaining stable.

Figure 1. Summary of key DFS and PFS terms and new and prior GMP estimates

Bauxite Hills	PFS	DFS	Δ (%)	GMP Old	GMP new	Δ (%)
Mining inventory (Mt)	42	49.1	16.9%	48.2	49.1	1.9%
THA (% Al ₂ O ₃)	49.9*	50.2	0.6%	-	-	-
THA (%)	37.8*	38.4	1.6%	38.7	38.4	-0.9%
Reactive silica (%)	7.1	6.4	-9.9%	6.7	6.4	-4.1%
THA / RxSi	5.3	6.0	12.7%	6.0	6.0	0.0%
Avg. annual prod'n (Mtpa)	2.00	1.95	-2.5%	2.00	2.00	0.0%
Mine life (years)	21	25	20.0%	22	25	13.6%
Cash cost incl. royalties (US\$/t FOB)	21.02	20.92	-0.4%	18.1	19.9	10.1%
FOB bauxite price (US\$/t)	44.8	44.0	-1.9%	38.6	39.3	1.7%
AUD/USD	0.81	0.75	-7.4%	0.70	0.70	0.0%
LOM avg. annual NPAT (US\$m)	30.7	28.0	-8.9%	28.3	25.8	-8.9%
Initial capex (A\$m)	27.4	33.9	23.7%	30.0	36.0	20.0%
NPV_{15%} (US\$m)	160	176	10.5%	163	132	-18.9%
IRR (%)	88%	148%	68.2%	100%	64%	-36.1%

Source: GMP and company data

Catalysts

- 4Q15: Section 31D settlement (GMPE)
- 1H16: EIS submissions (GMPE)
- 3Q16: EIS granted (GMPE)

Ticker: MMI AU	Share price	A\$0.07/sh				Stock rating:	BUY		Implied return:	144%	
Analyst: Brock Salier	Market cap	A\$25m				Target price:	A\$0.18/sh		Market P/NAV	0.29x	
Year to June											
Ratio analysis	FY14A	FY15E	FY16E	FY17E	FY18E	Year to June					
Average shares outstanding (m)	208.9	288.7	358.5	358.5	358.5	Input costs	FY14A	FY15E	FY16E	FY17E	FY18E
EPS (\$/sh)	(0.01)	(0.01)	(0.01)	(0.02)	0.04	Bauxite Price CIF China (\$/t)	65	65	65	65	65
CFPS before working cap (\$/sh)	(0.00)	(0.01)	(0.01)	(0.02)	0.04	Bauxite Hill discount (\$/t)	15	15	15	15	15
FCF yield (%)	-	-	-	-	0.60	Aus to China shipping (\$/t)	16	16	12	12	12
PE (adj.), x	-	-	-	-	0.0	AUS/USD (f-x rate)	1.15	1.23	1.42	1.42	1.42
P/CF, x	-	-	-	-	0.0	Other data					
EV/EBITDA, x	-	-	-	-	1.2	Basic shares (m)	358.5		12M high: A\$0.13/sh		
EBIT margin, %	-	-	-	-	33%	Fully diluted shares (m)	539.1		12M low: A\$0.02/sh		
ROIC (EBIT), %	-	-	-	-	55%	Resource / Reserve	Mt	Al₂O₃ (%)	SiO₂ (%)	SRx	THA/SRx
Income statement (yr to Jun)											
Revenue (A\$m)	0.3	0.5	-	-	70.9	Reserves (P&P)	12	49.2	14.8	7.4	5
COGS (A\$m)	0.1	-	-	(1.2)	(32.5)	Resource (M&I + Inf)	62	50.0	12.3	7.1	5
Gross Profit (A\$m)	0.4	0.5	-	(1.2)	38.4	Production (100% basis)					
Admin expense (A\$m)	(1.9)	(1.2)	(3.6)	(5.0)	(5.0)	FY14A	FY15E	FY16E	FY17E	FY18E	
Impairments (A\$m)	(15.4)	-	-	-	-	Bauxite DSO production (Mt)	-	-	-	-	1.40
Other (A\$m)	(1.3)	(1.8)	(1.2)	(1.8)	28.5	Al ₂ O ₃ content (%)	-	-	-	-	38.5
PBIT (A\$m)	(18.6)	(3.1)	(4.8)	(6.8)	23.5	SiO ₂ content (%)	-	-	-	-	6.4
Interest expense (A\$m)	0.3	0.3	(0.1)	(2.2)	(3.0)	THA/RxSi (x)	-	-	-	-	6.0
Tax (A\$m)	0.6	-	-	-	-	Cash cost (\$/t inc royalties)	-	-	-	-	20.3
PAT (A\$m)	(17.7)	(2.8)	(4.9)	(9.0)	20.6	All-in breakeven cost (US\$/t)	-	-	-	-	55.2
F-x & minorities (A\$m)	0.1	0.3	-	-	-						
Attrib. net income (A\$m)	(17.6)	(2.5)	(4.9)	(9.0)	20.6	SOTP valuation					
EBITDA (A\$m)											
(1.3)	(3.0)	(4.8)	(6.2)	25.2	O/ship						
Cash flow statement (yr to Jun)											
FY14A	FY15E	FY16E	FY17E	FY18E	Bauxite Hills	100%	132	0.50	94	0.17	
(Loss) / profit before tax (A\$m)	0.5	(3.1)	(4.8)	(6.8)	23.5	Exploration	100%	10	0.50	7	
Depreciation (A\$m)	-	0.0	-	0.5	1.7	Cash	-	5	0.50	3	
Changes in working capital (A\$m)	-	0.6	-	(10.3)	-	Equity raise	-	12	0.50	9	
Other (A\$m)	(1.6)	0.3	(0.1)	(12.0)	(1.3)	Cash from options	-	0	0.50	0	
CFO (A\$m)	(1.1)	(2.8)	(4.9)	(18.8)	22.2	SG&A and central	-	(30)	0.50	(21)	
PP&E (A\$m)	(0.0)	(0.0)	(1.0)	(35.1)	(7.1)	Valuation (FD)	129		92		
Exploration (A\$m)	(2.4)	(2.0)	(0.1)	-	-	1.0xNAV evolution					
Other (A\$m)	(0.1)	0.4	0.8	-	-	2015					
CFI (A\$m)	(2.5)	(1.6)	(0.3)	(35.1)	(7.1)	2016					
Proceeds from share issue (A\$m)	-	-	5.1	16.6	-	2017					
Net change in borrowing (A\$m)	-	-	20.0	10.0	(30.0)	2018					
Other (A\$m)	-	-	-	-	-	2019					
CCF (A\$m)	-	-	25.1	26.6	(30.0)	1xNAV + cumulative cash					
Net increase in cash (A\$m)	(3.6)	(4.4)	19.9	(27.3)	(14.9)	0.34					
Effect of f-x on cash (A\$m)	-	-	-	-	-	0.46					
Cash at end of period (A\$m)	7.5	5.5	23.0	(4.3)	(19.2)	0.42					
Balance sheet (yr to Jun)											
FY14A	FY15E	FY16E	FY17E	FY18E	Valuation sensitivities (A\$/sh) to LT Bauxite Price CIF China						
PP&E (A\$m)	9.5	10.2	12.3	46.9	52.4	To discount rate					
Trade & AR (A\$m)	0.1	0.4	0.1	12.3	12.3	45					
Inventory (A\$m)	0.0	-	-	1.1	1.1	55					
Cash (A\$m)	7.5	5.5	23.0	(4.3)	(19.2)	65					
Other (A\$m)	0.5	0.5	0.1	0.1	0.1	75					
Total assets (A\$m)	17.6	16.6	35.5	56.1	46.7	85					
AP (A\$m)	0.3	0.5	0.7	3.7	3.7	12% discount					
Debt (A\$m)	-	-	20.0	30.0	-	(0.03)					
Provisions (A\$m)	0.1	0.1	0.0	0.0	0.0	10% discount					
Other (A\$m)	-	-	-	-	-	(0.03)					
Total liabilities (A\$m)	0.4	0.6	20.8	33.7	3.7	8% discount					
Shareholders equity (A\$m)	16.6	16.0	14.8	22.4	43.0	(0.04)					
Liabilities + equity (A\$m)	17.6	16.6	35.5	56.1	46.7	To NAVx @ 10%					
						45					
						55					
						65					
						75					
						85					
						0.30xNAV					
						(0.02)					
						0.40xNAV					
						(0.03)					
						0.50xNAV					
						(0.04)					

Source: GMP estimates; Company data

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