

SPEC BUY

Current Price **\$0.09**
Target Price **\$0.26**

| | | |
|--------------------------------|-----------|--|
| Ticker: | MMI | |
| Sector: | Materials | |
| Shares on Issue (m): | 420.6 | |
| Pro-forma shares on issue (m): | 525.3 | |
| Market Cap (\$m): | 37.9 | |
| Current Cash est. | 3.0 | |
| Pro-forma net Cash (\$m): | 11.0 | |
| Enterprise Value (\$m): | 34.9 | |

| | | |
|-----------------------|--------|--------|
| 52 wk High/Low: | \$0.11 | \$0.05 |
| 12m Av Daily Vol (m): | 0.14 | |

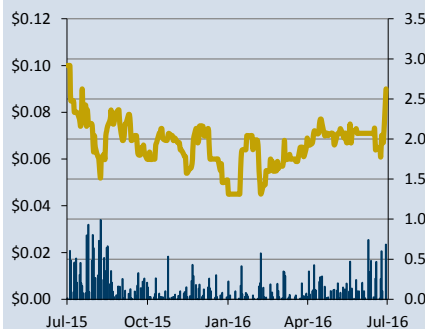
| Mineral Inventory (100% basis) | | | |
|--------------------------------|------|---|--------------------|
| | Mt | Available Al ₂ O ₃ | Reactive Silica |
| Ore Reserves | 48.2 | 38.4% | 6.4% |
| Mineral Resource | 65.3 | 38.4% | 6.3% |

| Project Metrics | | |
|-------------------|------|------|
| Argonaut est. NPV | A\$m | 185 |
| Argonaut est. IRR | % | 289% |

| 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 Xinfa Group Corp Ltd | 5% |
| Gregory Willims | 5% |

Share Price Graph



Monday, 11 July 2016

Metro Mining

Strategic Cornerstone Investment

Analyst | Matthew Keane

Quick Read

Metro Mining (MMI) has received a strategic cornerstone investment from private equity group Greenstone Resources. Greenstone will invest \$8.9m for a 19.9% stake. The investment is priced at 8.5¢/sh, a 27% premium to MMI's last closing price. Greenstone has indicated willingness for a follow-on investment of up to US\$20m to support the financing of Bauxite Hills. In 2016 MMI has achieved key milestones having secured Native Title and Land Access, delivered a Revised Positive Feasibility Study with expanded production, attained a transshipment contract, submitted its Environmental Impact Statement (EIS), and acquired a strategic 22% stake in its neighbour Gulf Alumina.

Event & Impact | Positive

Strategic Cornerstone: MMI has executed binding documentation with Greenstone Resources, a metals and mining focused private equity group based in the UK, for a 19.9% strategic cornerstone. Greenstone will invest \$8.9m priced at 8.5¢/sh, which represents a 27% premium to MMI's last closing price. They will attain a board seat in MMI and provide a representative for the Bauxite Hills Development Steering Committee. Under the agreement, Greenstone has indicated willingness to fund US\$20m for the development of Bauxite Hills, subject to a satisfactory construction decision and standard terms and conditions. The \$8.9m will be raised in two tranches, with the lower second tranche (\$0.9m) requiring shareholder approval (a meeting is scheduled for August 2016).

Financing de-risked: Greenstone's investment should fund MMI though to a decision to mine, expected late-2016 / early-2017 following approval of the Environmental Impact Statement (EIS) and subsequent grant of a Mining Lease. Argonaut anticipates both the formalisation of an off-take agreement with Xinfa Group (China's 2nd largest importer of bauxite) and a BFS on an expanded 4-5Mtpa operation in Q3 2016. MMI should be in a position to secure bank financing, subject to final permitting, by the end of 2016.

High margin, low complexity: Planned operations consist of low strip (>0.1:1), free dig mining, crushing and screening, 5-10km haulage to a barge loadout facility, then transport down the Skardon River for tranship loading to bulk carriers in the Gulf of Carpentaria. The project requires little infrastructure with only crushing and screening prior to export. Development capex is estimated at A\$40.1m with FOB total operating costs of A\$26/t. This provides high margins even against Argonaut's conservative realised price forecast of US\$32.5/t escalating to US\$37.5/t FOB (vs the current FOB price estimate of US\$38/t for Weipa equivalent bauxite). At US\$32.5/t, the project generates a ~40% EBITDA margin.

Recommendation

Our revised valuation of \$0.33 (previously \$0.32), incorporates additional cash from the Greenstone investment. We apply a 20% discount to NAV (previously 30%), to account for development risk, achieving a \$0.26 target price. SPEC BUY recommendation maintained.

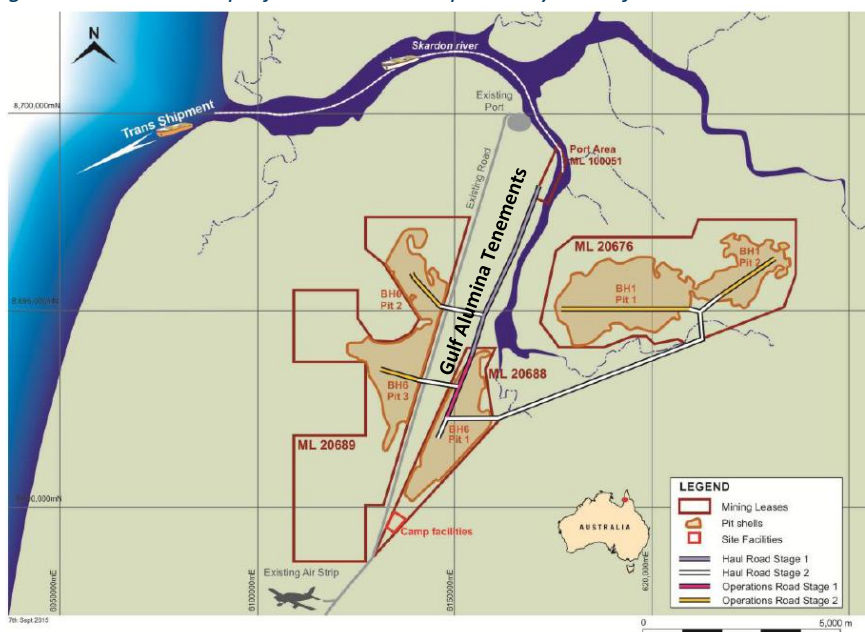
Project overview

Bauxite Hills is located in Cape York, Queensland

Bauxite Hills is located on the Cape York Peninsula in far north Queensland (QLD), Australia. It is 5-10km south of the Skardon River and 95km north of the town of Weipa, the centre for Rio Tinto’s (RIO) Weipa Bauxite operations which produces ~23Mtpa bauxite. The project is bisected by Gulf Alumina’s tenements, a private unlisted company, of which MMI is a 22% shareholder. The project will produce 4-5Mtpa of DSO bauxite with a 13 year mine life based on the January PFS. Development capex is estimated at A\$40.1m with FOB total operating costs of A\$26/t.

The project is based on barging DSO bauxite down the Skardon River...

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



Source: MMI

...then transshipping and selling into the growing Asian market

Valuation

Argonaut derives a \$0.33 valuation...

Argonaut maintains a SPEC BUY recommendation with a \$0.33 valuation (previously \$0.32). Our valuation incorporates higher net cash resulting from Greenstone’s strategic investment. Our target price of \$0.26 applies a 20% discount to our net asset valuation (NAV, previously 30%) to account for permitting risk, and to a lesser degree, financing risk. We apply ~50:50 debt to equity funding with maximum shares on issue of 600m, assuming a ~\$15m equity raising in late-2016 / early-2017.

Table 2: Argonaut valuation summary

| Valuation Summary | | |
|------------------------------|--------|-------------|
| Single Mine Valuation | AUD M | AUD / Share |
| Bauxite Hills (100%) | 184.8 | 0.31 |
| Corporate Valuation | AUD M | AUD / share |
| Corporate Valuation | (22.2) | (0.04) |
| Unmined Resources | 15.0 | 0.02 |
| Non-Core Assets | 10.0 | 0.02 |
| Cash est. | 11.0 | 0.02 |
| Debt | - | - |
| NAV | 198.6 | 0.33 |
| Target Price | | 0.26 |

Source: Argonaut

...and applies a 20% discount to NAV to achieve a \$0.26 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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