

Metro Mining (MMI)

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

12 September 2024

Balance sheet blue sky ahead

Key Information

Current Price (\$ps)	0.04
12m Target Price (\$ps)	0.14
52 Week Range (\$ps)	0.02 - 0.06
Target Price Upside (%)	295.0%
TSR (%)	295.0%
Reporting Currency	AUD
Market Cap (\$m)	208
Sector	Materials
Avg Daily Volume (m)	5.1
ASX 200 Weight (%)	0%

Fundamentals

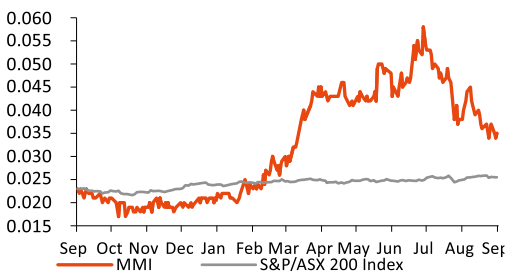
YE 31 Dec (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	236	339	439	464
NPAT (\$m)	(13)	27	94	103
EPS (cps)	(0.3)	0.5	1.6	1.7
EPS Growth (%)	77.3%	266.8%	206.6%	9.2%
DPS (cps) (AUD)	0.0	0.0	1.0	1.0
Franking (%)	0%	0%	0%	100%

Ratios

YE 31 Dec	FY23A	FY24E	FY25E	FY26E
P/E (x)	(6.8)	6.8	2.2	2.0
EV/EBITDA (x)	12.3	3.9	1.6	1.6
Div Yield (%)	0.0%	0.0%	28.6%	28.6%
Payout Ratio (%)	0.0%	0.0%	63.3%	58.0%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(10.1%)	(34.4%)	(22.1%)	41.4%
Absolute (%)	(7.9%)	(34.0%)	(18.6%)	52.2%
Benchmark (%)	2.2%	0.4%	3.5%	10.8%



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

We continue to receive questions about the strength of Metro Mining's balance sheet (or lack thereof) which is understandable given the company's recent history. In this note we examine the balance sheet and conclude that it is no longer an issue. Indeed, by the end of CY25 Metro will have excess cash and will be considering a maiden dividend.

Highlights

- At 30-Jun-24 Metro had a net debt position of \$57m (excluding the Nebari royalty) or A\$70m if the Nebari royalty is treated as debt (Shaw does). Metro Mining had three debt facilities:
 - A fully drawn US\$30m facility with Nebari.
 - A A\$27.5m facility with Inगतatus, drawn to A\$18.3m.
 - A A\$7.5m facility with Lambhill, drawn to A\$5m.
- The Lambhill and Inगतatus facilities are subordinate to the Nebari facility and are referred to as the 'junior' debt. The repayment schedule for the Inगतatus and Lambhill facilities is:
 - 1 September 2024 - A\$9.2m
 - 1 October 2024 - A\$2.5m
 - 1 December 2024 - A\$9.2m
 - 1 August 2025 - A\$2.5m
- It is the company's intention to repay the junior debt as early as possible and then refinance the Nebari facility. Our understanding is that the junior debt may be fully repaid by the end of the September quarter depending on the timing of shipments and cash receipts. We have modelled a junior debt repayment of A\$12m in the September quarter with the balance (\$11.3m) in the December quarter.
- We assume that post the repayment of the junior debt, Metro will refinance the Nebari debt and royalty with a A\$50m debt facility with traditional lenders. This is assumed to be fully drawn upon establishment, but on our cash flow projections will be fully repaid by the end of the Sep-25 quarter.
- Our modelling sees Metro with a net cash balance of A\$139m by the end of CY25 which will leave it well placed to consider the payment of a maiden dividend
- Metro recently provided a production update and set a new monthly record of 720kt and a new daily shipment record of 32,022t. 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.
- 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.

Recommendation

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

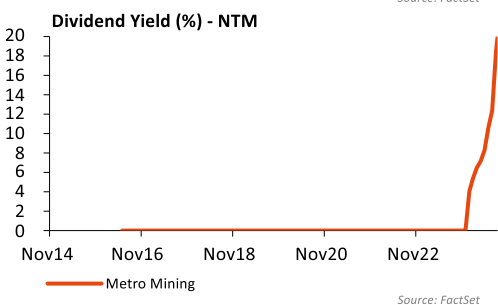
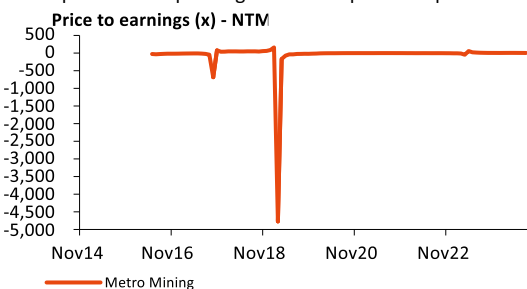
**Metro Mining
Materials**

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)	5,955
Market Cap (\$m)	208
Enterprise Value (\$m)	268
TSR (%)	295.0%
Valuation per share (cps) (AUD)	0.14
Valuation (\$m)	839.48

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	1.6	1.7
EPS (Underlying) (cps)	(1.4)	(0.3)	0.5	1.6	1.7
EPS (Underlying) Growth (%)	71.7%	77.3%	266.8%	206.6%	9.2%
PE (Underlying) (x)	(1.0)	(6.8)	6.8	2.2	2.0
EV / EBIT (x)	(7.3)	52.9	5.4	1.9	1.9
EV / EBITDA (x)	(11.9)	12.3	3.9	1.6	1.6
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	28.6%	28.6%
Franking (%)	0%	0%	0%	0%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	63.3%	58.0%
Free Cash Flow Yield (%)	(7.8%)	(0.2%)	24.7%	75.6%	66.1%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	178	236	339	439	464
Sales Growth (%)	11.1%	32.6%	43.9%	29.3%	5.7%
Other Operating Income	1	0	2	0	0
EBITDA	(23)	22	69	167	171
EBITDA Margin (%)	(12.7%)	9.2%	20.4%	38.1%	36.9%
Depreciation & Amortisation	(14)	(17)	(20)	(29)	(29)
EBIT	(36.6)	5.1	49.6	138.9	142.6
EBIT Margin (%)	(20.6%)	2.2%	14.6%	31.7%	30.7%
Net Interest	(14)	(19)	(23)	(12)	(4)
Pretax Profit	(50)	(13)	27	127	139
Tax	0	0	0	(33)	(36)
Tax Rate (%)	0.0%	0.0%	0.0%	(26.0%)	(26.0%)
NPAT Underlying	(50)	(13)	27	94	103
Significant Items	0	0	0	0	0
NPAT Reported	(50)	(13)	27	94	103
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(37)	5	50	139	143
Tax Paid	0	0	0	0	(33)
Net Interest	0	0	0	1	4
Change in Working Capital	0	0	1	(5)	1
Depreciation & Amortisation	14	17	20	29	29
Operating Cashflow	(1)	12	70	163	143
Capex	(3)	(12)	(25)	(4)	(4)
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)	(26)	(5)	(5)
Free Cashflow	(4)	(0)	45	158	138
Equity Raised / Bought Back	20	0	42	0	0
Dividends Paid	0	0	0	0	(60)
Change in Debt	9	39	(53)	(26)	0
Other	(21)	(15)	(23)	(30)	(7)
Financing Cashflow	8	24	(35)	(56)	(67)
Net Change in Cash	(0)	12	10	101	71
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	12	17	18	120	190
Accounts Receivable	4	9	13	17	18
Inventory	3	3	5	6	6
Other Current Assets	4	6	6	6	6
PPE	79	87	92	68	44
Total Assets	130	157	170	253	301
Accounts Payable	28	24	30	30	33
Short Term Debt	36	33	26	0	0
Long Term Debt	3	46	0	0	0
Total Liabilities	99	156	109	65	67
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(164.5%)	(93.3%)	60.1%	74.9%	52.9%
Gearing (%)	58.0%	86.2%	9.0%	(225.3%)	(749.6%)
Net Debt / EBITDA (x)	(1.2)	2.8	0.1	(0.7)	(1.1)

Balance sheet – heading to net cash in 2025

At 30th June 2024 Metro Mining had three debt facilities:

- A fully drawn US\$30m facility with Nebari.
- A A\$27.5m facility with Inगतatus, drawn to A\$18.3m.
- A A\$7.5m facility with Lambhill, drawn to A\$5m.

We also treat the Nebari royalty as debt. The royalty is A\$15.5m and Metro has a call option to buy back the royalty at any time prior to 31 March 2025.

The Lambhill and Inगतatus facilities are subordinate to the Nebari facility and are referred to as the 'junior' debt.

The repayment schedule for the Inगतatus and Lambhill facilities is:

- 1 September 2024 – A\$9.2m
- 1 October 2024 – A\$2.5m
- 1 December 2024 – A\$9.2m
- 1 August 2025 – A\$2.5m

However, it is important to note that these loans are provided by major shareholders, Lambhill owns 8.9% of MMI and Inगतatus 5.6%. These major shareholders remain very supportive of MMI and appear to be very flexible in their arrangements. The loans could be extended or repaid early. We expect early repayment.

Figure 1: Quarterly operational and financial results – the cash balance is expected to build.

Quarterly operations	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Bauxite mined (kt)	0	1,325	1,653	1,647	40	1,407	2,200	2,453	0	2,200	2,700	2,600
Bauxite shipped (kt)	0	1,269	1,610	1,688	80	1,418	2,200	2,402	0	2,200	2,700	2,600
Revenue A\$/wmt - CIF	0.0	53.8	57.4	56.5	60.2	63.8	67.0	67.0	0.0	64.9	64.9	64.9
Revenue (A\$m) - CIF	0.0	68.3	92.4	95.4	4.8	90.5	147.4	160.9	0.0	142.8	175.2	168.7
Revenue A\$/wmt - FOB	0.0	41.1	40.8	38.5	0.0	43.4	47.0	47.0	0.0	50.9	50.9	50.9
Revenue (A\$m) - FOB	0.0	52.2	65.7	65.0	0.0	61.5	103.4	112.9	0.0	112.0	137.4	132.3
Costs												
Site cost (A\$/wmt)	0.0	26.2	24.7	26.0	0.0	31.8	24.0	23.0	0.0	23.0	19.0	19.0
Freight (A\$/wmt)	0.0	16.5	19.2	18.0	0.0	20.4	20.0	20.0	0.0	14.0	14.0	14.0
Royalty (A\$/wmt)	0.0	5.9	6.0	5.5	0.0	6.3	6.8	6.8	0.0	7.4	7.4	7.4
Total cost (A\$/wmt)	0.0	48.6	49.9	49.5	0.0	58.5	50.8	49.8	0.0	44.4	40.4	40.4
Total cost (ex freight)	0.0	32.1	30.7	31.5	0.0	38.1	30.8	29.8	0.0	30.4	26.4	26.4
Site cost (A\$m)	20.0	33.2	39.8	43.9	15.0	45.1	52.8	55.2	15.0	50.6	51.3	49.4
EBITDA (A\$/wmt)	0.0	9.0	10.1	7.0	0.0	5.3	16.2	17.2	0.0	20.5	24.5	24.5
Site EBITDA (A\$m)	-20.0	11.4	16.3	11.8	-15.0	7.5	35.6	41.2	-15.0	45.1	66.2	63.7
Other costs (A\$m)	-2.9	4.4	0.9	-5.0	-2.9	-6.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Quarterly cash flows (A\$m)												
Operating cash flow	-22.9	15.8	17.2	6.8	-17.9	1.3	32.6	38.2	-18.0	42.1	63.2	60.7
Investing cash flow	-2.9	-7.1	-9.8	-11.7	-9.6	-12.9	-6.0	-0.7	-0.7	-0.7	-0.7	-0.7
Financing cash flow	26.0	-0.5	-6.1	-4.8	18.4	23.4	-12.0	-21.6	0.0	-10.0	-40.0	0.0
Cash balance	11.6	20.2	21.6	12.0	2.8	13.4	27.9	43.9	25.2	56.6	79.1	139.1
Debt position (A\$m)												
Nebari loan						44.8	44.8	0.0	0.0	0.0	0.0	0.0
Nebari royalty						15.5	15.5	0.0	0.0	0.0	0.0	0.0
Junior debt						23.3	11.3	0.0	0.0	0.0	0.0	0.0
New debt facility						0.0	0.0	50.0	50.0	40.0	0.0	0.0
Total (A\$m)						83.6	71.6	50.0	50.0	40.0	0.0	0.0
Net debt (cash) (A\$m)						70.2	43.7	6.1	24.8	-16.6	-79.1	-139.1
Debt repayments												
Nebari loan						0.0	0.0	44.8	0.0	0.0	0.0	0.0
Nebari royalty						0.0	0.0	15.5	0.0	0.0	0.0	0.0
Junior debt						0.0	12.0	11.3	0.0	0.0	0.0	0.0
New debt facility						0.0	0.0	-50.0	0.0	10.0	40.0	0.0
Total (A\$m)						0.0	12.0	21.6	0.0	10.0	40.0	0.0

Source: Company reports, Shaw and Partners forecasts

It is the company's intention to repay the junior debt as early as possible and then refinance the Nebari facility. Our understanding is that the junior debt may be fully repaid by the end of the September quarter depending on the timing of shipments and cash receipts.

We have modelled a junior debt repayment of A\$12m in the September quarter with the balance (\$11.3m) in the December quarter.

We assume that post the repayment of the junior debt, Metro will refinance the Nebari debt and royalty with a A\$50m debt facility with traditional lenders. This is assumed to be fully drawn upon establishment, but on our cash flow projections will be fully repaid by the end of the Sep-25 quarter.

Our modelling sees Metro with a net cash balance of A\$139m by the end of CY25 which will leave it well placed to consider the payment of a maiden dividend.

Figure 2: 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%
Revenue	199	128	160	178	236	339	439	464	474	485	496	507
per tonne (A\$/t)	57	52	57	52	52	56	58	62	63	65	66	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	-203	-223	-228	-233	-238	-244
Royalties	-20	-12	-11	-17	-26	-45	-55	-57	-58	-59	-60	-62
Admin & other expenses	-9	-5	-6	-6	-9	-12	-14	-14	-14	-14	-15	-15
Total costs	-172	-126	-184	-201	-214	-272	-272	-293	-300	-307	-313	-320
per tonne (A\$/t)	49	51	66	59	47	45	36	39	40	41	42	43
Customer paid freight costs	0	0	0	-8	-28	-71	-48	-34	-35	-35	-36	-37
Adjusted total cost (A\$/t)	49	51	66	61	53	56	43	44	45	46	47	48
EBITDA	27	2	-79	-23	22	69	167	171	175	179	183	187
per tonne (A\$/t)	8	1	-28	-7	5	11	22	23	23	24	24	25
Depreciation & Amortisation	-10	-10	-12	-14	-17	-20	-29	-29	-29	-29	-29	-29
EBIT	17	-8	-91	-37	5	50	139	143	146	150	154	159
Net Finance Expense	-11	-8	-5	-14	-19	-23	-12	-4	0	5	10	15
Profit before tax	6	-15	-96	-50	-13	27	127	139	147	155	164	174
Income tax (expense)/benefit	-2	4	-9	0	0	0	-33	-36	-38	-40	-43	-45
Reported NPAT	4	-11	-106	-50	-13	27	94	103	109	115	122	128

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

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

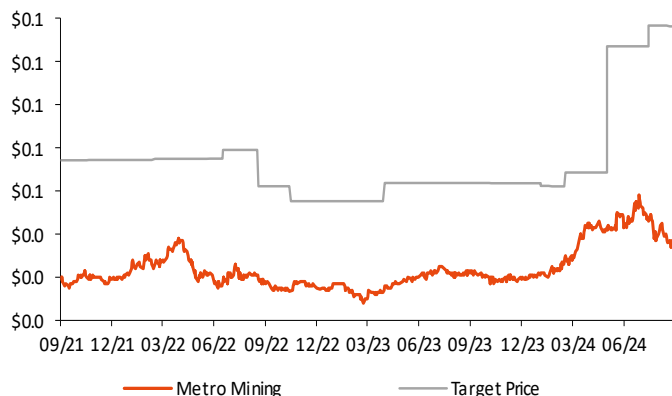
RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	84	92%
Hold	6	7%
Sell	1	1%

History of Investment Rating and Target Price - Metro Mining

Date	Closing Price (\$)	Target Price (\$)	Rating
12-Sep-24	0.04	0.14	Buy
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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