

16 September 2024

**Metro Mining Limited (MMI)****BUY****Share Price: A\$0.04****Market dynamics support bauxite price strength****Target Price: A\$0.088**

MMI released a presentation on Thursday August 12<sup>th</sup> highlighting bauxite as a critical mineral for global electrification. Bauxite is the main feedstock into the production of aluminium (AL) with demand expected to grow significantly driven by its use in EVs, batteries, solar panels and grids. Additionally, supply of bauxite is being impacted by lower Chinese domestic production, the Indonesian export ban and Guinea wet season impacts. The strong fundamentals are being reflected in bauxite prices which have risen 27% over the past nine months. MMI is uniquely positioned to benefit as the only pure play ASX bauxite producer combined with rising production from its Bauxite Hills project in Queensland. BUY with PT of 8.8c/share.

**Robust Aluminium & Bauxite market drivers**

- AL is critical to energy transition technologies with 40% growth (60Mt) in demand for AL forecast 2020-30.
- Additional 50Mt of aluminium demand (~300Mt bauxite) forecast for solar panels to 2050 (Fig. 1).
- EVs forecast to increase AL consumption by 31.7Mt (185Mt bauxite) to 2030 (Fig. 2).
- Significant flow on effects for bauxite with 4-6t of bauxite required to produce 2t alumina and 1t AL (Fig. 3).
- Steel and iron ore negativity appears unwarranted for the aluminium/alumina/bauxite chain (Fig. 4).
- Bauxite supply is constrained in China with production and quality falling.
- Chinese bauxite imports have risen rapidly and are forecast to rise further (Fig. 5).
- Indonesian export ban (20Mtpa bauxite) is unlikely to be lifted given success of domestic refinery initiative (10Mtpa required) and expected future refinery capex.
- Bauxite prices have risen substantially to US\$63.5/t CIF (Fig. 6).
- The integrated AL industry is important in Australia - \$15Bpa export revenue & employs ~100,000 workers.

**Attractive on valuation and multiples**

- Valuation – 8.8c/share based on 1xP/NPV10 rising to 17.0c/share at spot prices & exchange rates.
- PE (CY24/25) – 6.2x & 1.9x.
- EV/EBITDA (CY24/25) – 3.2x & 0.6x.
- Record August shipments of 720kt (+29% pcp).

**Key Dates Ahead**

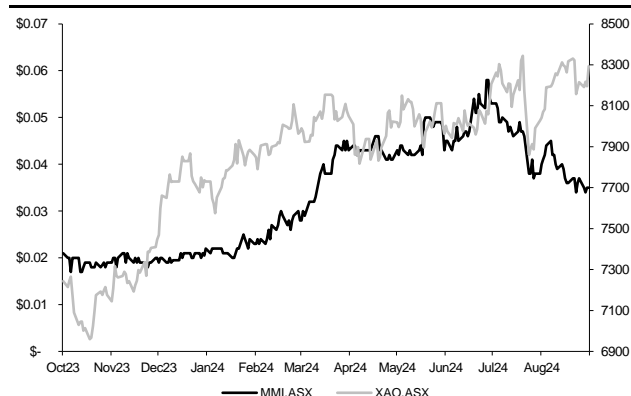
- September – Dec. Q'24 contract negotiations.
- 2H24 – Additional offtake for CY25.
- 2H24 – Ongoing debottlenecking studies.

**Company Data**

Shares – ordinary (M)	5955.4
Dilution (M)	287.3
Total (fully diluted) (M)	6242.7
Market capitalisation (\$M)	208.4
12 month low/high (\$)	0.02/ 0.06
Average monthly turnover (\$M)	17.1
GICS Industry	Metals & Mining

**Financial Summary (fully diluted/normalised)**

Year End Dec	CY23A	CY24F	CY25F	CY26F	CY27F
Revenue (\$M)	236.2	349.9	445.7	429.7	419.3
Costs (\$M)	214.4	283.0	300.1	285.8	284.3
EBITDA (\$M)	21.8	66.8	145.7	143.9	135.0
NPAT (A\$M)	-9.3	35.5	115.0	82.9	81.5
EPS (cps)	-0.2	0.6	1.8	1.3	1.3
EPS Growth (%)	83.3	366.2	223.7	-27.9	-1.6
PER (x)	na	6.2	1.9	2.6	2.7
Cashflow (A\$M)	8.3	56.5	144.1	149.6	109.9
CFPS (c/sh)	0.2	0.9	2.3	2.4	1.8
PCFPS	11.0	3.9	1.5	1.5	2.0
EV	159.0	210.8	89.3	-11.4	-51.1
EV/EBITDA	7.3	3.2	0.6	-0.1	-0.4
Payout ratio (%)	na	na	na	50%	80%
DPS	0.0	0.0	0.0	0.7	1.0
Yield (%)	0.0	0.0	0.0	19.0	29.8
Franking (%)	0.0	0.0	0.0	100.0	100.0

**MMI – performance over one year****Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was Co-Lead Manager for this company's placement to raise \$40.0m by way of a placement at A\$0.041/sh on 1<sup>st</sup> May 2024, for which fees were received.

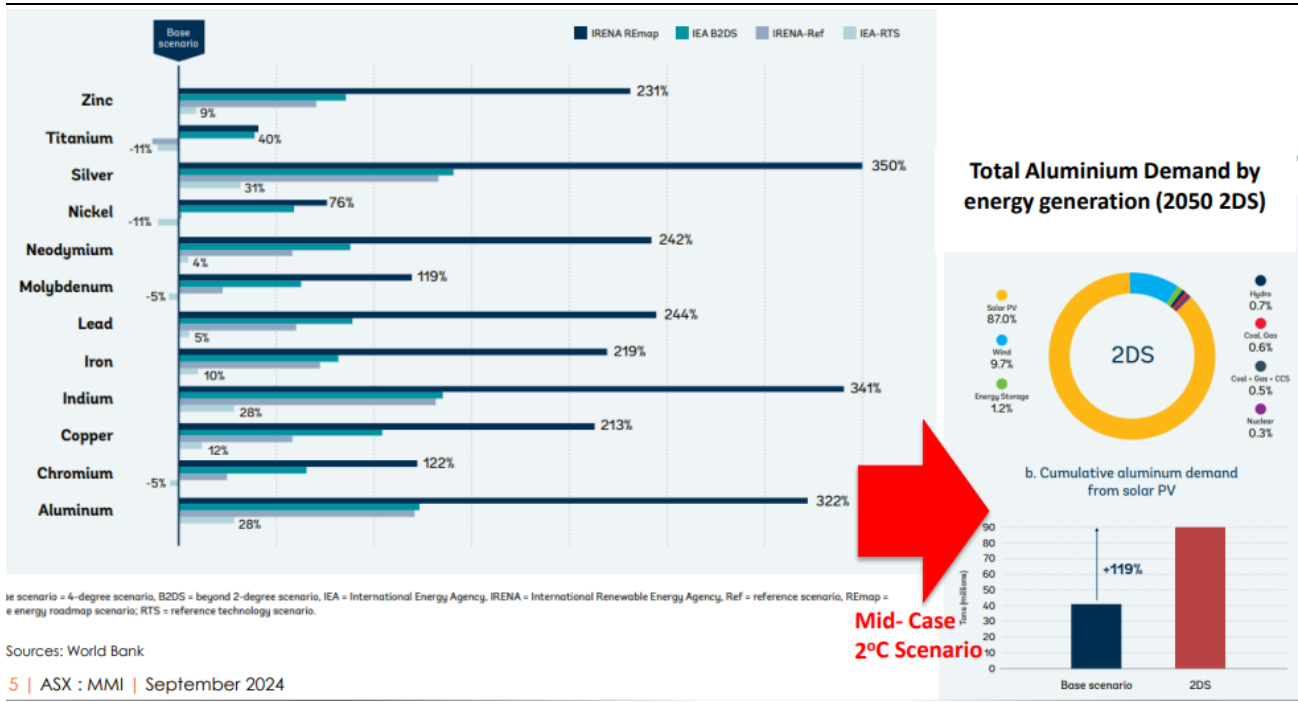
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### Robust Aluminium and Bauxite market drivers

Aluminium is essential in modern society and critical to energy transition technologies. Aluminium is light weight, corrosion resistant, durable, high strength, low cost and electrically conductive (70% of copper conductivity). Mid-case demand scenario (IRENA & IEA) for solar photovoltaics forecasts aluminium demand to increase by 50Mt to 2050 (Fig. 1) which equates to ~300-400Mt bauxite. Current global market demand for bauxite is ~450Mtpa.

Figure 1: Scenario demand from energy generation to 2050



Base scenario - 4-degree scenario, B2DS - beyond 2-degree scenario, IEA - International Energy Agency, IRENA - International Renewable Energy Agency, Ref - reference scenario, REmap - energy roadmap scenario, RTS - reference technology scenario.

Sources: World Bank

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Source: MMI presentation Sept 2024. IRENA – International Renewable Agency. IEA -International Energy Agency.

The second most important commodity by weight (Fig. 2) in an EV battery is aluminium (18.9%). EVs have ~30% greater aluminium intensity compared to ICE vehicles. European cars (ICE & EV) are expected to increase AL usage from 197kg to 256kg by 2030.

Figure 2: EV Battery key minerals

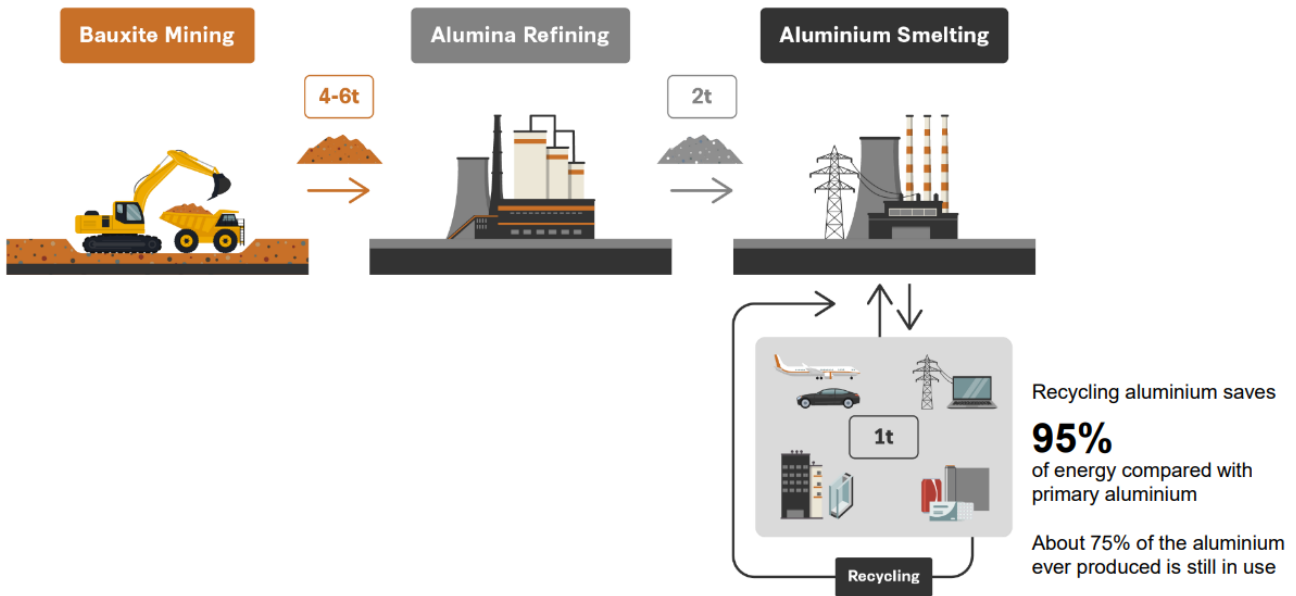


Source: MMI presentation Sept 2024.

Approximately 4-6t of bauxite is used to produce ~2t of alumina which is smelted into ~1t of aluminium.

**Figure 3: Bauxite to Aluminium**

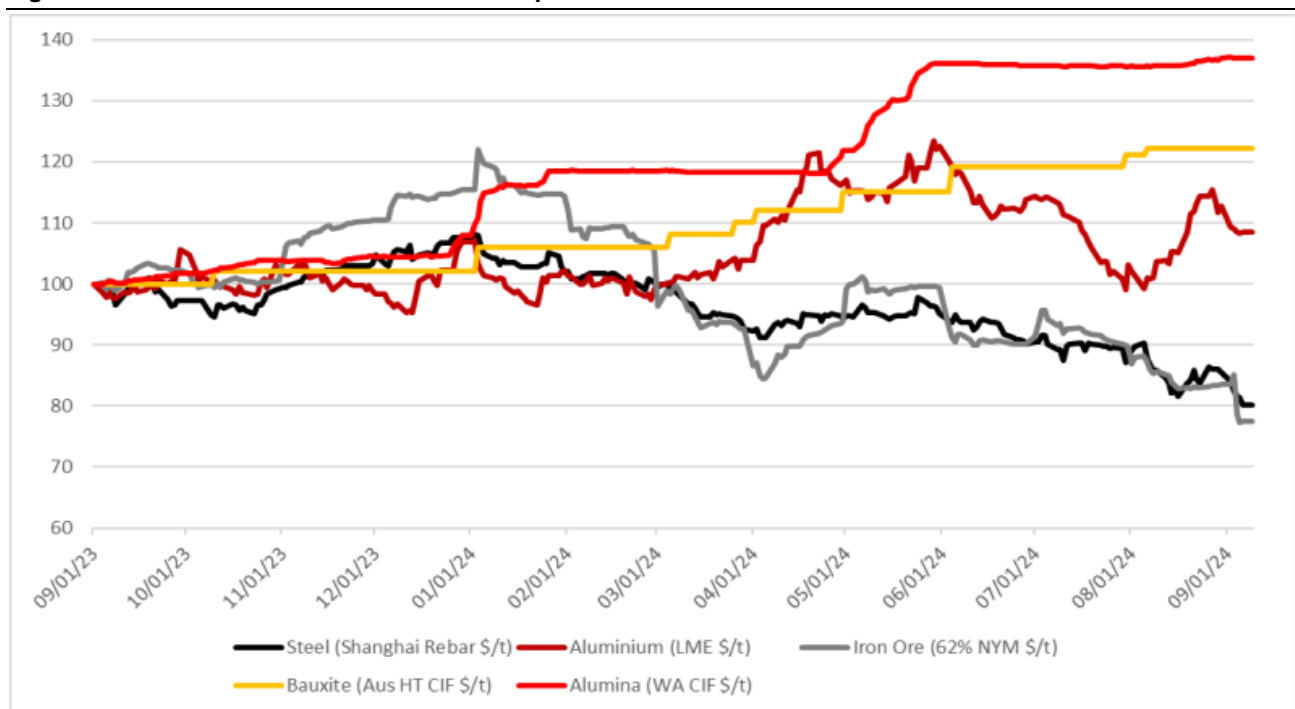
### 4-6 tonnes of Bauxite Produces 1 Tonne of Aluminium



Source: MMI presentation Sept 2024.

Demand for bauxite, alumina and aluminium appears to be robust and a point of difference when comparing to the recent weakness in the iron ore/steel sector. Steel and iron ore negativity appears unwarranted for the aluminium chain with bauxite, alumina and aluminium prices significantly outperforming iron ore and steel this year (Fig. 4). Bauxite has outperformed aluminium reflecting strong Chinese demand.

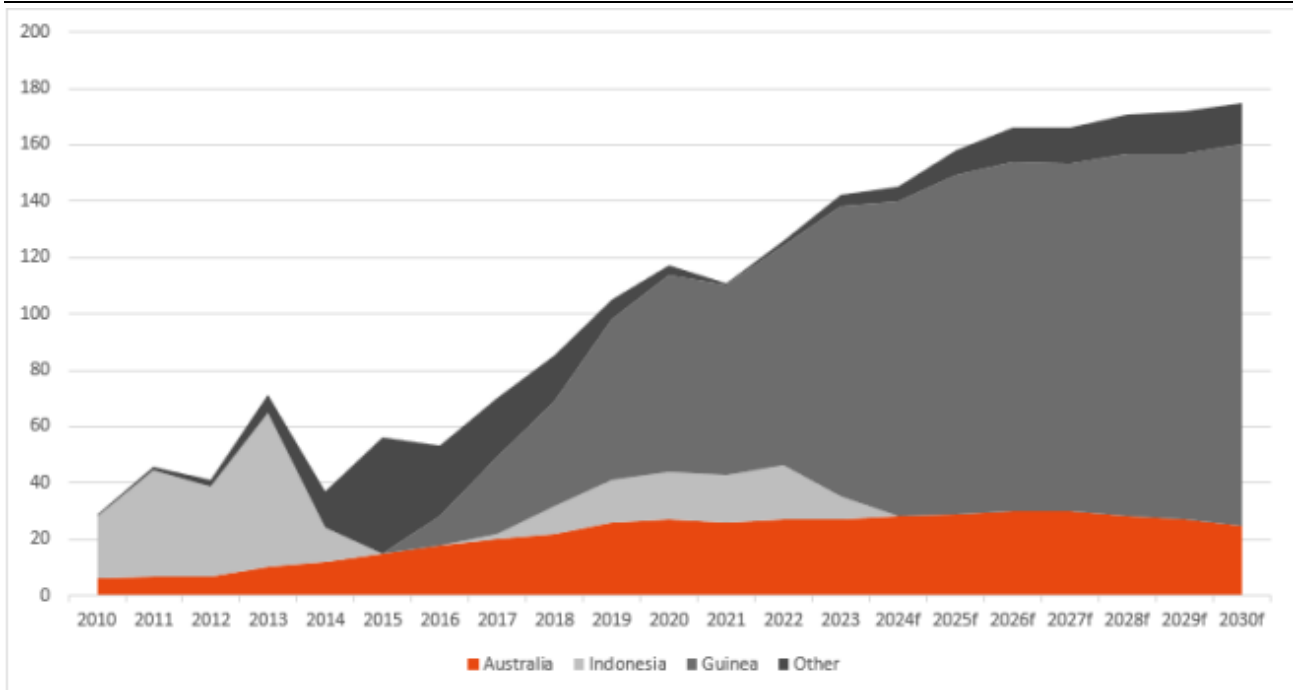
**Figure 4: Relative bauxite/alumina/aluminium prices vs iron ore/steel**



Source: MMI presentation Sept 2024.

Bauxite demand remains strong primarily driven by Chinese imports of ~145Mt this year rising to 175Mtpa by 2030 (Fig. 5). Chinese domestic supply remains tight with production falling due to reserve exhaustion whilst Guinea exports are being impacted in recent weeks by a heavy wet season.

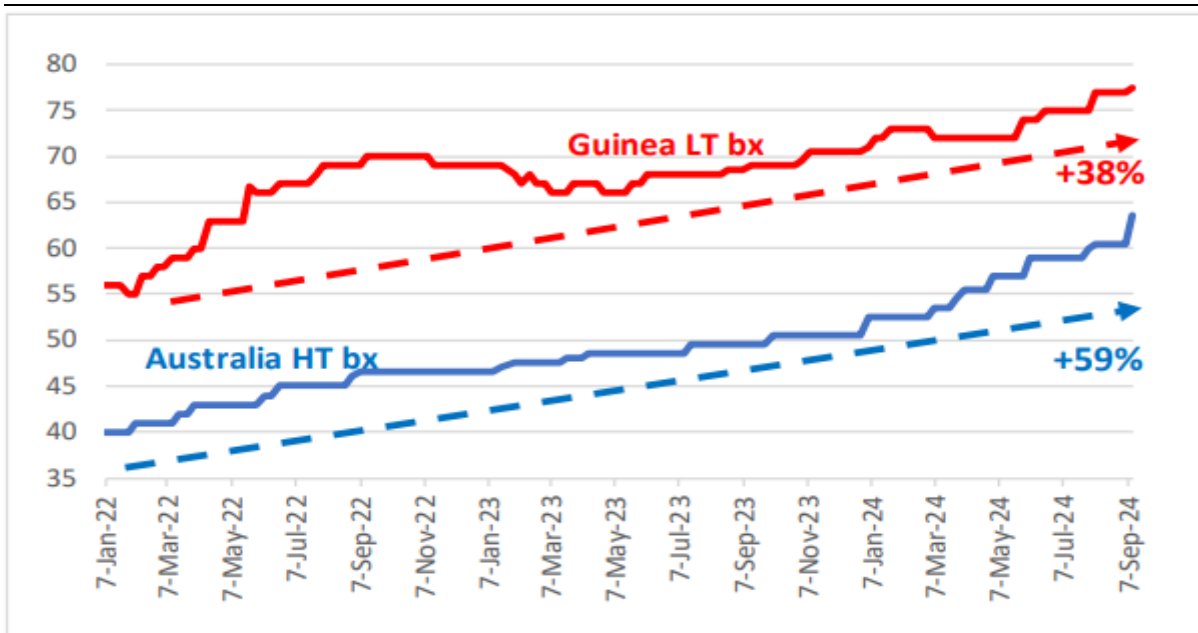
**Figure 5: Bauxite imports into China (Mt)**



Source: MMI presentation Sept 2024.

Bauxite is in short supply resulting in higher bauxite prices (Fig. 6) with spot Guinea (US\$77/DMT) and Australian bauxite (US\$63.5/DMT) rising 38% and 59% respectively since January 2022. A significant rise (27%) in the Australian bauxite price has occurred over the past nine months. Spot prices take ~1-2 quarters to flow into long term contract prices with Q424 negotiations set to commence in the next fortnight.

**Figure 6: Bauxite Prices continue to rise (US\$/DMT CIF China)**



Source: MMI presentation Sept 2024.



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