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Metro Mining

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Metro Mining takeover plan to double Queensland bauxite potential

Price:	A$0.045
Market Cap:	A$16.505M

Share Information

Code:	MMI
Listing:	ASX
Sector:	**General Mining**
Website:	**www.metromining.com.au**

Company Synopsis:
Metro Mining (ASX:MMI) is a bauxite exploration & development company based in Brisbane.

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Metro Mining (ASX:MMI) has moved to streamline economies, improve operational metrics and enhance investment appeal by doubling in size with the takeover of another Queensland bauxite operator.

Just over a year after its takeover of Queensland bauxite play Cape Alumina, Metro has proposed to further expand its exposure to the sector by acquiring all the issued shares in unlisted Cape York developer Gulf Alumna.

The enlarged company is expected to benefit significantly from operational and developmental synergies through economies of scale, improved efficiencies and the removal of duplicated costs.

A combined development scenario would encompass a reserve base of 96.6 million tonnes at 39.4% trihydrate bauxite (THA) and 6.3% reactive silica (RxSi).

This inventory will be supported largely by Gulf's probable reserves of 31.8 million tonnes at 39.8% THA and 6.4% RxSi.

Increased production from this reserve is projected to benefit from a simplified permitting process and a stronger position for securing better sales deals thanks to a consolidated ownership model.

These operational advantages will in turn enable optimisation of development funding in order to minimise shareholder dilution and maximise shareholder value.

The result should be a company with a pro-forma market capitalisation of about A$42 million (prior to any re-rate), or more than double Metro's current market cap of about $20 million.

This outcome will allow for increased relevance for the combined group in the ASX resources sector with improved liquidity.

Offer details

Under the off-market takeover offer Gulf shareholders will receive 3.3 new Metro shares for every 1 Gulf share held and will own approximately 44% of the combined group.

A bidder's statement will be dispatched later this month and will remain open for at least one month.

Importantly, support from Gulf's largest and key founding shareholder has already been confirmed, with Metro having secured 20% interest in Gulf.

Metro has entered into pre-bid acceptance agreements with Joyday Pty Limited and Equity & Permanent Investment Capital Limited in relation to a 17.1% stake in Gulf.

Metro has also entered into acquisition agreement with Equity & Permanent Investment Capital Limited in relation to 2.5 million shares in Gulf (representing 2.9% of Gulf's shares on issue) on the same terms as the offer.

About Gulf Alumina

Gulf Alumina is the holder of approximately 2,000 square kilometres of partly drilled bauxite mining tenements and rights, comprising just over 1,660 square kilometres in the Cape York region and a further 320 square kilometres on Marchinbar Island, Northern Territory.

The company's initial focus is to develop a 3 million tonnes ramping up to 5 million tonnes per annum direct shipping ore bauxite operation on its Skardon River tenements.

Located 80 kilometres north of Weipa and covering an area of about 70 square kilometres of the Cape York Peninsula, Gulf Alumina is the sole holder of various mining leases and a 95% interest in a mineral development licence application on the Skardon River exploration permit.

Strategically, Gulf's plan is to design and construct a mining infrastructure, loading and transport facility at Skardon River that will cater for output volumes in excess of the initial bauxite tonnages anticipated from the current JORC resources.

Metro progress

Metro has recently enhanced its current portfolio with feasibility work at the Bauxite hills project in Queensland establishing a A$235 million net present value and a mine life of more than 25 years with modest costs and a tight payback period.

Definitive Feasibility Study figures for the project have contemplated a simplified operation producing 2 million tonnes per annum of direct shipping ore (DSO) bauxite earning annual EBITDA of $A54.4 million at a low operating cost of $22.5 per tonne before royalties.

Capital expenses came in at only $33.9 million, allowing for a payback period of 1.1 years and an internal rate of return at 148%.

Assuming all regulatory approvals are granted by late 2016 and project funding is obtained prior to the start of project development, mining could begin as early as September 2017.

Analysis

The proposed takeover of Gulf represents another game-changing evolution for Metro, which only last year branched out from a coal-focused operator into the bluer skies of the bauxite sector.

The deal is expected to generate major economies of scale for the company, doubling market valuation, doubling reserves and offering a simpler development scenario for a significantly stronger portfolio.

Skardon River is naturally complementary to Metro's current assets given its similar scale, proximity and comparable mining and export methods.

Price catalysts for the company in the near term include advancements in the formalisation of the takeover process as well as the possible detailing of improved economies thanks to the establishment of an enlarged group.

The fact that Metro has already secured a 20% interest in Gulf via the company's major stakeholders bodes well for the full realisation of the takeover plan and the prospects for an efficiently run merger of company assets.

Metro is already in contact with several groups which are interested in long-term offtake agreements for Bauxite Hills product.

Along with developments related to these possible offtake deals, investors can look forward to milestones in obtaining all relevant regulatory approvals in order to move to a final investment decision for the project's development.

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