

# Metro Mining (MMI)

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

5 September 2024

## Setting Daily and Monthly Production Records

### Key Information

Current Price (\$ps)	0.03
12m Target Price (\$ps)	0.14
52 Week Range (\$ps)	0.02 - 0.06
Target Price Upside (%)	300.6%
TSR (%)	300.6%
Reporting Currency	AUD
Market Cap (\$m)	155
Sector	Materials
Avg Daily Volume (m)	15.3
ASX 200 Weight (%)	0%

### Fundamentals

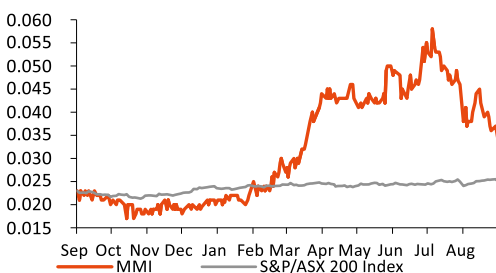
YE 31 Dec (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	236	339	442	466
NPAT (\$m)	(13)	27	100	109
EPS (cps)	(0.3)	0.5	1.8	2.0
EPS Growth (%)	77.3%	276.9%	236.5%	9.4%
DPS (cps) (AUD)	0.0	0.0	1.0	1.0
Franking (%)	0%	0%	0%	100%

### Ratios

YE 31 Dec	FY23A	FY24E	FY25E	FY26E
P/E (x)	(6.8)	6.2	1.8	1.7
EV/EBITDA (x)	9.9	3.1	1.2	1.2
Div Yield (%)	0.0%	0.0%	29.4%	29.4%
Payout Ratio (%)	0.0%	0.0%	54.4%	49.7%

### Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(26.2%)	(39.7%)	(33.4%)	45.9%
Absolute (%)	(26.1%)	(38.2%)	(30.6%)	54.5%
Benchmark (%)	0.1%	1.5%	2.8%	8.6%



Price performance indexed to 100

Source: FactSet

### Major Shareholders

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

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### Event

Metro Mining has released a production update for August. While Bauxite Hills continues to ramp up to full capacity the company is intending to provide monthly updates. It was a record month in August with 720kt of bauxite shipped. This brings SepQ shipments to 1.36Mt to date and on track to ship 2.2Mt in the September quarter and 6.1Mt for the full year, in line with our forecasts.

### Highlights

- The monthly record of 720kt was set despite a 2-day shutdown of the barge loader to replace conveyor belts. A new daily shipment record of 32,022t was set during the month. Metro is targeting 850kt of shipments in September to bring the quarter total to just over 2.2Mt. That would leave Metro needing to ship 2.3Mt in the December quarter to meet the bottom end of guidance, which at current shipping rates is achievable. We currently forecast 2.4Mt shipped in the December quarter which allows for some weather disruption at the tail end of December.
- 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, 92% 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.
- We note that Guinea is currently experiencing one of its worst monsoons on record with torrential rain flooding the capital Conakry and impacting bauxite shipments which are running about 25% below normal levels. Coupled with constraints in China, the bauxite market remains very tight with production in China falling short of demand and causing alumina refining capacity to be curtailed.
- Indonesia continues with its export bans and sources report an increase in Chinese interest in building alumina refining capacity in that country due to constraints on bauxite supply in China.
- 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. In the Sept quarter we assume 2.2Mt of shipments at a site EBITDA margin of A\$17.2/t for site EBITDA 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 \$22m. Metro had a junior debt facility of A\$39m with its major shareholders Ignatatus and Lambhill. A\$17m of that was repaid in the March quarter leaving A\$22m to be repaid in 2H24. Once the junior debt is repaid, Metro intends to refinance the US\$30m Nebari loan and the US\$12m Nebari royalty. It is important to note that Metro is under no debt obligation stress and has significant flexibility in managing its balance sheet. All lenders remain very supportive. On our modelling, Metro will end up with almost no net debt by year end 2024 which will leave it well placed to manage the March quarter shutdown.

### Recommendation

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

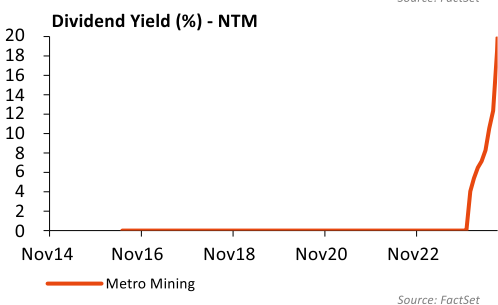
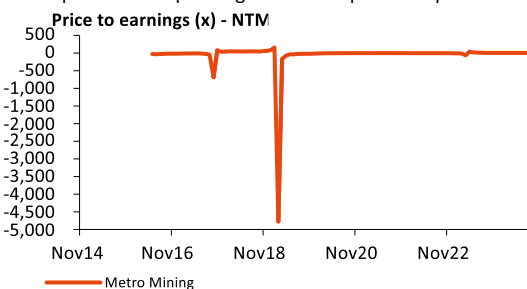
**Metro Mining  
Materials  
Materials**

FactSet: MMI-AU / Bloomberg: MMI AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.03
Target Price (\$ps)	0.14
52 Week Range (\$ps)	0.02 - 0.06
Shares on Issue (m)	4,556
Market Cap (\$m)	155
Enterprise Value (\$m)	215
TSR (%)	300.6%
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)	6.2	1.8	1.7
EV / EBIT (x)	(5.9)	42.4	4.3	1.5	1.4
EV / EBITDA (x)	(9.5)	9.9	3.1	1.2	1.2
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	29.4%	29.4%
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%)	28.0%	90.3%	79.1%
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)

Figure 1: Quarterly operational and financial results – a significant increase in EBITDA expected in September.

Quarterly operations	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Bauxite mined (kt)	0	1,325	1,653	1,647	40.0	1,407	2,200	2,453
Bauxite shipped (kt)	0	1,269	1,610	1,688	80.0	1,418	2,200	2,402
Revenue A\$/wmt - CIF		53.8	57.4	56.5	60.2	63.8	67.0	67.0
Revenue (A\$m) - CIF		68.3	92.4	95.4		90.5	147.4	160.9
Revenue A\$/wmt - FOB		41.1	40.8	38.5		43.4	47.0	47.0
Revenue (A\$m) - FOB		52.2	65.7	65.0		61.5	103.4	112.9
<b>Costs</b>								
Site cost (A\$/wmt)		26.2	24.7	26.0		31.8	23.0	23.0
Freight (A\$/wmt)		16.5	19.2	18.0		20.4	20.0	20.0
Royalty (A\$/wmt)		5.9	6.0	5.5		6.3	6.8	6.8
Total cost		48.6	49.9	49.5		58.5	49.8	49.8
Total cost (ex freight)		32.1	30.7	31.5		38.1	29.8	29.8
Site cost (A\$m)		33.2	39.8	43.9		45.1	50.6	55.2
EBITDA (A\$/wmt)		9.0	10.1	7.0		5.3	17.2	17.2
Site EBITDA (A\$m)		11.4	16.3	11.8		7.5	37.8	41.2

Source: Company reports, Shaw and Partners forecasts

Figure 2: Daily shipments (wet metric tonnes, 7 day moving average)



Source: Company reports, Shaw and Partners forecasts

Figure 3: Metro Mining Financials

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	6,100	7,500	7,500	7,500	7,500	7,500	7,500
% FoB	0%	0%	0%	13%	55%	62%	46%	31%	31%	31%	31%	31%
<b>Revenue</b>	<b>199</b>	<b>128</b>	<b>160</b>	<b>178</b>	<b>236</b>	<b>339</b>	<b>442</b>	<b>466</b>	<b>477</b>	<b>488</b>	<b>499</b>	<b>510</b>
per tonne (A\$/t)	57	52	57	52	52	56	59	62	64	65	67	68
Revenue (adj for CIF)	199	128	160	186	264	410	487	498	509	520	532	544
per tonne (A\$/t)	57	52	57	54	58	67	65	66	68	69	71	73
Other income	0	0	0	1	0	2	0	0	0	0	0	0
Operating expenses	-143	-108	-167	-178	-179	-215	-199	-217	-219	-224	-228	-233
Royalties	-20	-12	-11	-17	-26	-45	-56	-58	-59	-60	-62	-63
Admin & other expenses	-9	-5	-6	-6	-9	-12	-12	-12	-12	-13	-13	-13
<b>Total costs</b>	<b>-172</b>	<b>-126</b>	<b>-184</b>	<b>-201</b>	<b>-214</b>	<b>-272</b>	<b>-267</b>	<b>-287</b>	<b>-290</b>	<b>-297</b>	<b>-303</b>	<b>-310</b>
per tonne (A\$/t)	49	51	66	59	47	45	36	38	39	40	40	41
Customer paid freight costs	0	0	0	-8	-28	-71	-45	-31	-32	-33	-33	-34
Adjusted total cost (A\$/t)	49	51	66	61	53	56	42	42	43	44	45	46
<b>EBITDA</b>	<b>27</b>	<b>2</b>	<b>-79</b>	<b>-23</b>	<b>22</b>	<b>69</b>	<b>175</b>	<b>179</b>	<b>187</b>	<b>191</b>	<b>196</b>	<b>201</b>
per tonne (A\$/t)	8	1	-28	-7	5	11	23	24	25	26	26	27
Depreciation & Amortisation	-10	-10	-12	-14	-17	-20	-29	-29	-29	-29	-29	-29
<b>EBIT</b>	<b>17</b>	<b>-8</b>	<b>-91</b>	<b>-37</b>	<b>5</b>	<b>50</b>	<b>147</b>	<b>151</b>	<b>159</b>	<b>163</b>	<b>168</b>	<b>172</b>
Net Finance Expense	-11	-8	-5	-14	-19	-23	-12	-3	2	8	10	17
<b>Profit before tax</b>	<b>6</b>	<b>-15</b>	<b>-96</b>	<b>-50</b>	<b>-13</b>	<b>27</b>	<b>135</b>	<b>148</b>	<b>160</b>	<b>171</b>	<b>178</b>	<b>189</b>
Income tax (expense)/benefit	-2	4	-9	0	0	0	-35	-38	-42	-44	-46	-49
<b>Reported NPAT</b>	<b>4</b>	<b>-11</b>	<b>-106</b>	<b>-50</b>	<b>-13</b>	<b>27</b>	<b>100</b>	<b>109</b>	<b>119</b>	<b>126</b>	<b>132</b>	<b>140</b>

Source: Company reports, Shaw and Partners forecasts

### 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

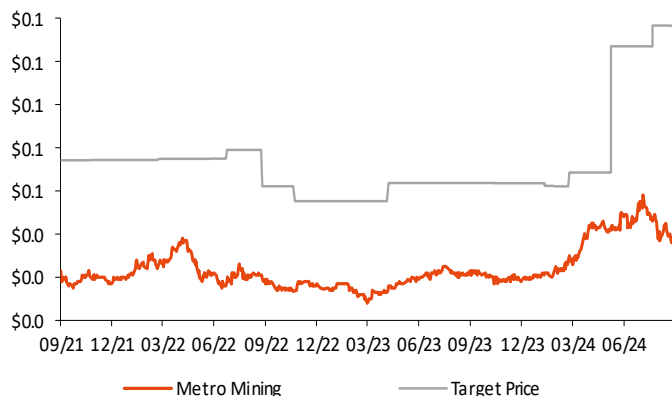
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### Distribution of Investment Ratings

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



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