

## BUY

Current Price \$0.16  
Target Price \$0.42

Ticker:	MMI
Sector:	Materials
Shares on Issue (m):	1,285.6
Market Cap (\$m):	205.7
Net Cash est.	14.6
Enterprise Value (\$m):	191.1
52 wk High/Low:	\$0.19 \$0.09
12m Av Daily Vol (m):	0.56

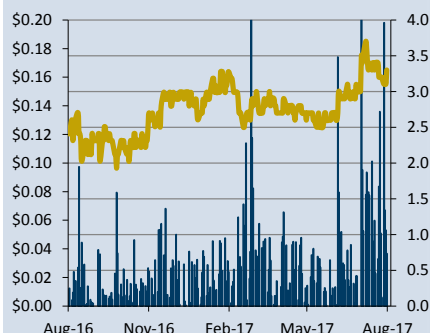
Mineral Inventory (100% basis)			
	Mt	Total Al <sub>2</sub> O <sub>3</sub>	Total Silica
Ore Reserves	92.2	49.4%	13.2%
Mineral Resource	144.8	49.2%	13.9%

Project Metrics (Bauxite Hills)		
Argonaut est. NPV	A\$m	567

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	16%
Greenstone Managment	16%
Blackrock Group	8%
CBA and related parties	7%
DADI Engineering	6%

Share Price Graph and Daily Trading Volume (Msh)



Monday, 21 August 2017

## Metro Mining

### Barging ahead

Analysts | Matthew Keane | James Wilson

#### Quick Read

Metro Mining (MMI) is progressing rapidly on its Bauxite Hills project in the Cape York Peninsula in Queensland. Earth moving equipment and construction steel for the barge loadout facility are being delivered to site via barges. Due to the simple nature of the operation, construction is expected to take just 4-5 months. MMI is fully funded after securing \$40m in debt facilities with Sprott Private Resource Lending and Inगतatus AG Pty and raising \$38m via an equity issuance at \$13.5¢. The Company is poised to benefit from the rapidly expanding seaborne bauxite market into China by ramping up to ~6Mtpa of DSO product within four years. At current prices, the project would achieve >\$25/t margins, facilitating rapid payback of development capex (pre-production capex ~\$36m). Argonaut maintains a BUY recommendation with a \$0.42 target price.

#### Event & Impact | Positive

**Development underway:** MMI has commenced development on its Bauxite Hills Project. Earthworks for the barge loadout facility are underway and deliveries of infrastructural items have commenced. All infrastructure is due to be erected within four months and the main haul roads will be finished a month later in December 2017. First shipping of DSO bauxite is scheduled for April 2018 after the northern-Australian wet season (January to March). The mine has attained all requisite environmental approvals and the grant of a final Mining Licence is imminent.

**Market fundamentals remain strong:** Seaborne imports into China for 2017 are estimated at ~50-60Mtpa and expected to grow to 130-150Mtpa by 2025. This rapid increase is being driven by declining bauxite reserves in Chinese and a subsequent shift of alumina refineries to coastal provinces (primarily Shandong). The highest increase of bauxite imports is expected to occur in the early 2020s, when the depletion of reserves in the northern Shangxi and Hunan provinces is likely to coincide with new refineries coming on-line. China has five alumina refineries planned with initial capacity of 8-10Mtpa requiring ~20-25Mtpa bauxite feed. Of the five, we consider three to be probable and the remaining two more speculative. MMI is well positioned to service new demand with a long-life project, an established Cape York brand (courtesy of RIO's nearby Weipa operation), close proximity to market, low sovereign risk supply and scalable production.

#### Recommendation

Argonaut maintains BUY recommendation with a revised target price of \$0.42 (from \$0.44) taking into account dilution from the recent equity raising.

## Metro Mining (MMI)

## Equities Research

Analyst: Matthew Keane

Recommendation	BUY
Current Price	0.16
Target Price	0.42

Sector	Metals & Mining
Issued Capital (m)	1,285.6
Market Cap (m)	\$205.7
Date	21-August-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	0.6	1.0
- 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	5.2	8.0	8.0
- Other Expenses	2.2	0.0	0.0	0.0
<b>EBITDA</b>	<b>-2.4</b>	<b>-6.5</b>	<b>-4.9</b>	<b>12.4</b>
- D&A	0.0	0.0	0.2	1.3
<b>EBIT</b>	<b>-2.4</b>	<b>-6.5</b>	<b>-5.1</b>	<b>11.0</b>
- Impairments	4.5	0.0	0.0	0.0
- Finance Costs	0.0	2.1	1.3	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>-6.5</b>	<b>-5.1</b>	<b>11.0</b>
<b>Normalised NPAT</b>	<b>-2.4</b>	<b>-6.5</b>	<b>-5.1</b>	<b>11.0</b>

Cash Flow (A\$m)	2016A	2017E	2018E	2019E
<b>Operating Cashflow</b>	<b>-2.8</b>	<b>-9.4</b>	<b>-6.2</b>	<b>8.5</b>
- Capex	3.8	6.0	31.8	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>-58.3</b>	<b>-38.8</b>	<b>1.0</b>
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	5.0	63.0	38.0	0.0
+ Debt drawdown (- repaid)	0.0	15.0	25.0	-5.0
+ Other Investing Activities	0.0	-7.1	-1.0	0.0
<b>Net Change in Cash</b>	<b>-0.4</b>	<b>12.6</b>	<b>23.2</b>	<b>-4.0</b>
+ Effects of exchange rate	0.0	0.0	0.0	0.0
<b>Cash at end</b>	<b>2.7</b>	<b>15.3</b>	<b>38.5</b>	<b>34.5</b>

Balance Sheet (A\$m)	2016A	2017E	2018E	2019E
Total assets	17.6	29.9	62.6	71.6
Total debt	0.0	15.0	40.0	35.0
Total liabilities	1.2	15.1	45.9	46.3
Shareholders funds	16.4	14.8	16.7	25.3

Production Summary (Mt)		2016A	2017E	2018E	2019E
Bauxite Hills Sales	Bauxite	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

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

Financial Summary	2016A	2017E	2018E	2019E
<b>Reported earnings</b>				
Net profit (US\$m)	-6.9	-6.5	-5.1	11.0
EPS (A\$cps)	0.0	0.0	0.0	0.009
PER (x)	-29.7	-31.4	-40.0	18.6
<b>Normalised earnings</b>				
Net profit (US\$m)	-2.4	-6.5	-5.1	11.0
EPS (A\$cps)	0.0	0.0	0.0	0.0
EPS growth (%)	NA	NA	NA	-314.4
PER (x)	-84.5	-31.4	-40.0	18.6
<b>Cashflow</b>				
Operating cashflow (\$m)	-2.8	-9.4	-6.2	8.5
GCFPS (A\$cps)	-0.9	-3.0	-2.0	2.7
PCF (x)	-18.2	-5.4	-8.2	6.0
<b>Dividend</b>				
Dividend (A\$cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0

Financial Ratios	2016A	2017E	2018E	2019E
<b>Balance Sheet Ratios</b>				
Total Debt / Equity (%)	NA	198	136	155
Interest cover (x)	NA	-3.2	-4.1	2.8
Acid test ratio (x)	0.0	0.0	0.3	0.3
<b>Profitability Ratios</b>				
Net profit margin (%)	NA	NA	-36	12
Return on assets (%)	-16	-45	-21	30
Return on equity (%)	-42	-44	-31	44

Valuation Summary	A\$m	A\$/sh
Bauxite Hills (100%)	567	0.44
Corporate Valuation	-67	-0.05
Unmined Resources	20	0.02
Non-Core Assets	5	0.00
Cash est.	35	0.03
Debt	-20	-0.02
<b>Total @ 10% discount rate</b>	<b>539</b>	<b>0.42</b>

Directors	
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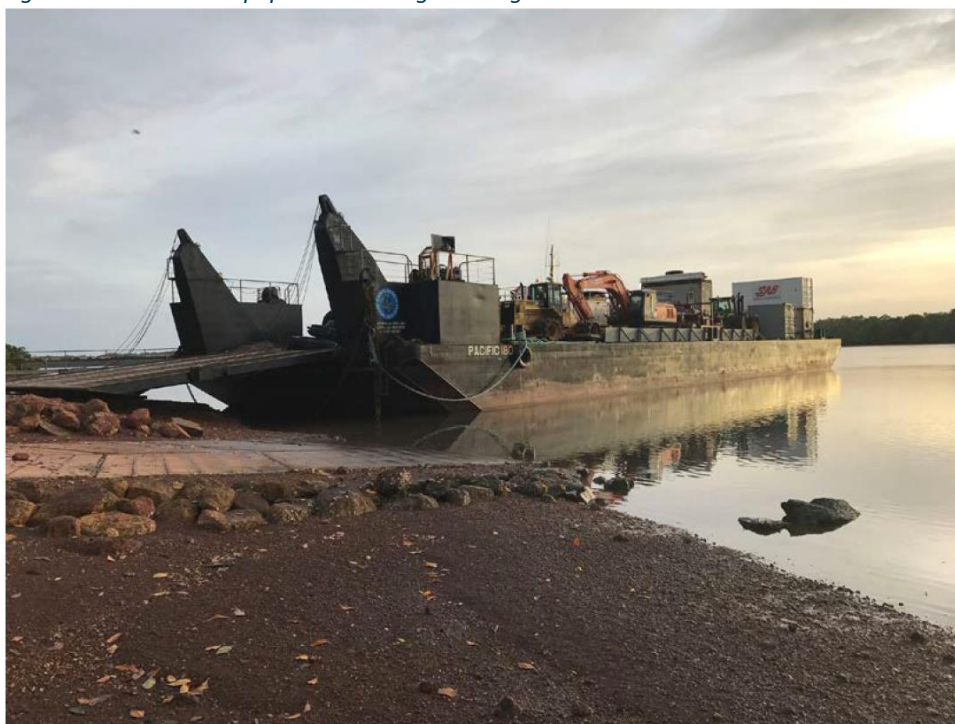
Substantial Shareholders	%
Balanced Property Fund	16.0%
Greenstone Managment	15.9%
Blackrock Group	7.5%
CBA and related parties	6.9%
DADI Engineering	6.1%

## Bauxite Hills development underway

**MMI has commenced construction of the Bauxite Hills project...**

MMI has commenced development on its Bauxite Hills Project with earthworks for the barge loadout facility underway and deliveries of infrastructural items commencing.

*Figure 1. Contractor equipment arriving via barge*



**...with earthworks underway...**

*Figure 2. Barges being loaded with steel and piles in Weipa*



**...and key infrastructure items being delivered**

Source: MMI



**The site for the Barge Loadout Facility has been cleared**

*Figure 3. Clearing for the barge loadout facility site*



**The main haul route down the middle of the project was established from historic kaolin mining operations**

*Figure 4. Existing haul route to the barge loadout site*

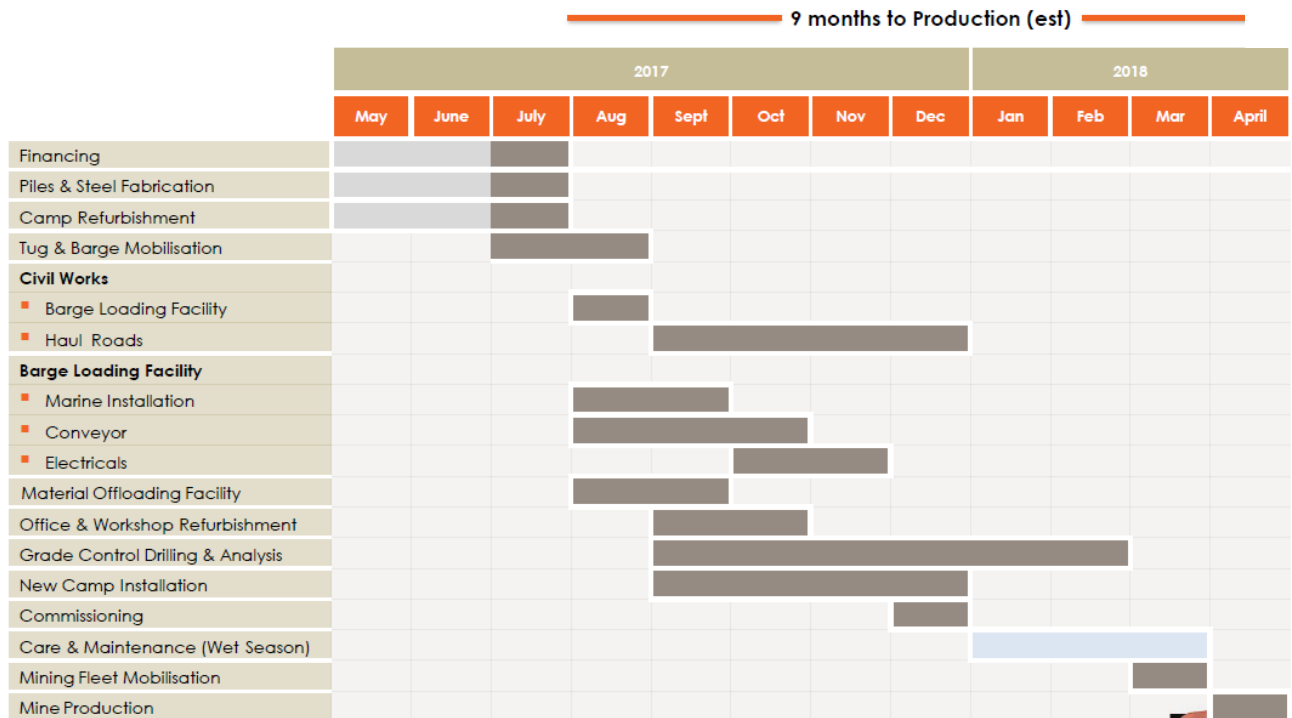


Source: MMI

## Timeline to development

All infrastructure is due to be erected within four months and the construction of haul roads to pits will be finished a month later in December 2017. First shipping of DSO bauxite is scheduled for April 2018 after the northern-Australian wet season (January to March).

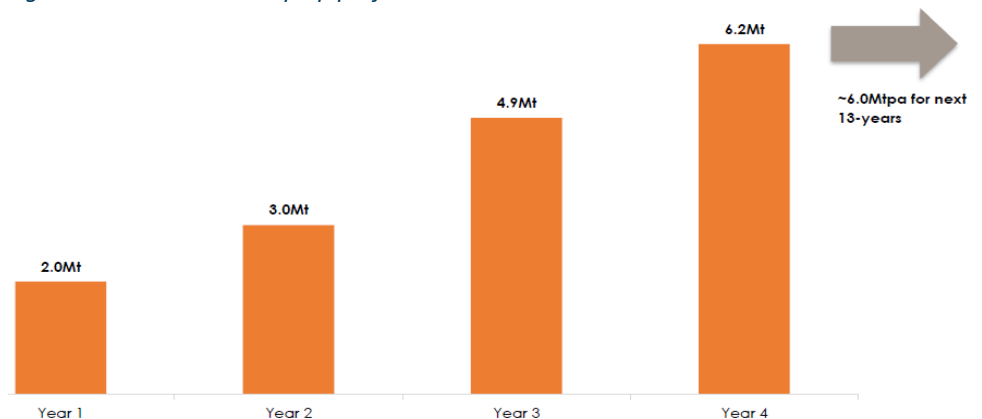
Figure 5. Bauxite Hill development timeline



Source: MMI

Bauxite Hills will ramp up to a ~6Mtpa run rate over four-years with additional expansion capex of \$37m over this period. We expect this to be largely funded through existing debt facilities and free cashflow. The project has a 17-year mine life on current reserves and will generate steady state EBITDA of ~\$138mpa (Argonaut est.).

Figure 6. Bauxite Hill Ramp up profile



Source: MMI

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Argonaut acts as Financial Adviser to MMI and will receive fees commensurate with these services. Argonaut acted as Sole Lead Manager to the Placement that raised \$38M in July 2017 and received fees commensurate with this service. 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 currently holds or controls 2,334,970 MMI shares and 4M MMI Options exercisable at \$0.08 on or before 23 December 2019.

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