

## SPEC BUY

Current Price	\$0.12
Valuation	\$0.35
Target Price	\$0.28

Ticker:	MMI		
Sector:	Materials		
Shares on Issue (m):	526.7		
Market Cap (\$m):	60.6		
Current Cash est.	0.7		
Enterprise Value (\$m):	59.9		
52 wk High/Low:	\$0.15	\$0.05	
12m Av Daily Vol (m):	0.17		
<b>Mineral Inventory (100% basis)</b>			
	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%
<b>Project Metrics</b>			
Argonaut est. NPV	A\$m	190	
Argonaut est. IRR	%	192%	

### 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

Greenstone Resources	20%
Balanced Property Ltd	14%
DADI Engineering Development Group	12%
Joyday Pty Ltd	9%

Share Price Graph and Daily Trading Volume (Msh)



Thursday, 10 November 2016

## Metro Mining

### Gulf War III

Analysts | Matthew Keane | James Wilson

### Quick Read

Metro Mining (MMI) is locked in a takeover battle for Gulf Alumina with China's Moly Mines (ASX:MOL). Gulf is a public unlisted company which owns the Skardon River bauxite project which bisects MMI's Bauxite Hills' project in North Queensland. MMI first bid for Gulf in December 2015 attaining 22% of the Company. Subsequently, MMI has increased its holding to 39%. In September 2016, MOL made a bid for Gulf which was quickly trumped by a superior offer by MMI. Yesterday, MOL increased its offer, however it appears inferior to MMI. The joint development of the Bauxite Hills and Skardon River project would be highly accretive based on shared infrastructure and joint resources.

### Event & Impact | Positive

**The battle for Gulf Alumina:** MMI and MOL are currently in competition for Gulf Alumina. Both companies have made multiple bids over the past 11 months. The history of events is summarised below:

- Dec 2015: MMI takeover offer of 3.3 MMI shares for 1 Gulf share (~\$17m value)
  - Mar 2016: MMI increases its offer to 3.5 MMI shares for 1 Gulf share (~\$20m value)
  - May 2016: MMI increases its offer to 3.9 MMI shares for 1 Gulf share (~\$25m value)
  - Jun 2016: MMI offer for Gulf closes with MMI attaining a 22% stake
  - Sep 2016: MOL proposed offer for Gulf of \$0.46/sh cash plus 1.4 MOL options per Gulf share (~\$39m cash plus options). Gulf Directors unanimously recommended the offer
  - Oct 2016: MMI offers with \$0.60/sh cash or \$0.50/sh cash plus 1 MMI share (value \$55m with MMI to pay \$34m for the remaining 61% not held)
  - Nov 2016: MOL counters offers with \$0.63/sh cash or \$0.46/sh cash plus 1.14 MOL shares limited to a \$42m cash pool (value \$49m applying MOL last close of \$0.07/sh)
- MMI's offer is backed by a bridging facility with strategic investor Greenstone Resources.

**Synergies between MMI and Gulf:** The bauxite deposits of both MMI and Gulf are contiguous with equivalent stated Ore Reserves. Combining the two projects would therefore double the mine life or enable higher production rates. Combining the two projects would also create economies of scale, improve efficiency, streamline regulatory approvals, improve financing capabilities and make the joint project more attractive to offtakers. MMI would benefit from an established Mining Lease over Gulf's tenements and existing infrastructure, including a camp, airstrip, haul roads and a barge loadout site.

**Binding offtake agreement:** MMI recently signed a binding offtake agreement with China's Xinha Group for 7Mt of bauxite delivered over four years. CIF pricing has been determined and is subject to an agreed percentage of an established alumina index and bauxite quality. This contract accounts for 50% (2Mtpa) of MMI's production from Year 2.

### Recommendation

Argonaut maintains a SPEC BUY recommendation with a revised target price of \$0.28 (from \$0.26). Our valuation represents a 20% discount to our NAV of \$0.35 (detailed over).

## The tussle for Gulf Alumina

**MMI and MOL are currently bidding for Gulf Alumina**

MMI is engaged in a takeover battle for Gulf Alumina with China’s MOL. Gulf is a public unlisted company which owns the Skardon River bauxite project which bisects MMI’s Bauxite Hills’ project in North Queensland. MMI first bid for Gulf in December 2015 attaining 22% of the Company. Subsequently, MMI has increased its holding to 39%. In September 2016, MOL made a bid for Gulf which was quickly trumped by a superior offer by MMI. Yesterday, MOL increased its offer, however it appears inferior to MMI. Nanshan Group holds an 11% stake in Gulf and could be a key determinant in the outcome of the takeover. Securing this stake would give MMI 50% of Gulf. Nanshan has an integrated Aluminium business and may be a potential off-taker.

### Clear synergies

**The combination of MMI’s Bauxite Hills and Gulfs tenements give clear synergies...**

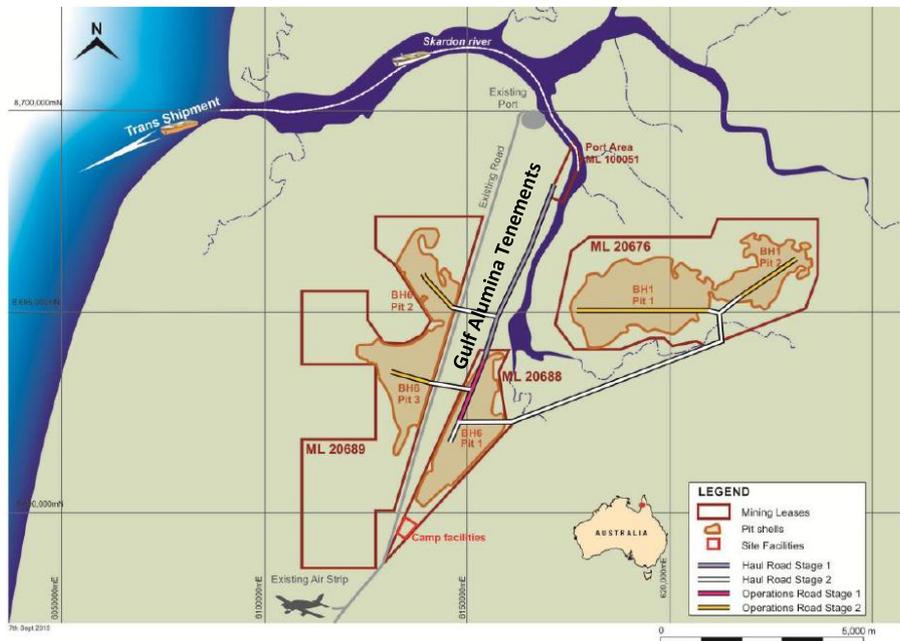
The resources of both MMI and Gulf are contiguous with equivalent stated Ore Reserves. Combining the two projects would therefore double the mine life or enable higher production rates. Combining the two project would create economies of scale, improve efficiency, streamline regulatory approvals, improve financing capabilities and make the joint project more attractive to offtakers. MMI would benefit from an established Mining Lease over Gulf’s tenements and existing infrastructure, including a camp, airstrip, haul roads and a barge loadout site.

**...including shared infrastructure...**

**...and a doubling of the Reserve base...**

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

**...with contiguous mineralisation...**



Source: MMI

**...with potential for either a doubling of the mine life or increase annual production.**

Figure 2: Bauxite Hills and Skardon River Ore Reserves

	DSO Tonnes (Mt)	DSO Bauxite Qualities (Dry Basis)	
		THA (%)	RxSi / RSiO <sub>2</sub> (%)
Metro Reserve	48.2	38.4	6.4
Gulf Reserve	48.3	40.4	6.3
<b>Total</b>	<b>96.5</b>	<b>39.4</b>	<b>6.3</b>

Source: MMI

### MMI's cash offer for Gulf is backed by strategic investor Greenstone

## MMI bid backed by Greenstone

MMI's cash offer is backed by a bridging facility with strategic investor Greenstone Resources, a metal and mining focused private equity group based in the UK. In July 2016, Greenstone took a strategic cornerstone stake in MMI by investing \$8.9m at 8.5¢/sh for 19.9%. Under the strategic partnership, Greenstone also indicated a willingness to fund US\$20m for the development of Bauxite Hills, subject to a satisfactory construction decision and standard terms and conditions.

### Due to MMI's 39% stake, the downside of a failed takeover is minimal

## Downside limited if MMI offer fails

While there are clear benefits for MMI in a successful takeover of Gulf, we believe the downside of a failed transaction is limited. If MOL's bid is successful, MMI will still retain a 39% stake in Gulf, which can either be monetised (value ~\$21m) or used as leverage to negotiate joint development agreements. Noting that MMI would effectively own ~70% of the combined project.

### The Company recently signed a Binding Offtake agreement for 50% of annual production

## Binding offtake

MMI recently signed a binding offtake agreement with China's Xinfu Group. Under the agreement MMI will sell 1Mtpa in year 1 and 2Mtpa for the next three years. This represents 50% of Bauxite Hills' proposed annual production from Year 2. CIF pricing has been determined and is subject to an agreed percentage of an established alumina index and bauxite quality. Xinfu 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. Xinfu has a ~4% stake in MMI.

### Our valuation increases to \$0.35/sh...

## Valuation

Argonaut maintains a SPEC BUY recommendation with a \$0.35/sh valuation (previously \$0.33/sh). Our model assumes a 4Mtpa DSO operation with bauxite prices ranging from US\$32.5/t to US\$37/t FOB against all-in sustaining costs of ~A\$29/t FOB. Our valuation increases with the inclusion of MMI's Gulf stake which we value at the lowest current takeover offer (\$49m on MOL's offer on a 100% basis). Our target price of \$0.28 applies a 20% discount to our net asset valuation (NAV) 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 602m, assuming a ~\$15m equity raising in H1 2017.

### ...with the incorporation of MMI's stake in Gulf

Table 2: Argonaut valuation summary

Valuation Summary		
<b>Single Mine Valuation</b>	AUD M	AUD / Share
Bauxite Hills (100%)	189.8	0.32
<b>Corporate Valuation</b>	AUD M	AUD / share
Corporate Valuation	(21.9)	(0.04)
Unmined Resources	15.0	0.02
Non-Core Assets	5.0	0.01
Gulf Alumina Stake	19.1	0.03
Cash est.	9.2	0.02
Debt	(8.5)	(0.01)
NAV	207.7	0.35
Target Price		0.28

Source: Argonaut

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**Important Disclosure**

Argonaut acted as Financial Adviser to the Strategic Financing with Greenstone announced in July 2016 and received fees commensurate with this service. Argonaut currently holds or controls 925,000 MMI shares. Argonaut acts as Financial Adviser to MMI and will receive fees commensurate with these services.

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