

MMI AU

22 October 2019

Last price: A\$0.14
Target price: A\$0.41

Metro Mining (ASX: MMI) has announced that it has completed the Definitive Feasibility Study (DFS) for the Stage 2 Expansion to 6 million Wet Metric Tonnes (WMT) of annual bauxite production from its Bauxite Hills mine in North Queensland, that was commissioned last year.

On the runway to 6Mtpa, share price has to rerate surely

Bauxite markets clearly remain a key element of the Metro investment case but it's a lot more than that. EBITDA is set to rise fourfold in the next two years from the debottlenecking of the free dig mining operation, effectively doubling original nameplate output to 6 million WMT (out to 2037). The expansion also delivers bottom quartile cash costs adding margin protection to Metro's existing geographical advantage. Even at current earnings level Metro looks good value, trading at 4.4x 2020 EBITDA and 2.0x 2021 EBITDA following the capital spend. We value the company based on our 1x NAV (8%) of A\$562 million or A\$0.41/share, a 2.9x multiple on the current share price.

Floating Terminal to load larger vessels, increase throughput, reduce unit costs

The key capital item of the DFS is a floating terminal which is able to load larger Ocean-Going Vessels than the current transshipping operation will allow – up to and including Cape Size vessels. The floating terminal consists of a 100 metre long barge, two cranes, and a stacking system using a conveyor and is capable of moving 40kt/day. The capital expenditure requirement is now A\$51 million (including 10% contingency), higher than previously estimated, however the addition of the conveyor system provides significantly higher throughput (up to c.9Mtpa run rate) – debottlenecking this part of the process, providing operational flexibility and opportunities for further future expansions without major incremental capex.

Alongside the floating terminal, Metro will upgrade on site logistics and increase the size of the transshipping barges to meet the 6 million WMT production rate. As a result, unit costs are expected to fall 18% once commissioned (to c.US\$29/t), leaving Bauxite Hills in the lowest seaborne cost quartile.

Financing not expected to be challenging

Whilst the A\$51 million capital will not be funded entirely from mine cashflows, we do not see any difficulty in the mine obtaining additional debt funding to bring the Stage 2 expansion online with no dilution to shareholders. We estimate a further US\$30 million facility is required, bringing total gross debt to A\$80 million, comparing well with our estimated 2021 EBITDA of A\$111 million.

2019 operating performance to date strong

Bauxite shipped numbers continue to improve, and Metro is targeting production and shipping guidance of 3.3 – 3.5 million WMT in 2019 before the start of the wet season in December, despite weather-related setbacks during the year. Consistency has improved with the move to owner-operated fleet, and the additional crushing and screening circuit has improved availability of ore for the transshipping barges. Given the high fixed cost nature of the business, we expect to see unit costs decrease as production levels increase.

Bauxite market still strong

Chinese bauxite demand has been strong through 2019, with the 75Mt of bauxite imported in the year to August 30% higher than the comparative period in 2018. Guinean volumes have replaced lower quality Indonesian exports, however Malaysia, once the top bauxite supplier to China, is putting in procedures to restart exports following shutdowns caused by environmental violations. We are taking a conservative approach to Metro's realised prices, assuming US\$41/t CFR China over the life of mine.

Analysts: David Butler
David Baker

Summary

Last price (A\$): 0.14
Target price (A\$): 0.41
Projected return (%): 193%

Project Details

Project name: Bauxite Hills
Commodity: Bauxite
Production (Mtpa): 3.5 -> 6.0
Tamesis NAV_{8%} (A\$m): 562

Share Data

Shares o/s (mm): 1,383
52 week high/low (A\$): 0.18/0.10
3-mth avg. daily vol (m): 0.60
3-mth avg. daily vol (A\$k): 75.3
Market cap (A\$m): 194
Net cash/(debt) (A\$m): (33)
Enterprise value (A\$m): 226

Financial Data	Dec Year End		
	2019	2020	2021
Revenue (A\$m)	210	247	364
EBITDA (A\$m)	23	52	111
Net income (A\$m)	12	22	64
EPS (A\$ ¢/share)	1.0	1.7	5.0
P/E (x)	14.5	8.3	2.8
EV/EBITDA (x)	9.9	4.4	2.0

Share Price Performance



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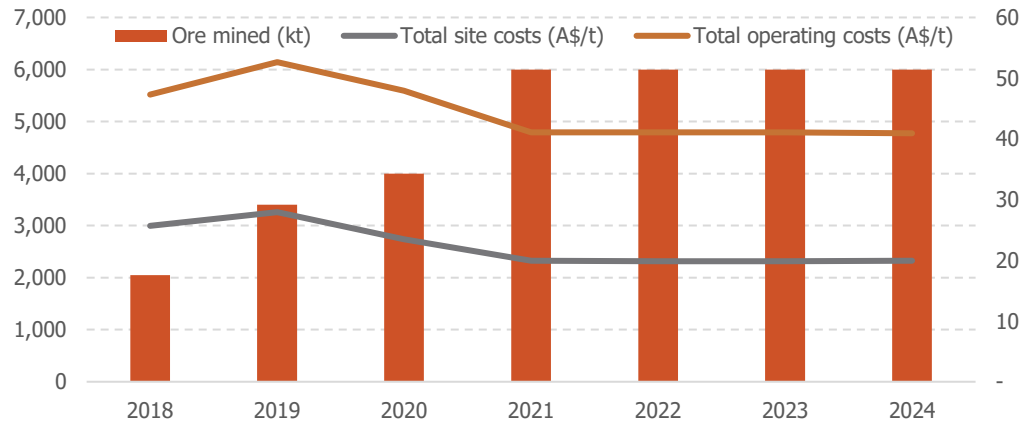
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DFS Confirms Move to 6 Million Tonne Annual Production

The Stage 2 expansion to 6 million WMT production is now ready for execution, subject to funding and final detailed design and engineering work. We expect the majority of the construction to take place next year, ready for commissioning and implementation in 2021.

Accordingly, we estimate production of 3.4Mt this year, at the midpoint of guidance, 4Mt in 2020 and 6Mtpa thereafter. An increased reserve to 109.5Mt increases our life of mine by three years to 2037.

Figure 1 – Production and Costs

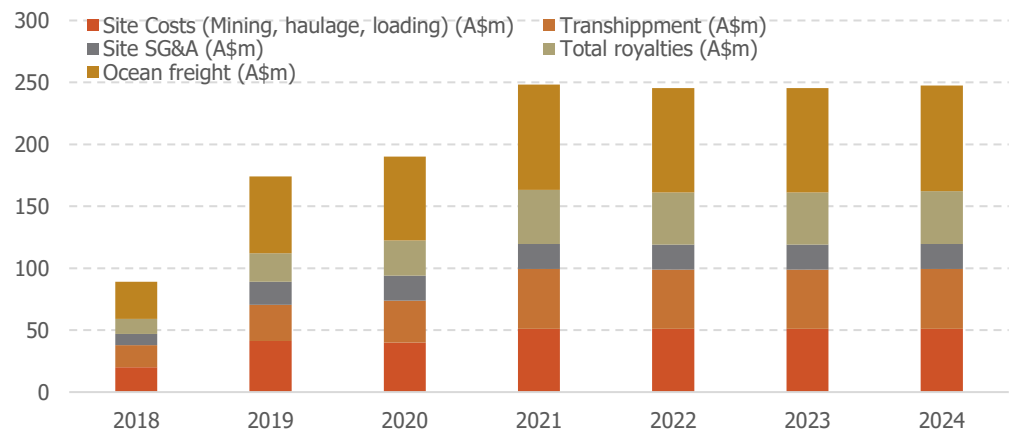


Source: Tamesis

Total costs would reduce from our estimate of A\$52.6/t in 2019 to A\$41.1/t in 2021 – reflecting the impact of economies of scale on site costs and transportation.

Ocean freight is the single largest cost element, representing 37% of costs over the Bauxite Hills life of mine. A move to potentially using larger vessels (up to Cape Size) would clearly have a material positive impact on costs. The next two largest cost elements, on site costs (20%) and transhipping (18%) will also benefit from unit cost reductions

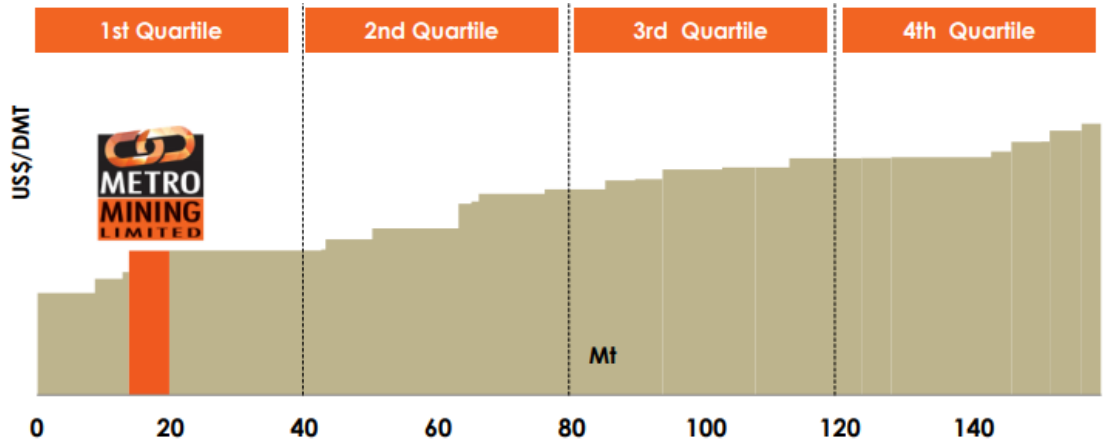
Figure 2 – Operating Cost Split



Source: Tamesis

We have a high level of confidence in these operating cost estimates given that Metro are in the second year of operations at Bauxite Hills. Once the 6Mt expansion is completed, Metro are expected to be in the lowest quartile of the Chinese seaborne cost curve.

Figure 3 – China Seaborne Bauxite Supply Cash Cost Curve 2021 – US\$/DMT (CFR)



Source: Metro, CM Group

Financing

Additional financing is expected to fund the proportion of the A\$51 million capital expenditure that cannot be funded from mining free cash flow.

Whilst the precise commercial terms would need to be agreed, we estimate that a US\$30 million facility would be sufficient to cover the capital requirement and working capital needs. This would take gross debt to c.A\$80 million, not unreasonable given our EBITDA estimate of A\$52 million in 2020 and A\$111 million in 2021.

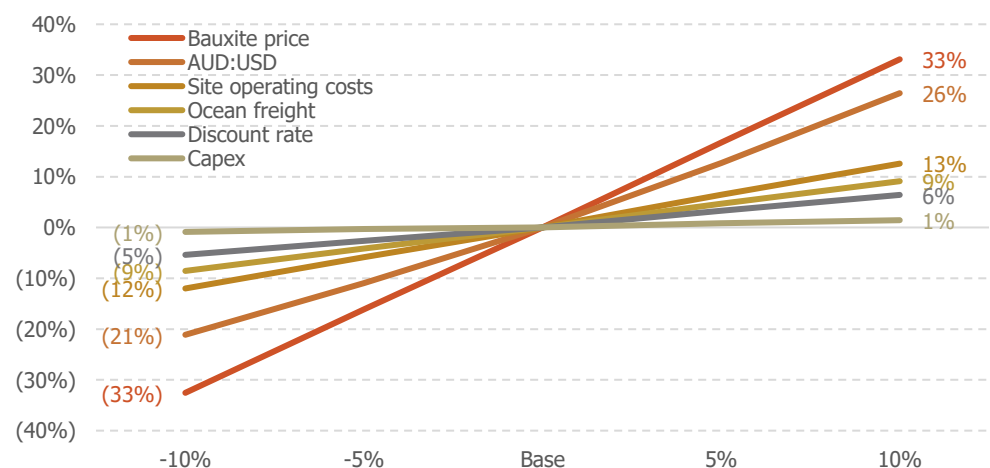
In all likelihood we expect the existing facilities would be consolidated, in collaboration with the current lenders, so that the repayment schedule matches closer the cash generation profile. In particular, the A\$20 million bullet repayment to Inगतatus (a related party to major shareholder Balanced Property) would expect to be reprofiled.

Another alternative for financing could be through the Northern Australia Infrastructure Facility (NAIF). NAIF has A\$5 billion of government backed funding available for infrastructure benefiting the North of Australia. We note that NAIF has already committed to funding towards mining projects, including Sheffield Resources' (ASX: SFR) Thunderbird mineral sands project and at Kalium Lakes' (ASX: KLL) Beyondie potash project.

Valuation Sensitivities

Unsurprisingly, the company is most sensitive to a change in Bauxite price, with a 33% change in our valuation given a 10% movement. Our valuation is also particularly sensitive to exchange rates given the majority of costs are in Australian dollars and revenues in US dollars or Chinese Renminbi, with a 26% movement in target price after a 10% change. Other key variables have a lesser impact on our target price

Figure 4 – Valuation Sensitivities



Source: Tamesis

Metro Mining			MMI
As at	22-Oct-19		ASX
Share Price (AUD)	0.14	Target Price (AUD/sh)	0.41
Model Derived: NAV (A\$m, 8%)	562.1		
Ordinary Shares (M)	1383		
Market Cap (A\$m)	194		
Enterprise Value (A\$m)	226		

Price Assumptions (December Year end)	2018A	2019E	2020E	2021E	2022E
AUD:USD Exchange Rate	0.75	0.69	0.67	0.67	0.67
CBIX Reference Price (US\$/t)	45	52	50	48	48
Net Realised Price (A\$/t)	56	62	62	60	59

FINANCIAL SUMMARY - A\$m (December Year end)	2018A	2019E	2020E	2021E	2022E
Revenue	105.7	209.9	246.9	364.3	353.8
EBITDA	8.9	22.9	51.8	110.9	103.3
Profit before Tax	(0.3)	19.5	43.5	101.1	93.3
Net Income	(4.8)	12.4	21.7	63.8	60.5
EPS (A\$ cents/sh)	(0.44)	0.97	1.69	4.96	4.70
CFPS (A\$ cents/sh)	0.26	3.06	(2.94)	3.64	3.94
FCF yield (%)	-	-	-	35%	39%
P/E	-	14.5x	8.3x	2.8x	3.0x
EV/EBITDA	25.3x	9.9x	4.4x	2.0x	2.2x

PROFIT AND LOSS STATEMENT - A\$m (December Year end)	2018A	2019E	2020E	2021E	2022E
Revenue	111.1	208.0	246.9	364.3	353.8
COGS	(90.0)	(156.9)	(161.6)	(204.8)	(203.3)
Operating profit	21.1	51.1	85.4	159.5	150.4
Admin	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Depreciation	(4.4)	(3.3)	(8.3)	(9.9)	(10.0)
Royalties	(12.1)	(23.2)	(28.5)	(43.6)	(42.2)
PBIT	(0.3)	19.5	43.5	101.1	93.3
Interest	(4.5)	(4.5)	(7.4)	(5.5)	(3.3)
Tax	-	(2.6)	(14.4)	(31.8)	(29.5)
Net income	(4.8)	12.4	21.7	63.8	60.5
EBITDA	8.9	22.9	51.8	110.9	103.3

VALUATION	A\$m
Bauxite Hills	616
Cash	11
Debt	(44)
SG&A	(21)
TOTAL NAV	562
NPV per Share	0.41

CASH FLOW ANALYSIS - A\$m (December Year end)	2018A	2019E	2020E	2021E	2022E
Profit / (loss) (A\$m)	(0.3)	19.5	43.5	101.1	93.3
Depreciation (A\$m)	4.4	3.3	8.3	9.9	10.0
Interest received (A\$m)	0.3	0.1	0.3	0.2	0.4
Interest paid (A\$m)	(4.7)	(4.6)	(7.7)	(5.6)	(3.7)
Foreign exchange (A\$m)	-	-	-	-	-
Movement in working capital (A\$m)	(8.9)	2.4	(7.0)	(7.9)	1.5
Corporate tax (A\$m)	-	(2.6)	(14.4)	(31.8)	(29.5)
Cash flow from operations (A\$m)	(9.4)	18.2	23.0	65.7	72.0
Capital expenditure (PP&E) (A\$m)	(1.0)	(22.6)	(36.5)	(2.0)	(2.0)
Environmental bond (A\$m)	(3.0)	-	(3.0)	-	-
Cash flow from investing (A\$m)	(4.0)	(22.6)	(39.5)	(2.0)	(2.0)
Proceeds of equity offering (A\$m)	16.6	-	-	-	-
Borrowings / (repayments) (A\$m)	-	43.7	(21.4)	(16.9)	(19.3)
Cash flow from financing (A\$m)	16.6	43.7	(21.4)	(16.9)	(19.3)
Net change in cash (A\$m)	3.3	39.3	(37.8)	46.8	50.7
Cash balance (A\$m)	23.2	14.5	52.6	33.5	84.7

BALANCE SHEET ANALYSIS - A\$m (December Year end)	2018A	2019E	2020E	2021E	2022E
Current Assets					
Cash and Liquids	28.5	67.8	30.0	76.8	127.4
Inventory, Prepaid and Receivables	12.9	8.8	20.9	33.4	30.9
Other	0.0	0.0	0.0	0.0	0.0
Non-Current Assets					
Investments	0.0	1.0	2.0	3.0	4.0
Fixed Assets	119.2	135.3	166.5	158.7	150.7
Other	13.4	51.4	51.4	51.4	51.4
Current Liabilities					
Borrowings	0.8	21.4	16.9	19.3	0.0
Creditors	5.8	4.0	9.1	13.7	12.8
Other	0.0	1.0	2.0	3.0	4.0
Non-Current Liabilities					
Borrowings	40.4	61.7	44.8	25.5	0.0
Other	0.0	1.0	2.0	3.0	4.0
Equity	127.9	138.3	160.0	223.8	284.3
Net Cash/(Debt)	-12.7	-15.2	-31.7	32.0	127.4

DIVISIONAL CASHFLOW - A\$m	2018A	2019E	2020E	2021E	2022E
Bauxite Hills	(2.0)	7.0	(4.0)	74.2	78.3
Total	(2.0)	7.0	(4.0)	74.2	78.3

BAUXITE PRODUCTION (kt)	2018A	2019E	2020E	2021E	2022E
Bauxite Hills	2,047	3,400	4,000	6,000	6,000
Total	2,047	3,400	4,000	6,000	6,000
Operating margin (%)	10%	14%	23%	32%	31%
Total site costs (A\$/t)	25.7	27.9	23.5	19.9	19.8
Total operating costs (A\$/t)	47.3	52.6	47.9	41.1	41.1

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