

Metro Mining

A strong operational quarter

ADD (no change)

Current price:	A\$0.13
Target price:	A\$0.35 ▲
Previous target:	A\$0.26
Up/downside:	178.3%
Reuters:	MMI.AX
Bloomberg:	MMI AU
Market cap:	US\$118.7m
	A\$173.1m
Average daily turnover:	US\$0.06m
	A\$0.09m
Current shares o/s	1,384m
Free float:	76.0%

- MMI reported bauxite production of 1,420 Wet Metric Tonnes (WMT) for the Sep quarter and shipped 1,415WMT – on track for guidance of 3.3-3.5WMT for CY19.
- An effective production rate above 4Mtpy with 3 production and shipping quarters, minesite costs (mining and barging) were A\$18.62/WMT for the quarter.
- Improved shiploading performance and marginally lower ocean freight rates saw freight costs down marginally, with cash costs of A\$40.44/WMT from A\$46.40.
- The DFS to take production to 6Mtpy was completed, with a projected capital cost of A\$51.4m and the Floating Terminal 85% of this, with production from 2021.
- Available cash was A\$43.5m, up A\$14.0m from 30 June, and total restructured debt stood at A\$37.9m.

Bauxite Hills operating efficiently at this scale

The September quarter delivered in terms of production (1,420WMT) and shipping (1,415WMT). With 3 production quarters in the year to allow for the wet season, this annualises above 4MTPY. This level of production delivered unit costs of A\$18.62/WMT, for the first time below A\$20/WMT, confirming MMI's projections. Production guidance of 3.3-3.5MTPY for CY19 was reaffirmed.

Bauxite sales, demand and pricing

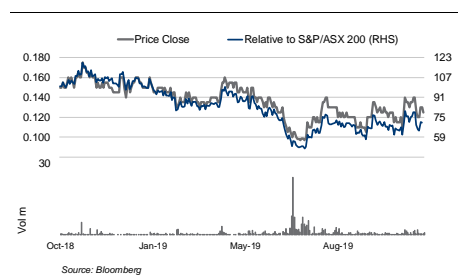
Of the projected 3.5Mt production for CY19, 2.3Mt is under long term offtake to Xinfu, at a price linked to the alumina price index denominated in RMB. The balance has been sold at prevailing market prices. Chinese alumina production using domestic ore declined below 50% from 61% at end 2018, with imports over the first 8 months of 2019 up 30.8% YOY to 71.3Mt. Prices are expected to remain near the recent US\$50.70/Dry Metric Tonne (DMT).

Stage 2 expansion to 6Mtpy

The DFS was completed to take Bauxite Hills production to 6Mtpy from reserves of 109.5Mt. The floating terminal with the equipment to load larger cape size vessels which are ungeared will comprise 85% of the A\$51.4M cost, leading to further reduced unit loading and shipping charges. Completion of engineering is scheduled for November 2019, followed by funding negotiations. Production is scheduled for 2021.

Valuation, target price and risk

With the realisation of lower unit costs for mining and barging, we have revised down our projected A\$ cost structure for site operations. MMI also reported some savings on ocean freight unit costs from rates, offset in A\$ terms by a weaker A\$/US\$ exchange rate. However, the weaker rate has had the benefit of lifting the received bauxite price in A\$ terms. Our valuation and target price have lifted to A\$0.35ps (from A\$0.26ps), with the bauxite price and exchange rates the major risks. Repayment of the Sprott debt facility commenced at a rate of US\$1.07m/month and continues to August 2020. Repayment of the A\$20.4m facility, with a related party of Metro's substantial shareholder Balanced Property (15.83%), has been adjusted and extended.



Price performance	1M	3M	12M
Absolute (%)	0	-3.9	-13.8
Relative (%)	-0.9	-2.4	-30

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– N/A

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (A\$m)	0.0	25.3	204.3	237.8	297.3
Operating EBITDA (A\$m)	-11.36	-7.94	38.99	64.04	82.55
Net Profit (A\$m)	-2.37	-11.59	22.12	42.11	55.61
Normalised EPS (A\$)	(0.007)	(0.013)	0.016	0.030	0.040
Normalised EPS Growth	(28.8%)	92.6%		90.3%	32.1%
FD Normalised P/E (x)	NA	NA	7.82	4.11	3.11
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	4.50	2.52	1.42
P/FCFE (x)	NA	NA	15.02	12.18	3.90
Net Gearing	0.3%	11.9%	1.8%	(6.3%)	(23.4%)
P/BV (x)	0.65	1.45	1.23	0.94	0.72
ROE	(4.9%)	(11.6%)	17.0%	26.0%	26.4%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)					

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Metro Mining Operations

Input Prices		FY17A	FY18A	FY19E	FY20E	FY21E	
Exchange Rate - from Input Sheet	A\$/US\$	0.75	0.77	0.72	0.70	0.70	
Bauxite - from Input Sheet	US\$/t	40.75	53.63	43.00	45.00	45.00	
Calculated	A\$/t		45.72				
CBX Operations		FY17A	FY18A	FY19E	FY20E	FY21E	
Bauxite mined	kt		445	3,600	4,000	5,000	
Recovery	%		89.7	95.0	93.0	93.0	
DMT Product	kt		399	3,420	3,720	4,650	
DMT Bauxite Value CIF	US\$/t		35.3	43.0	45.0	45.0	
	US\$M		14.1	147.1	167.4	209.3	
Revenue		A\$M	18.2	204.3	237.8	297.3	
Reported	A\$M		18				
Fixed Costs	A\$'000		10,000	10,000	10,000	10,000	
Mining & Haulage Costs	A\$/t		9.90	9.00	9.00	9.00	
	A\$'000		3,950	61,560	66,960	83,700	
Site Operating Costs	A\$M		13.950	71.560	76.960	93.700	
	A\$/t		34.96	20.92	20.69	20.15	
Marketing & Other Charges	%		1.5	1.0	1.0	1.0	
	A\$M		0.273	2.043	2.378	2.973	
Mine Cashflow		A\$M	4.0	67.4	97.1	123.9	
QLD State Govt, TO + other Royalty	%		14.9%	14.9%	14.9%	14.9%	
	A\$M		2.7	30.4	35.4	44.3	
	A\$/t		42.44	30.42	30.85	30.32	
Operating EBITDA		A\$M	-11.4	-7.9	39.0	64.0	82.6
Net Interest Income	A\$M		-	(1.75)	(3.83)	(2.93)	(2.03)
Depreciation And Amortisation	A\$M		(0.04)	(1.33)	(5.40)	(6.40)	(8.00)
Net Profit		A\$M	-2.4	-11.6	22.1	42.1	55.6
Operational Cashflow		A\$M		1.3	36.9	61.7	79.6
Maintenance Capex	A\$M		-35.8	-1.00	-1.00	-1.00	
Project Cashflow	A\$M		-35.8	1.3	35.9	60.7	78.6
Realised Tax Rate	%		25.0	25.0	25.0	25.0	
Post Tax cashflow	A\$M		-26.9	0.9	27.0	45.5	58.9
Debt		A\$M	-35.8				
Drawdown	A\$M		-35.8				
Accrued debt	A\$M			-39.0	-42.5	-42.5	-32.5
Capital repaid	A\$M					10.0	10.0
Interest Rate	%		9.0	9.0	9.0	9.0	9.0
Interest Capitalised	A\$M		-3.2	-3.5			
Interest repaid	A\$M					3.8	2.9
Cashflow after interest repayment	A\$M			1.3	35.9	56.8	75.7
Cashflow after interest and capital	A\$M			1.3	35.9	46.8	65.7
Adjusted Tax Rate	%		30.0	30.0	25.0	25.0	25.0
Post Tax cashflow after debt	A\$M			1.3	28.3	48.1	61.7

VALUATION

Cost of Capital	10.10%
Pre Tax NPV	\$656.5M
Post Tax NPV	\$531.7M

Valuation Summary	WACC	10.1%
	A\$M	A\$/Share
Bauxite Hills	531.7	0.38
Net cash	-30.0	-0.02
Corporate & Other	-20.0	-0.01
Total Value \$m	481.7	0.35
Number of shares (m)		1384.9
Target Price		0.35

SOURCE: MORGANS RESEARCH, COMPANY

Figure 2: Changes to forecasts

	2019E			2020E			2021E		
	Prev	Rev	% chg	Prev	Rev	% chg	Prev	Rev	% chg
Revenue	145.1	204.3	40.7%	223.2	237.8	6.5%	275.3	297.3	8.0%
EBITDA	21.2	39.0	84.2%	44.2	64.0	45.0%	54.6	82.6	51.3%
EBIT	9.6	33.6	249.2%	27.5	57.6	109.9%	35.0	74.6	113.3%
NPAT	9.6	22.1	130.0%	27.5	42.1	53.3%	35.0	55.6	59.1%
EPS	0.7	1.6	130.0%	2.0	3.0	53.3%	2.5	4.0	59.1%
Div yield	0.0%	0.0%	n.a.	0.0%	0.0%	n.a.	0.0%	0.0%	n.a.

SOURCES: MORGANS, COMPANY REPORTS

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