

## Australian Equity Research

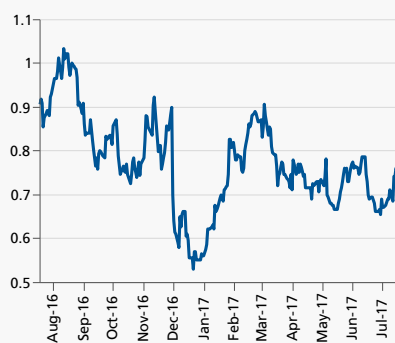
18 July 2017

## BUY

<b>PRICE TARGET</b>	A\$1.15
Price (18-Jul)	A\$0.74
Ticker	MLX-ASX

52-Week Range (A\$):	0.52 - 0.91
Avg Daily Vol (M) :	1.7
Market Cap (A\$M):	451
Shares Out. (M) :	606.0
Dividend /Shr (AUc):	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	388
NAV /Shr (AUc):	1.15
Net Cash (A\$M):	63.0
P/NAV (x) :	0.65
Major Shareholders:	BlackRock 11.7%
	APAC Resources 9.2%

FYE Jun	2016A	2017E	2018E	2019E
Sales (A\$M)	355.4	258.0	340.1	404.8
EBITDA (A\$M)	36.7	67.7	90.3	135.0
Net Income (A\$M)	(23.6)	1.2	52.2	81.8
EV/EBITDA (x)	11.9	5.7	3.8	2.0



Source: FactSet

Priced as of close of business 18 July 2017

Metals X Limited (MLX:ASX) is a tin producer from its 50% owned Renison Mine in Tasmania and also produces ~35ktpa of copper from its recently acquired Nifty Copper mine.

**Canaccord Genuity (Australia) Limited has received a fee as the Lead Manager to the Metals X Limited capital raising announced on 4 August 2016.**

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## Company Update

## JunQ'17 report

While copper production from Nifty was slightly below our expectations, the forecast step-change in production profiles for both Nifty and Renison in 2H FY18 remain on track. The commensurate improvement in cash flow should become evident through late FY18 and into FY19, placing the company on attractive valuation metrics (EV/EBITDA 3.8x and 2x for FY18/19E, respectively) and with the stock trading on a P/NAV of 0.65x, we maintain a BUY recommendation.

**Lower production at Nifty, but its all about the ramp-up.** Copper production (in concentrate) at Nifty was 5.9kt at an AISC of A\$3.50/lb (CG est. 6.8kt at an AISC A \$2.94/lb). While the result was below our estimates, we highlight that the focus at the mine is currently on opening up additional underground stoping areas and utilising the existing ~40% spare capacity in the processing plant. Development rates have increased to +500m per month (~66% increase), which will underpin the company's expansion plans to hit a 40ktpa run rate in 2H FY18. Encouragingly, production still stepped up 17% QoQ, and we expect to see incremental increases each quarter for the next 12 months. With a largely fixed cost base, the increased production should translate to a marked improvement in the AISC profile going forward, which we expect to settle at ~A\$2.60/lb (US\$2.00/lb) once at the 40ktpa run rate.

**Exploration demonstrates plenty of upside at Nifty.** Subsequent to the end of the JunQ'17, MLX released an impressive set of drill results from its exploration program at Nifty. The company has completed 20,000m of diamond drilling to date, with the initial results demonstrating extensions to the current mineral reserve up-plunge, down-plunge and within the limbs of the folded carbonate units of the Nifty syncline. We see good potential for the next reserve update (expected late September 2017) to push total inventory towards 15-20Mt (currently 9.8Mt at 1.6% for 153kt copper), which should comfortably support a 6-8 year mine life (CG currently models 6 years). Near-term exploration catalysts include ongoing drilling at Nifty underground, extensional drilling at Nifty from surface and regional testing the Finch and Maroochydore prospects.

**Another consistent quarter at Renison.** Tin production (in concentrate) at Renison was 1.7kt at an AISC of A\$19,371/t (CG est. 1.7kt at an AISC of A\$19,100/t). Production outcomes were in line, as werereported EBITDA of A\$8.8m and net cashflow of A\$4.3m for its 50% share in the project. Construction of the ore sorting circuit is underway, which should see a 15-20% increase to annual tin production from practical completion (est. April 2018). We expect project capital (sits outside AISC) to remain elevated through the coming quarters, as MLX completes additional mine development, a tailings dam expansion and integrates the ore sorting circuit.

**Balance sheet in good shape.** MLX reported a JunQ'17 cash and working capital position of A\$110.9m (A\$113m MarQ'17), and we expect underlying cash to be A\$63m. The company remains comfortably funded for its immediate growth initiatives in our view.

**Valuation.** Our price target for MLX of A\$1.15/sh is underpinned by Renison and Nifty (NPV8%), net of corporate, balance sheet adjustments and nominal exploration value.

## FINANCIAL SUMMARY

**Metals X Limited ASX:MLX**  
Analyst: Tim McCormack  
Date: 18/07/2017  
Year End: June

Rating: **BUY**  
Target Price: **\$1.15**

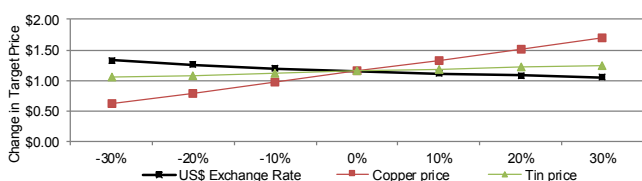
### Market Information

Share Price	A\$	0.75
Market Capitalisation	A\$m	451.4
12 Month Hi-Lo	A\$	1.93-0.62
Issued Capital	m	605.95
Options	m	1.64
Fully Diluted	m	607.59

Valuation		A\$m	Risk Adj.	A\$/share
Renison (MLX 50% owner)	NPV @ 8%	192.0		0.32
Nifty	NPV @ 8%	357.1		0.59
Development assets (Wingellina, Rentals)		85.0		0.14
Hedging		-		-
Cash (est. as at end MarQ'16)		63.0		0.10
Debt		-		-
Investments		10.9		0.02
Less: Corporate & O'heads		(12.6)		(0.02)
TOTAL NAV		695.5		1.15
Price:NAV				0.65
NAV at spot (copper, tin, FX)				1.12
Target Price (rounded)				1.15

Assumptions	2016a**	2017e	2018e	2019e
Tin Price (US\$/t)	15,730	20,372	20,978	20,716
Gold Price (US\$/oz)	1,197	1,254	1,259	1,284
Copper Price (US\$/lb)	2.24	2.39	2.61	2.70
AUD:USD	0.73	0.75	0.76	0.75

### Valuation Sensitivity



Production Metrics	2016a**	2017e	2018e	2019e
<b>Renison Tin (MLX 50%)</b>				
Tin production (tonnes)	6,365	6,972	7,449	8,412
AISC (A\$/t)	20,319	18,776	18,552	17,315
<b>Nifty Copper Mine (MLX 100%)</b>				
Copper production (tonnes)	0	23,429	34,475	40,326
C1 cost (A\$/lb)	0	2.45	2.76	2.53
AISC (A\$/lb)	0	3.31	2.92	2.63

### Reserves & Resources

Tin		Mt	Sn %	Sn (kt)
Resources - MLX 50%	Renison (M+H)	13	1.46	188
Reserves - MLX 50%	Renison (P+P)	7	1.29	86
<b>Nickel</b>		<b>Mt</b>	<b>Ni%</b>	<b>Ni (kt)</b>
Resources	Total	217	0.95	2,067
Reserves	Total	167	0.98	1,645
<b>Copper (Nifty only)</b>		<b>Mt</b>	<b>Cu%</b>	<b>Cu (kt)</b>
Resources	Total	55	1.4	770
Reserves	Total	10	1.60	153

### Directors & Management

Name	Position
Peter Newton	NE Chairman
Warran Hallam	Managing Director
Peter Cook	NE Director
Simon Heggen	NE Director
Yimin Zhang	NE Director
Stephen Robinson	NE Director

### Substantial Shareholders

	Shares (m)	%
BlackRock	71.5	11.7%
APAC	55.9	9.2%
Jinchuan	44.0	7.3%

### 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)	2016a**	2017e	2018e	2019e
Revenue	355.4	258.0	340.1	404.8
Operating Costs	-275.8	-172.9	-237.6	-257.6
Corporate & O'heads	-16.0	-12.3	-8.1	-8.2
Exploration (Expensed/Write)	-26.8	-5.0	-4.1	-4.1
<b>EBITDA</b>	<b>36.7</b>	<b>67.7</b>	<b>90.3</b>	<b>135.0</b>
Dep'n	-65.7	-22.9	-15.7	-18.1
<b>EBIT</b>	<b>-29.0</b>	<b>44.8</b>	<b>74.6</b>	<b>116.9</b>
Interest expense	1.1	0.0	0.0	0.0
Tax	4.3	-43.6	-22.4	-35.1
<b>NPAT (continuing ops)</b>	<b>-23.6</b>	<b>1.2</b>	<b>52.2</b>	<b>81.8</b>
Abnormals (incl. asset disp)	0.0	164.0	0.0	0.0
<b>NPAT (reported)</b>	<b>-23.6</b>	<b>165.2</b>	<b>52.2</b>	<b>81.8</b>

Cash Flow (A\$m)	2016a**	2017e	2018e	2019e
Cash Receipts	333.8	254.9	337.2	399.8
Cash paid to suppliers & em	-274.7	-185.3	-245.7	-265.8
Tax Paid	0.0	-9.4	-22.4	-35.1
Net Interest	1.1	3.1	2.9	5.0
Other (WC etc)	1.9	10.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>62.0</b>	<b>63.3</b>	<b>72.0</b>	<b>104.0</b>
Exploration and Evaluation	-15.7	-10.0	-8.0	-8.0
Capex	-102.2	-39.2	-22.3	-10.6
Other	-14.4	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-132.2</b>	<b>-49.2</b>	<b>-30.3</b>	<b>-18.6</b>
Debt (repayment)/ gold prep	23.3	0.0	0.0	0.0
Share capital	0.0	0.0	0.0	0.0
Dividends	-10.1	0.0	0.0	-13.4
Financing Expenses	-3.1	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>10.1</b>	<b>0.0</b>	<b>0.0</b>	<b>-13.4</b>
Opening Cash	99.0	39.0	63.0	104.8
Increase / (Decrease) in cas	-60.0	14.1	41.7	72.0
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>39.0</b>	<b>53.0</b>	<b>104.8</b>	<b>176.8</b>

Balance Sheet (A\$m)	2016a**	2017e	2018e	2019e
Cash + S/Term Deposits	39.2	63.0	104.8	176.8
Other current assets	74.3	45.0	57.3	64.8
<b>Current Assets</b>	<b>113.5</b>	<b>108.1</b>	<b>162.1</b>	<b>241.5</b>
Property, Plant & Equip.	79.3	77.7	77.1	77.8
Exploration & Develop.	165.1	170.1	174.1	178.1
Other Non-current Assets	241.1	259.7	271.1	279.7
Payables	68.3	25.8	34.0	40.5
Short Term debt (inc. gold lo)	5.2	25.0	0.0	0.0
Long Term Debt (inc. gold lo)	10.2	0.0	0.0	0.0
Other Liabilities	120.3	242.5	289.2	317.6
<b>Net Assets</b>	<b>394.9</b>	<b>322.3</b>	<b>361.1</b>	<b>419.1</b>
Shareholders Funds	407.0	407.0	407.0	407.0
Reserves	33.5	33.5	33.5	33.5
Retained Earnings	-45.7	-118.3	-79.5	-21.5
<b>Total Equity</b>	<b>394.9</b>	<b>322.3</b>	<b>361.1</b>	<b>419.1</b>

Ratios & Multiples	2016a**	2017e	2018e	2019e
EBITDA Margin	10%	26%	27%	33%
EV/EBITDA	10.4x	5.7x	3.8x	2.0x
Op. Cashflow/Share	\$0.12	\$0.10	\$0.12	\$0.17
P/CF	6.4x	7.1x	6.3x	4.3x
EPS	-\$0.04	-\$0.12	\$0.09	\$0.14
EPS Growth	nm	nm	-172%	57%
PER	-17.4x	-6.2x	8.6x	5.5x
Dividend Per Share	\$0.00	\$0.00	\$0.02	\$0.04
Dividend Yield	0%	0%	3%	5%
ROE	-6%	51%	14%	20%
ROIC	-8%	0%	13%	17%
Debt/Equity	3%	0%	0%	0%
Net Interest Cover	-26.5x	nm	nm	nm
Book Value/share	\$0.75	\$0.53	\$0.60	\$0.69
Price/Book Value	1.0x	1.4x	1.3x	1.1x

\*\*Following the de-merger of the gold business, only the Balance sheet for FY16 has been provided on a pro-form basis. All P&L, cashflow, ratios and multiples are quoted unchanged on a consolidated basis from the FY16 report.

Source: MLX & Canaccord Genuity estimates

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### Investment Recommendation

Date and time of first dissemination: July 18, 2017, 03:58 ET

Date and time of production: July 18, 2017, 03:59 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 07/18/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	578	60.46%	40.14%
Hold	276	28.87%	21.74%
Sell	25	2.62%	12.00%
Speculative Buy	77	8.05%	71.43%
	956*	100.0%	

\*Total includes stocks that are Under Review

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**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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

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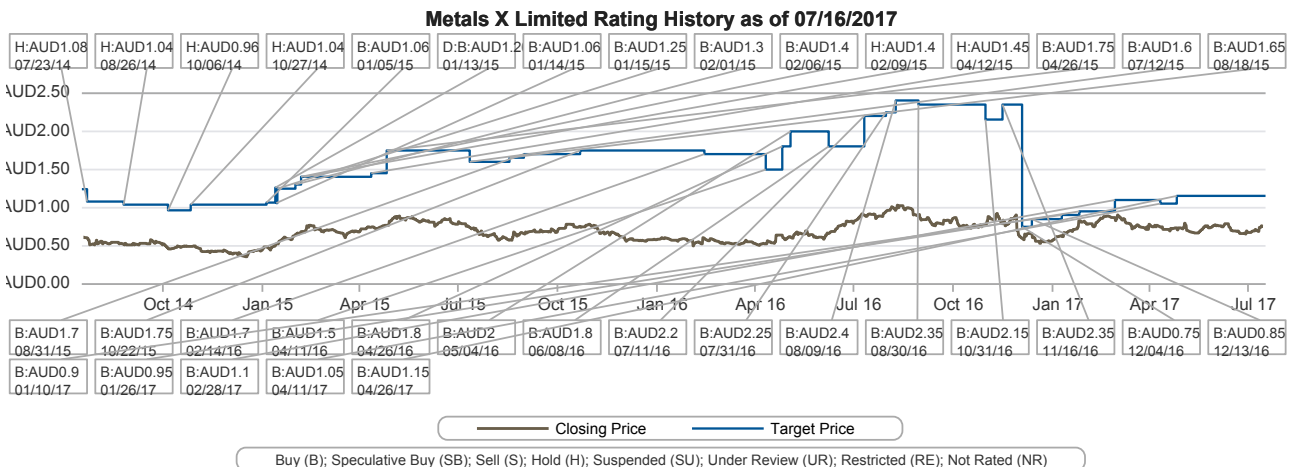
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