

BUY

Current Price \$0.16
Target Price \$0.40

Ticker:	MMI	
Sector:	Materials	
Shares on Issue (m):	1,384.2	
Market Cap (\$m):	221.5	
Net Cash est.	-18.4	
Enterprise Value (\$m):	239.9	

52 wk High/Low:	\$0.35	\$0.14
12m Av Daily Vol (m):	1.02	

Mineral Inventory (100% basis)

	Mt	Total Al ₂ O ₃	Total Silica
Ore Reserves	92.2	49.4%	13.2%
Mineral Resource	144.8	49.2%	13.9%

Bauxite Sales (Mt)	2018A	2019E	2020E
Bauxite Hills	0.3	2.6	3.8

(A\$ unless stated otherwise)

Financials (June 30 Year End)

	2018A	2019E	2020E
Revenue	25.3	150.6	209.5
EBITDA	1.7	44.7	83.1
NPAT	-17.6	-5.7	37.5
OCF	-4.5	2.4	39.7
FCF	-59.5	-5.3	21.8

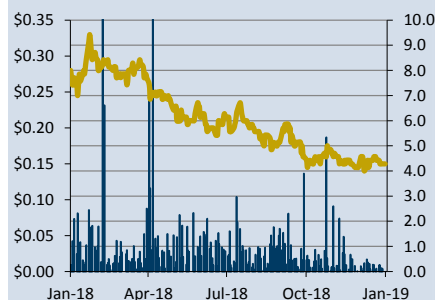
Multiples/Ratios

EPS (A\$cps)	-1.3	-0.4	2.7
EV/EBITDA	137.2	5.4	2.9
PE	-12.6	-38.8	5.9

Substantial Shareholders

Greenstone Management	20%
Balanced Property Fund	16%
Blackrock Group	11%
DADI Engineering	6%
Renaissance Small Companies Fund	5%

Share Price Graph and Daily Trading Volume (Msh)



Please refer to important disclosures at end of the report (from page 5)

Tuesday, 29 January 2019

Metro Mining

Set up for a strong 2019

Analysts | Matthew Keane | James Wilson

Quick Read

Metro Mining (MMI) released December Q results with bauxite sales of 743k wet metric tonnes (WMT), bringing the total for CY18 of 2.037Mt within the guidance range of 1.95-2.075Mt (previously announced). MMI recently committed to an expansion to 3.5Mt in CY19, following a solid operational performance in the first year of production and strong market demand. A Definitive Feasibility Study (DFS) is underway to further increase production to 6Mtpa by 2021. Declining reserves and environmentally motivated mine closures in China has led to increasing demand for bauxite imports. Chinese imports increased by an average 25% pa over the past two years reaching ~80Mt in 2018 and are expected to grow to 130-150Mt by 2025. We see MMI as the best positioned ASX listed stock to capitalise on this growing demand. The Company has production growth, an accepted product with established customers and is located in a low sovereign risk jurisdiction, close to China. BUY maintained with a \$0.40 target price.

Event & Impact | December Quarterly: Positive

Guidance achieved: MMI mined 743kt and shipped 816kt bauxite in the December Q at a total delivered cash cost of A\$49.68/WMT. This compared favourably to the average realised price of A\$60.7/WMT (up 16% QoQ). The Company finished the year with 2.037Mt within CY18 guidance of 1.95-2.075Mt.

Expanding for a growing market: MMI is expanding to 3.5Mt in CY19 (previously forecast at 3.0Mt). This follows strong demand from customers, whereby 75% of CY19 production is already committed to offtake contracts. Upgrades to achieve this rate include enhancements to the truck haulage fleet, duplicating screening capabilities, installation of a jaw crusher for oversize material and supplementing on-water infrastructure to maximise barge movements. Much of this work has been brought forward from the planned expansion to 6.0Mtpa. A revised feasibility for the 6Mtpa run rate by 2021 is due in Q2 CY19.

Cashflows: MMI finished the Q with \$40.2m cash and receivables (\$23.3m cash) versus \$38.2 at 30 September. Free cashflow was ~\$4.5m (before \$2.9m expansion capex) and total debt stands at \$41.8m. Operations will largely cease during the north Australian wet season before recommencing in April 2019. Cash outflow for the March Q is expected to be ~\$10m after \$17m receivables, ~\$4m expansion capital, \$1.8m finance costs and ~\$20m operating costs. We estimate a minimum cash balance of \$10m in early 2021 after an estimated additional \$32m expansion capex to achieve the 6Mtpa run rate. At this expanded rate, we forecast EBITDA at >\$100mpa applying a realised price of A\$62/t and a delivered cash cost of A\$37/t.

Recommendation

Argonaut maintains a BUY recommendation with a \$0.40 target price.

Metro Mining (MMI)

Equities Research

Analyst: Matthew Keane

Recommendation	BUY
Current Price	0.16
Target Price	0.40

Sector	Metals & Mining
Issued Capital (m)	1,384.2
Market Cap (m)	\$221.5
Date	29-January-2019

Profit & Loss (A\$m) 30 June	2018A	2019E	2020E	2021E
Sales revenue (CIF)	25.3	150.6	209.5	287.6
+ Other income	0.2	0.4	0.6	0.4
- Operating costs	29.6	140.9	156.6	196.1
- Exploration and evaluation	0.1	0.5	0.8	0.8
- Corporate & marketing	5.1	7.9	8.0	8.0
- Other Expenses	0.0	0.0	0.0	0.0
EBITDA	-9.3	1.7	44.7	83.1
- D&A	0.2	1.7	2.2	4.4
EBIT	-9.6	0.0	42.5	78.7
- Impairments	5.1	0.0	0.0	0.0
- Finance Costs	2.7	5.7	3.9	0.6
- Tax expense	0.0	0.0	1.1	23.4
+ Changes in Foreign Exchange	0.0	0.0	0.0	1.0
+ Abnormal Items	-0.3	0.0	0.0	0.0
NPAT	-17.6	-5.7	37.5	55.6
Normalised NPAT	-12.5	-5.7	37.5	55.6

Cash Flow (A\$m)	2018A	2019E	2020E	2021E
Operating Cashflow	-4.5	2.4	39.7	59.0
- Capex	49.0	7.6	17.9	15.9
- Exploration & evaluation	0.3	0.0	0.0	0.0
- Asset purchases (+ asset sales)	5.8	0.0	0.0	0.0
+ Other	0.0	0.0	0.0	0.0
Free Cashflow	-59.5	-5.3	21.8	43.1
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	49.6	4.3	0.0	0.0
+ Debt drawdown (- repaid)	22.7	0.0	-22.8	-25.3
+ Other Investing Activities	-5.0	0.5	0.0	0.0
Net Change in Cash	7.8	-0.5	-1.0	17.8
+ Effects of exchange rate	0.2	0.0	0.0	1.0
Cash at end	23.3	22.8	21.8	40.6

Balance Sheet (A\$m)	2018A	2019E	2020E	2021E
Total assets	183.8	197.7	206.6	250.4
Total debt	37.4	48.2	25.3	0.0
Total liabilities	64.9	76.2	54.9	38.8
Shareholders funds	118.9	121.5	151.7	211.6

Production Summary (Financial Year Mt)	2018A	2019E	2020E	2021E
Bauxite Hills Sales	0.3	2.6	3.8	5.3
All-in Sustaining Costs	NA	39.2	30.4	26.9
Realised Price (US\$/t CIF)	52.6	45.9	44.7	43.4
Exchange Rate Assumptions (AUD/USD)	0.78	0.72	0.72	0.72

Attributable Reserves & Resources	Mt	Total Al ₂ O ₃	Total SiO ₂
Reserves			
Total Resources	92.2	49.4	13.2
Resources			
Total Resources	144.8	49.2	13.9

Financial Summary	2018A	2019E	2020E	2021E
Reported earnings				
Net profit (US\$m)	-17.6	-5.7	37.5	55.6
EPS (A\$cps)	-1.3	-0.4	2.7	4.0
PER (x)	-12.6	-38.8	5.9	4.0
Normalised earnings				
Net profit (US\$m)	-12.5	-5.7	37.5	55.6
EPS (A\$cps)	-0.9	-0.4	2.7	4.0
EPS growth (%)	NA	-54.4	-756.6	48.4
PER (x)	-17.7	-38.8	5.9	4.0
Cashflow				
Operating cashflow (\$m)	-4.5	2.4	39.7	59.0
GCFPS (A\$cps)	-0.3	0.2	2.9	4.3
PCF (x)	-49.3	94.0	5.6	3.8
Dividend				
Dividend (A\$cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0

Financial Ratios	2018A	2019E	2020E	2021E
Balance Sheet Ratios				
Total Debt / Equity (%)	283	259	376	645
Interest cover (x)	-3.6	0.0	10.9	124.3
Acid test ratio (x)	0.6	0.2	0.3	0.6
Profitability Ratios				
Net profit margin (%)	-49	-4	18	19
Return on assets (%)	-6	0	23	38
Return on equity (%)	-15	-5	25	26

Valuation Summary	A\$m	A\$/sh*
Bauxite Hills (100%)	617	0.45
Corporate Valuation	-64	-0.05
Unmined Resources	20	0.01
Non-Core Assets	5	0.00
Cash est.	23	0.02
Debt est.	-42	-0.03
Total @ 10% discount rate	559	0.40

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	19.8%
Balanced Property Fund	15.8%
Blackrock Group	10.8%
DADI Engineering	5.7%
Renaissance Small Companies Fund	5.3%

Strong first year of production

MMI achieved the midpoint of CY19 shipping guidance of 1.95-2.075Mt...

MMI released December Q results with bauxite sales of 743k WMT, bringing the total for CY18 of 2.037Mt within the guidance range of 1.95-2.075Mt. Bauxite Hills achieved a 2.5Mtpa annualised run rate for the last two quarters of the year and best shipping rates of ~12kt/day in the month of December (excluding weather affected days).

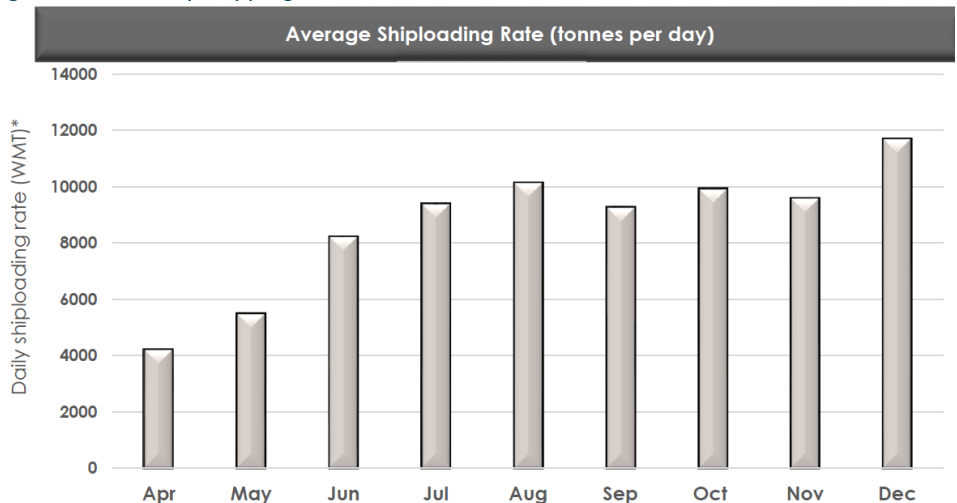
Table 1. CY18 Bauxite Hills production and shipping

Bauxite Hill Production & Sales Highlights				
Thousands of Wet Metric Tonnes	Quarter Ending			YTD
	Jun 2018	Sep 2018	Dec 2018	Dec 2018
Bauxite Mined (WMT) ('000)	445	859	743	2,047
Bauxite Shipped (WMT) ('000)	399	822	816	2,037

Source: MMI

...with 816kt shipped in the December Q

Figure 1. MMI daily shipping rates



*Average monthly rate excludes days lost due to bad weather

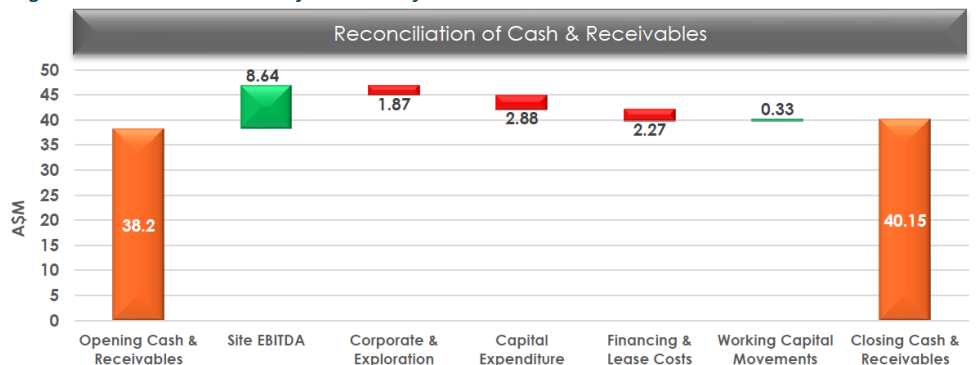
Source: MMI

Cashflows

A \$6.8m expansion to 3.5Mtpa is underway...

MMI finished the Q with \$40.2m cash and receivables (\$23.3m cash) versus \$38.2 at 30 September. Free cashflow was ~\$4.5m before \$2.9m expansion capex and \$2.2m financing costs.

Figure 2. December Q cashflow waterfall chart



Source: MMI

...with \$2.8m spend in the December Q...

...and \$4m to spend in the March Q

A BFS to expand production to 6.0Mtpa is underway

Seaborne demand is being driven by environmental closures and declining reserves in China...

...with highest import growth from Guinea and Australia

MMI is the only pure play Australian bauxite producer with significant scale...

...making it our preferred way to play the bauxite thematic

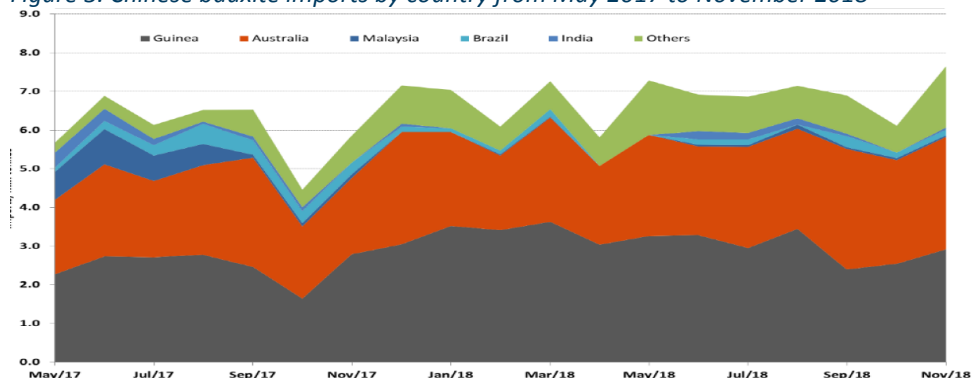
Expansion from 2.0Mtpa to 3.5Mtpa to 6.0Mtpa

MMI has committed to a \$6.8m expansion to lift production from 2.0Mt to 3.5Mt. Some early works have commenced and long lead items were ordered during the December Q. Remaining expenditure for the current Q is ~\$4m. This should enable a restart at the expanded rate in April after the operational shut for the north Australian wet season. The Company is also revising the 2017 BFS to further expand production to 6.0Mtpa (pending market demand). The original capex estimate to expand from 2.0Mtpa to 6.0Mtpa was \$36.7m, however some of this will be bought forward for the 3.5Mtpa expansion. The revised DFS is due Q2 2019. MMI has a Mining Licence for up to 10Mtpa, however shipping beyond 6.0Mt will likely require bathymetric levelling of the Skardon River.

Favourable market conditions

Chinese bauxite imports increased by an average 25% pa over the past two years reaching ~80Mt in 2018. This is expected to grow to 130-150Mt by 2025. This appetite is driven by China's environmental protection measures resulting in the closure of domestic mines and a growing preference to use high-grade, low impurity imported bauxite. In 2018, imports from Guinea grew the fastest, up 44% yoy for the first 9 months and accounting for 47% of China's total imports. However, market share decreased from 53% in early 2018 as exports from Indonesia gained momentum. Imports from Australia remained strong, up 20% yoy over the same period. The market share of Australia imports into China rose from 33% at the start of 2018 to 37%, signalling Australia's competitiveness over its peers. As shipping rates increase, Australasian imports gain an increasing cost advantage over more distal African (Guinean) and South American (Brazilian) imports into China.

Figure 3. Chinese bauxite imports by country from May 2017 to November 2018



Source: MMI.CM Group

Best positioned to capitalise on a growing market

We regard MMI as the best way to play the growing bauxite sector given its low sovereign risk jurisdiction, expansion potential and close proximity to the highest growth market in China. While RIO is ramping up its Amrun project (~23Mtpa rate by late 2019) in Queensland, Australia, MMI represents the only ASX listed pure play bauxite producer with significant export tonnages. The Bauxite Hills product has attained market acceptance and ~75% of CY19 production is allocated to offtake contracts. As production increases, economies of scale will drive down operating costs and increase margins. At the 6.0Mtpa rate, we forecast EBITDA at >\$100mpa applying a realised price of A\$62/t and delivered cash costs of A\$37/t.

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Important Disclosures

Argonaut has acted as Financial Adviser to MMI in the previous 12 months 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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