SPEC BUY

Current Price	$0.15
Valuation	$0.45
Target Price	$0.35

Ticker:		MMI
Sector:		Materials
Shares on Issue (m):		526.7
Market Cap ($m):		79.0
Net Cash est.		0.0
Enterprise Value ($m):		79.0
52 wk High/Low:	$0.16	$0.05
12m Av Daily Vol (m):	0.20	

Mineral Inventory (100% basis)

	Mt	Available Al_2O_3	Reactive Silica
Ore Reserves	48.2	38.4%	6.4%
Mineral Resource	65.3	38.4%	6.3%
Pro-form Reserve	96.5	39.4%	6.3%

Project Metrics

Project est. NPV_{11}	A$m	459

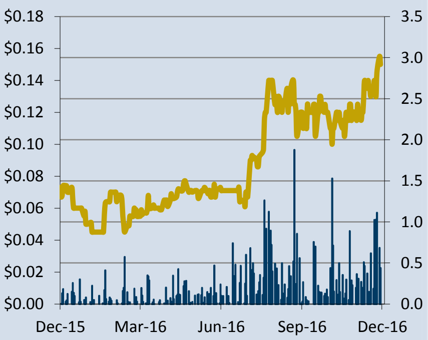
Directors

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, 8 December 2016

Metro Mining

Consolidating Cape York Bauxite

Analysts | Matthew Keane | James Wilson

Quick Read

Metro Mining (MMI) has received acceptances from 57.3% of Gulf Alumina shareholders regarding it offer to acquire all outstanding shares. In addition to the 39% already owned, MMI now controls ~96% and can progress to compulsory acquisition of Gulf. Gulf is a public unlisted Company that owns the Skardon River Bauxite Project which adjoins MMI's Bauxite Hills Project in the Cape York Peninsula, far north Queensland. This project consolidation will double MMI's reserves and result in synergies of up to $200m. Argonaut sees this is a highly accretive transaction which will extend mine life, enable higher production and expedite final permitting. SPEC BUY maintained with a $0.35 target price.

Event & Impact | Positive

Mopping up Gulf: MMI has finally gained control of Gulf Alumina following a drawn-out takeover process, which included competing bids from Molly Mines (ASX:MOL) and several revised offers (see research report: Gulf War III). The final offer of was $0.62/sh or $0.52/sh plus one MMI share. If all Gulf shareholders accept the cash offer, the acquisition cost, incorporating stamp duty will be ~$40m. Private equity group Greenstone Resources, who hold a 19.9% stake in MMI, will help fund the acquisition via a bridging debt facility.

Compelling acquisition benefits: The bauxite deposits of both MMI and Gulf are contiguous with equivalent Ore Reserves. Combining the two projects would double the mine life or enable higher production rates. In addition, the projects would benefit from economies of scale, transport efficiencies, streamlined regulatory approvals and improved financing capabilities. As bauxite is a bulk commodity, additional scale gives MMI market relevance improves appeal to offtake parties. MMI also benefits from an established Mining Lease over Gulf's tenements with existing infrastructure, including an airstrip, haul roads and a barge loadout site.

Upscaling the project: MMI previously released a DFS for a 2Mtpa operation which was superseded by a PFS for a 4Mtpa operation. Argonaut believes the Company will now target a 3Mtpa operation ramping up to 6Mtpa. Both MMI and Gulf are separately seeking EIA approvals for 5Mtpa, giving the joint project a permitted capacity of 10Mtpa. Production limits beyond 6-8Mtpa would likely be set by market demand and the capacity of the current barging and transhipping model. We believe there will be little change to the $40m capex estimate for a 4Mtpa operation, however operational synergies could reduce opex by ~10% (AISC ~A$26/t FOB vs index price of ~A$53/t FOB, Argonaut est. detailed over), resulting in a A$27/t margin (or EBITDA ~ A$81m pa on a 3Mtpa case).

Recommendation

Argonaut maintains a SPEC BUY recommendation with an increased valuation of $0.45 (previously $0.35), driven by a longer mine life and synergies from the Gulf acquisition. Our target price of $0.35 incorporates a 20% discount to NAV to account for financing and permitting risk.

Mopping up Gulf

MMI has attained control of ~96% of Gulf Alumina

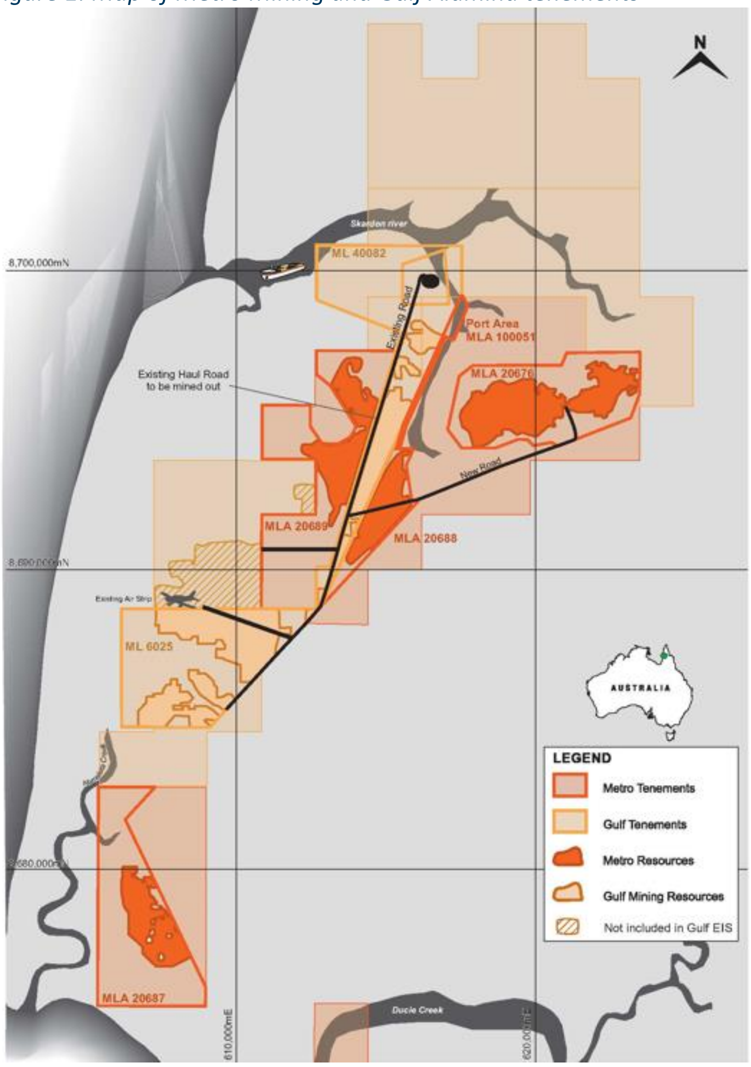
MMI has received acceptances from 57.3% of Gulf Alumina shareholders regarding the offer to acquire all outstanding shares. In addition to the 39% already owned, MMI now controls ~96% and can progress to compulsory acquisition of Gulf. Gulf owns the Skardon River Bauxite Project which has tenements adjoining MMI's Bauxite Hills Project in the Cape York Peninsula. Figure 1 below shows the proximity of the two projects. This project consolidation will double the Company's reserves to ~97Mt (see Table 1 below) and result in up to $200m in synergies.

Gulf controls the tenements surrounding MMI…

…with an established barge loadout site…

…and established haul roads

Figure 1: Map of Metro Mining and Gulf Alumina tenements



Source: MMI

The acquisition will double MMI's Reserve base

Table 1: Bauxite Hills and Skardon River Ore Reserves

	DSO Tonnes (Mt)	DSO Bauxite Qualities (Dry Basis)	
		THA (%)	RxSi / $RSiO_2$ (%)
Metro Reserve	48.2	38.4	6.4
Gulf Reserve	48.3	40.4	6.3
Total	**96.5**	**39.4**	**6.3**

Source: MMI

Acquisition funding

Cornerstone investor Greenstone will help fund the acquisition

If all Gulf shareholders accept the cash offer, the acquisition cost, incorporating stamp duty will be ~$40m. Private equity group Greenstone Resources, who hold a 19.9% stake in MMI, will fund the acquisition via a bridging facility. The final split of cash vs cash plus scrip acceptances is unknown, but we have assumed an All Cash acceptance in our valuation.

Clear synergies

Key acquisition benefits include…

…a higher production rate…

…economies of scale…

…higher appeal to offtake parties…

…better product blending capabilities…

…and a lower environmental impact

Key benefits and synergies of the Gulf acquisition include:

- Doubling of Reserves to 97Mt
- Combined tenure of 2,500km^2, making Gulf the second largest land holder in the Cape York Peninsula after Rio Tinto
- Enabling a higher production rate from a single operation. MMI will likely increase from 4Mtpa to ~6Mtpa with potential to ship up to 10Mtpa
- Economies of scale with higher production and a minimal increase in fixed costs
- Operational efficiencies resulting from shorter road haulage and barging by using the Gulf's loadout site and a single fleet of barges on the river
- Benefits of established infrastructure on Gulfs tenements, including an airstrip, haul roads and a barge loadout site
- Gulf has an established Mining Lease (a legacy from an historic kaolin mining operation)
- Product blending advantages with access to more mining faces
- Higher market relevance resulting from an increase in scale (both resource size and production)
- Removal of a similar bauxite product competing in the same market
- Potential to expedite EIS approvals (further detail below)
- Smaller environmental impact (i.e. less river traffic and reduced mangrove clearance)

High margins enable rapid payback

At current bauxite prices, MMI could achieve an A$81m EBITDA margin on a 3Mtpa case

The CBIX bauxite index is currently trading at ~US$51/t CIF. Assuming a Panamax shipping rate of US$7/t and a 10% quality discount (for slightly elevated reactive SiO_2), Bauxite Hills could achieve US$40 /t FOB (A$53/t). With all-in costs of ~A$26/t FOB, the project could deliver a A$27/t margin (or EBITDA of A$81m on a 3Mtpa case). This will enable rapid payback on both development capex and the Gulf acquisition cost (combined ~$80m).

Next steps

MMI will now complete EIS approvals and move into construction in CY17

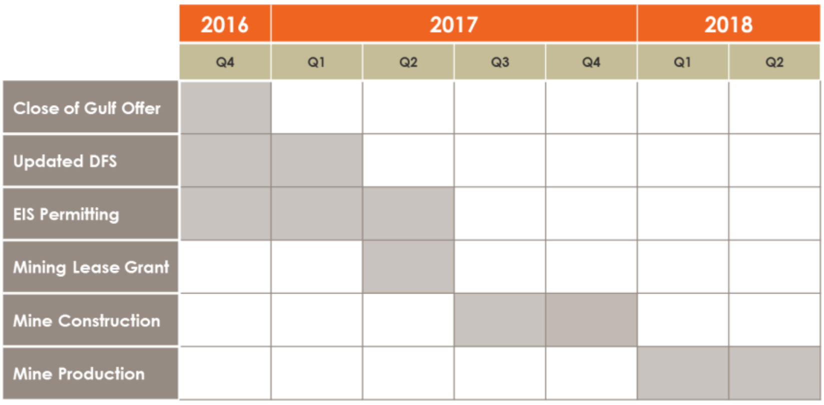
Both MMI and Gulf have successfully negotiated Native Title and land access agreement with traditional owners. Argonaut understands that Gulf is slightly ahead of MMI on its EIS approval process which could be granted Q1 CY17. The EIS for MMI's tenements would need to be amended to incorporate use of Gulf's barge loadout site and haul roads. It is expected to be granted mid-CY17. The Company will need to raise debt and equity capital in Q1/Q2 2017 to cover the development capex and repay the Greenstone bridging facility. The operation is simple, requiring only crushing, screening and barge loading with minimal fixed plant infrastructure. As such, the construction period is only 4-6 months. If

We see a possibility for first ore to be shipped by late CY17…

MMI can achieve early EIS approval and raise capital in early CY17, there is potential to ship first ore before the 2017 wet season. However, the Company is still stating Q2 2018 for first shipments (note: the wet season is between December and March).

…however, the Company is still stating first shipments after the CY17/18 wet season

Figure 2: Bauxite Hill project development timeline



Source: MMI

Valuation

Argonauts valuation increases to $0.45/sh…

Argonaut has revised it valuation to incorporate the joint reserves on the MMI and Gulf tenements (increasing from 48Mt to 97Mt). We have increased production from 4mtpa to 3Mtpa ramping up to 6Mt over a 3-year period. Our capex and opex estimates are in line with the 4Mtpa PFS case, recognising that opex is likely to be reduced in the upcoming revised DFS. Applied FOB bauxite prices range from US$32.5/t to US$37/t FOB (unchanged).

…with a discounted target price of $0.35/sh accounting for financing and permitting risk

Applying these changes increases our Bauxite Hills project NPV_{11} to $459m from $190m. We have assumed $30m of debt funding and a further $60m of equity funding to cover both development capex and repayment of the Greenstone bridging facility. We have also assumed that the outstanding $8.5m unsecured debt is converted to equity. As a result, we estimate maximum shares on issue of 1,014m. We apply a 20% discount to our revised $0.45 NAV (from $0.35) to achieve a target price of $0.35 (from $0.28).

SPEC BUY recommendation maintained

Table 2: Argonaut valuation summary

Valuation Summary		
Single Mine Valuation	AUD M	AUD / Share
Bauxite Hills (100%)	458.7	0.45
Corporate Valuation	AUD M	AUD / share
Corporate Valuation	(31.1)	(0.03)
Unmined Resources	20.0	0.02
Non-Core Assets	5.0	0.00
Cash est.	8.5	0.01
Debt	(8.5)	(0.01)
NAV	452.6	0.45
Target Price		0.35

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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