

## BUY

Current Price \$0.14  
Target Price \$0.44

Ticker:	MMI	
Sector:	Materials	
Shares on Issue (m):	1,004.0	
Market Cap (\$m):	140.6	
Net Cash est.	24.5	
Enterprise Value (\$m):	116.0	
52 wk High/Low:	\$0.17	\$0.06
12m Av Daily Vol (m):	0.43	

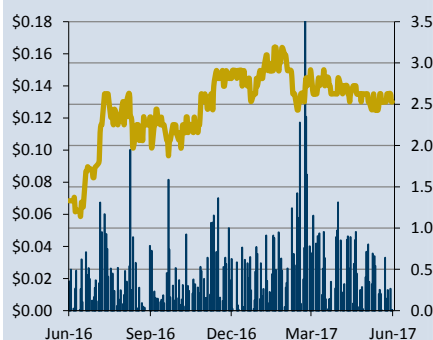
Mineral Inventory (100% basis)			
	Mt	Total Al <sub>2</sub> O <sub>3</sub>	Total Silica
Ore Reserves	92.2	49.4%	13.2%
Mineral Resource	144.8	49.2%	13.9%

Project Metrics (Bauxite Hills)		
Argonaut est. NPV	A\$m	552

Directors	
Stephen Everett	Non-Executive Chairman
Simon Finnis	Managing Director and CEO
Philip Hennessy	Non-Executive Director
Mark Sawyer	Non-Executive Director
Jijun Liu	Non-Executive Director
Dongping Wang	Non-Executive Director
George Lloyd	Non-Executive Director
Lindsay Ward	Non-Executive Director

Substantial Shareholders	
Balanced Property Fund	20%
Greenstone Management	19%
DADI Engineering	8%

Share Price Graph and Daily Trading Volume (Msh)



Thursday, 22 June 2017

## Metro Mining

### Debt secured – ready to break ground

Analysts | Matthew Keane | James Wilson

#### Quick Read

Metro Mining (MMI) has secured \$40m debt financing through Sprott Private Resource Lending and Inगतatus AG Pty Ltd, a related party of Metro's strategic cornerstone shareholder Balanced Property. These funds will support development of the Bauxite Hills project which is expected to commence production Q2 CY18. MMI also announced that it had attained State Environmental Approvals and final Federal Approvals are expected imminently. Project construction is on track to commence Q3 CY17. Argonaut maintains a BUY recommendation with a \$0.44 target price.

#### Event & Impact | Positive

**Debt financing secured:** MMI has secured \$40m debt financing through Sprott Private Resource Lending and Inगतatus AG Pty Ltd (50/50 split). The Company attained favourable terms with low levels of cash reserving, no mandatory cash sweeping, no hedging requirements and no commitment fees. The loan has a ~3-year term and the Company has stated an attractive interest rate (Argonaut est. 10%). No principle amortisation is required before 2019 and \$20m is to be repaid at the end of the loan term. Bauxite Hills pre-production capex is estimated at \$35.8m with a further \$36.7m expansion capex to ramp production up from 2mtpa to 6Mtpa by Year 4. We envisage a \$20-30m equity raise in the coming months to cover working capital and expansion funding.

**Ready to break ground:** Bauxite Hills has attained State Environment Approvals and is expecting Federal Approvals imminently. We anticipate mining development to commence around mid-July CY17 with the first bauxite shipment in April CY18, after the northern Australia wet season. The operation has few moving parts, with major infrastructure items being crushing and screening and a loadout facility. As such, the construction period is short (five months) and will be largely complete by the end of CY17.

**High margins from a low sovereign risk jurisdiction:** The reference CBIX bauxite price has incrementally rising in past the past month to US\$48/t CIF (A\$65/t). We believe this is attributed to higher shipping rates and political instability impacting Guinean supply, along with declining stocks at selected Chinese ports. At current prices, MMI would generate a >A\$25/t margin, equating to ~\$150m EBITDA on a 6Mtpa shipping rate. The Company is set to be the 2<sup>nd</sup> largest exporter of bauxite from Australia behind industry major RIO. The project has 60% of forecast production for the first four years assigned to sales contracts. We believe the well-established Weipa Bauxite brand and the low sovereign risk source will position Bauxite Hills as a key supplier in the growing seaborne market.

#### Recommendation

Argonaut maintains a BUY recommendation with a \$0.44 target price.

## Metro Mining (MMI)

## Equities Research

Analyst: Matthew Keane

Recommendation	BUY
Current Price	0.14
Target Price	0.44

Sector	Metals & Mining
Issued Capital (m)	1,004.0
Market Cap (m)	\$140.6
Date	22-June-2017

Profit & Loss (A\$m) 30 June	2016A	2017E	2018E	2019E
Sales revenue	0.0	0.2	14.3	89.5
+ Other income	1.0	0.3	0.7	0.7
- Operating costs	0.0	1.5	11.7	70.0
- Exploration and evaluation	0.0	0.4	0.2	0.2
- Corporate & marketing	1.2	6.6	8.0	8.0
- Other Expenses	2.2	0.0	0.0	0.0
<b>EBITDA</b>	<b>-2.4</b>	<b>-7.9</b>	<b>-4.9</b>	<b>12.1</b>
- D&A	0.0	0.0	0.2	1.3
<b>EBIT</b>	<b>-2.4</b>	<b>-7.9</b>	<b>-5.1</b>	<b>10.8</b>
- Impairments	4.5	0.0	0.0	0.0
- Finance Costs	0.0	2.1	2.5	3.9
- Tax expense	0.0	0.0	0.0	0.0
+ Changes in Foreign Exchange	0.0	0.0	0.0	0.0
+ Abnormal Items	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>-6.9</b>	<b>-7.9</b>	<b>-5.1</b>	<b>10.8</b>
<b>Normalised NPAT</b>	<b>-2.4</b>	<b>-7.9</b>	<b>-5.1</b>	<b>10.8</b>

Financial Summary	2016A	2017E	2018E	2019E
<b>Reported earnings</b>				
Net profit (US\$m)	-6.9	-7.9	-5.1	10.8
EPS (A\$cps)	0.0	0.0	0.0	0.0
PER (x)	-20.3	-17.7	-27.7	13.0
<b>Normalised earnings</b>				
Net profit (US\$m)	-2.4	-7.9	-5.1	10.8
EPS (A\$cps)	0.0	0.0	0.0	0.0
EPS growth (%)	NA	NA	NA	-313.2
PER (x)	-57.8	-17.7	-27.7	13.0
<b>Cashflow</b>				
Operating cashflow (\$m)	-2.8	-10.8	-7.4	8.3
GCFPS (A\$cps)	-0.9	-3.4	-2.3	2.6
PCF (x)	-15.9	-4.1	-6.0	5.4
<b>Dividend</b>				
Dividend (A\$cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0

Cash Flow (A\$m)	2016A	2017E	2018E	2019E
<b>Operating Cashflow</b>	<b>-2.8</b>	<b>-10.8</b>	<b>-7.4</b>	<b>8.3</b>
- Capex	3.8	10.6	26.8	6.7
- Exploration & evaluation	0.0	0.2	0.8	0.8
- Asset purchases (+ asset sales)	-0.5	40.1	0.0	0.0
+ Other	0.6	-2.5	0.0	0.0
<b>Free Cashflow</b>	<b>-5.5</b>	<b>-64.3</b>	<b>-35.0</b>	<b>0.7</b>
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	5.0	92.6	0.0	0.0
+ Debt drawdown (- repaid)	0.0	15.0	25.0	-5.0
+ Other Investing Activities	0.0	-6.5	0.0	0.0
<b>Net Change in Cash</b>	<b>-0.4</b>	<b>36.9</b>	<b>-10.0</b>	<b>-4.3</b>
+ Effects of exchange rate	0.0	0.0	0.0	0.0
<b>Cash at end</b>	<b>2.7</b>	<b>39.5</b>	<b>29.6</b>	<b>25.3</b>

Financial Ratios	2016A	2017E	2018E	2019E
<b>Balance Sheet Ratios</b>				
Total Debt / Equity (%)	NA	63037	207	217
Interest cover (x)	NA	-3.8	-2.0	2.8
Acid test ratio (x)	0.0	0.0	0.3	0.3

Profitability Ratios	2016A	2017E	2018E	2019E
Net profit margin (%)	NA	NA	-35	12
Return on assets (%)	-16	-54	-21	29
Return on equity (%)	-42	-15	-18	32

Balance Sheet (A\$m)	2016A	2017E	2018E	2019E
Total assets	17.6	54.1	53.7	62.4
Total debt	0.0	0.0	20.0	17.5
Total liabilities	1.2	0.1	25.9	28.8
Shareholders funds	16.4	54.0	27.8	33.6

Valuation Summary	A\$m	A\$/sh*
Bauxite Hills (100%)	552	0.45
Corporate Valuation	-67	-0.05
Unmined Resources	20	0.02
Non-Core Assets	5	0.00
Cash est.	40	0.03
Debt	-15	-0.01
<b>Total @ 10% discount rate</b>	<b>535</b>	<b>0.44</b>

\* Argonaut's valuation assumes maximum shares on issue of 1,224m including equity raising dilution

Production Summary (Mt)	2016A	2017E	2018E	2019E		
Bauxite Hills Sales	Bauxite	Mt	0.0	0.0	0.4	2.5
All-in Sustaining Costs	US\$/t	0.0	0.0	23.8	21.1	
Realised Price	US\$/t	NA	NA	46.4	46.4	
Exchange Rate Assumptions (AUD/USD)	0.74	0.75	0.74	0.72		

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Simon Finnis	Managing Director and CEO
Philip Hennessy	Non-Executive Director
Mark Sawyer	Non-Executive Director
Jijun Liu	Non-Executive Director
Dongping Wang	Non-Executive Director
George Lloyd	Non-Executive Director
Lindsay Ward	Non-Executive Director

Attributable Reserves & Resources	Mt	Total Al <sub>2</sub> O <sub>3</sub>	Total SiO <sub>2</sub>
<b>Reserves</b>			
Total Resources	92.2	49.4	13.2
<b>Resources</b>			
Total Resources	144.8	49.2	13.9

Substantial Shareholders	%
Balanced Property Fund	20.0%
Greenstone Management	18.9%
DADI Engineering	7.6%

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**Important Disclosure**

Argonaut acted as Sole Lead Manager to the Placement & Underwriter to the Entitlement Offer that raised \$52.4M in February 2017 and received fees commensurate with this service. Argonaut acted as Financial Adviser to the Strategic Financing with Greenstone announced in July 2016 and received fees commensurate with this service. Argonaut acts as Financial Adviser to MMI and will receive fees commensurate with these services. Argonaut currently holds or controls 4,334,970 MMI shares and 4M MMI Options exercisable at \$0.08 on or before 23 December 2019.

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