

## BUY

Current Price \$0.22  
Target Price \$0.40

Ticker:	MMI	
Sector:	Materials	
Shares on Issue (m):	1,384.2	
Market Cap (\$m):	297.6	
Net Cash est.	-5.7	
Enterprise Value (\$m):	303.3	
52 wk High/Low:	\$0.35	\$0.16
12m Av Daily Vol (m):	1.29	

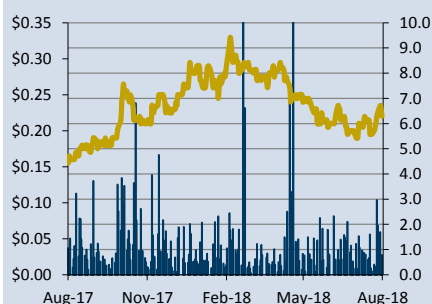
Mineral Inventory (100% basis)			
	Mt	Total Al <sub>2</sub> O <sub>3</sub>	Total Silica
Ore Reserves	92.2	49.4%	13.2%
Mineral Resource	144.8	49.2%	13.9%

Project Metrics (Bauxite Hills)		
	A\$m	
Argonaut est. NPV		595

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

Substantial Shareholders	
Greenstone Management	18%
Balanced Property Fund	15%
Blackrock Group	10%
DADI Engineering	6%
Renaissance Small Companies Fund	5%

Share Price Graph and Daily Trading Volume (Msh)



Please refer to important disclosures at the end of the report (from page 7)

Friday, 17 August 2018

## Metro Mining

### Offtake locked in – site visit

Analysts | Matthew Keane | James Wilson

#### Quick Read

Argonaut visited Metro Mining's (MMI) Bauxite Hills Project in Northern Queensland. The project is ramping up strongly after commencing mining in April 2018. MMI is producing comfortably at the 2Mtpa 2018 guidance rate and ratcheting up to the 3Mtpa 2019 guidance rate. The Company recently executed additional offtake contracts with 90% of 2018 production and 80% of 2019 production now committed to Chinese customers. While Bauxite Hills is still technically in ramp-up mode, we expect positive cash flow in the September Q. We model ~A\$9/t EBITDA margins for H2 2018, increasing to A\$20/t as the project achieves the target 6Mtpa rate by 2021. BUY recommendation maintained with a \$0.40 target price.

#### Event & Impact | Positive

**Ratcheting up production:** MMI is ramping-up with operations in key areas including mining and shipping steadily increasing month on month. The Company is on track to meet 2018 guidance of ~2Mtpa and has proven the designed capacity of 3Mtpa from installed infrastructure. Argonaut believes MMI may debottleneck a few areas to increase production capacity. This may include an additional screen ahead of barge loadout (est. capex <\$1.5m) and additional barge(s) to better manage tidal constraints (minor additional leasing costs). Overall, we were impressed with the speed at which Bauxite Hills has been developed and commissioned, which is a testimony to the project's simplicity.

**Sales de-risked by further offtake contracts:** MMI recently announced it has entered into further off-take agreements with Chinese customers, committing ~90% of remaining 2018 production and ~80% of 2019 production. Two new contracts for a total of 780kt have been signed. Chinese demand remains high, driven by new alumina/aluminium capacity and declining domestic bauxite reserves (both in volumes and quality). Recent environmentally motivated mine closures have opened up a new target market for MMI in inland China (namely Henan Province).

**High margins:** MMI reported sales of A\$25.2m for 399wmt shipped in the June Q. This equates to ~US\$53/dmt CIF. We believe the realised price will decrease in the coming quarters (est. US\$46-48/dmt), primarily due to a lower portion of sales into the higher priced Xinfu contract. However, this should still generate ~A\$8-10/t EBITDA margins, resulting in positive cashflow from the September Q.

#### Recommendation

Our revised target price of \$0.40 (from \$0.43) incorporates dilution from the recent equity raise (\$17.5m at \$0.20/sh). We have increased forecast shipping costs to US\$10/wmt and decreased long term realised prices to US\$44/dmt (previously US\$8.5wmt and US\$48/dmt respectively). BUY recommendation maintained.

## Metro Mining (MMI)

## Equities Research

Analyst: Matthew Keane

Recommendation	<b>BUY</b>
Current Price	<b>0.22</b>
Target Price	<b>0.40</b>

Sector	<b>Metals &amp; Mining</b>
Issued Capital (m)	<b>1,384.2</b>
Market Cap (m)	<b>\$297.6</b>
Date	<b>16-August-2018</b>

Profit & Loss (A\$m) 30 June	2017A	2018E	2019E	2020E
Sales revenue (CIF)	0.0	25.1	136.5	174.9
+ Other income	9.0	0.5	0.8	0.9
- Operating costs	1.2	15.0	106.8	126.6
- Exploration and evaluation	0.0	1.0	1.0	1.0
- Corporate & marketing	0.5	8.3	8.0	8.0
- Other Expenses	5.3	4.4	0.0	0.0
<b>EBITDA</b>	<b>2.1</b>	<b>-3.0</b>	<b>21.6</b>	<b>40.2</b>
- D&A	0.0	0.0	1.6	2.1
<b>EBIT</b>	<b>2.0</b>	<b>-3.0</b>	<b>20.0</b>	<b>38.1</b>
- Impairments	0.0	0.0	0.0	0.0
- Finance Costs	4.4	2.2	3.8	3.0
- Tax expense	0.0	0.0	0.0	7.6
+ 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>-2.4</b>	<b>-5.2</b>	<b>16.1</b>	<b>27.5</b>
<b>Normalised NPAT</b>	<b>-2.4</b>	<b>-5.2</b>	<b>16.1</b>	<b>27.5</b>

Cash Flow (A\$m)	2017A	2018E	2019E	2020E
<b>Operating Cashflow</b>	<b>-3.3</b>	<b>-36.2</b>	<b>24.9</b>	<b>29.6</b>
- Capex	4.6	30.0	9.5	20.9
- Exploration & evaluation	4.3	0.0	0.0	0.0
- Asset purchases (+ asset sales)	34.4	-0.7	0.0	0.0
+ Other	-9.5	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>-55.9</b>	<b>-65.5</b>	<b>15.5</b>	<b>8.7</b>
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	60.7	52.4	3.4	0.0
+ Debt drawdown (- repaid)	8.2	23.8	-5.0	-10.0
+ Other Investing Activities	0.0	-6.8	0.0	0.0
<b>Net Change in Cash</b>	<b>13.0</b>	<b>3.9</b>	<b>13.9</b>	<b>-1.3</b>
+ Effects of exchange rate	0.0	0.0	0.0	0.0
<b>Cash at end</b>	<b>15.3</b>	<b>19.3</b>	<b>33.2</b>	<b>31.9</b>

Balance Sheet (A\$m)	2017A	2018E	2019E	2020E
Total assets	102.3	175.9	206.5	216.9
Total debt	15.6	40.6	34.7	24.7
Total liabilities	21.5	52.2	58.5	51.3
Shareholders funds	80.8	123.7	148.0	165.6

Production Summary (Mt)	2017A	2018E	2019E	2020E		
Bauxite Hills Sales	Bauxite	Mt	0.0	0.4	2.5	3.3
All-in Sustaining Costs		US\$/t	0.0	28.4	32.1	28.0
Realised Price (US\$/t CIF)			NA	52.6	45.3	42.4
Exchange Rate Assumptions (AUD/USD)			0.79	0.78	0.74	0.72

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

Financial Summary	2017A	2018E	2019E	2020E
<b>Reported earnings</b>				
Net profit (US\$m)	-2.4	-5.2	16.1	27.5
EPS (A\$cps)	-0.2	-0.4	1.2	2.0
PER (x)	-125.3	-57.5	18.5	10.8
<b>Normalised earnings</b>				
Net profit (US\$m)	-2.4	-5.2	16.1	27.5
EPS (A\$cps)	-0.2	-0.4	1.2	2.0
EPS growth (%)	NA	NA	-411.3	70.9
PER (x)	-125.7	-57.5	18.5	10.8
<b>Cashflow</b>				
Operating cashflow (\$m)	-3.3	-36.2	24.9	29.6
GCFPS (A\$cps)	-0.2	-2.6	1.8	2.1
PCF (x)	-91.5	-8.2	11.9	10.0
<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	2017A	2018E	2019E	2020E
<b>Balance Sheet Ratios</b>				
Total Debt / Equity (%)	476	337	353	423
Interest cover (x)	0.5	-1.4	5.2	12.8
Acid test ratio (x)	0.0	0.4	0.3	0.4
<b>Profitability Ratios</b>				
Net profit margin (%)	NA	-21	12	16
Return on assets (%)	2	-2	12	21
Return on equity (%)	-3	-4	11	17

Valuation Summary	A\$m	A\$/sh*
Bauxite Hills (100%)	595	0.43
Corporate Valuation	-65	-0.05
Unmined Resources	20	0.01
Non-Core Assets	5	0.00
Cash est.	35	0.03
Debt est.	-41	-0.03
<b>Total @ 10% discount rate</b>	<b>549</b>	<b>0.40</b>

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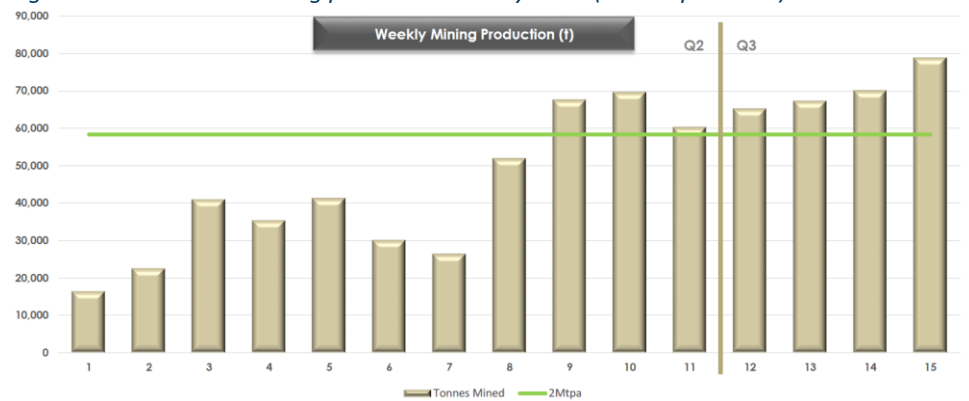
## Site Visit

**Argonaut recently visited MMI's Bauxite Hills Project...**

Argonaut recently visit MMI's Bauxite Hills Project in the Cape York Peninsula, Queensland, Australia. The visit encompassed a tour of the mine and barge loadout facility as well as boat trip along the Skardon River into the Gulf of Carpentaria to view the barging and transhipping operations. The project began commissioning in April 2018, and while still technically in ramp-up, is achieving key milestone targets, including mining and ship loading rates of >10kt per day and ship loading times of <6 days. MMI has guided 1.980-2.075Mt mined and shipped in CY18. This increases to 3Mt in 2019 then further increases to 6Mt/tpa by 2021 following an expansion (est. capex \$37m).

**...which is in ramp-up mode...**

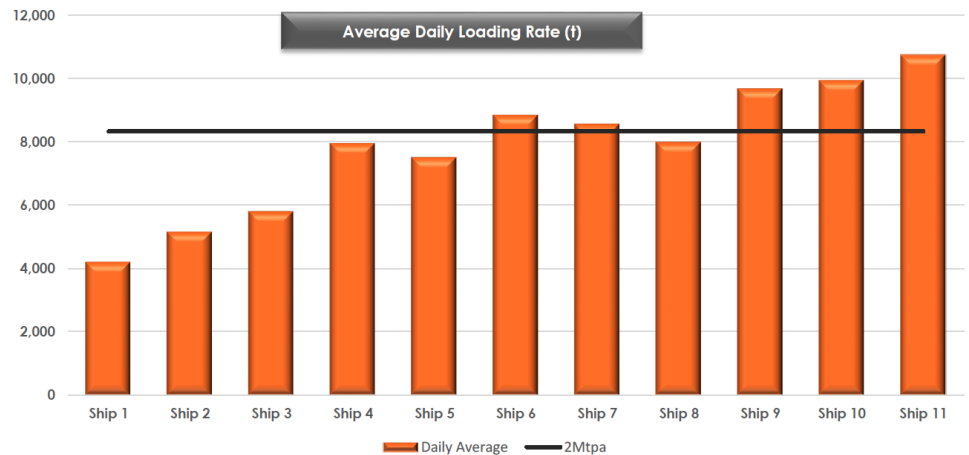
Figure 1. Bauxite Hills mining production weekly rates (tonnes per week)



Source: MMI

**...but rapidly reaching designed production and shipping rates**

Figure 2. Average daily ship loading rates (tonnes per day)



Source: MMI

**Average shipping rates are meeting the target rate of 10kt/day**

### Key site visit takeaways

Following the site visit our key takeaways are as follows:

- Ramp-up is on track and all key metrics are trending in the right direction
- We see no fatal flaws in the operating process and believe installed infrastructure can meet the designed 3Mt/tpa run rate
- We would like to see some additional capacity, or sprint capacity, to offset the risk of a major disruptive event. This should not be difficult to install via minor, low cost debottlenecking initiatives
- Site management is very capable and focussed on the right areas of the business to meet 2018/2019 guidance, reduce costs and grow production at a measured rate

**...which would inhibit metro achieving 3Mt/tpa in 2019 from installed infrastructure**

**Bauxite Hills has a simple operating process incorporating...**

- The two key risks identified by Argonaut prior to production were quality control, given the relatively thin bauxite profile, and achieving required transhipping rates. We are satisfied that both of these areas are effectively de-risked.

**...free dig, low strip ratio mining...**

*Figure 3. Mining from the BH1 pit*



Source: Argonaut

**...crushing and screening...**

*Figure 4. Barge Loadout infrastructure: Top - screening and feeder, Bottom - barge loader*



**...barge loading on the Skardon River...**



**...then transhipping in the Gulf of Carpentaria**

Source: Argonaut

Earlier in the year, MMI attained a larger 7kt capacity dumb barge to bolster the existing fleet of 3kt barges (adjacent)

Figure 5. Barge loading (new large 7kt capacity dumb barge)



Source: Argonaut

Adjacent: Ship loading of 13<sup>th</sup> vessel from the project

Figure 6. Transshipping – barge alongside ~60kt Supermax vessel



Source: Argonaut

Argonaut forecasts MMI to be cash flow positive in the September Q

### Turning to positive cashflow

Argonaut estimates that MMI will be marginally cash flow positive in the September Q. We forecast a received price of ~US\$47/dmt (A\$63/dmt) with \$8-10/t EBITDA margins generating ~\$4.5m free cashflow (FCF). Post 2021, once the 6Mtpa run rate has been achieved, we forecast EBITDA margins of ~\$20/t generating \$90-100m pa FCF (assuming US\$44/dmt CIF, 0.72 AUD/USD FX and US\$10/wmt shipping rates).

Operating cost will decline with increased production rates, expanding margins to est. \$90-100mpa

### Opportunities for operating cost savings

Bauxite Hills is still in ramp-up mode so costs are running higher than steady state forecasts. We estimate current all-in cash costs at ~A\$45-50/wmt. These costs will come down as the operation achieves economies of scale incorporating upsized haulage trucks (potential to go from ~100t to ~150t payloads), larger barges, floating cranes to load ships and larger freight vessels. In addition, we see cost saving opportunities from increased mining efficiency, fuel hedging and optimised personnel rosters.

## Debottlenecking

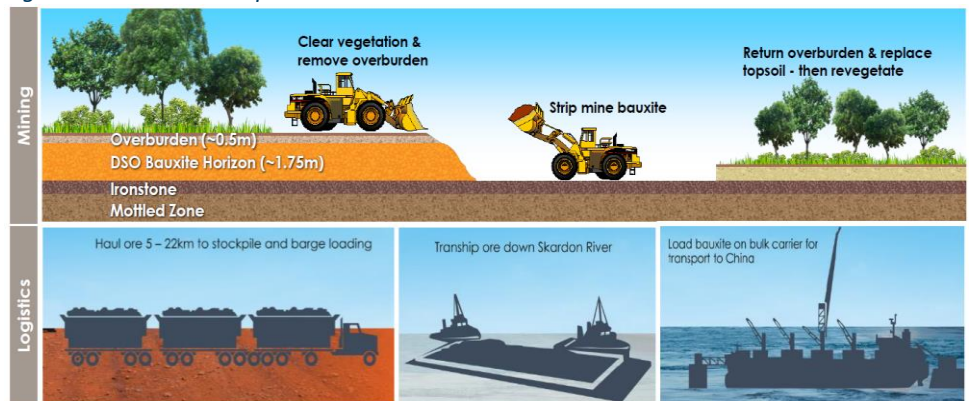
Two key areas for low cost debottlenecking of the operations include...

An additional screen before the barge loadout and additional barges

Presently, the two main bottlenecks of the operation are screening ahead of the barge loadout and moving barges over a sandbar at the mouth of the Skardon River. While neither of these is likely to be an impedence to achieving the 3Mtpa run rate, we believe the operation would be largely destressed by removing them. We believe a second screen could be added to the ROM for just ~\$1.2m. MMI is already increasing the size of the ROM to accommodate additional ROM stocks.

An additional barge(s) with mooring points on either side of the Skardon River mouth would enable faster transshipping rates and remove any issues associated with barge cycle times (i.e. ocean swell, tidal fluctuations or barge sequencing). Effectively, multiple loaded barges could be moored on the sea-side of the river mouth ready to be transported to ships, removing the risks associated with river mouth bathymetry. An additional barge(s) would result in increased leasing costs, but only marginally increase overall opex.

Figure 7. Bauxite Hills operations schematic



Source: MMI

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Argonaut acts as Financial Adviser to MMI and will receive fees commensurate with this service. 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 that raised \$17.5M in June 2018 and received fees commensurate with this service. Argonaut currently holds or controls 100,000 MMI shares, 4M MMI Options exercisable at \$0.08 on or before 23 Dec. 2019 and 10M MMI Options exercisable at \$0.15 on or before 27 Aug. 2019.

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