

## SPEC BUY

Current Price **\$0.07**  
Target Price **\$0.22**

Ticker: **MMI**  
Sector: **Materials**

Shares on Issue (m): **420.6**  
Market Cap (\$m): **29.4**  
Net Cash (\$m): **3.0**  
Enterprise Value (\$m): **26.4**

52 wk High/Low: **\$0.13** **\$0.05**  
12m Av Daily Vol (m): **0.13**

Mineral Inventory (100% basis)			
	Mt	Available Al <sub>2</sub> O <sub>3</sub>	Reactive Silica
Ore Reserves	48.2	38.4%	6.4%
Mineral Resource	65.3	38.4%	6.3%

Project Metrics		
	A\$m	
Argonaut est. NPV		174
Argonaut est. IRR	%	161%

Directors	
Stephen Everett	Non-Executive Chairman
Simon Finnis	CEO
Philip Hennessey	Ind. Non-Executive Director
Lindsay Ward	Ind. Non-Executive Director
Jijun Liu	Non-Executive Director
Dongping Wang	Non-Executive Director
George Lloyd	Ind. Non-Executive Director

Substantial Shareholders	
Balanced Property Ltd	16%
Joyday Pty Ltd	13%
DADI Engineering Development Group	11%
China Xinfu Group Corp Ltd	5%
Gregory Williams	5%

### Share Price Graph



Thursday, 7 July 2016

## Metro Mining

### Been busy – Development on track

Analyst | Matthew Keane

### Quick Read

Since our last note on Metro Mining (MMI), the Company has been busy and achieved key milestones through the development of its 100% owned Bauxite Hills DSO bauxite project in Cape York, Australia. MMI has secured Native Title and Land Access, delivered a Revised Positive Feasibility Study (PFS) with expanded production plan, attained a transshipment contract, submitted its Environmental Impact Statement (EIS), and via its now closed takeover offer, acquired a strategic 22% stake in its neighbour Gulf Alumina (public unlisted). Off-take agreements are continuing to progress well and a Definitive Feasibility Study (DFS) for a 4-5Mtpa production scenario is due for release shortly. MMI is targeting first bauxite production in Q3 2017. SPEC BUY maintained with a \$0.22 target price.

### Event & Impact | Positive

**Achieving key milestones:** In January 2016, MMI secured Native Title and Land Access agreements with the Ankamuthi People and the Old Mapoon Aboriginal Corporation. This is a key de-risking milestone in relation to overall project permitting. In mid-April 2016, MMI submitted its Environmental Impact Statement (EIS) which represents the critical path to getting Bauxite Hills into production in 2017. The EIS has since been accepted for public submissions by the Queensland Government. A transshipping contract has also been entered to barge ore up the Skardon River and load bulk carriers in the Gulf of Carpentaria.

**Expanded Production Benefits Confirmed:** In January 2016, MMI completed a PFS for a 4Mtpa production scenario. The PFS was based doubling the 2Mtpa DFS completed in November 2015. The up-scaled case provides significant economies of scale with limited additional capex. Based on existing reserves, the PFS calculated a 13 year mine life and post-tax NPV<sub>10</sub> of ~\$580m. Argonaut understands a DFS for a 4-5Mtpa operation will be released shortly.

**Optionality Secured:** On 16 June, MMI elected to close its off-market takeover offer for Gulf Alumina having acquired a strategic 22% stake. MMI acquired the stake by offering 3.3 MMI shares for each Gulf share. MMI is now Gulf's largest shareholder which places MMI in a good position to negotiate future collaboration including a potential shared infrastructure agreement. Gulf's tenements contain legacy infrastructure from past Kaolin mining operations including haulage roads, an airstrip and barge loadout area.

### Recommendation

Argonaut's revised NAV<sub>12</sub> valuation of \$0.32 (previously \$0.29) accounts for a 4Mtpa operation (previously 2Mtpa). We now model US\$32.5/wmt escalating to US\$37.5/wmt FOB (previously flat US\$40/wmt FOB) with an expectation that MMI's negotiations with off-take partners will likely be impacted by recent price declines (reducing from US\$50/wmt to ~US\$45/wmt CFR from December 2015). We apply a 30% discount to our valuation to account for permitting and funding risk to obtain a \$0.22 target price (previously \$0.20). SPEC BUY maintained.

## Gulf Offer Closed – Strategic Presence & Optionality Secured

**MMI’s takeover offer of Gulf Alumina closed...**

On 16 June, MMI elected to close its off-market takeover offer for Gulf Alumina having acquired a strategic 22% stake. MMI acquired its stake by offering 3.3 MMI shares for each Gulf share. While it is disappointing that greater control of Gulf was not attained, MMI is now Gulf’s largest shareholder and is in a good position to negotiate future collaboration including a potential shared infrastructure agreement. Gulf’s tenements contain legacy infrastructure associated with historic Kaolin mining operations including haulage roads, an airstrip and a barge loadout area.

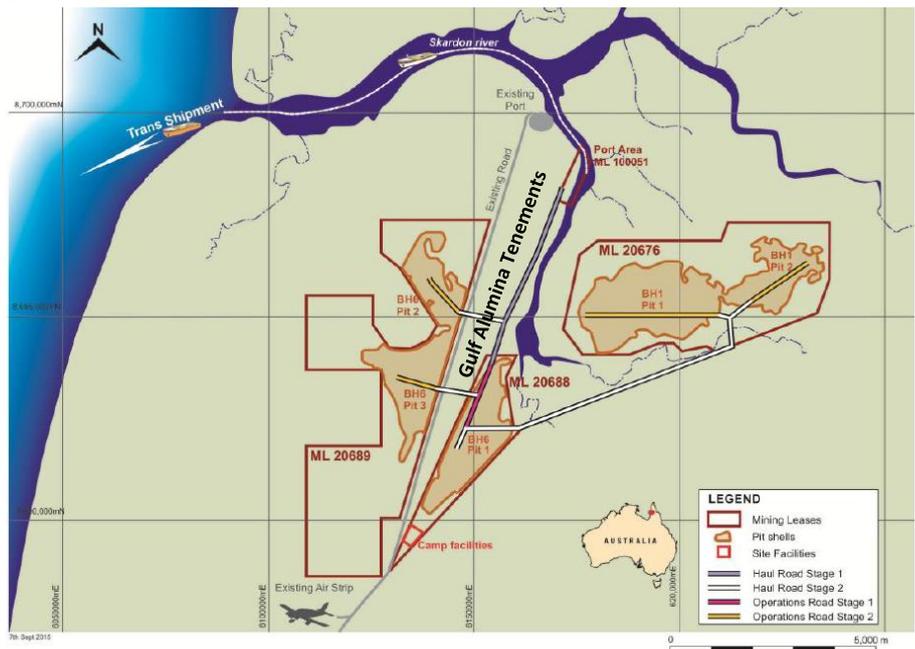
**...with MMI gaining a strategic 22% stake...**

The strategic stake also delivers MMI key regional significance and a pathway to significantly increasing in scale which is likely to increase M&A and off-take appeal for end-users seeking a scalable source of independent bauxite supply. We suspect the reason MMI decided not continue the Gulf offer was due to having satisfied its desire to firstly secure a strategic stake, and secondly, by building increased confidence of developing Bauxite Hills as a standalone operation.

**...which should assist future negotiations including shared infrastructure**

**Gulf Alumina’s tenements bisect MMI’s...**

Figure 1: Bauxite Hills project location and proximity to Gulf Alumina



**...and contain legacy infrastructure...**

**...including roads, an airstrip and barge loadout area**

Source: MMI

## Development on track

### Native Title & Land Access Secured

**MMI has attained Native Title and Land Access agreements**

In late January 2016, MMI secured key local community support by entering a Native Title and Land Access agreement with the Ankamuthi People and the Old Mapoon Aboriginal Corporation (respectively the Traditional owners and Trustee owners of the land). This is key de-risking milestone in relation to overall project permitting.

**An EIS has been submitted for Bauxite Hills...**

**EIS Submitted**

In mid-April 2016, MMI submitted its Environmental Impact Statement (EIS) for an operation producing up to 5Mtpa of DSO bauxite. The EIS has since been accepted for public submissions by the Queensland Government (understood to have closed late June).

**...and a Transshipment contract has been entered**

**Transshipment Solution**

MMI has also settled upon its preferred transshipment partner by entering into a contract with proven operator Transshipment Services Australia (TSA). TSA previously provided comparable tug and barge towage services for an iron ore producer operating out of Wyndham’s, Cambridge Gulf in Western Australia. Under the contract, TSA will provide and operate all tugs and barges required, thereby minimising capex and de-risking a key project feature. No dredging or bed levelling of the Skardon River is required for the transshipment operation at 5Mtpa.

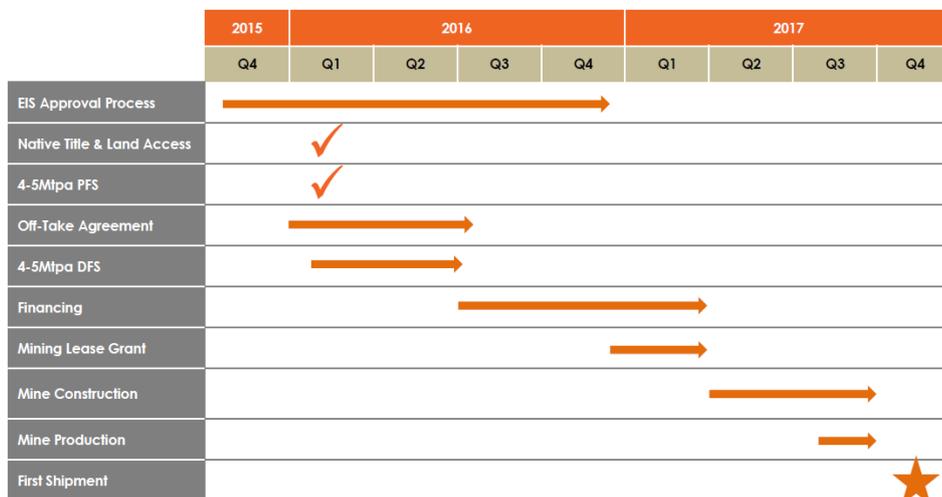
**Project financing will be negotiated in H2 2016...**

**Project financing expected in H2 2016**

Financing will be undertaken in H2 2016 with a final decision to mine likely to occur after the grant of the EIS and Mining Lease, expected late-2016 to early-2017. The Company is targeting first production before the onset of the wet season in Q3 2017. Note that the current study does not incorporate mining in the wet season, to mitigate associated moisture, handling and transport risks.

**...with first production slated for Q3 2017**

Figure 2: Bauxite Hills development timeline



Source: MMI

**MMI recently proposed an up-scaled 4Mtpa DSO production scenario**

**Up-scaled DFS due**

MMI is expected to release an updated DFS in the coming months, outlining a 4-5Mtpa DSO operation (previously 2Mtpa). The January PFS highlighted a doubling of production for a marginal increase in capex (from \$28m to \$40m) and slightly lower operating costs (from \$27/t to 26/t). We believe increased scale will also add to Bauxite Hills appeal to both off-take partners and potential strategic investors (both at an equity or project level). Key metrics of the 4Mtpa PFS are tabled below.

MMI estimates a NPV<sub>10</sub> of A\$582m for the 4Mtpa Bauxite Hills project

Table 1: Key metrics of the January 4Mtpa PFS (as reported by MMI)

Key Metrics	Unit	PFS
NPV <sub>10</sub> (Real post-tax)	A\$m	582
IRR	%	156
Mine Life	Yrs	13
LOM Production	Mt	4
Development Capex	A\$m	40.1
LOM Sustaining Capex	A\$m	4.9
Total FOB Operating Cost	A\$/t	26.07
Average USD Realised Price (FOB)	US\$/t	\$38.60-45.40
Average AUD Realised Price (FOB)	A\$/t at FX 0.75	\$51.50-\$60.50
Average EBITDA margin	A\$/t	\$25.5-34.50
Average Annual NPAT	A\$m	\$91.60
Payback on Capital	Yrs	1.2

Source: Argonaut / MMI

Note: Prices were estimated by CM Group based on a market outlook at the time

## Bauxite market

### Prices decline in the March Q

Chinese bauxite inventories rose ~3Mt to 35Mt or ~41 weeks of Chinese consumption during the March Q. This was driven by increased imports from Guinea as the Weiqiao SMB-WAP JV ramped-up and as low alumina prices resulted in refinery closures. Bauxite prices have decreased from ~US\$60/wmt in mid-2015 to ~US\$47/wmt in the March Q.

Figure 3: Bauxite price graph



Source: CM Group

Chinese inventories rose through the March Q...

...due to increase shipments from Guinea and Alumina Refinery closures...

...however, since, Malaysia has imposed a bauxite export ban...

### Malaysian ban impacts supply

An export ban by the Malaysian Government was put in place in April 2016 and will likely result in an inventory drawdown. Malaysian supply has acted as the supply stop-gap, following the Indonesian ban on raw material exports which commenced in 2014. While we expect Malaysia to recommence bauxite shipments, increased regulation and environmental controls are likely to increase production costs and force the closure of many illegal miners.

### Guinea quality advantage limited by distance to market

Guinea has the advantage of high available alumina and low impurity bauxite. However, quality benefits are offset by the distance to the growing Asian markets (primarily China). While suppliers from the country are currently taking advantage of low shipping rates,

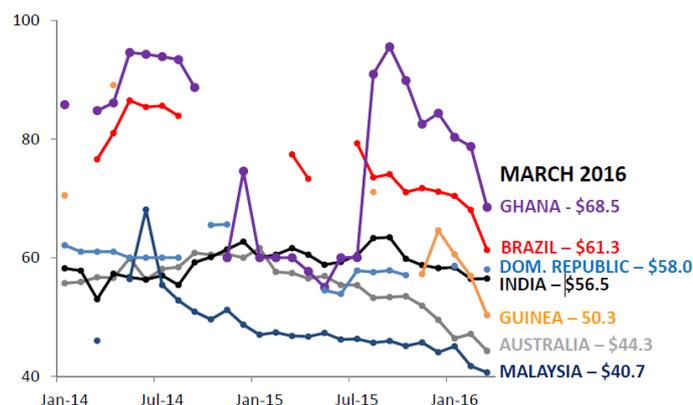
Guinean ore is temporarily benefitting from low shipping costs

**Argonaut expects low shipping rates to unwind in the medium term...**

Argonaut believes that rising diesel prices over the medium term will increase shipping rates and favour more proximal (Australasian) markets. The current estimated difference in the landed price of bauxite into China between Australia and Guinea is ~US\$7/t, down from ~US\$12/t in late 2015. MMI stands to benefit from both its proximity to Asia and the established Cape York brand (established by long term suppliers such as RIO's Weipa).

**...with will disadvantage Guinean ore into the Asian market**

Figure 4: Landed price of Bauxite into China



Source: Imported Bauxite Prices CIF, HARBOR Aluminum, China Customs Data

**We believe MMI is close to securing an off-take agreement...**

### Offtake agreement expected near term

Argonaut understands MMI is close to finalising an off-take agreement with Xinfu Group. Xinfu, who currently own 5% of MMI, is a private unlisted company and the second largest importer of bauxite into China behind Weiqiao Aluminium. Xinfu's annual bauxite consumption is estimated at 25Mt, with approximately 15Mt of this sourced from the seaborne market. We believe this off-take agreement will underpin debt financing for Bauxite Hills.

**...which will underpin project financing**

### Valuation

**Argonaut values MMI at \$0.32/sh...**

Argonaut's revised valuation now accounts for a 4Mtpa direct shipping operation (previously 2Mtpa) and we have reduced our applied bauxite price. We now model US\$32.5/wmt escalating to US\$37.5/wmt FOB (previously flat US\$40/wmt FOB) with an expectation that MMI's negotiations with off-take partners will likely be impacted by recent price declines. We apply ~50:50 debt to equity funding with maximum shares on issue of 557m. We apply a 30% discount to \$0.32 our NPV<sub>12</sub> valuation to account for permitting and funding risk to obtain a \$0.22 target price.

Table 2: Argonaut valuation summary

Valuation Summary		
<b>Single Mine Valuation</b>	AUD M	AUD / Share
Bauxite Hills (100%)	174.1	0.31
<b>Corporate Valuation</b>	AUD M	AUD / share
Corporate Valuation	(22.3)	(0.04)
Unmined Resources	15.0	0.03
Non-Core Assets	10.0	0.02
Cash est.	3.0	0.01
Debt	-	-
NAV	179.8	0.32
Target Price		0.22

Source: Argonaut

**...and applies a 30% discount to NAV to attain a \$0.22/sh target price**

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**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 925,000 MMI shares.

Argonaut acts as Corporate Adviser to MMI and will receive fees commensurate with these services.

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