

Metro Mining (MMI)

Rating: Buy | Risk: High | Price Target: \$0.07

26 March 2024

2024 operations have commenced, bauxite prices up 20%

Key Information

Current Price (\$ps)	0.04
12m Target Price (\$ps)	0.07
52 Week Range (\$ps)	0.01 - 0.04
Target Price Upside (%)	71.3%
TSR (%)	71.3%
Reporting Currency	AUD
Market Cap (\$m)	182
Sector	Materials
Avg Daily Volume (m)	12.7
ASX 200 Weight (%)	0%

Fundamentals

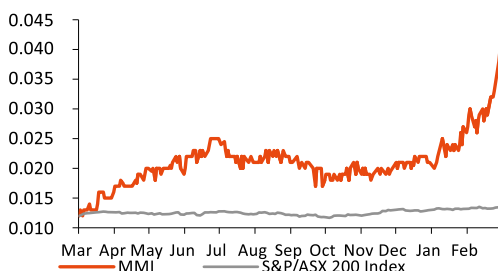
YE 31 Dec (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	236	330	395	417
NPAT (\$m)	(13)	52	91	100
EPS (cps)	(0.3)	1.2	2.1	2.3
EPS Growth (%)	77.3%	486.0%	74.3%	9.7%
DPS (cps) (AUD)	0.0	0.0	1.0	1.0
Franking (%)	0%	0%	0%	100%

Ratios

YE 31 Dec	FY23A	FY24E	FY25E	FY26E
P/E (x)	(6.8)	3.4	1.9	1.8
EV/EBITDA (x)	13.0	2.6	1.8	1.8
Div Yield (%)	0.0%	0.0%	25.0%	25.0%
Payout Ratio (%)	0.0%	0.0%	48.1%	43.9%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	51.7%	87.1%	101.0%	195.4%
Absolute (%)	53.8%	90.5%	105.1%	207.7%
Benchmark (%)	2.1%	3.4%	4.1%	12.3%



Price performance indexed to 100

Source: FactSet

Major Shareholders

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

Event

Metro Mining has announced that operations at the Bauxite Hills bauxite mine in Far North Queensland have recommenced post the wet season. The company has also announced that contract prices are up approximately 20% in 2Q24 from 4Q23. 2024 is likely to be the year when Metro Mining can finally demonstrate the earnings capacity of this operation. We expect to see a full year EBITDA number of A\$111m on bauxite shipments of 6.5Mt.

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 upside for Metro Mining once the operation is expanded is immense.
- Metro shipped a record 4.57Mt of bauxite in CY23 and shipped an additional 40kt post the end of the year. The operation ran at >6Mtpa during the December quarter and showed the capacity to get to the 7mtpa target rate in CY24. CY23 underlying EBITDA of \$18.5m was a significant improvement on CY22 (a \$25m loss) but still has substantial improvement ahead in 2024. Bauxite prices are rising, volumes are increasing, costs are being well controlled and unit costs will benefit from scale.
- The bauxite market continues to tighten post the Indonesian export ban and delivery constraints in Guinea and China. We note reports of a number of alumina refineries in Shanxi and Shandong provinces in China closing due to lack of supply of bauxite. Metro Mining has reported that contract prices for 2Q24 are up approximately 20% on 4Q23. Metro is fully contracted for CY24 and some of those sales (~1Mt) are at fixed price contracts at lower prices than the spot market.
- CEO Simon Wensley has leveraged his extensive experience at Rio Tinto and the alumina/bauxite industry to significantly improve Metro's operations. Equipment reliability, operational resilience and risk management have all significantly improved. Metro was reliably operating at >6Mtpa operating rates for Oct/Nov 2023 before being impacted by Cyclone Jasper. We are confident in management forecasts of 6.3-6.8Mt of sales in CY24, and we conservatively assume sales of 6.5Mt. We assume a 7mtpa production rate from CY25.
- Metro is targeting production of 1.8-2.0Mt in the June quarter before stepping up to ~2.5Mt in the September and December quarters. We understand that the low end of production guidance (6.3Mt) is expected to be achieved by the end of November, which gives Metro potential to exceed guidance if December is a strong month.
- Initial production and shipments will utilise the existing screens and floating barge crane before the new wobbler screens and the Ikamba floating terminal are commissioned in mid April.
- Investors remain concerned about Metro Mining's relatively large debt position of approximately A\$100m if the Nebari royalty is considered as debt. However, if our 2024 forecasts are correct then investors can expect a material increase in cash flow, and the Metro share price, which will give the company significant flexibility to restructure the debt and royalty later in 2024.

Recommendation

Metro Mining is one of our top picks for 2024 and we maintain our BUY recommendation and price target of 7c, which is set at a 50% discount to our DCF valuation.

Andrew Hines | Head of Research

+61 3 9268 1178

andrew.hines@shawandpartners.com.au

Peter Kormendy | Senior Research Analyst

+61 3 9268 1099

Peter.Kormendy@shawandpartners.com.au

Dorab Postmaster | Analyst

+61 8 9263 5211

Dorab.Postmaster@shawandpartners.com.au

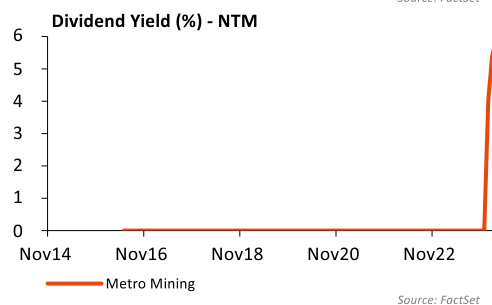
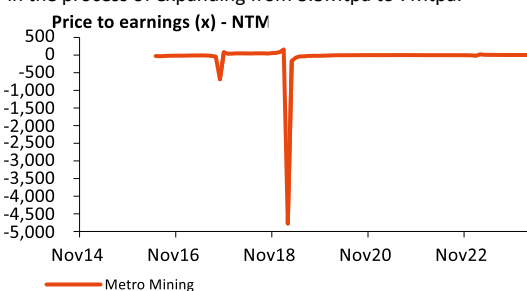
**Metro Mining
Materials**

FactSet: MMI-AU / Bloomberg: MMI AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.04
Target Price (\$ps)	0.07
52 Week Range (\$ps)	0.01 - 0.04
Shares on Issue (m)	4,556
Market Cap (\$m)	182
Enterprise Value (\$m)	282
TSR (%)	71.3%
Valuation per share (cps) (AUD)	0.14
Valuation (\$m)	655.59

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 7Mtpa.



Financial Year End: 31 December

Investment Summary (AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	(1.4)	(0.3)	1.2	2.1	2.3
EPS (Underlying) (cps)	(1.4)	(0.3)	1.2	2.1	2.3
EPS (Underlying) Growth (%)	71.7%	77.3%	486.0%	74.3%	9.7%
PE (Underlying) (x)	(1.0)	(6.8)	3.4	1.9	1.8
EV / EBIT (x)	(7.7)	55.7	3.3	2.2	2.1
EV / EBITDA (x)	(12.5)	13.0	2.6	1.8	1.8
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	25.0%	25.0%
Franking (%)	0%	0%	0%	0%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	48.1%	43.9%
Free Cash Flow Yield (%)	(7.8%)	(0.2%)	47.9%	77.7%	74.8%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	178	236	330	395	417
Sales Growth (%)	11.1%	32.6%	39.9%	19.7%	5.6%
Other Operating Income	1	0	0	0	0
EBITDA	(23)	22	111	157	160
EBITDA Margin (%)	(12.7%)	9.2%	33.5%	39.7%	38.5%
Depreciation & Amortisation	(14)	(17)	(26)	(28)	(28)
EBIT	(36.6)	5.1	84.5	128.7	132.4
EBIT Margin (%)	(20.6%)	2.2%	25.6%	32.6%	31.7%
Net Interest	(14)	(19)	(14)	(6)	2
Pretax Profit	(50)	(13)	70	123	135
Tax	0	0	(18)	(32)	(35)
Tax Rate (%)	0.0%	0.0%	(26.0%)	(26.0%)	(26.0%)
NPAT Underlying	(50)	(13)	52	91	100
Significant Items	0	0	0	0	0
NPAT Reported	(50)	(13)	52	91	100
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(37)	5	85	129	132
Tax Paid	0	0	0	(18)	(32)
Net Interest	0	0	0	2	4
Change in Working Capital	0	0	(4)	(1)	1
Depreciation & Amortisation	14	17	26	28	28
Operating Cashflow	(1)	12	107	139	134
Capex	(3)	(12)	(22)	(2)	(2)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(4)	(13)	(1)	(1)	(1)
Investing Cashflow	(7)	(25)	(23)	(3)	(3)
Free Cashflow	(4)	(0)	84	136	131
Equity Raised / Bought Back	20	0	0	0	0
Dividends Paid	0	0	0	0	(44)
Change in Debt	9	39	(33)	(46)	0
Other	(21)	(15)	(15)	(8)	(2)
Financing Cashflow	8	24	(48)	(54)	(46)
Net Change in Cash	(0)	12	36	82	85
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	12	17	53	135	220
Accounts Receivable	4	9	12	15	16
Inventory	3	3	5	5	6
Other Current Assets	4	6	6	6	6
PPE	79	87	84	59	34
Total Assets	130	157	195	255	316
Accounts Payable	28	24	25	27	29
Short Term Debt	36	33	46	0	0
Long Term Debt	3	46	0	0	0
Total Liabilities	99	156	141	111	116
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(164.5%)	(93.3%)	144.7%	84.5%	55.1%
Gearing (%)	58.0%	86.2%	(12.9%)	(768.5%)	1,914.4%
Net Debt / EBITDA (x)	(1.2)	2.8	(0.1)	(0.9)	(1.4)

Figure 1: Metro Mining Financial Model

Profit & Loss (A\$m)	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Sales (kt)	3,504	2,481	2,798	3,432	4,567	6,500	7,000	7,000	7,000	7,000	7,000	7,000
% FoB	0%	0%	0%	13%	55%	62%	46%	31%	31%	31%	31%	31%
Revenue	199	128	160	178	236	330	395	417	427	436	446	456
per tonne (A\$/t)	57	52	57	52	52	51	56	60	61	62	64	65
Revenue (adj for CIF)	199	128	160	186	264	398	437	446	456	467	477	488
per tonne (A\$/t)	57	52	57	54	58	61	62	64	65	67	68	70
Other income	0	0	0	1	0	0	0	0	0	0	0	0
Operating expenses	-143	-108	-167	-178	-179	-169	-179	-196	-200	-204	-209	-213
Royalties	-20	-12	-11	-17	-26	-41	-49	-50	-52	-53	-54	-55
Admin & other expenses	-9	-5	-6	-6	-9	-10	-11	-11	-11	-11	-12	-12
Total costs	-172	-126	-184	-201	-214	-220	-239	-257	-263	-269	-274	-280
per tonne (A\$/t)	49	51	66	59	47	34	34	37	38	38	39	40
Non included freight costs	0	0	0	-8	-28	-68	-42	-29	-30	-30	-31	-32
Adjusted total cost (A\$/t)	49	51	66	61	53	44	40	41	42	43	44	45
EBITDA	27	2	-79	-23	22	111	157	160	164	168	172	176
Depreciation & Amortisation	-10	-10	-12	-14	-17	-26	-28	-28	-28	-28	-28	-28
EBIT	17	-8	-91	-37	5	85	129	132	136	140	144	148
Net Finance Expense	-11	-8	-5	-14	-19	-14	-6	2	7	13	16	19
Profit before tax	6	-15	-96	-50	-13	70	123	135	143	153	160	168
Income tax (expense)/benefit	-2	4	-9	0	0	-18	-32	-35	-37	-40	-42	-44
Reported NPAT	4	-11	-106	-50	-13	52	91	100	106	113	118	124

Source: Metro Mining, Shaw and Partners

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.
- 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 transhipper may not operate as expected.
- Metro operates in Far North Queensland and transshipping operations are weather dependent. Cyclonic activity or adverse wind conditions can prevent the barges from operating.

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 expanding 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

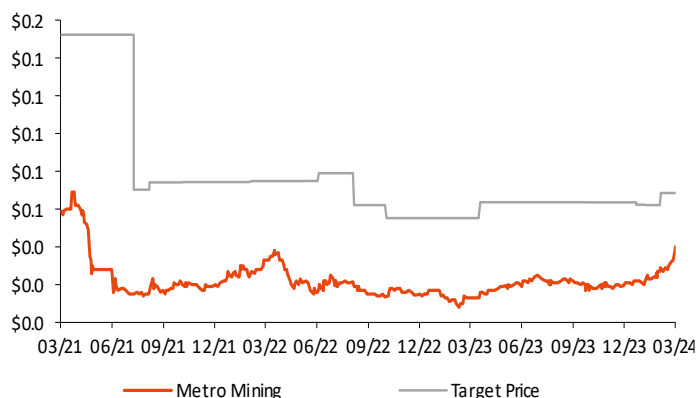
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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	64	90%
Hold	6	8%
Sell	1	1%

History of Investment Rating and Target Price - Metro Mining

Date	Closing Price (\$)	Target Price (\$)	Rating
29-Feb-24	0.03	0.07	Buy
30-Jan-24	0.02	0.06	Buy
16-Jan-24	0.02	0.06	Buy
19-Oct-23	0.02	0.06	Buy
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



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Sydney Head Office	Melbourne	Brisbane	Adelaide	Canberra	Perth	Noosa
Level 7, Chifley Tower	Level 36	Level 28	Level 25	Level 9	Level 20	Suite 11a Q Place
2 Chifley Square	120 Collins Street	111 Eagle Street	91 King William Street	5 Constitution Avenue	108 St Georges Terrace	2 Quamby Place
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Adelaide SA 5000	Canberra ACT 2601	Perth WA 6000	Noosa Heads QLD 4567
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300	Telephone: +61 8 9263 5200	Telephone: +61 7 3036 2570
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 198 003	Toll Free: 1800 271 201