

Metro Mining (MMI)

Rating: Buy | Risk: High | Price Target: \$0.06

25 July 2023

Strong June quarter – a small taste of the upside to come

Key Information

Current Price (\$ps)	0.03
12m Target Price (\$ps)	0.06
52 Week Range (\$ps)	0.01 - 0.03
Target Price Upside (%)	154.5%
TSR (%)	154.5%
Reporting Currency	AUD
Market Cap (\$m)	109
Sector	Materials
Avg Daily Volume (m)	3.4
ASX 200 Weight (%)	0%

Fundamentals

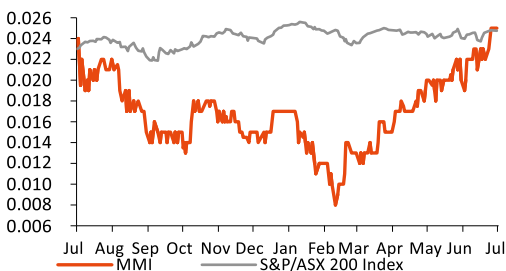
YE 31 Dec (AUD)	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	178	257	347	379
NPAT (\$m)	(50)	15	63	80
EPS (cps)	(1.4)	0.3	1.5	1.8
EPS Growth (%)	71.7%	125.5%	319.1%	26.4%
DPS (cps) (AUD)	0.0	0.0	1.0	1.0
Franking (%)	0%	0%	100%	100%

Ratios

YE 31 Dec	FY22A	FY23E	FY24E	FY25E
P/E (x)	(1.0)	7.2	1.7	1.4
EV/EBITDA (x)	(5.5)	2.4	1.0	0.9
Div Yield (%)	0.0%	0.0%	40.0%	40.0%
Payout Ratio (%)	0.0%	0.0%	68.7%	54.4%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	22.1%	22.6%	66.9%	1.1%
Absolute (%)	25.0%	25.0%	66.7%	8.7%
Benchmark (%)	2.9%	2.4%	(0.2%)	7.6%



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

Metro Mining has released its June quarter activities report. It was a strong quarter with site EBITDA of A\$11.4m showing the benefits of higher pricing, improved operational performance and lower freight costs. This is just a taste of the upside to come once production capacity is expanded to 7Mtpa. We are expecting an even stronger second half with Metro generating >\$20m site EBITDA per quarter.

Highlights

- Metro Mining is a bauxite producer from its Bauxite Hills operation in far north Queensland. Metro is in the process of expanding capacity from 4.0 to 7.0Mt. The operation will benefit from economies of scale at the higher production rates.
- Metro halts production and shipments during the March quarter due to the Northern Australia wet season. Production successfully restarted in early April and Metro used the wet season shutdown to implement operational improvements which are adding greater resilience to its operations. These include:
 - Modifications and upgrades to the floating crane barge.
 - A new Scania trucking fleet specifically modified for Bauxite Hills.
 - Upgrades to the ore screens.
 - A 33% increase in capacity of barge loading facility to 2,000tph.
- The benefits of the operational improvements are showing up in the numbers reported today. Metro is achieving consistent output and productivity records are being established across every part of the supply chain.
- The bauxite market has had a strong start to 2023 driven by strong Chinese demand. Chinese imports in 1H23 have reached 72.5Mt and are annualising 12% growth on the record 126Mt of imports in CY22. Port data from China has shown that Indonesian exports have ceased during the quarter. In CY22, Indonesia supplied about 20Mt to China. As a result of the market tightness, bauxite prices are rising and Metro is reporting FOB revenue of A\$41.1/t in 2Q23, up from A\$31.1/t in 4Q22 and A\$25.5/t in 2Q22.
- One of the key improvements that Metro has implemented over the past 18 months is freight management. Metro's cash flow was severely adversely impacted by rising freight costs in 2021 as global trade flows rebounded from Covid. Through a combination of a floating crane barge allowing the loading of cape size vessels, switching to a mix of fob and cif freight contracts, and locking in forward freight rates, Metro has reduced its freight costs from over A\$30/t in 2021 to around A\$12/t today.
- The expansion to 7Mt is on track and is fully funded. Metro is expecting the new transhipper to arrive on site in 4Q23 (which will provide ship-loading capacity of up to 8-9Mt) and the new wobbler screens to be installed in early 2024. Metro expects to be able to step up to a 6Mtpa shipping rate in August this year.
- Our modelling assumes shipments of 4.55Mt (at the bottom end of 4.5-5.0Mt guidance), a CY23 bauxite price of A\$59/t (cif), mining costs of A\$22/t, shipping of A\$15/t, royalties of A\$8/t and overheads of A\$3/t for an overall margin of A\$11/t and generating around A\$52m EBITDA. In CY24 at a higher shipping rate of 6mtpa we model EBITDA of A\$123m. We have not made any revisions to forecasts.
- Metro finished the quarter with A\$20.2m of cash and has a debt position of A\$80m. With earnings recovering the debt is becoming less of an issue, although the company will be keen to refinance the expensive debt facility from Nebari.

Recommendation

We maintain our BUY recommendation and price target of 6cps which is set at 50% of our DCF valuation.

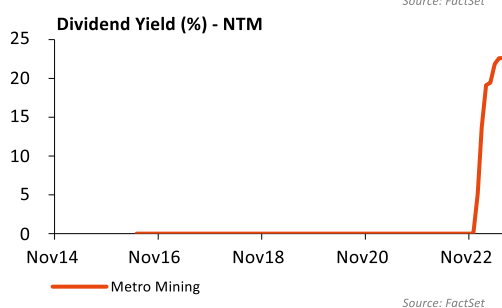
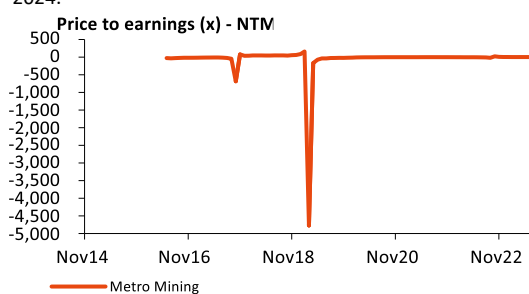
**Metro Mining
Materials**

FactSet: MMI-AU / Bloomberg: MMI AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.03
Target Price (\$ps)	0.06
52 Week Range (\$ps)	0.01 - 0.03
Shares on Issue (m)	4,364
Market Cap (\$m)	109
Enterprise Value (\$m)	125
TSR (%)	154.5%
Valuation per share (cps) (AUD)	0.13
Valuation (\$m)	608.98

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)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS (Reported) (cps)	(2.4)	(1.4)	0.3	1.5	1.8
EPS (Underlying) (cps)	(4.8)	(1.4)	0.3	1.5	1.8
EPS (Underlying) Growth (%)	nm	71.7%	125.5%	319.1%	26.4%
PE (Underlying) (x)	(0.4)	(1.0)	7.2	1.7	1.4
EV / EBIT (x)	(1.4)	(3.4)	3.7	1.3	1.1
EV / EBITDA (x)	(1.6)	(5.5)	2.4	1.0	0.9
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	40.0%	40.0%
Franking (%)	0%	0%	0%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	68.7%	54.4%
Free Cash Flow Yield (%)	(44.1%)	(7.8%)	17.9%	105.9%	109.5%
Profit and Loss (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	160	178	257	347	379
Sales Growth (%)	24.9%	11.1%	44.4%	35.0%	9.3%
Other Operating Income	0	1	1	1	1
EBITDA	(79)	(23)	52	123	139
EBITDA Margin (%)	(49.4%)	(12.7%)	20.3%	35.5%	36.7%
Depreciation & Amortisation	(12)	(14)	(19)	(24)	(26)
EBIT	(91.1)	(36.6)	33.6	98.6	112.5
EBIT Margin (%)	(56.9%)	(20.6%)	13.1%	28.4%	29.7%
Net Interest	(5)	(14)	(13)	(13)	(4)
Pretax Profit	(96)	(50)	20	86	108
Tax	(9)	0	(5)	(22)	(28)
Tax Rate (%)	9.5%	0.0%	(26.0%)	(26.0%)	(26.0%)
NPAT Underlying	(52)	(50)	15	63	80
Significant Items	(54)	0	0	0	0
NPAT Reported	(106)	(50)	15	63	80
Cashflow (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBIT	(91)	(37)	34	99	113
Tax Paid	0	0	0	(5)	(22)
Net Interest	0	0	0	1	4
Change in Working Capital	0	0	(3)	(1)	1
Depreciation & Amortisation	12	14	19	24	26
Operating Cashflow	(18)	(1)	49	118	122
Capex	(0)	(3)	(29)	(2)	(2)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(3)	(4)	(0)	(0)	(0)
Investing Cashflow	(4)	(7)	(30)	(2)	(2)
Free Cashflow	(18)	(4)	20	116	119
Equity Raised / Bought Back	25	20	0	0	0
Dividends Paid	0	0	0	0	(44)
Change in Debt	(1)	9	30	(11)	(23)
Other	(14)	(21)	(13)	(14)	(8)
Financing Cashflow	9	8	17	(25)	(75)
Net Change in Cash	(12)	(0)	36	91	45
Balance Sheet (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	14	12	48	139	184
Accounts Receivable	17	4	7	9	10
Inventory	6	3	4	5	5
Other Current Assets	4	4	4	4	4
PPE	79	79	90	68	44
Total Assets	152	130	181	253	275
Accounts Payable	35	28	29	32	34
Short Term Debt	1	36	0	0	0
Long Term Debt	35	3	68	57	34
Total Liabilities	110	99	135	144	130
Ratios	FY21A	FY22A	FY23E	FY24E	FY25E
ROE (%)	(62.8%)	(164.5%)	57.1%	96.4%	69.3%
Gearing (%)	34.3%	58.0%	36.8%	(522.6%)	978.0%
Net Debt / EBITDA (x)	(0.3)	(1.2)	0.4	(0.7)	(1.1)

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 7.0Mt. 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 and transhipper 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 7.0Mtpa in CY24. 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

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

Risk Rating

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

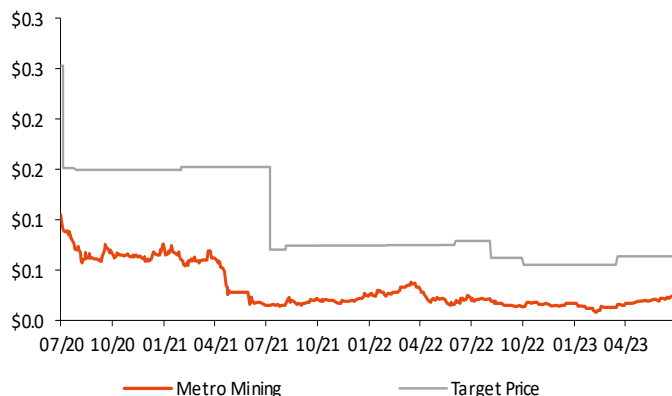
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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	102	91%
Hold	10	9%
Sell	0	0%

History of Investment Rating and Target Price - Metro Mining

Date	Closing Price (\$)	Target Price (\$)	Rating
13-Apr-23	0.02	0.06	Buy
28-Oct-22	0.01	0.06	Buy
31-Aug-22	0.02	0.06	Buy
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



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