

# Metro Mining (MMI)

Rating: Buy | Risk: High | Price Target: \$0.14

29 August 2024

## Volume rising, price increasing, costs reducing – set up for a very strong second half

### Key Information

Current Price (\$ps)	0.04
12m Target Price (\$ps)	0.14
52 Week Range (\$ps)	0.02 - 0.06
Target Price Upside (%)	273.1%
TSR (%)	273.1%
Reporting Currency	AUD
Market Cap (\$m)	166
Sector	Materials
Avg Daily Volume (m)	8.6
ASX 200 Weight (%)	0%

### Fundamentals

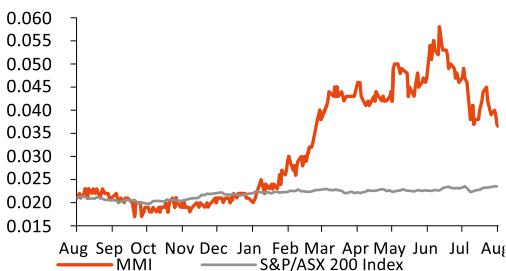
YE 31 Dec (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	236	339	442	466
NPAT (\$m)	(13)	27	100	109
EPS (cps)	(0.3)	0.5	1.8	2.0
EPS Growth (%)	77.3%	276.9%	236.5%	9.4%
DPS (cps) (AUD)	0.0	0.0	1.0	1.0
Franking (%)	0%	0%	0%	100%

### Ratios

YE 31 Dec	FY23A	FY24E	FY25E	FY26E
P/E (x)	(6.8)	6.7	2.0	1.8
EV/EBITDA (x)	10.4	3.3	1.3	1.3
Div Yield (%)	0.0%	0.0%	27.4%	27.4%
Payout Ratio (%)	0.0%	0.0%	54.4%	49.7%

### Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(23.3%)	(26.2%)	(18.4%)	61.9%
Absolute (%)	(22.3%)	(22.3%)	(13.1%)	73.8%
Benchmark (%)	1.0%	3.9%	5.3%	11.9%



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Greenstone Resources LLP	17.2%
Willisms Group	8.9%
Nebari Partners	7.0%
Balanced Property Pty Ltd.	5.6%

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### Event

Metro Mining has reported a first half loss of \$37m. Importantly, however, all elements of the 7Mt expansion are in place and ramping up to full capacity. We expect to see site EBITDA of close to A\$80m in the second half.

### Highlights

- Revenue is up 30% to \$81.4m due to record tonnage (1.5Mt) and higher bauxite prices (benchmark price up 22% and still rising).
- There was a net operating loss of \$22m in the half. This is due to the seasonal shutdown in the first quarter, and also includes the additional costs associated with the expansion to 7Mtpa. The loss was not unexpected but was about \$5m more than forecast.
- All elements of the expansion are now in place and ramping up towards target capacity. The new wobbler screening circuit and barge loading facility is operating reliably above the target of 1,500 tonnes per hour (Tph). OFT Ikamba continues to ramp up and is demonstrating average barge unloading rates of ~1,850 Tph, 93% of target capacity.
- Metro is reporting that the new Caterpillar 992 wheel loaders are contributing to higher than target outputs at the wobbler screen and barge loading facility.
- The Metro expansion is well timed as the traded bauxite market continues to grow strongly with Chinese imports up 7.4% year on year, and the H1 2024 Australian bauxite price benchmark is up 22% yoy. Metro's achieved price follows the Australia benchmark trend with a lag of approximately 2 to 4 months, and Metro is reporting that 3Q 2024 FOB equivalent prices are up between 3 to 8%, depending on the customer contract.
- Metro remains on-track to meet its revised guidance of 6.0-6.4Mt of shipments in CY24 (Shaw 6.1Mt). We have trimmed our CY24 shipping target to 6.1Mt from 6.3Mt to allow for the slower ramp up to full capacity than originally expected.
- We expect Metro to generate strong operating cash flow in 2H24. Volumes are up, prices are rising and unit costs will fall with the increase in shipments. Management is targeting a site EBITDA margin of >\$15/wmt in the second half.
- It is possible to track Metro Mining's shipments via the GPS tracking data on the QShips website - <https://qships.tmr.qld.gov.au/webx/>. The tracking data suggests that Metro is on track to ship ~2.2Mt in the September quarter, which while below the company's original target, should generate site EBITDA of \$35-40m. Our model assumes 2.2Mt of shipments at a site EBITDA margin of A\$17.2/t for a site EBITDA number of \$37.8m.
- At 30-Jun-24 Metro had a net debt position of \$57m post the 2Q24 capital raise. Metro expects to further reduce its debt in 2H 2024 with additional debt repayments of \$23m.
- We have reduced our CY24 forecasts due to lower volumes and higher costs in 1H24. We make no changes to our CY25 forecasts and beyond, and our valuation and price target is unchanged.

Revisions	2024f			2025f			2026f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Sales (kt)	6,100	6,300	-3%	7,500	7,500	0%	7,500	7,500	0%
Revenue (A\$m)	339	351	-3%	442	442	0%	466	466	0%
EBITDA (A\$m)	69	84	-17%	175	175	0%	179	179	0%
NPAT (A\$m)	27	34	-19%	104	104	0%	113	113	0%

### Recommendation

Metro Mining is one of Shaw and Partners top picks for 2024. Our recommendation remains BUY with a 14cps price target.

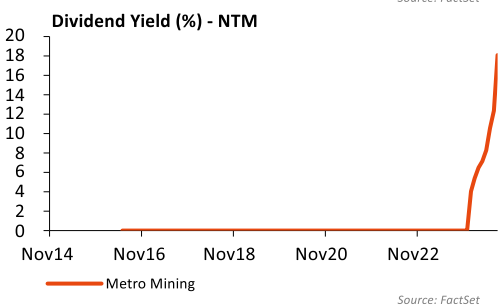
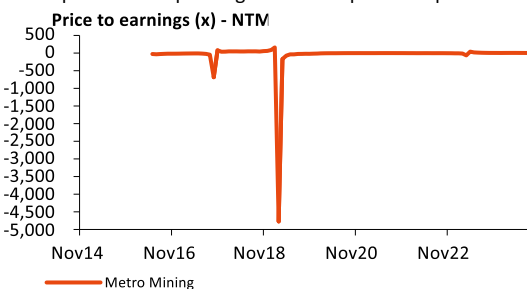
**Metro Mining  
Materials  
Materials**

FactSet: MMI-AU / Bloomberg: MMI AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.04
Target Price (\$ps)	0.14
52 Week Range (\$ps)	0.02 - 0.06
Shares on Issue (m)	4,556
Market Cap (\$m)	166
Enterprise Value (\$m)	226
TSR (%)	273.1%
Valuation per share (cps) (AUD)	0.14
Valuation (\$m)	740.79

**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)	0.5	1.8	2.0
EPS (Underlying) (cps)	(1.4)	(0.3)	0.5	1.8	2.0
EPS (Underlying) Growth (%)	71.7%	77.3%	276.9%	236.5%	9.4%
PE (Underlying) (x)	(1.0)	(6.8)	6.7	2.0	1.8
EV / EBIT (x)	(6.2)	44.6	4.5	1.5	1.5
EV / EBITDA (x)	(10.0)	10.4	3.3	1.3	1.3
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	27.4%	27.4%
Franking (%)	0%	0%	0%	0%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	54.4%	49.7%
Free Cash Flow Yield (%)	(7.8%)	(0.2%)	26.1%	84.2%	73.7%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	178	236	339	442	466
Sales Growth (%)	11.1%	32.6%	43.9%	30.3%	5.5%
Other Operating Income	1	0	2	0	0
EBITDA	(23)	22	69	175	179
EBITDA Margin (%)	(12.7%)	9.2%	20.4%	39.6%	38.5%
Depreciation & Amortisation	(14)	(17)	(20)	(29)	(29)
EBIT	(36.6)	5.1	49.8	146.8	151.0
EBIT Margin (%)	(20.6%)	2.2%	14.7%	33.2%	32.4%
Net Interest	(14)	(19)	(23)	(12)	(3)
Pretax Profit	(50)	(13)	27	135	148
Tax	0	0	0	(35)	(38)
Tax Rate (%)	0.0%	0.0%	0.0%	(26.0%)	(26.0%)
NPAT Underlying	(50)	(13)	27	100	109
Significant Items	0	0	0	0	0
NPAT Reported	(50)	(13)	27	100	109
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(37)	5	50	147	151
Tax Paid	0	0	0	0	(35)
Net Interest	0	0	0	1	4
Change in Working Capital	0	0	1	(6)	1
Depreciation & Amortisation	14	17	20	29	29
Operating Cashflow	(1)	12	71	170	149
Capex	(3)	(12)	(23)	(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)	(24)	(3)	(3)
Free Cashflow	(4)	(0)	47	167	146
Equity Raised / Bought Back	20	0	42	0	0
Dividends Paid	0	0	0	0	(54)
Change in Debt	9	39	(53)	(26)	0
Other	(21)	(15)	(23)	(30)	(7)
Financing Cashflow	8	24	(35)	(56)	(61)
Net Change in Cash	(0)	12	12	111	85
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	12	17	20	131	216
Accounts Receivable	4	9	13	17	18
Inventory	3	3	5	6	6
Other Current Assets	4	6	6	6	6
PPE	79	87	90	64	38
Total Assets	130	157	170	261	321
Accounts Payable	28	24	30	30	32
Short Term Debt	36	33	26	0	0
Long Term Debt	3	46	0	0	0
Total Liabilities	99	156	109	64	66
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(164.5%)	(93.3%)	60.4%	77.7%	53.0%
Gearing (%)	58.0%	86.2%	6.6%	(276.1%)	(1,222.4%)
Net Debt / EBITDA (x)	(1.2)	2.8	0.1	(0.7)	(1.2)

### Key risks

- The Chinese bauxite market is supplied by production from Guinea which is backed by Chinese investment. There is a risk that if Guinea continues to expand then 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

<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

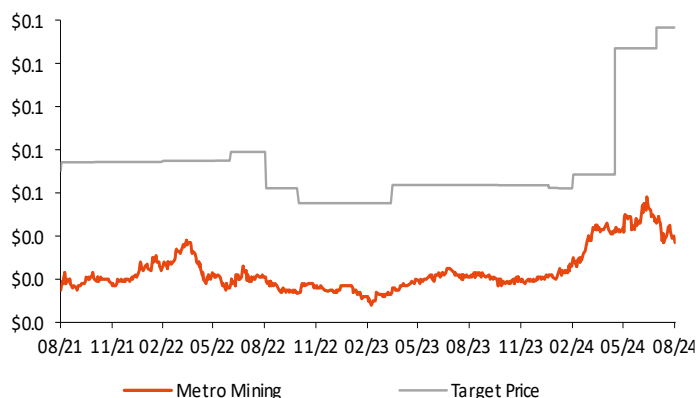
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### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	83	92%
Hold	6	7%
Sell	1	1%

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

Date	Closing Price (\$)	Target Price (\$)	Rating
29-Aug-24	0.04	0.14	Buy
26-Jul-24	0.05	0.14	Buy
13-May-24	0.04	0.13	Buy
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



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