

18 March 2024

Metro Mining Limited (MMI)

BUY

Share Price: A\$0.03

A pivotal year ahead

Target Price: A\$0.09

MMI is set to reap the benefits of operational efficiency strategies implemented over the past 18 months. The Offshore Floating Terminal (OFT) has arrived at Weipa and is preparing for April production. It provides capacity upside (9Mtpa), flexibility and improved operating window/weather resilience versus the prior single floating crane barge. Upgrade to the Barge Loading Facility has been completed, a new feeder screen circuit has been installed and additional trucks and barges mobilised. Sales of 6-7Mt are targeted for CY24 (6.8Mt in offtake contracts), up from 4.6Mt last year. Chinese demand for bauxite remains firm with strong inbound enquiries from potential new customers. Bauxite prices continue to increase providing attractive margins and strong cashflow, enabling balance sheet derisking this year. BUY with price target of 9.1c/share (prev 5.6c/sh).

Inflection point imminent

- CY24 sales uptick benefits from expansion capital sunk over the last two years; sales guidance of 6.3-6.8Mt vs 4.6Mt in 2023. Contracts for 6.8Mt locked in.
- Pathway to 7.0Mtpa in place (Fig. 1) with clear upside.
- Economies of scale to drive higher margins (Fig. 2).
- OFT provides ability to scale, increased efficiency, stability of sales due to less weather impacts (Fig. 3).
- Production supported by firm offtake (Fig. 4).
- Bauxite prices continue to rise (Fig. 5) driven by Indonesian ban and growing Chinese demand (Fig. 6).

Investment case – operating leverage is material

- The only pure play ASX bauxite producer on the ASX.
- Long life (12 yr reserve) with rising margins.
- Simple low strip, free dig DSO in good jurisdiction.
- Strong management team with relevant ops history.
- Strong leverage to bauxite prices (Figs.7-8).
- Significant cashflow generation expected.

Cheap on valuation & multiples basis

- Valuation – 9.1c/share based on 1xP/NPV₁₀.
- Cash \$12M. Debt \$84M (page 4).
- PE (CY24/25) – 2.7x & 1.7x.
- EV/EBITDA – 1.6x & 0.5x.

Key Dates Ahead

- April - production restart post wet season.
- April – OFT commissioning.
- Q2 – Additional offtake.

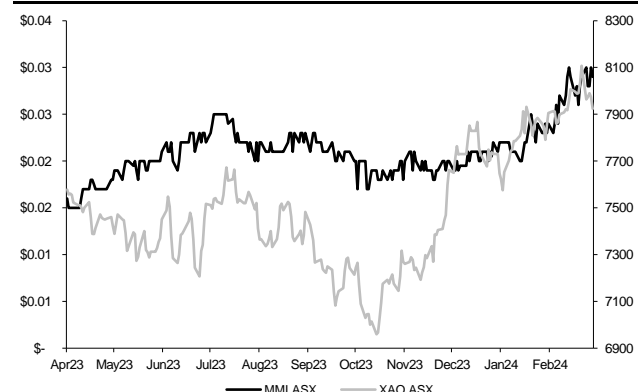
Company Data

Shares – ordinary (M)	4556.4
Dilution (M)	592.4
Total (fully diluted) (M)	5148.8
Market capitalisation (\$M)	132.1
12 month low/high (\$)	0.01/ 0.03
Average monthly turnover (\$M)	6.9
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year End Dec	CY23A	CY24F	CY25F	CY26F	CY27F
Revenue (\$M)	236.2	330.8	358.8	381.2	381.3
Costs (\$M)	205.7	242.4	246.4	255.3	255.3
EBITDA (\$M)	21.8	88.5	112.5	125.9	126.0
NPAT (A\$M)	-9.3	56.9	87.9	73.0	76.9
EPS (cps)	-0.2	1.1	1.7	1.4	1.5
EPS Growth (%)	83.3	617.5	54.4	-17.0	5.3
PER (x)	na	2.6	1.7	2.0	1.9
Cashflow (A\$M)	8.3	80.6	111.0	130.7	104.1
CFPS (c/sh)	0.2	1.6	2.2	2.5	2.0
PCFPS	11.0	1.9	1.3	1.1	1.4
EV	159.0	133.0	48.4	-49.6	-97.2
EV/EBITDA	7.3	1.5	0.4	-0.4	-0.8
Payout ratio (%)	na	na	na	35%	67%
DPS	0.0	0.0	0.0	0.5	1.0
Yield (%)	0.0	0.0	0.0	16.9	34.5

MMI – performance over one year



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This report must be read with the disclosure and disclaimer on the final page of this document.

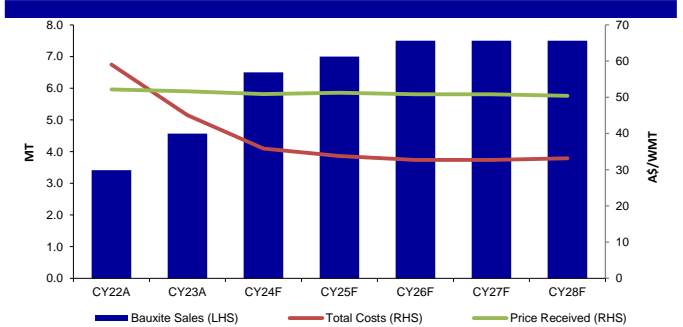
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Analysis

METRO MINING LIMITED (MMI)

15-Mar-24	AS	CY23A	CY24F	CY25F	CY26F	CY27F	Share Price	(\$)	0.029
PROFIT & LOSS							Iss. Shares	(M)	4,566.4
Sales Revenue	\$M	235.8	330.8	358.8	381.2	381.3	Options/Warrants/Other	(M)	592.4
Other Income	\$M	0.4	0.0	0.0	0.0	0.0	Mkt Cap.	(\$M)	132.1
Operating Costs	\$M	205.7	242.4	246.4	255.3	255.3	RESERVES & RESOURCES		
Exploration	\$M	0.0	0.0	0.0	0.0	0.0	Tonnes	Mt	84.8
Other	\$M	8.7	0.0	0.0	0.0	0.0	Grade Al2O3	%	49.9
EBITDA	\$M	21.8	88.5	112.5	125.9	126.0	Grade SiO2	%	12.9
Dep. & Amort.	\$M	16.7	23.7	24.5	26.4	25.5	M & I Resources		
EBIT	\$M	5.1	64.8	87.9	99.6	100.5	Tonnes	Mt	100.1
Net Interest	\$M	14.4	7.8	1.4	(4.7)	(9.4)	Grade Al2O3	%	50.1
Pre-Tax Profit	\$M	(9.3)	56.9	87.9	104.3	109.8	Grade SiO2	%	13.3
Tax	\$M	0.0	0.0	0.0	31.3	33.0	PRODUCTION (100%)		
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	Bauxite Mined	Mt	4.61
Net Profit	\$M	(9.3)	56.9	87.9	73.0	76.9	Bauxite Sales (Shipped)	Mt	4.57
Abnormal	\$M	(4.2)	0.0	0.0	0.0	0.0	REVENUE (attributable)		
Reported Profit	\$M	(9.3)	56.9	87.9	73.0	76.9	Bauxite Hills	\$M	235.8
Dividends Paid	\$M	0.0	0.0	0.0	25.2	51.5	Other	\$M	0.0
Adjustments	\$M	(0.0)	0.0	0.0	0.0	0.0	Total	\$M	235.8
Retained Earnings	\$M	(232.5)	(175.5)	(87.6)	(39.8)	(14.4)	COSTS		
CASH FLOW							Site Costs	AS/WMT	28
Revenue	\$M	226.9	330.8	358.8	381.2	381.3	Royalties	AS/WMT	6
Costs	\$M	(214.6)	(242.4)	(246.4)	(255.3)	(255.3)	Total Costs	AS/WMT	45
Net Interest	\$M	(3.9)	(7.8)	(1.4)	4.7	9.4	Total costs	\$M	205.7
Tax Paid	\$M	0.0	0.0	0.0	0.0	(31.3)	Corp / Other	\$M	8.7
Gross Cash Flow	\$M	8.3	80.6	111.0	130.7	104.1	Total	\$M	214.4
Net Capex	\$M	(11.6)	(5.0)	(7.5)	(7.5)	(5.0)	CAPEX		
Exploration	\$M	(0.9)	0.0	0.0	0.0	0.0	Bauxite Hills	\$M	11.6
Dividends	\$M	0.0	0.0	0.0	(25.2)	(51.5)	Other	\$M	0.0
Other	\$M	(23.5)	(2.7)	(18.9)	0.0	0.0	Total	\$M	11.6
Free Cashflow	\$M	(27.6)	72.9	84.6	98.0	47.6	DEPRECIATION		
Equity Issues	\$M	0.0	10.7	0.0	0.0	0.0	Bauxite Hills	\$M	16.7
Net Borrowings	\$M	39.3	(32.5)	(19.2)	(22.1)	(5.4)	Other	\$M	0.0
Net Investments	\$M	(11.7)	0.0	0.0	0.0	0.0	Total	\$M	16.7
Surplus Cash Flow	\$M	(0.0)	51.1	65.5	75.9	42.2	EBITDA		
BALANCE SHEET							Bauxite Hills	\$M	21.4
Cash	\$M	12.1	63.2	128.7	204.6	246.8	Other (incl. writedowns)	\$M	0.4
Other Current	\$M	23.2	49.6	53.8	57.2	57.2	Total	\$M	21.8
Total Current	\$M	35.3	112.8	182.5	261.8	304.0	ASSUMPTIONS		
Fixed Assets	\$M	132.2	113.5	96.5	77.6	57.1	Exchange Rate	AS/US\$	0.66
Exploration	\$M	1.5	0.0	0.0	0.0	0.0	Bauxite Price CIF	US\$/DMT	42.2
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	Bauxite Price CIF	US\$/WMT	37.1
Other	\$M	0.0	2.7	21.6	21.6	21.6	Bauxite Price CIF	AS/WMT	55.9
Total NC Assets	\$M	133.7	116.2	118.1	99.2	78.7	Bauxite Price FOB	AS/WMT	40.1
TOTAL ASSETS	\$M	169.0	229.0	300.6	361.0	382.6	VALUATION (fully diluted)		
Total Debt	\$M	79.4	46.9	27.7	5.7	0.3	Bauxite Hills Mine (NPV10)	\$	604.3
Current Liab	\$M	56.2	56.2	56.2	87.5	89.1	Exploration	\$	-
Non Current Liab	\$M	23.5	48.4	51.2	54.5	54.5	Corporate / Other	\$	(70.6)
TOTAL LIAB	\$M	159.0	151.4	135.0	147.6	143.9	Net Cash (Debt)	\$	(67.3)
NET ASSETS	\$M	10.0	77.6	165.5	213.3	238.7	Total	\$	466.3
SH/HLDRS FUNDS	\$M	10.0	77.6	165.5	213.3	238.7		\$	0.091
RATIO ANALYSIS									
EPS	¢	(0.2)	1.1	1.7	1.4	1.5			
PER	x	na	2.6	1.7	2.0	1.9			
EPS Growth	%	(83.3)	(617.5)	54.4	(17.0)	5.3			
EBITDA per share	¢	0.5	1.7	2.2	2.4	2.4			
EBITDA Multiple	x	4.2	1.7	1.3	1.2	1.2			
EV/EBITDA	x	7.3	1.5	0.4	(0.4)	(0.8)			
CFPS	¢	0.2	1.6	2.2	2.5	2.0			
PCFR	x	11.0	1.9	1.3	1.1	1.4			
DPS	¢	0.0	0.0	0.0	0.5	1.0			
Yield	%	0.0	0.0	0.0	16.9	34.5			
Franking	%	0.0	0.0	0.0	100.0	100.0			
Payout Ratio	%	0.0	0.0	0.0	0.3	0.7			
Gearing ND/E	%	676	na	na	na	na			
Interest Cover	x	0.4	8.3	0.0	na	na			
EBITDA Margin	%	9.2	26.7	31.3	33.0	33.0			
EBIT Margin	%	2.2	19.6	24.5	26.1	26.4			
Return On Assets	%	3.0	28.3	29.3	27.6	26.3			
Return On Equity	%	na	73.4	53.1	34.2	32.2			
Eff Tax rate	%	0.0	0.0	0.0	30.0	30.0			



Source: Petra Capital

Margins and cashflow to expand

MMI has implemented several changes to expand and stabilise the transshipping capability at Bauxite Hills. The key upgrade is the Offshore Floating Terminal (Ikamba) providing the solution to achieving expansion to 7.0Mtpa. The vessel has rated capacity of 2,000 WMT/hr (9Mt equivalent) with potential to operate above this figure. Commissioning is expected in April and production will be supported by the existing floating crane barge during this period. Upgrade of the Barge Loading Facility was completed during the wet season increasing throughput to 1,900 WMT/hr (+80% vs Q4 2022). A fourth 90m barge was supplied by TSA (transshipping contractor) in Sept 2023. A further two 90m barges are expected to arrive this month. In partnership with equipment contractor Black Machinery Group, six new Scania trucks with supporting trailers (230WMT per quad, 175WMT per triple) were mobilised to site Aug 2023. The new screening plant is expected to be commissioned in April in conjunction with the existing screen; these initiatives, along with the OFT, bring total mining and shipping capacity to +7Mtpa.

Figure 1: Pathway to +7Mtpa in place with identified production upside potential

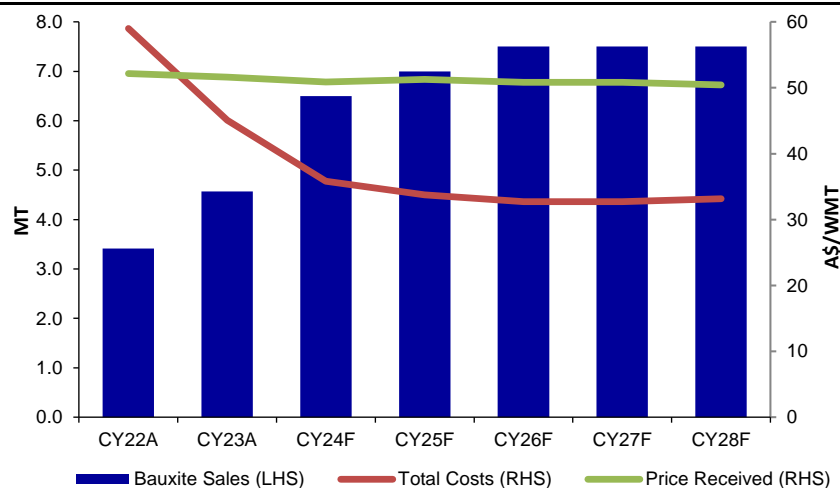


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Source: MMI Presentation Feb 2024

Economies of scale are significant with bulk commodity operations given the relatively high fixed cost nature of the business. With rising forecast production, we expect EBITDA margins to increase to ~A\$15/WMT CY24 compared to ~A\$5/WMT CY23 (Fig. 2).

Figure 2: Attractive margins as production increases



Source: Petra Capital

Ikamba provides ability to scale

In February MMI announced the OFT had completed its tow from Shenzhen to Weipa, via Darwin where it achieved regulatory approvals to operate in Australia. Ikamba measures 132m long, 28m wide with a dead weight of 5,000t. The Cargo Handling System comprises two heavy duty electric cranes of 34WMT and 30 metres outreach, a conveyor system and ship loading boom able to cover up to three holds of vessels up to Newcastlemax size (220,000 WMT). MMI has entered an agreement to lease Ikamba for an initial 10-year term with an option to extend for 5 years. The name Ikamba means saltwater crocodile in local Ankamuthi language.

Figure 3: Ikamba OFT – rated capacity of 9Mtpa



Source: MMI Presentation Feb 2024

Freight rate risk mitigated

MMI was impacted by high freight rates in 2021 as global seaborne trade recovered from Covid. To mitigate freight rate impacts, MMI has implemented a significant cost change utilising Cape-size vessels (130-170kt) providing significant improvements in shipping costs of up to US\$10/t compared to Ultramax vessels (75-90kt). This is an important advantage to MMI, with Rio Tinto exporting bauxite using Ultramax vessels via the port of Weipa (95km south of MMI). Weipa does not have sufficient draft to accommodate Cape size vessels. MMI has locked in forward freight rates for CIF sales for this year with discussions underway for 2025/26. Additionally, MMI has moved to a higher proportion (50%) of FOB sales thereby reducing the impacts of freight rate movements.

Debt Profile

MMI has fully drawn debt of A\$45M (US\$30M) from the Nebari Natural Resources Credit Fund. Interest rate of SOFR +9% margin pa with monthly repayments of US\$1.25M beginning March 2025 to March 2027. Additionally, MMI has the following loans with shareholders:

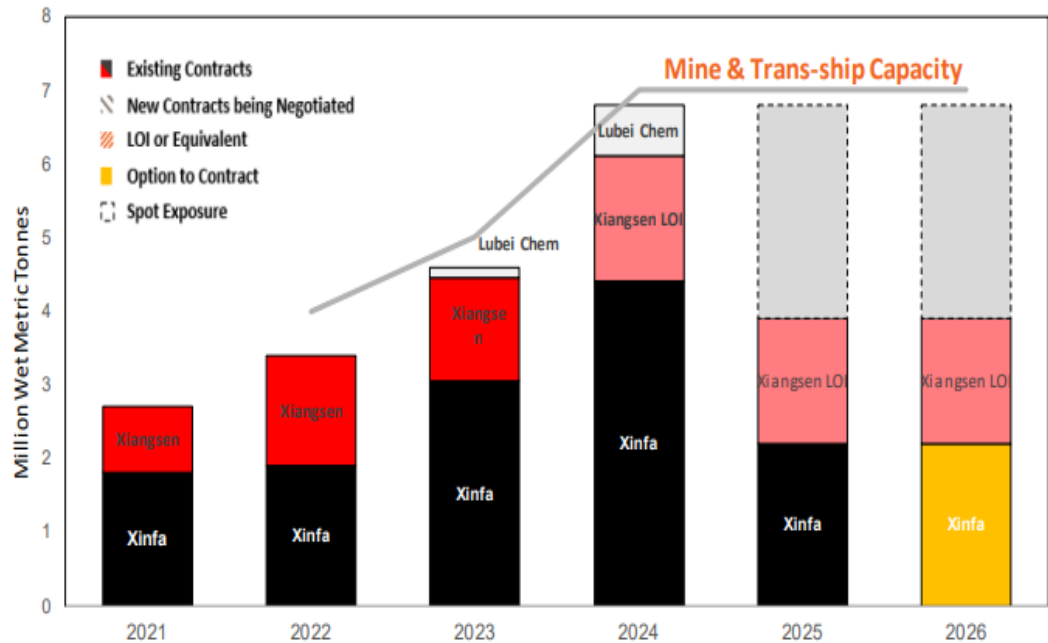
- Ignatatus (5.6% shareholder) Loan 1 – A\$20M repayable in three equal instalments of \$6.67M on June 1st 2024, Sept 1st 2024 and Dec 1st 2024. Interest rate of 12% pa.
- Ignatatus Loan 2 – A\$7.5M repayable in three equal instalments of \$2.5M on June 1st 2024, Sept 1st 2024 and Dec 1st 2024. Interest rate of 12% pa.
- Lambhill (9.2% shareholder) Loan 1 – A\$7.5M repayable in three equal instalments of \$2.5M on July 1st 2024, Oct 1st 2024 and August 1st 2025. Interest rate of 12% pa.
- Lambhill has provided a working capital facility of A\$4M (fully drawn by MMI in Feb 2024) with repayment due by August 2024. Interest rate is 18%pa.

Based on a successful ramp-up to full production in the new mining season from early April, our cost profile and forecast bauxite prices, we are comfortable MMI can service all outstanding debt repayments which start in June 2024. We anticipate increasing investor interest and a share price re-rating as this deleveraging is delivered over 2024.

Production supported by offtake

MMI's expansion is well timed following the Indonesian export ban combined with rising Chinese demand. MMI has locked in 6.8WMT in offtake contracts for 2024 (Fig. 4). Two base load customers (Xinfa & Xiangsen) underpin offtake until 2026. MMI is in discussions with new customers for 2025/26 offtake contracts backed by strong inbound interest from China.

Figure 4: Offtake contracts in place for 6.8 WMT in 2024

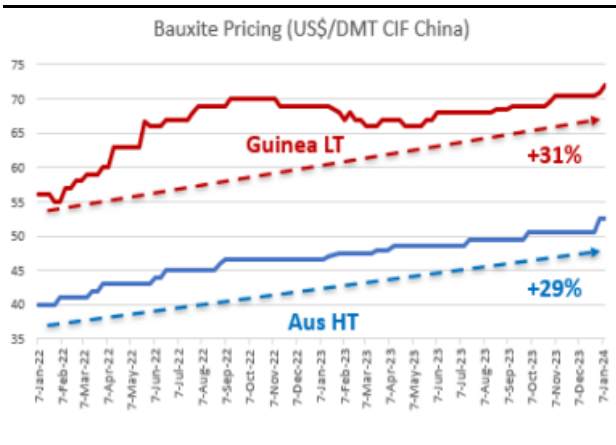


Source: MMI Presentation Feb 2024

Positive momentum in the bauxite market

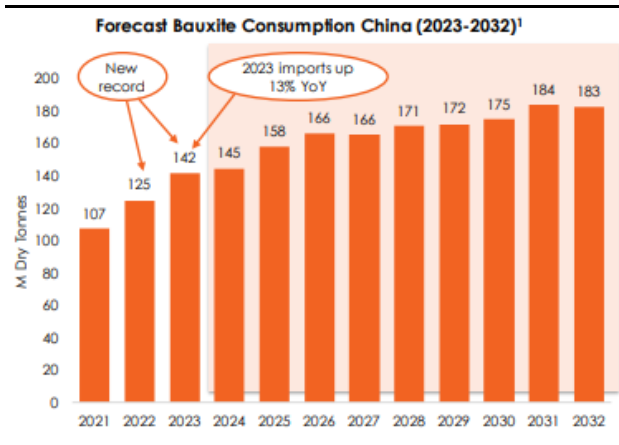
Bauxite prices have steadily risen over the past two years (Fig. 5) supported by rising Chinese demand and the export ban in Indonesia from mid-2023. The ban removed around 20Mtpa of seaborne bauxite from the market. Chinese domestic sources of bauxite supply are depleting with demand growth expected to continue (Fig. 6).

Figure 5: Bauxite prices on the rise



Source MMI Presentation Feb 2024

Figure 6: Growing Chinese bauxite consumption



Source: MMI Presentation Feb 2024

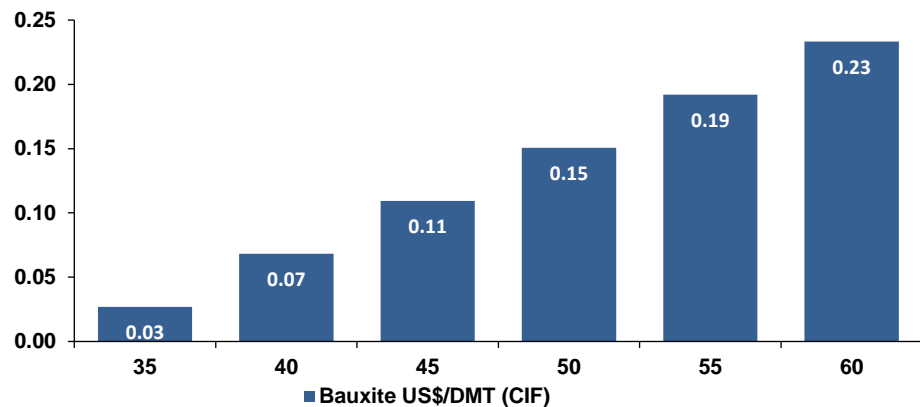
MMI offers significant leverage to bauxite prices

Figure 7: Sensitivity - NPV A\$/share

		Bauxite US\$/DMT (CIF)					
		35	40	45	50	55	60
A\$US\$	0.60	0.043	0.088	0.132	0.177	0.222	0.267
	0.65	0.027	0.068	0.109	0.151	0.192	0.233
	0.70	0.013	0.051	0.090	0.128	0.166	0.205
	0.75	0.001	0.037	0.073	0.108	0.144	0.180

Source: Petra Capital. Note: Our avg realised bauxite price is US\$46/DMT CIF and AUD:USD of 0.70.

Figure 8: Sensitivity - NPV A\$/share at flat A\$US\$ of 0.65



Source: Petra Capital. Our avg realised bauxite price is US\$46/DMT CIF and AUD:USD of 0.70.

Summary of Changes

Valuation and target price increased by 54% to 9.1c/share reflecting higher production, lower site costs and higher bauxite price forecasts. Long term bauxite prices have been increased from US\$43/DMT to US\$46/DMT CIF. We have updated A\$US\$ forecasts (implemented 2H23) given the last published note was on July 26th, 2023. Shares on issue have reduced as the previous analysis assumed an equity raising of \$10M in 2H23 (500m shares at 2c) which did not occur.

Figure 9: Summary of Changes

		CY24F			CY25F			CY26F		
		New	Old	% var	New	Old	% var	New	Old	% var
EBITDA	A\$m	88.5	67.6	31%	112.5	68.4	64%	125.9	68.4	84%
EBIT	A\$m	64.8	47.0	38%	87.9	46.1	91%	99.6	46.1	116%
NPAT	A\$m	56.9	24.4	133%	87.9	27.7	217%	73.0	31.9	129%
EPS	A\$/sh	1.1	0.5	145%	1.7	0.5	233%	1.4	0.6	140%
DPS	A\$/sh	0.0	0.0		0.0	0.0		0.5	0.0	
Valuation	A\$m	466	302	54%						
Price target	A\$/sh	0.091	0.056	62%						
Shares Issued	M	5149	5409	-5%						
Bauxite mined	Mt	6.5	6.0	8%	7.0	6.5	8%	7.5	6.5	15%
Bauxite Price CIF	US\$/DMT	45.0	42.8	5%	45.0	42.8	5%	45.0	42.8	5%
Bauxite Price CIF	US\$/WMT	39.6	37.7	5%	39.6	37.7	5%	39.6	37.7	5%
AUD/USD	#	0.67	0.70	-4%	0.68	0.75	-10%	0.68	0.75	-9%
Bauxite Price CIF	A\$/WMT	59.1	53.8	10%	58.7	50.2	17%	58.2	50.2	16%
Site Costs	A\$/WMT	19.0	22.0	-14%	18.0	19.8	-9%	17.0	19.8	-14%

Source: Petra Capital



Petra Capital

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