

# Metro Mining (MMI)

Rating: Buy | Risk: High | Price Target: \$0.08

## New offtake contracts underpin 7Mt expansion. >\$90m EBITDApa in sight

### Key Information

Current Price (\$ps)	0.02
12m Target Price (\$ps)	0.08
52 Week Range (\$ps)	0.01 - 0.04
Target Price Upside (%)	364.7%
TSR (%)	364.7%
Reporting Currency	AUD
Market Cap (\$m)	51
Sector	Materials
Avg Daily Volume (m)	2.8
ASX 200 Weight (%)	0%

### Fundamentals

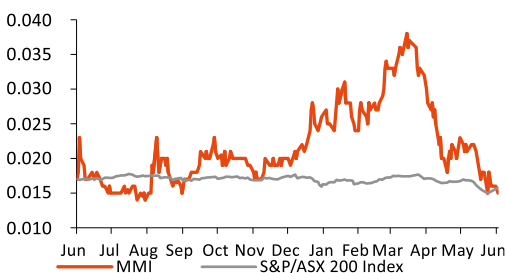
YE 31 Dec (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	160	203	252	295
NPAT (\$m)	(52)	8	27	57
EPS (cps)	(4.8)	0.3	0.9	1.9
EPS Growth (%)	nm	105.6%	237.5%	108.5%
DPS (cps) (AUD)	0.0	0.0	0.0	1.0
Franking (%)	0%	100%	100%	200%

### Ratios

YE 31 Dec	FY21A	FY22E	FY23E	FY24E
P/E (x)	(0.4)	6.3	1.9	0.9
EV/EBITDA (x)	(0.8)	2.5	1.2	0.7
Div Yield (%)	0.0%	0.0%	0.0%	58.8%
Payout Ratio (%)	0.0%	0.0%	0.0%	52.4%

### Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(29.0%)	(37.4%)	(45.1%)	(4.4%)
Absolute (%)	(34.8%)	(46.4%)	(54.5%)	(11.8%)
Benchmark (%)	(5.8%)	(9.0%)	(9.4%)	(7.4%)



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Greenstone Resources LLP	24.0%
Balanced Property Pty Ltd.	9.5%

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### Event

The Metro Mining board has approved a Definitive Feasibility Study (DFS) to expand capacity at the Bauxite Hills Mine from 4.0 to 7.0Mt. The expansion has been underpinned by new offtake agreements with Xinfa to lock in 5Mt in 2023 and 6Mt in 2024. The expansion will cost A\$28.3m and will be paid back in under two years. The IRR on the expansion is 78%. This is excellent news for shareholders. We had already factored in the expansion, but costs of A\$33.7/t are lower than our previous forecast of ~A\$35/t. We upgrade earnings by 3-7% and our price target lifts from 7cps to 8cps, which is set a 50% discount to our DCF valuation.

### Highlights

- Metro Mining is a bauxite producer from its Bauxite Hills operation in far north Queensland. The company successfully commenced operations in 2018, produced 3.5Mt in 2019, but was impacted by COVID related shutdowns of Chinese alumina refineries in 2020 and exceptionally high freight rates in 2021. The company has successfully managed those disruptions and is set for a strong recovery in CY22 and growth into CY23 and CY24.
- Metro was severely impacted by high freight rates in 2021, and although freight costs have still not returned to pre-Covid levels, Metro Mining has mitigated the impact through the use of a floating crane to allow the loading of larger (and cheaper) Cape Size vessels, switching some sales to an FOB (free-on-board) basis, and signing Contracts of Affreightment (COA's). Metro notes that ~90% of freight is now locked in for 2022-24 at rates that are significantly below current spot and forward prices.
- Metro has now locked in 3.8Mt of sales in CY22, 5Mt in CY23 and 6Mt in CY24. For CY22, 60% of the sales are at agreed prices and 40% at prices to be determined throughout the year based on market conditions at the time.
- We assume an average achieved price of US\$39.1/t in CY22 (A\$52.60/wmt) with prices remaining flat in real terms in future years. Prices appear to be strengthening this year and there is upside risk to our price assumption, we note that Metro achieved A\$74/t for the 300kt of sales in the March quarter.
- Key features of the expansion in capacity to 7Mt include:
  - Total capex of A\$28.3m which includes A\$23.3m for a second floating crane. The expansion will pay back in 2 years has an IRR of 78%.
  - Volumes underpinned by two new contracts with foundation customer Xinfa;
    - 1.1Mt in 2023 on a CIF basis.
    - 2.2Mt in 2024 on an FOB basis.
  - The new contracts are on a fixed price basis, which when coupled with fixed freight contracts gives Metro strong visibility on cash flow expected for CY23 and CY24.
  - Operating costs are expected to reduce ~20% from current levels to A\$33.70/t once the expansion is fully ramped up.
  - Metro has extended its working capital loan with Greenstone and Lambhill by A\$4.5m to accelerate the purchase of a second floating crane.
  - The expanded capacity of 7Mt is above contract volumes of 6Mt – this provides Metro with a strong buffer to offset any shipment issues and will also allow Metro to top up shipments into what is expected to be a strong bauxite market.

### Recommendation

This is excellent news for shareholders and returns Metro Mining to the growth profile that the business was on before being derailed by COVID. Our price target increases from 7cps to 8cps and we reaffirm our BUY recommendation.

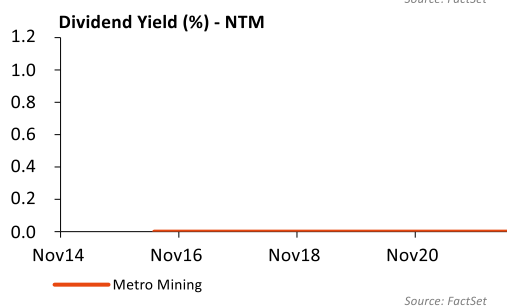
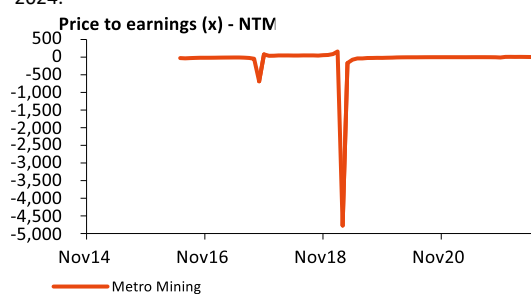
**Metro Mining  
Materials**

FactSet: MMI-AU / Bloomberg: MMI AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.02
Target Price (\$ps)	0.08
52 Week Range (\$ps)	0.01 - 0.04
Shares on Issue (m)	2,989
Market Cap (\$m)	51
Enterprise Value (\$m)	67
TSR (%)	364.7%
Valuation per share (cps) (AUD)	0.16
Valuation (\$m)	472.20

**Company Description**

Metro Mining operates the Bauxite Hills operation in Far North Queensland and exports bauxite to customers in China. The company commenced operations in 2018 and is in the process of expanding from 3.5Mtpa to 6Mtpa by 2024.



**Financial Year End: 31 December**

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(0.8)	(2.4)	0.3	0.9	1.9
EPS (Underlying) (cps)	(0.8)	(4.8)	0.3	0.9	1.9
EPS (Underlying) Growth (%)	nm	nm	105.6%	237.5%	108.5%
PE (Underlying) (x)	(7.4)	(0.4)	6.3	1.9	0.9
EV / EBIT (x)	(8.6)	(0.7)	4.7	1.7	0.9
EV / EBITDA (x)	28.1	(0.8)	2.5	1.2	0.7
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	58.8%
Franking (%)	0%	0%	100%	100%	200%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	52.4%
Free Cash Flow Yield (%)	(3.3%)	(44.1%)	27.7%	51.5%	160.6%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	128	160	203	252	295
Sales Growth (%)	(35.6%)	24.9%	27.1%	23.7%	17.1%
Other Operating Income	0	0	0	0	0
EBITDA	2	(79)	26	54	95
EBITDA Margin (%)	1.9%	(49.4%)	12.9%	21.6%	32.2%
Depreciation & Amortisation	(10)	(12)	(12)	(15)	(18)
EBIT	(7.8)	(91.1)	14.2	39.3	76.9
EBIT Margin (%)	(6.0%)	(56.9%)	7.0%	15.6%	26.1%
Net Interest	(8)	(5)	(4)	(2)	0
Pretax Profit	(15)	(96)	10	37	77
Tax	4	(9)	(2)	(10)	(20)
Tax Rate (%)	(28.1%)	9.5%	(20.0%)	(26.0%)	(26.0%)
NPAT Underlying	(11)	(52)	8	27	57
Significant Items	0	(54)	0	0	0
NPAT Reported	(11)	(106)	8	27	57
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(8)	(91)	14	39	77
Tax Paid	0	0	0	(2)	(10)
Net Interest	0	0	0	0	0
Change in Working Capital	0	0	(5)	(1)	(2)
Depreciation & Amortisation	10	12	12	15	18
Operating Cashflow	(0)	(18)	22	52	84
Capex	(2)	(0)	(7)	(25)	(2)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	7	(3)	(0)	(0)	(0)
Investing Cashflow	4	(4)	(7)	(26)	(3)
Free Cashflow	(3)	(18)	14	26	82
Equity Raised / Bought Back	0	25	0	0	0
Dividends Paid	0	0	0	0	0
Change in Debt	(1)	(1)	0	(25)	(11)
Other	(10)	(14)	(4)	(3)	(0)
Financing Cashflow	(11)	9	(4)	(28)	(11)
Net Change in Cash	(6)	(12)	10	(1)	71
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	25	14	24	22	93
Accounts Receivable	0	17	6	7	8
Inventory	2	6	3	4	5
Other Current Assets	5	4	4	4	4
PPE	138	79	75	86	70
Total Assets	202	152	143	155	212
Accounts Payable	12	35	17	18	19
Short Term Debt	20	1	1	0	0
Long Term Debt	17	35	35	11	0
Total Liabilities	79	110	94	78	78
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(8.7%)	(62.8%)	17.8%	43.5%	54.2%
Gearing (%)	8.6%	34.3%	19.5%	(18.0%)	(228.7%)
Net Debt / EBITDA (x)	4.9	(0.3)	0.5	(0.2)	(1.0)

### Expanding capacity at Bauxite Hills to 7Mt

Metro Mining has confirmed that it will expand capacity at the Bauxite Hills Mine from 4.0Mt to 7.0Mt and has binding offtake agreements with its foundation customer Xinha to take output to 5Mt in 2023 and 6Mt in 2024.

The expansion to 7Mt is 1Mt higher than we had previously assumed. The additional capacity derisks the company's ability to ship 6Mt and also provides potential upside to allow Metro to ship additional cargoes into what is expected to be a strengthening spot bauxite market.

We had already factored an expansion into our Metro Mining financial model, although the operating costs in the DFS are slightly below our previous forecasts and we upgrade earnings by 3-7% over the next four years.

The decline in revenue in 2024 and 2025 is because more sales (45%) are made on a free-on-board (FOB) basis. This is positive for Metro Mining because it derisks freight costs.

Our DCF valuation increases from 14cps to 16cps and we increase our price target from 7cps to 8cps. Our price target is set at a 50% discount to our DCF valuation – we expect the discount to reduce over the next 2 years as the company returns to profitability and executes on the expansion.

Figure 1: Bauxite Hills financial summary

Financial Summary	2020	2021	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Bauxite Sales (kt)	2,481	2,798	4,000	5,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Revenue	128	160	203	252	295	298	305	312	319	327	334
Expenses	126	184	177	197	200	201	205	209	214	219	223
Site EBITDA	2	-24	26	54	95	98	100	103	105	108	111
D&A	10	12	12	15	18	18	18	18	18	18	18
EBIT	-8	-36	14	39	77	80	82	85	87	90	93
EBITDA Margin (%)	2%	-15%	13%	22%	32%	33%	33%	33%	33%	33%	33%
EBIT / Assets (%)	-4%	-23%	10%	25%	36%	32%	29%	26%	25%	24%	23%
Revenue /t	52	57	51	50	49	50	51	52	53	54	56
Expenses /t	51	66	44	39	33	33	34	35	36	36	37
EBITDA /t	1	-8	7	11	16	16	17	17	18	18	18
D&A /t	4	4	3	3	3	3	3	3	3	3	3
EBIT /t	-3	-13	4	8	13	13	14	14	15	15	15

Source: Company Reports, Shaw and Partners forecasts

Figure 2: Earnings revisions

Revisions	2022f			2023f			2024f			2025f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Sales (kt)	4,000	4,000	0%	5,000	5,000	0%	6,000	6,000	0%	6,000	6,000	0%
Revenue (A\$m)	203	203	0%	252	252	0%	295	312	-6%	298	320	-7%
EBITDA (A\$m)	26	25	5%	54	53	3%	95	91	4%	98	93	5%
NPAT (A\$m)	8	8	7%	27	27	3%	57	55	5%	63	60	5%

Source: Shaw and Partners

Figure 3: Capital Costs (A\$m)

Capital Cost Estimates (Assumed exchange rate of A\$/US\$0.72)	
Category	Cost (A\$m)
<b>2<sup>nd</sup> Floating Crane</b>	
Direct Cost	19.0
Commissioning & Project Management	2.1
Contingency (10%)	2.2
<b>Cost of 2<sup>nd</sup> Floating Crane</b>	<b>23.3</b>
Upgrade Port and Barge Loading Facility	3.5
Additional trailers to operate quad configuration	1.1
Contingency (10%)	0.4
<b>Total Estimated Cost</b>	<b>28.3</b>

Source: Metro ASX release 29 June 2022

Figure 4: Operating costs (A\$/wmt)

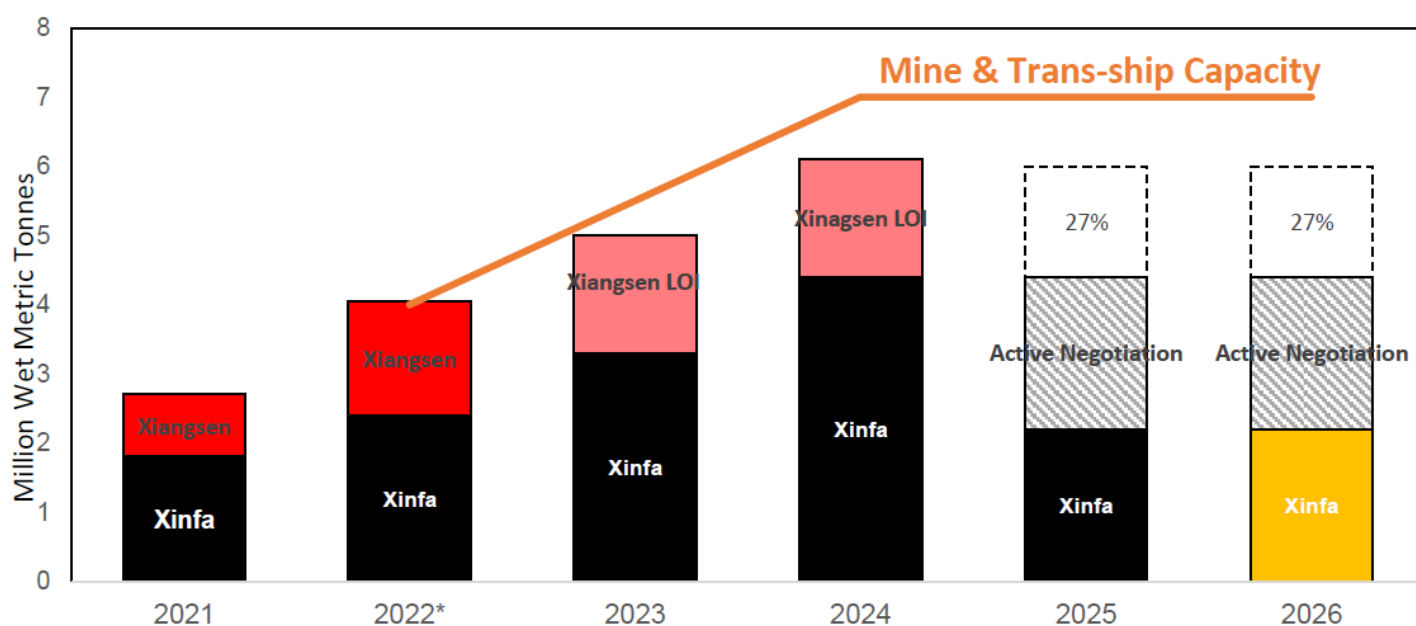
Costs	(A\$/WMT)
Land Activities	5.3
Transshipment	8.6
Site Services	2.5
Ocean Freight	12.1
Royalties	5.2
<b>Total Operating Costs</b>	<b>33.7</b>

Source: Metro ASX release 29 June 2022

Key features of the expansion include:

- Total capex of A\$28.3m which includes A\$23.3m for a second floating crane.
- The expansion will pay back in 2 years has an IRR of 78%.
- Volumes underpinned by two new contracts with foundation customer Xinfu;
  - 1.1Mt in 2023 on a CIF basis.
  - 2.2Mt in 2024 on an FOB basis.
- The new contracts are on a fixed price basis, which when coupled with fixed freight contracts gives Metro strong visibility on cash flow expected for CY23 and CY24. Metro has approximately 90% of its freight commitments from 2022 to 2024 covered at rates significantly below spot.
- Operating costs are expected to reduce ~20% to A\$33.70/t once the expansion is fully ramped up.
- The second floating crane will be very similar to the existing crane to maximise synergy and operating/maintenance costs. The lead time for delivery is 12-15months so purchase of the crane is the critical path item. To that end, Metro has extended its working capital loan with Greenstone and Lambhill by A\$4.5m to accelerate the purchase.
- The existing Northern Australia Infrastructure Facility (NAIF) loan facility has been extended to 31 December 2022. Metro is now refreshing the credit approval process with NAIF.
- If there is any delay in the purchase and installation of the floating crane, Xinfu has agreed to roll the CY23 contract volumes into future years.
- The expanded capacity of 7Mt is above contract volumes of 6Mt – this provides Metro with a strong buffer to offset any shipment or production issues and will also allow Metro to top up shipments into what is expected to be a strong bauxite market. We note that the Indonesian government is banning bauxite exports from 2023 which will further tighten the market. Chinese domestic bauxite supply is in decline and China is becoming more reliant on imports from Guinea and Australia.

Figure 5: Bauxite offtake agreements



Source: Metro ASX release 29 June 2022

### Key risks

- The Chinese bauxite market is well supplied by production from Guinea which is backed by Chinese investment. There is a risk that MMI will not be able to sell its expanded production or be forced to discount the price.
- The Chinese alumina industry was heavily impacted by COVID related closures. Further waves of COVID outbreaks could result in more closures and hence less demand for bauxite.
- Metro Mining is expanding its operation from 3.5Mt to 6.0Mt. The mining and barging component of the expansion is straight-forward, but there are design and operating risks with the transshipping operations. The crane loading barges may not operate as expected.

### Core drivers and catalyst

- The bauxite market is well supported by strong demand growth from China as Chinese alumina refineries increasingly rely on imported bauxite as domestic production declines. Chinese production of bauxite peaked in 2018.
- Metro Mining's Bauxite Hills project is well placed to supply the growing Chinese market due to the proximity to markets. As a low value product, freight costs make up almost half the cost of delivering bauxite to China.
- Metro Mining is intending to expand production from 3.5Mtpa to 6.0Mtpa in. This will result in a significant step-up in free cash flow generation due to higher production and the associated economies of scale reduction in unit costs.

## Rating Classification

<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

## Risk Rating

<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

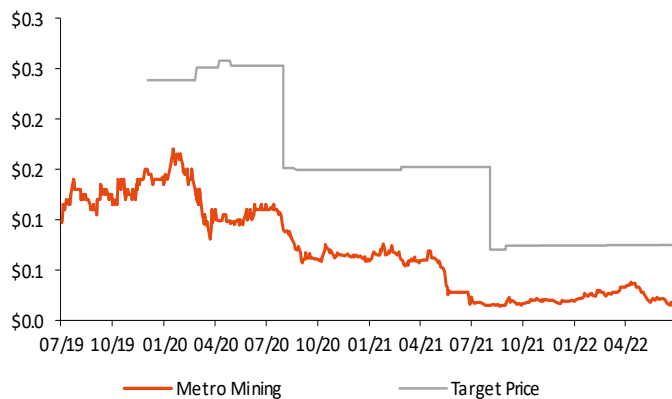
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### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	106	88%
Hold	12	10%
Sell	2	2%

### History of Investment Rating and Target Price - Metro Mining

Date	Closing Price (\$)	Target Price (\$)	Rating
29-Jun-22	0.02	0.08	Buy
31-May-22	0.02	0.07	Buy
25-Feb-22	0.02	0.07	Buy
29-Oct-21	0.02	0.07	Buy
31-Aug-21	0.02	0.07	Buy
3-Aug-21	0.02	0.07	Buy
26-Feb-21	0.06	0.15	Buy
21-Aug-20	0.07	0.15	Buy
31-Jul-20	0.09	0.15	Buy
29-Apr-20	0.10	0.25	Buy
8-Apr-20	0.10	0.26	Buy
28-Feb-20	0.12	0.25	Buy
3-Dec-19	0.15	0.24	Buy



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