



Thursday, 4 July 2019

## Metro Mining

### Late dash in the June Q

Analysts Matthew Keane | James Wilson

<b>Stock</b>	<b>Metro Mining (MMI)</b>
<b>Recommendation</b>	<b>BUY</b>
<b>Current Price</b>	<b>\$0.10</b>
<b>Target Price</b>	<b>\$0.34</b>

### Event and First Take | June quarter initial results - Positive

**June Q production:** Metro Mining (MMI) release preliminary June Q results with 880kt mined and 836kt shipped bauxite from its Bauxite Hills operation, beating Argonaut's forecast of 812kt shipped. The quarter was adversely impacted by unseasonal swell in the Gulf of Carpentaria in late-May. However, from 10 June these conditions became more favourable, resulting in a rapid increase in shipping rates to an average 15,000 WMT/day, including a record of over 20,000 WMT. CY19 guidance was recently downgraded from 3.4-3.6 WMT to 3.3-3.5 WMT. We believe the Company will hit the upper end of this revised range.

Table 1: Initial production estimates for the June Q mining and shipping at Bauxite Hills

Bauxite Hills Production Results				
Period	April*	May	June	Quarter
Bauxite Mined (WMT) ('000)	124	329	427	880
Bauxite Shipped (WMT) ('000)	151	311	374	836
Bauxite Mined (WMT per day)	6,249	10,601	14,231	n/a
Bauxite Shipped (WMT per day)	8,401	10,034	12,467	n/a

\*NB: April was a partial month due to Cyclone Trevor and ship loading commenced on 13 April 2019

Source: MMI

Figure 1: Daily ship loading rates for June (WMT per day)



Source: MMI

**Feasibility on the expansion to 6Mt:** MMI is due to release a Feasibility Study on the Stage 3 expansion to 6 million WMT per annum in the current quarter. We believe the original capex estimate of \$36.7m will increase marginally (~\$40-45m), but we are expecting a more refined, potentially higher capacity mine-barge-tranship logistics system. This expansion should be largely debt fundable.

**Seaborn bauxite market remains strong:** Alumina prices in northern China recently reached multi-month highs as the environmental shutdowns of domestic bauxite mining in the Shanxi Province has led to a critical shortage of feedstock. This incorporates the shutdown of Xinha Group's 2.8Mtpa alumina refinery in Jiakou. While Xinha is one of MMI's key customers, it only supplies to coastal refineries and is therefore largely unaffected by this closure. Bauxite prices stand to benefit from increasing seaborn demand which is replacing domestic supply. This is lifting the Company's average realised bauxite price. The CBIX bauxite index has also increased from US\$51.90/dmt in January to US\$52.20/dmt, hitting highs of US\$54.30/dmt in May. Argonaut estimated realised price of US\$46/dmt for CY19 should provide strong margins against our forecast total cash cost of US\$35/dmt (see Argonaut's [June Q preview and commodity review](#)). MMI's CY19 production is 90% contracted following a recently announced contract with a major State-Owned Chinese Aluminium Group for 420,000 WMT (+/- 10%) of bauxite to be delivered in H2. We forecast average free cash margins of ~A\$15/t for H2 2019.

## Recommendation

Argonaut maintains a BUY recommendation with a \$0.34/sh target price. We believe MMI's recent share price decline is more the result of institutional fund redemption selling rather than a true reflection on MMI's operational performance or the broader bauxite market thematic.

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