

Australian Equity Research
 3 September 2018

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BUY

unchanged

PRICE TARGET A\$1.00↓

from A\$1.10

Price (3-Sep) A\$0.52

Ticker MLX-ASX

52-Week Range (A\$):	0.50 - 1.23
Avg Daily Vol (M) :	2.9
Market Cap (A\$M):	358
Shares Out. (M) :	689.1
Dividend /Shr (A\$):	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	277
NAV /Shr (AUc):	1.00
Net Cash (A\$M):	81.4
P/NAV (x) (A\$):	0.52
Major Shareholders:	APAC Resources 9.2% BlackRock 7.1%

FYE Jun	2018A	2019E	2020E	2021E
Sales (A\$M)	209.9	355.7↓	422.2↑	434.5
<i>Previous</i>	-	361.3	411.1	-
EBITDA (A\$M)	12.0	77.9↓	130.5↑	141.9
<i>Previous</i>	-	78.3	120.7	-
Net Income (A\$M)	(23.6)	57.9↓	110.1↑	87.6
<i>Previous</i>	-	63.5	107.1	-
EV/EBITDA (x)	27.2	3.6	2.1	2.0



Source: FactSet

Priced as of close of business 3 September 2018

Metals X Limited (MLX:ASX) is a tin producer from its 50% owned Renison Mine in Tasmania and also ramping up production to ~40ktpa of copper at its Nifty Copper mine.

Lowering Target Price

FY18 results

FY18 results. On a normalised basis, MLX's key financial metrics were broadly in line with our forecasts. While the forecast production turnaround at Nifty didn't play out as expected in FY18 (produced 16.7kt of copper), we continue to see QoQ production increases over the duration of FY19 as the key driver that will re-engage investor sentiment. Key outcomes from FY18 below:

- Revenue A\$210m vs CG est. A\$214m
- EBITDA not reported (est. A\$12m from financials) vs CG est. A\$25.2m
- NLAT (A\$26.3m) vs CG est. (A\$12m), difference being a A\$10.4m expense on derivatives (hedging), impairments of ~A\$3m and slightly lower revenue.
- Operating cashflow A\$27.3m vs CG est. A\$26.6m.
- Investing cash flow (A\$38.9m) vs CG est. (A\$45m).
- Cash balance at the end of FY18 was A\$31.3m (slightly ahead of our previous estimate A\$26.4m), and down from A\$50m at the end of FY17. No dividend was declared (FY17 was A\$0.01/sh).

FY19 outlook. While MLX doesn't provide annual production guidance, the company is still aiming to ramp up to a ~40ktpa copper run rate at Nifty, and production at Renison should increase ~15% to +8ktpa (100% basis) with the ore sorter now tied into the processing circuit. In our view, consistent QoQ production increases at Nifty will be the key outcome watched by the market in FY19, and we forecast a ~90% YoY increase in FY19 to ~30.6kt at an AISC of A\$3.37/lb. While production will be 2H weighed in FY19, the SepQ'18 should be our first look at a meaningful step-change and we expect Nifty to produce 5.8kt at an AISC of A\$3.65/lb. Longer term, we model production heading towards the long stated 40ktpa target run rate in FY20 (CG est. 38kt at and AISC of A\$2.72/lb).

Balance sheet bolstered with A\$50m equity raising. Subsequent to the end of FY18, MLX completed a A\$50m placement at A\$0.65/sh, and as a result we forecast a cash position of \$81m at the close of the SepQ'18. While the quantum of the placement was larger than we envisaged as necessary, the proceeds provide enhanced financial flexibility as Nifty ramps up, exploration efforts can be accelerated, and the company's growth projects (Wingellina, Rentals and Maroochydore) can be advanced.

Valuation and recommendation. While FY18 was disappointing in terms of the turnaround story at Nifty, we remain positive on MLX given the forecast production, earnings and cashflow increases from FY19. With sentiment for copper exposure waning recently (price off ~15% in the last three months), the requirement to hit production expectations remains an important outcome for the company in our view. Our NAV-based price target of A\$1.00/sh (previously A\$1.10/sh) has reduced, on forecasting a more tempered ramp-up at Nifty through FY19, and incorporating dilution related to the equity raising in our sum-of-parts. Our valuation is underpinned by Renison and Nifty (NPV8%), net of corporate, balance sheet adjustments and nominal exploration value. We maintain a BUY recommendation.

FINANCIAL SUMMARY

Metals X Limited

ASX:MLX

Analyst : Tim McCormack
Date: 3/09/2018
Year End: June

Rating:
Target Price:

BUY
A\$1.00

Market Information

Share Price	A\$	0.52
Market Capitalisation	A\$m	358.3
12 Month Hi	A\$	1.23
12 Month Lo	A\$	0.50
Issued Capital	m	689.1
Options	m	13.0
Fully Diluted	m	702.1

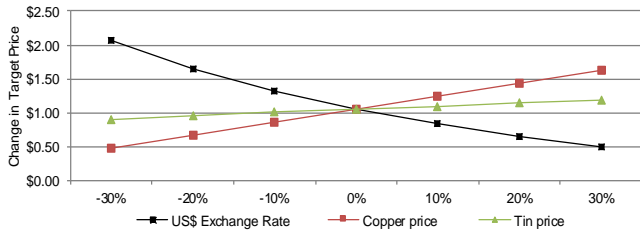
Valuation

	A\$m	A\$/share	
Renison (MLX 50% owner)	NPV @ 8%	203.0	0.29
Nifty	NPV @ 8%	344.4	0.50
Exploration/Development assets		80.0	0.12
Hedging (against CG price deck)		(1.1)	(0.00)
Cash		81.4	0.12
Debt		-	-
Investments		9.1	0.01
Less: Corporate & Oheads		(26.5)	(0.04)
TOTALS		690.3	1.00
Price/NAV			0.52x
NAV @ Spot (Copper, Tin, FX)			0.85
Target Price			1.00

Assumptions

	2018a	2019e	2020e	2021e
Tin Price (US\$/t)	20,793	20,716	20,750	21,000
Copper (US\$/lb)	2.90	3.00	3.00	3.13
AUD:USD	0.79	0.74	0.75	0.75

Sensitivity



Production Metrics

	2018a	2019e	2020e	2021e
Renison Tin (MLX 50%)				
Tin production (tonnes)	6,731	8,199	8,544	8,544
AISC (A\$/t)	18,346	17,850	17,528	17,613
Nifty Copper Mine (MLX 100%)				
Copper production (tonnes)	16,774	30,606	38,352	38,352
C1 cost (A\$/lb)	3.78	3.11	2.52	2.53
AISC (A\$/lb)	4.38	3.37	2.72	2.73

Reserves & Resources

		Mt	Sn%	Sn (kt)
Tin (Renison Bell only)				
Resources - MLX 50%	Renison (M+H)	16	1.30	216
Reserves - MLX 50%	Renison (P+P)	7	1.06	72
Nickel				
Resources	Total	217	0.95	2,067
Reserves	Total	167	0.98	1,645
Copper (Nifty only)				
Resources	Total	42	1.50	622
Reserves	Total	14	1.71	238

Board

Name	Position
Peter Newton	NE Chairman
Warran Hallam	MD
Damien Marantell	NED
Simon Heggen	NED
Yimin Zhang	NED
Milan Jerkovic	

Source: MLX & Canaccord Genuity estimates

Company Description

Metals X Ltd (MLX:ASX) is a tin and copper producer from its 50% owned Renison tin mine (Tasmania) and the Nifty copper mine (WA). The company demerged its gold business to form Westgold (WGX:ASX) in December 2016, and as such we only model continuing base metals operations from 2017.

Profit & Loss (A\$m)

	2018a	2019e	2020e	2021e
Revenue	209.9	355.7	422.2	434.5
Operating Costs	-192.1	-266.7	-280.4	-281.3
Corporate & Oheads	-5.9	-6.1	-6.1	-6.2
Exploration (Expensed)	0.1	-5.0	-5.1	-5.1
EBITDA	12.0	77.9	130.5	141.9
Dep'n	-25.4	-23.1	-27.3	-27.3
Net interest	1.2	3.1	6.9	10.5
Tax	0.0	0.0	0.0	-37.5
Abnormals (pre-tax)	0.0	0.0	0.0	0.0
NPAT (reported)	-12.2	57.9	110.1	87.6
Abnormals	-14.1	0.0	0.0	0.0
NPAT	-26.3	57.9	110.1	87.6
EBITDA Margin	6%	22%	31%	33%
EV/EBITDA	23.6x	3.6x	2.1x	2.0x
EPS	-\$0.02	\$0.08	\$0.16	\$0.13
EPS Growth	nm	-517%	90%	-20%
PER	-25.8x	6.2x	3.3x	4.1x
Dividend Per Share	\$0.00	\$0.01	\$0.02	\$0.03
Dividend Yield	0%	2%	4%	6%

Cash Flow (A\$m)

	2018a	2019e	2020e	2021e
Cash Receipts	229.2	355.7	422.2	434.5
Cash paid to suppliers & employee	-202.6	-272.8	-286.5	-287.5
Tax Paid	0.0	0.0	0.0	-37.5
Net Interest	0.2	3.1	6.9	10.5
+/- Working cap change	0.5	0.0	0.0	0.0
Operating Cash Flow	27.3	86.0	142.5	120.0
Exploration and Evaluation	-6.5	-10.0	-10.0	-10.0
Capex	-31.4	-20.0	-18.5	-18.6
Other	-1.0	0.0	0.0	0.0
Investing Cash Flow	-38.9	-30.0	-28.5	-28.6
Debt Drawdown (repayment)	0.0	0.0	0.0	0.0
Share capital	0.5	50.0	0.0	0.0
Dividends	-4.5	0.0	-6.9	-13.8
Financing Expenses	-3.3	-2.5	0.0	0.0
Financing Cash Flow	-7.3	47.5	-6.9	-13.8
Opening Cash	50.1	31.2	134.7	241.8
Increase / (Decrease) in cash	-18.9	103.5	107.1	77.7
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	31.2	134.7	241.8	319.5
Op. Cashflow/Share	\$0.05	\$0.12	\$0.21	\$0.17
P/CF	11.5x	4.2x	2.5x	3.0x
EV/FCF	nm	4.9x	2.4x	3.0x
FCF Yield	-3%	16%	32%	26%

Balance Sheet (A\$m)

	2018a	2019e	2020e	2021e
Cash + S/Term Deposits	31.2	134.7	241.8	319.5
Other current assets	80.7	57.4	68.6	71.2
Current Assets	111.9	192.1	310.4	390.7
Property, Plant & Equip.	48.6	48.9	49.8	50.6
Exploration & Develop.	11.2	16.2	21.2	26.2
Other Non-current Assets	89.5	132.6	178.4	224.3
Payables	31.7	35.9	42.9	44.5
Short Term Debt	4.8	0.0	0.0	0.0
Long Term Debt	5.5	0.0	0.0	0.0
Other Liabilities	48.8	82.5	149.2	212.6
Net Assets	170.5	271.4	367.8	434.7
Shareholders Funds	254.6	304.6	304.6	304.6
Reserves	31.1	31.1	31.1	31.1
Retained Earnings	-115.2	-64.3	32.1	99.0
Total Equity	170.5	271.4	367.8	434.7
Debt/Equity	3%	0%	0%	0%
Net Debt/EBITDA	-0.8x	-1.6x	-1.7x	-2.7x
Net Interest Cover	nm	nm	nm	nm
ROE	-15%	21%	30%	20%
ROIC	-12%	20%	29%	18%
Book Value/share	\$0.28	\$0.39	\$0.53	\$0.63

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Investment Recommendation

Date and time of first dissemination: September 03, 2018, 16:30 ET

Date and time of production: September 03, 2018, 07:59 ET

Target Price / Valuation Methodology:

Metals X Limited - MLX

Our valuation is underpinned by Renison and Nifty (NPV8%), net of corporate, balance sheet adjustments and nominal exploration value.

Risks to achieving Target Price / Valuation:

Metals X Limited - MLX

The key investment risks for MLX include: Operating Risks - The Company is subject to risk of such as plant breakdowns, rock falls, seismic activity and other technical issues. Increased extraction costs can severely impact the operating activities of the company and its share price. Adverse weather conditions restricting the company from operating activities could also result in encountering unexpected and costly delays. Exploration risks - Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks are associated in operating in remote areas that lack necessary infrastructure to support a mine life. Uncertainties associated with mining techniques and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. Commodity price fluctuations - The Company as a producer is exposed to commodity price fluctuations. Commodity price fluctuations are driven by many macro-economic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business upon changes in the pricing. Licenses, permits and environment risk - Metals X is subject to licensing and permit approvals which may require renewing of lease on certain tenements. This can result in the risk of lease renewal not being met within a timeframe convenient to the company or alternatively being seen as not meeting satisfactory environmental standards. Such a risk could result in considerable financial resources being drawn upon.

Distribution of Ratings:

Global Stock Ratings (as of 09/03/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	556	62.54%	44.60%
Hold	219	24.63%	28.77%
Sell	11	1.24%	27.27%
Speculative Buy	103	11.59%	66.02%
	889*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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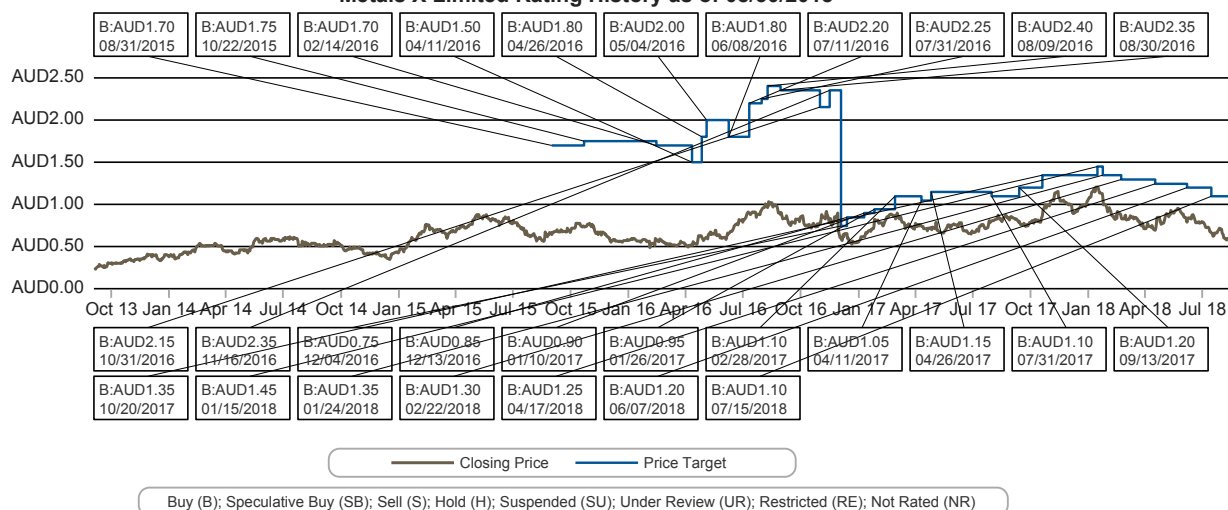
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Metals X Limited Rating History as of 08/30/2018



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