

## December Quarterly Results Confirm Strong 2018

MMI AU

29 January 2019

Last price: A\$0.15  
Target price: A\$0.47

Metro Mining (ASX: MMI) has provided production and cost results for the Q2/2019 quarter (ending 31 December 2018) at its Bauxite Hills mine in North Queensland, Australia. Key points are as follows:

### 2018 Guidance Achieved, 75% higher in 2019

Overall, Metro met production guidance of 2.0wmt for 2018 and reiterated 2019 guidance of 3.5wmt. The December quarter achieved the 2.5wmt annual run rate for the second successive quarter. Commissioning of the jaw crusher for oversize material has resulted in efficiency gains in stockpiling and quality control, and we expect these improvements to continue through 2019

### On site costs now a focus

Site unit costs for H2/2018 averaged A\$24.2/wmt, in line with Tamesis forecasts for the ramp up period. We expect costs to be lower in 2019, averaging A\$21.4/wmt, on higher volumes and as the mine moves to an owner operated mining operation. A weaker AUD:USD exchange rate has helped realised prices, offset partially by higher freight and fuel costs in AUD terms.

### 6.0wmt DFS due Q2/2019

The DFS for the Stage 2 expansion to 6.0wmt annual production is due to be completed in Q2/2019. We expect the required expansion capital of approximately A\$37 million to be majority funded through mine cashflow, the company has shown its ability to utilise the debt markets appropriately to find construction finance where necessary. We are encouraged by the impressive A\$8.1 mine EBITDA for the December quarter, which contributed to the company reporting A\$40.2 million cash, trade and other receivables as of 31 December 2018.

### Sales strong, offtake outperforming on alumina contract

2.2wmt of 2019 production (approximately 63%) will be sold into the RMB alumina price linked offtake contract with Xinfu, which has performed strongly. The balance is being sold into the bauxite spot market, continuing a successful strategy in 2018 where all material sold met contract specifications. Overall, 75% of forecast 2019 production has already been sold. We are assuming an average gross realised price of A\$60/wmt for 2019, in line with gross realised prices achieved in 2018.

### Chinese demand remains strong

Strong Chinese bauxite demand supported prices over the quarter, with the CBIX index price rising 2% from US\$50.4/dmt to US\$51.4/dmt. Reportedly the company is experiencing strong demand from inland Chinese refineries who need to replace domestic supply which has been curtailed by mine closures and stoppages due to depletion and environmental factors. Inland prices have risen over 9% quarter on quarter.

### Rerating overdue

In our view, the range-bound nature of the Metro share price over the last quarter neither reflects the smooth commissioning and cash generation achieved in 2018 nor the growth profile and disciplined approach to costs looking forward. Currently trading at a 0.3x multiple of our NAV of A\$650 million (A\$0.47/share), we expect this to improve following the release of the FY2018 financials later this year (the company is moving to a December year end) and the DFS due in calendar Q2/2019. We raise our target price to A\$0.47/share (from A\$0.46/share) reflecting a model roll forward and more favourable exchange rates, offset by slightly lower realised prices and a small increase in 2019 costs reflecting the actual numbers published by the company.

### Analyst: David Butler

#### Summary

Last price (A\$):	0.15
Target price (A\$):	0.47
Projected return (%)	213%

#### Project Details

Project name	Bauxite Hills
Commodity	Bauxite
Production (Mtpa)	2.0 -> 6.0
Tamesis NAV <sub>8%</sub> (A\$m)	650

#### Share Data

Shares o/s (mm)	1,383
52 week high/low (A\$)	0.27/0.10
3-mth avg. daily vol (mm)	0.89
3-mth avg. daily vol (A\$m)	0.21
Market cap (A\$m)	208
Net cash/(debt) (A\$m)	(2)
Enterprise value (A\$m)	209

	2019	2020	2021
Revenue (A\$m)	149	222	301
EBITDA (A\$m)	18	44	74
Net income (A\$m)	7	22	42
EPS (A\$ ¢/share)	0.53	1.71	3.27
P/E (x)	28.1	8.8	4.6
EV/EBITDA (x)	11.9	4.7	2.8

#### Share Price Performance



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Metro Mining				MMI
As at	28-Jan-19			ASX
<b>Share Price (AUD)</b>	<b>0.15</b>	<b>Target Price (AUD/sh)</b>	<b>0.47</b>	
Model Derived: NAV (A\$m, 8%)	650.5			
Ordinary Shares (M)	1383			
Market Cap (A\$m)	208			
Enterprise Value (A\$m)	209			

Price Assumptions					
(June Year end)	2018E	2019E	2020E	2021E	2022E
AUD:USD Exchange Rate	0.72	0.72	0.72	0.72	0.72
CBIX Reference Price (US\$/t)	39	42	40	40	39
Net Realised Price (A\$/t)	62	56	57	58	60

FINANCIAL SUMMARY - A\$m					
(June Year end)	2018E	2019E	2020E	2021E	2022E
<b>Revenue</b>	<b>19.9</b>	<b>149.1</b>	<b>222.0</b>	<b>300.5</b>	<b>351.9</b>
EBITDA	(3.5)	17.6	44.4	73.8	103.3
Profit before Tax	(9.8)	10.2	34.9	63.3	92.7
<b>Net Income</b>	<b>(12.4)</b>	<b>6.9</b>	<b>22.0</b>	<b>42.1</b>	<b>63.6</b>
EPS (A\$ cents/sh)	(1.04)	0.53	1.71	3.27	4.95
<b>CFPS (A\$ cents/sh)</b>	<b>(0.14)</b>	<b>0.12</b>	<b>(1.74)</b>	<b>1.12</b>	<b>5.50</b>
FCF yield (%)	-	1%	-	24%	37%
<b>P/E</b>	<b>-</b>	<b>28.1x</b>	<b>8.8x</b>	<b>4.6x</b>	<b>3.0x</b>
<b>EV/EBITDA</b>	<b>-</b>	<b>11.9x</b>	<b>4.7x</b>	<b>2.8x</b>	<b>2.0x</b>

PROFIT AND LOSS STATEMENT - A\$m					
(June Year end)	2018E	2019E	2020E	2021E	2022E
<b>Revenue</b>	<b>25.5</b>	<b>149.1</b>	<b>222.0</b>	<b>300.5</b>	<b>351.9</b>
COGS	(25.6)	(109.4)	(147.0)	(186.9)	(202.4)
<b>Operating profit</b>	<b>(0.2)</b>	<b>39.7</b>	<b>74.9</b>	<b>113.6</b>	<b>149.5</b>
Admin	(4.7)	(5.0)	(5.0)	(5.0)	(5.0)
Depreciation	(1.4)	(7.4)	(9.4)	(10.5)	(10.6)
Royalties	(2.3)	(17.0)	(25.6)	(34.8)	(41.2)
<b>PBIT</b>	<b>(9.8)</b>	<b>10.2</b>	<b>34.9</b>	<b>63.3</b>	<b>92.7</b>
Interest	(2.6)	(3.4)	(3.7)	(0.8)	0.2
Tax	-	-	(9.2)	(20.5)	(29.3)
<b>Net income</b>	<b>(12.4)</b>	<b>6.9</b>	<b>22.0</b>	<b>42.1</b>	<b>63.6</b>
EBITDA	(3.5)	17.6	44.4	73.8	103.3

VALUATION	A\$m
Bauxite Hills	705
Cash	40
Debt	(42)
SG&A	(53)
<b>TOTAL NAV</b>	<b>650</b>
NPV per Share	0.47

CASH FLOW ANALYSIS - A\$m					
(June Year end)	2018E	2019E	2020E	2021E	2022E
Profit / (loss) (A\$m)	(9.8)	10.2	34.9	63.3	92.7
Depreciation (A\$m)	1.4	7.4	9.4	10.5	10.6
Interest received (A\$m)	0.4	0.1	0.1	0.0	0.2
Interest paid (A\$m)	(3.0)	(3.5)	(3.8)	(0.8)	-
Foreign exchange (A\$m)	-	-	-	-	-
Movement in working capital (A\$m)	(9.4)	(7.3)	(8.8)	(5.0)	(1.5)
Corporate tax (A\$m)	-	-	(9.2)	(20.5)	(29.3)
<b>Cash flow from operations (A\$m)</b>	<b>(20.5)</b>	<b>7.0</b>	<b>22.7</b>	<b>47.6</b>	<b>72.7</b>
Capital expenditure (PP&E) (A\$m)	(37.5)	(5.5)	(38.3)	(2.0)	(2.0)
Environmental bond (A\$m)	(3.0)	-	(3.0)	-	-
<b>Cash flow from investing (A\$m)</b>	<b>(40.5)</b>	<b>(5.5)</b>	<b>(41.3)</b>	<b>(2.0)</b>	<b>(2.0)</b>
Proceeds of equity offering (A\$m)	52.5	-	-	-	-
Borrowings / (repayments) (A\$m)	20.0	-	(3.8)	(31.2)	-
<b>Cash flow from financing (A\$m)</b>	<b>72.5</b>	<b>-</b>	<b>(3.8)</b>	<b>(31.2)</b>	<b>-</b>
Net change in cash (A\$m)	(1.7)	1.5	(22.4)	14.4	70.7
<b>Cash balance (A\$m)</b>	<b>23.2</b>	<b>24.7</b>	<b>2.2</b>	<b>16.6</b>	<b>87.3</b>

BALANCE SHEET ANALYSIS - A\$m					
(June Year end)	2018E	2019E	2020E	2021E	2022E
<b>Current Assets</b>					
Cash and Liquids	23.2	24.7	2.2	16.6	87.3
Inventory, Prepaid and Receivables	7.4	33.1	49.1	58.0	58.3
Other	0.0	0.0	0.0	0.0	0.0
<b>Non-Current Assets</b>					
Investments	0.0	1.0	2.0	3.0	4.0
Fixed Assets	121.1	119.2	151.1	142.6	134.0
Other	13.4	13.4	13.4	13.4	13.4
<b>Current Liabilities</b>					
Borrowings	0.0	3.8	31.2	0.0	0.0
Creditors	9.6	16.5	23.7	27.5	26.3
Other	0.0	1.0	2.0	3.0	4.0
<b>Non-Current Liabilities</b>					
Borrowings	40.0	31.2	0.0	0.0	0.0
Other	0.0	1.0	2.0	3.0	4.0
<b>Equity</b>					
Net Cash/(Debt)	-16.8	-10.3	-29.0	16.6	87.3

DIVISIONAL CASHFLOW - A\$m					
	2018E	2019E	2020E	2021E	2022E
Bauxite Hills	(49.2)	9.9	(10.0)	51.3	75.5
<b>Total</b>	<b>(49.2)</b>	<b>9.9</b>	<b>(10.0)</b>	<b>51.3</b>	<b>75.5</b>

BAUXITE PRODUCTION (kt)					
	2018E	2019E	2020E	2021E	2022E
Bauxite Hills	445	2769	4000	5333	6000
<b>Total</b>	<b>445</b>	<b>2769</b>	<b>4000</b>	<b>5333</b>	<b>6000</b>
Operating margin (%)	-4%	15%	22%	26%	31%
Total site costs (A\$/t)	29.5	24.1	21.3	19.7	18.5
Total operating costs (A\$/t)	54.7	45.2	42.8	41.6	40.7

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