

Metro Mining

Bauxite - Mining from April 2018

ADD (no change)

Current price:	A\$0.27
Target price:	A\$0.31
Previous target:	A\$0.29
Up/downside:	17.8%
Reuters:	MMI.AX
Bloomberg:	MMI AU
Market cap:	US\$272.7m
	A\$341.3m
Average daily turnover:	US\$0.23m
	A\$0.30m
Current shares o/s	1,288m
Free float:	76.0%

- MMI holds over 2,500sq km of tenements on the Weipa Bauxite Plateau and is developing the Bauxite Hills resource of 65.3Mt at a grade of 50.3% Al₂O₃ defined to JORC Code (2012) standards, located 95km north of Weipa. Development is on schedule with mining to start after the seasonal wet.
- MMI has an offtake agreement for 7Mt over 4 years with cornerstone shareholder Xinfu Group, which operates alumina and aluminium facilities in China. It has a non-binding MOU with Chinese state-owned SPIC for 6.5Mt delivered over 4 years, and has signed a Letter of Intent for offtake with Lubei Chemicals for 2.5Mt.
- Our DCF based valuation is A\$0.31ps, which is where we have set our target price. The valuation carries only limited development risk, but will carry operational, commodity price and exchange rate risks. Add rating maintained.

Construction – well in hand

The port area re-development was completed, and the Barge Loading Facility was commissioned. Expansion of the existing Bauxite Hills accommodation village was 90% complete. The haul road to BH6, the initial mining area, is complete, the deposit has been cleared and the topsoil stripped and stacked for rehabilitation. The road connection to the BH1 deposit is also complete, with the wearing course to be completed after the wet. Privately-owned Queensland contractor SAB Mining has undertaken the civil works on site, and also holds the mining contract. Mining is scheduled to commence at BH6 after the wet, with the first shipments in April 2018.

2017 – a year of achievements

MMI acquired Gulf Alumina in 2017, doubling Reserves (to JORC Code 2012 standards) to 92.2Mt at 49.4% Total Al₂O₃ and 13.2% Total SiO₂, and capable of supporting a +4Mtpy operation. Environmental approvals for production of up to 10Mtpy were received. Funding for the development was secured with A\$90M in equity raisings, and the first draw-down a \$39M flexible debt facility was also reported.

Share price risk

While MMI remains exposed to construction risk, the development and commissioning of the barge port and completion of the civil and site works before the on-set of the wet season should enable MMI and contractor SAB Mining to meet the production schedule. There will be commissioning, ramp-up and operational risk. However, it is not technically complex. MMI will also be exposed to the supply/demand characteristics of the seaborne bauxite market and seasonality in its operations.



Price performance	1M	3M	12M
Absolute (%)	15.2	6	96.3
Relative (%)	15.6	3.9	90.4

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Financial Summary

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue (A\$m)	0.0	0.0	13.0	50.8	106.0
Operating EBITDA (A\$m)	(3.42)	(11.36)	(12.36)	7.56	44.64
Net Profit (A\$m)	(6.83)	(2.37)	(9.26)	3.46	36.45
Normalised EPS (A\$)	(0.009)	(0.003)	(0.007)	0.003	0.028
Normalised EPS Growth	(29%)	(68%)	140%		953%
FD Normalised P/E (x)	NA	NA	NA	98.63	9.36
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	39.84	6.74
P/FCFE (x)	197	NA	14	NA	2,327
Net Gearing	(16.3%)	0.3%	(60.4%)	(35.5%)	(26.9%)
P/BV (x)	4.66	4.23	3.12	3.02	2.28
ROE	(15.0%)	(4.9%)	(9.7%)	3.1%	27.8%
% Change In Normalised EPS Estimates			6.44%	(6.44%)	(6.44%)
Normalised EPS/consensus EPS (x)					

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Metro Mining Operations						
Input Prices		FY16A	FY17A	FY18E	FY19E	FY20E
Exchange Rate - from Input Sheet	A\$/US\$		0.75	0.77	0.75	0.75
Bauxite - from Input Sheet	US\$/t		34.04	30.87	39.05	40.75
CBX Operations		FY16A	FY17A	FY18E	FY19E	FY20E
Bauxite mined	kt			500	1,500	3,000
Recovery	%			65.0	65.0	65.0
Saleable Product	kt			325	975	1,950
Bauxite Value FOB	US\$/t			30.9	39.1	40.8
	US\$m			10.0	38.1	79.5
Revenue	A\$m			13.0	50.8	106.0
Fixed Costs	A\$'000			20,000	20,000	20,000
Variable Costs	A\$/t			9.90	15.00	12.00
	A\$'000			3,218	14,625	23,400
Total Operating Costs	A\$m			23,218	34,625	43,400
	A\$/t			71.44	35.51	22.26
Marketing Charges	%			1.5	2.0	2.0
	A\$m			0.195	1.015	2.119
Mine Cashflow	A\$m			-10.4	15.1	60.4
QLD State Govt, TO + other Royalty	%			14.9%	14.9%	14.9%
	A\$m			1.9	7.6	15.8
	A\$/t			77.99	44.31	31.44
Operating EBITDA	A\$m			-3.4	-11.4	-12.4
Net Interest Income	A\$m			0.10	-	3.60
Depreciation And Amortisation	A\$m			(4.53)	(0.04)	(0.50)
Net Profit	A\$m			-6.8	-2.4	-9.3
				3.5	36.4	
Operational Cashflow	A\$m			-12.4	7.6	44.6
Maintenance Capex	A\$m			-35.8	-1.00	-1.00
Project Cashflow	A\$m			-35.8	-13.4	6.6
Nominal Tax Rate	%			31.5	31.5	31.5
Post Tax cashflow	A\$m			-24.5	-9.2	4.5
						29.9
Debt						
Drawdown	A\$m			-35.8	-1.0	
Accrued debt	A\$m				-39.0	-43.6
Capital repaid	A\$m					10.0
Interest Rate	%			9.0	9.0	9.0
Interest Capitalised	A\$m			-3.2	-3.6	-3.9
Interest repaid	A\$m					4.3
Cashflow after interest repayment	A\$m				-12.4	6.6
Cashflow after interest and capital	A\$m				-12.4	6.6
						29.4
Adjusted Tax Rate	%			25.0	25.0	25.0
Post Tax cashflow after debt	A\$m				-13.4	4.3
						41.8

VALUATION		
Cost of Capital		12.00%
Pre Tax NPV		\$513.0M
Post Tax NPV		\$403.1M
Valuation Summary	WACC	12.0%
	A\$m	A\$/MMI Share
Bauxite Hills	403.1	0.31
Net cash	19.0	0.01
Corporate & Other	-20.0	-0.02
Total Value \$m	402.1	0.31
Number of shares (m)		1288.0
Target Price	402.1	0.31

SOURCE: MORGANS RESEARCH, COMPANY

Investment view

The seaborne bauxite market has expanded over the past decade with alumina refiners in China looking to source bauxite to replace high-cost domestic production. There have also been some constraints on existing southeast Asian suppliers. There is potential to expand production at Bauxite Hills beyond the currently-planned 6Mtpy.

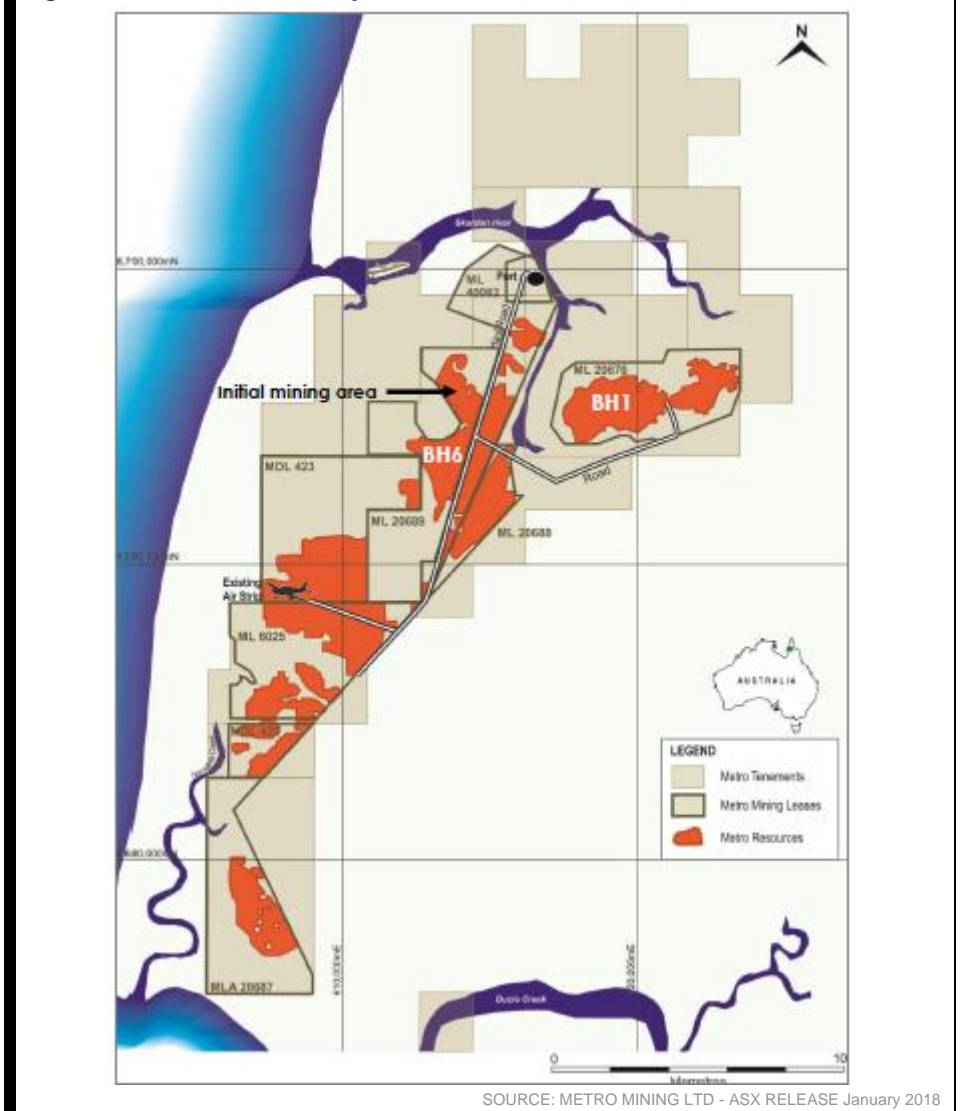
MMI reported cash at 31 December 2017, post equity raising, of A\$19.0m, and has reported the first draw-down on the secured A\$40m facility. Funding is in place for development of the initial 2Mtpy operation, and for expansion to 6Mtpy in Year 4. MMI has a market capitalization of A\$347.8m at A\$0.26ps.

Development of the Bauxite Hills project is underway, with strong TO support and a projected 17-year mine life.

A simple shallow open pit mine, followed by crushing and screening, and transhipment from a barge port.

Pre-production capital of A\$35.8m for production of 2Mtpy with subsequent capex of A\$36.7m to take production to 6Mtpy.

Figure 2: The Bauxite Hills Project



Valuation

Bauxite Hills is a technically unsophisticated development. MMI has the equity and debt funding in place for the project development. We use a long term (from 2019) AUD/USD exchange rate of US\$0.75, and a long term Bauxite price (from 2020) of US\$40/t to derive a valuation for Bauxite Hills of A\$403M, using a DCF methodology with a 12% discount rate. With 1,288.0m shares on issue this equates to A\$0.31 per share. Our valuation including net cash and corporate charges is also A\$0.31, which is our Target Price.

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