

Analyst

Peter Arden 613 9235 1833

Authorisation

David Coates 612 8224 2887

Metals X Limited (MLX)

Solid start to FY17 ahead of gold demerger

Gold production up 20%, tin performance greatly improved

MLX has made a good start to FY17 with equity gold production in 1QFY17 up by 20% to 62.5koz at an all in sustaining cost (AISC) of A\$1,219/oz, down 2% on the previous quarter as ore production from the new CMGP operations rose strongly (although the processed grade was only flat) and performance at HGO was significantly improved with much lower C1 cash costs and AISC as that unit begins mining open pit ore from the shallow Mt Henry deposit, which will become the mainstay of production. Equity production at SKO benefited from another processing campaign of the Cannon profit share mine although C1 cash costs and AISC were much higher than in the previous quarter. Renison's performance was dramatically better – tin production up 49% and costs down 25%. Net cash and bullion at 30 September 2016 were boosted by the recent capital raisings to an estimated \$123m with the \$25m short term loan used for the cash component of the ABY acquisition due to be repaid at the end of the month.

Nifty restructure underway ahead of proposed gold demerger

After formally taking control of the assets of copper producer, ABY, on 1 August, MLX moved quickly to begin restructuring the neglected Nifty copper operation with the implementation of plans for resumption of development and exploration while copper production continued at a reduced rate, although improving by the end of the quarter. Significant one-off corporate costs were incurred in this process.

Investment thesis – Buy, TP \$2.10/sh (unchanged)

MLX has made a good start to FY17 that it should be able to maintain and build on. Gold earnings are expected to continue to rise strongly as the soon-to-be-demerged operations reach target production levels over the next year or so. The company is progressing with the planned demerger of its gold business while progressing with the development of its fourth gold operation at Fortnum, which is expected to begin commissioning towards the end of 2016. Our earnings forecasts and valuations have been updated for the quarterly data, which has resulted in some earnings reductions but our 12-month forward NPV-based target price of \$2.10/share is maintained. We believe the company is well positioned for the proposed demerger of its gold assets from the strengthening base metals business and accordingly we retain our Buy rating.

Recommendation
Buy (unchanged)
Price
\$1.38
Target (12 months)
\$2.10 (unchanged)

Expected Return

Capital growth	52%
Dividend yield	2%
Total expected return	54%

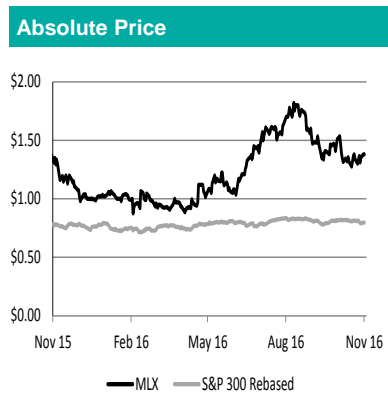
Company Data & Ratios

Enterprise value	\$713m
Market cap	\$836m
Issued capital	606.0m
Free float	65%
Avg. daily val. (52wk)	\$3.0m
12 month price range	\$0.855 - \$1.93
GICS sector	Materials

Disclosure: Bell Potter Securities acted as Co-Manager for the \$100.6m August 2016 placement and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.41	1.55	1.36
Absolute (%)	-2.1	-11.0	1.8
Rel market (%)	-0.4	-7.0	1.9



SOURCE: IRESS

Earnings Forecast

Year end June	2016a	2017e	2018e	2019e
Sales (A\$m)	354	692	1,002	1,031
EBITDA (A\$m)	36	153	333	353
NPAT (reported) (A\$m)	(24)	59	186	170
NPAT (adjusted) (A\$m)	(23)	59	186	170
EPS (adjusted) (eps)	(5)	10	30	28
EPS growth (%)	na	na	199%	-8%
PER (x)	na	14.2	4.5	4.9
FCF Yield (%)	na	0%	24%	21%
EV/EBITDA (x)	19.7	4.7	2.1	2.0
Dividend (eps)	-	3	6	6
Yield (%)	0.0%	2.2%	4.3%	4.3%
Franking (%)	0%	0%	-6%	100%
ROE (%)	-6%	9%	23%	18%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Gold production continues to rise

Table 1 – September 2016 production summary

		Sep-15 Actual	Dec-15 Actual	Mar-16 Actual	Jun-16 Actual	Sep-16 Actual	Sep-16 Estimate	Variance % qoq	Variance % BP est.
Higginsville Gold Operation (HGO)									
Ore milled	kt	339	251	233	292	301	251	3%	20%
Gold grade	g/t	2.63	2.93	2.64	2.94	2.96	3.38	1%	-12%
Recovery	%	88%	93%	95%	92%	95%	94%	3%	1%
Gold produced	koz	25.3	21.8	18.8	25.5	27.1	25.2	6%	8%
C1 cash costs	A\$/oz	990	1,184	1,165	1,022	859	1,096	-16%	-22%
All in sustaining costs	A\$/oz	1,099	1,304	1,363	1,218	1,100	1,416	-10%	-22%
South Kalgoorlie Operation (SKO)									
Ore milled (exc 3rd party ore)	kt	270	264	238	199	202	225	2%	-10%
Gold grade	g/t	1.37	2.27	1.87	1.83	2.54	2.32	39%	9%
Recovery	%	90%	57%	91%	92%	92%	91%	0%	1%
Gold produced	koz	10.8	10.9	13.0	10.8	12.4	15.3	15%	-19%
C1 cash costs	A\$/oz	1,374	862	1,020	947	1,280	1,088	35%	18%
All in sustaining costs	A\$/oz	1,425	1,048	1,145	1,071	1,472	1,288	37%	14%
Central Murchison Gold Project (CMGP)									
Ore milled (exc 3rd party ore)	kt		287	371	266	391	350	47%	12%
Gold grade	g/t		1.06	1.12	2.00	2.03	2.35	1%	-14%
Recovery	%		91%	92%	93%	90%	93%	-3%	-3%
Gold produced	koz		8.9	12.3	16.0	23.0	24.7	44%	-7%
C1 cash costs	A\$/oz		1,060	1,506	1,135	1,136	1,375	0%	-17%
All in sustaining costs	A\$/oz		1,166	1,684	1,380	1,222	1,503	-11%	-19%
Gold Division Totals									
Ore Milled	kt	609	802	842	758	894	826	18%	8%
Gold Grade	g/t	2.07	2.04	1.75	2.32	2.46	2.65	6%	-7%
Gold produced	koz	36.0	41.7	44.1	52.2	62.5	65.2	20%	-4%
Gold sold	koz	36.1	57.9	57.2	57.9	57.2	64.2	-1%	-11%
Average realised gold price received	A\$/oz	1,518	1,674	1,699	1,674	1,699	1,701	1%	0%
C1 cash costs	A\$/oz	1,105	1,073	1,217	1,041	1,044	1,200	0%	-13%
All in sustaining costs	A\$/oz	1,196	1,208	1,388	1,237	1,219	1,419	-2%	-14%
Operating surplus (EBITDA)	A\$m	11.6	17.2	14.2	36.2	21.0	34.4	-42%	-39%
Capital expenditure	A\$m	(16.9)	(9.5)	(9.2)	(8.8)	(24.5)	(24.5)	178%	0%
Renison									
Ore milled	kt	172	176	174	165	189	160	15%	18%
Tin grade	%	1.3%	1.4%	1.3%	1.1%	1.3%	1.5%	22%	-15%
Tin production (in conc)	Kt	1,645	1,889	1,676	1,152	1,718	1,712	49%	0%
Average realised tin price	A\$/lb	9.50	9.45	9.60	10.09	11.22	9.44	11%	19%
C1 cash costs	A\$/lb	7.76	7.29	6.56	7.94	5.00	5.54	-37%	-10%
All in sustaining costs	A\$/lb	na	na	8.76	10.43	7.87	7.29	-25%	8%
Operating surplus (EBITDA)	A\$m	3.2	4.5	1.8	(0.5)	5.1	4.5	na	14%
Capital expenditure	A\$m	(2.0)	(2.1)	(2.8)	(2.8)	(2.9)	(2.9)	2%	-1%
Balance Sheet									
Cash and bullion	A\$m	87.2	52.4	48.2	40.2	163.4	160.0	307%	2%
Debt	A\$m	(4.9)	(4.3)	(4.3)	(15.4)	(40.4)	(32.7)	162%	24%
Net cash and bullion/(debt)	A\$m	82.3	48.1	43.9	24.8	123.0	127.3	397%	-3%

SOURCE: METALS X LTD; BELL POTTER SECURITIES ESTIMATES

The main features of the 1QFY17 production performance were:

- MLX has made a good start to FY17 with equity gold production in 1QFY17 up by 20% to 62.5koz (group gold production was up 25% to 65.3koz) at an AISC of A\$1,219/oz, down 2% on the previous quarter. Ore production from the new Central Murchison Gold Project (CMGP) rose strongly and so although the processed grade was only flat at 2.03g/t despite the average grade of underground ore rising 20% to 3.5g/t, gold production was up 44% to 23koz. Performance at Higginsville Gold Operation (HGO)

was significantly improved with gold production of 27.1koz and much lower C1 cash costs and AISC as that unit began mining open pit ore from the shallow Mt Henry deposit, which will become the mainstay of production as the higher cost and more variable underground Trident mine is phased out. Equity production at the South Kalgoorlie Operation (SKO) of 12.4koz benefited from another processing campaign from the Cannon profit share mine, although C1 cash costs and AISC were much higher than in the previous quarter. The average realised gold price was 1% higher at A\$1,699/oz, which was about 3% less than the average spot price of A\$1,755/oz as the company continued to deliver into lower priced hedges. Estimated EBITDA for the gold division of \$21m was adversely impacted by the significant retention of gold (equity gold sold was down 1% on the previous quarter at over 5koz less than production). The Fortnum Gold Project is being readied for dry commissioning by end of 2016;

- Renison's operating and financial performances were dramatically better in the latest quarter. Tin production of 1,718t was up 49% on the previous quarter from a combination of 15% higher ore throughput and 22% higher head grade and operating costs (AISC) were down 25% to A\$7.87/lb, well below the average realised tin price of A\$10.09/lb. Estimated EBITDA was \$5.1m, a big turnaround on the previous quarter;
- Copper production at the Nifty operation was well below the rate achieved in the previous quarters under the former management. After formally taking control of the assets of copper producer, Aditya Birla Minerals Ltd (ABY), on 1 August, MLX moved quickly to begin restructuring the neglected Nifty copper operation with the implementation of plans for resumption of development and exploration while copper production continued at a reduced rate although improving by the end of the quarter. Copper production in the two months under MLX control was 4.5kt from processing ore with a head grade of 1.7% copper compared to 2.1% for the rolling 12 months. Significant one-off corporate costs were incurred in the restructuring process. An estimated small EBITDA loss (of about \$2.2m) was made in the ownership period as the average realised copper price of A\$6,236/t was less than AISC of A\$6,348/t;
- The Wingellina Nickel Project has achieved an important milestone, gaining EPA environmental approval on 1 September after several years and numerous studies;
- Exploration was at a high level across the company's operations with numerous positive results such as at CMGP from resumed underground drilling at Paddys Flat, surface drilling for the next series of open pits at Reedys (Turn of Tide Prospect), and new pit drilling at Yaloginda, North Meekatharra and Nanine; at HGO in the Atreides and Mitchell palaeochannels while on Lake Cowan progress has been frustrated by access to a suitable lake capable drilling rig but where encouragement was seen at Sinclair Soak ahead of the company's exciting Igloo anomaly to be tested in coming quarter; at SKO where preparation for new open pits saw encouraging results at Bakers Flat, Nobles 6 and Gunga West and drilling along the Zuleika shear is continuing. At Renison bonanza results were achieved in Area 4 (8.4m at 5.97% tin and 2.3m at 27.54% tin) and in the CFB zone (2.5m at 7.87% tin). At Nifty the on-site geological team has been bolstered and targets are being defined from the review underway;
- The company continued to deliver its gold production into its gold hedge program. At September 30 2016, the hedge position was 151koz at an average covered price of A\$1,648 per ounce. MLX's gold hedge position is a combination of mostly flat forwards with a small amount of pre-pays with a current marked to market value estimated to be negative \$4m at the current Australian dollar gold price of around A\$1,677/oz; and
- Net cash and bullion at 30 September 2016 were boosted by the recent capital raisings to an estimated \$123m with the \$25m short term loan used for the cash component of the ABY acquisition due to be repaid at the end of the month. Total cash, net working capital and investments amounted to \$212.6m at the end of the quarter.

Demerging of the gold division

Proposed demerger of Westgold Resources as a dividend

MLX recently released documentation explaining the proposed demerger of its Gold Business Unit (with operations in locations shown in Figure 1 and corporate structure in Figure 3 over page) by way of an in-specie distribution (dividend) of shares in Westgold Resources Limited (Westgold). The demerger is subject to shareholder approval that will be voted on at an Extraordinary General Meeting on 24 November 2016 and other usual regulatory approvals. If approved, the demerger of Westgold will be on the basis of one (1) Westgold share for every two (2) MLX shares held at the Record Date. It is proposed that the Westgold shares will be listed on the ASX around 2 December 2016 following the shareholder approval and it is anticipated that Westgold will become an ASX300 company. The other non-gold or base metal assets (in locations shown in Figure 2 and corporate structure showing in Figure 4 over page) of MLX will remain in MLX and the shares of MLX will remain listed on the ASX. We expect that MLX will be an attractive base metals company with a mix of producing, development and feasibility assets.

Figure 1 - Map showing location of Westgold assets

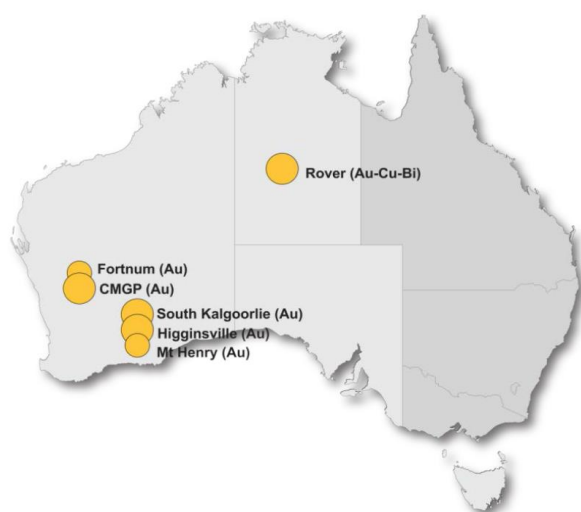
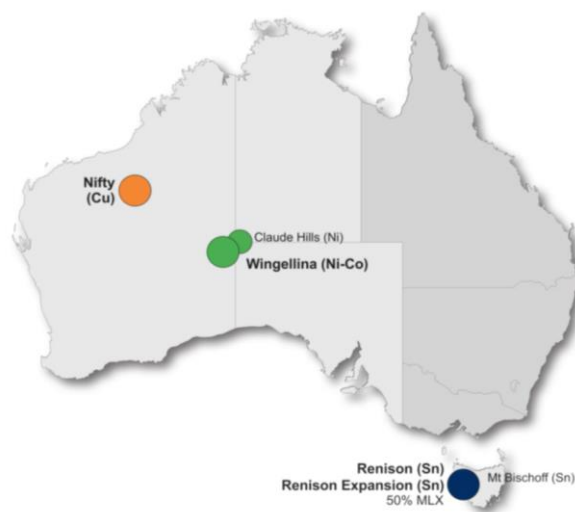


Figure 2 – Map showing location of Metals X assets post demerger



SOURCE: METALS X LTD

Westgold to start as a top 10 gold producer on the ASX with upside

Based on the annualised gold production rate of MLX in the latest quarter (250koz), Westgold is forecast to commence its listed corporate life after its demerger from MLX as a top 10 ASX-listed gold producer with significant production upside to come from expansion as the flagship CMGP operation ramps up to target levels and the fourth operation (Fortnum) also reaches its targeted output rate. Rover is forecast to add additional gold production, after its likely commencement towards the end of FY19, so Westgold's total annual gold production is forecast to reach well over 450koz in FY20 (Table 2).

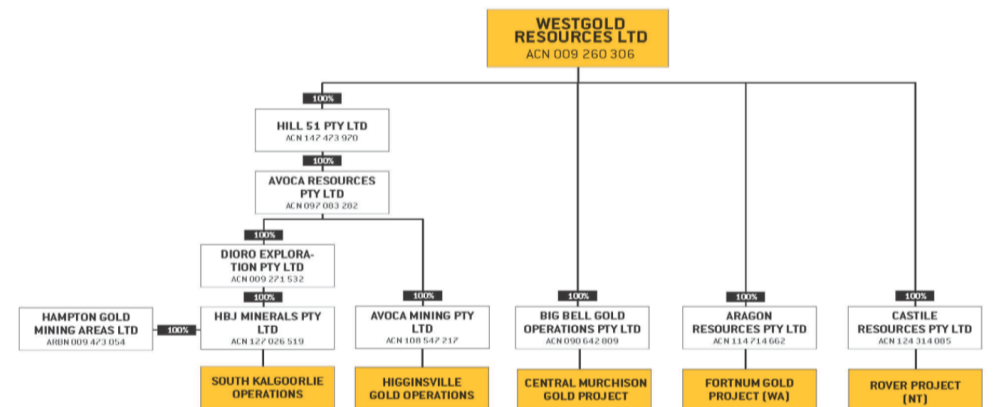
Table 2 - Forecasts for Westgold gold production

Operation	Mine Type	Resource Base		Forecast Production (koz)			
		Mozs	G/t Au	FY17e	FY18e	FY19e	FY20e
Higginsville Gold Operation (HGO)	U/G + O/P	2.2	2.04	101	98	98	100
South Kalgoorlie Operations (SKO)	O/P + U/G	3.7	2.27	72	83	85	87
Central Murchison Gold Project (CMGP)	U/G and O/P	7.7	2.21	114	177	196	216
Fortnum Gold Project (FGP)	Stocks, O/P, U/G	1.8	1.84	13	46	54	58
Rover Gold Project (RGP)	U/G	0.4	1.73			6	15
Totals		15.7	2.15	299	404	438	476

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: ROVER PRODUCTION IS GOLD ONLY (BY PRODUCTS NOT INCLUDED); U/G = UNDERGROUND, O/P = OPEN PIT

Figure 3 – Corporate structure of Westgold Resources

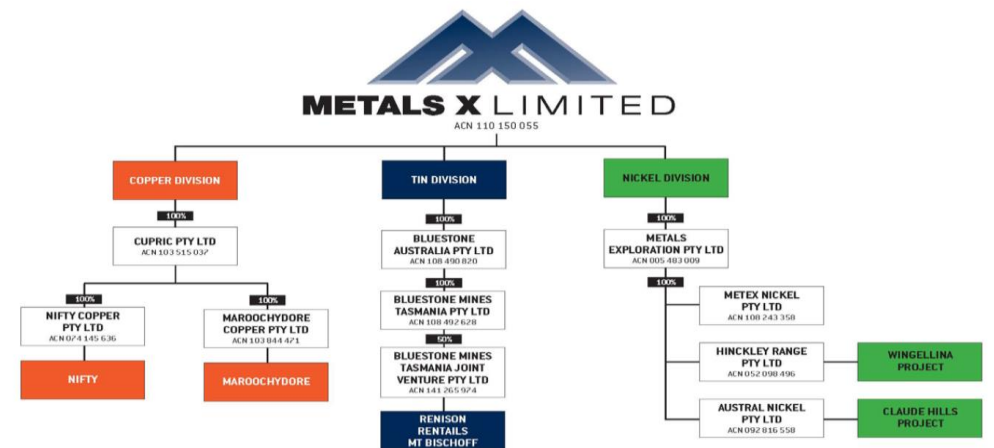


SOURCE: METALS X LTD

MLX post demerger to resume as a profitable base metal producer on the ASX

Based on its Renison and Nifty operations, MLX is forecast to commence its post demerger corporate life as a profitable and well diversified base metals producer with significant potential upside from three development projects – the Rentails tin tailing project; the Maroochydore open pit copper project; and the Wingellina nickel limonite project (Figure 4). The post demerger company will be well funded, so with an expected lift in base metals prices over the next years, its profitability is expected to rise strongly.

Figure 4 – Corporate structure of MLX post demerger



SOURCE: METALS X LTD

Westgold and MLX cost bases to be set by initial trading

MLX shareholders will need to seek their own advice on the taxation implications of the demerger but in general, shareholders will need to apportion the capital gains tax cost base of their original MLX shares and new Westgold shares in accordance with the market values of the MLX shares and Westgold shares (or a reasonable approximation of these market values) just after the demerger. In accordance with usual procedures in demergers, the volume-weighted average prices of MLX and Westgold shares in the first five days of trading on the ASX are likely to be used in determining cost bases.

ATO class ruling being sought in relation to taxation outcomes

MLX is seeking an Australian Tax Office (ATO) class ruling on behalf of its shareholders in relation to taxation outcomes. This has included seeking confirmation from the ATO as to what component of the distribution of Westgold shares to shareholders is to be treated as a demerger dividend, and is therefore not assessable income, and what component will be treated as a capital reduction, which will not constitute a taxable dividend to shareholders.

Earnings and valuation changes

Minor changes to earnings, valuations little changed

We have updated our commodity price forecasts to include actual prices for 1QFY17 and we have revised our earnings forecasts to incorporate the impact of the most recent quarterly operating cost performance, resulting in earnings downgrades of 30% for FY17, 6% for FY18, and 2% for FY19 (Table 3).

We have retained our target price, which is based on our 12-month forward NPV valuation, at \$2.10 per share reflecting some slight increases in overall gold production costs and some reductions in tin production costs following the move to owner-operator at Renison.

Our earnings and valuations have been adjusted to incorporate the first information on the Nifty Copper Mine, following MLX's assumption of ownership on 1 August 2016. We have assumed a basic operation that involves a gradual improvement in production to around the recent levels that were achieved when ABY was mining significantly higher ore grades but we continue to expect that once MLX has had a chance to fully assess the mine and the nearby Maroochydore Copper Project and surrounding exploration potential, it will implement improved operating procedures that will significantly lift the Nifty mine's performance. We also expect that a new and likely more substantial and potentially integrated development plan for the copper assets (probably involving mining the Maroochydore deposit by open pit methods and trucking that ore for treatment at the Nifty concentrator) will be implemented that is expected to unlock significant potential value.

Table 3 – Summary of revised earnings estimates, valuations and price target

Year ending 30 June	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e
Prices & currency									
Gold (Spot, US\$/oz)	1,425	1,475	1,425	1,428	1,475	1,425	0%	0%	0%
Tin (US\$/lb)	8.08	8.93	9.50	8.23	8.93	9.50	2%	0%	0%
Copper (US\$/lb)	2.40	2.88	3.00	2.40	2.88	3.00	0%	0%	0%
US\$/A\$	0.74	0.75	0.75	0.74	0.75	0.75	1%	0%	0%
Gold (Spot, A\$/oz)	1,926	1,967	1,900	1,917	1,967	1,900	0%	0%	0%
Tin (A\$/lb)	10.91	11.90	12.67	11.06	11.90	12.67	1%	0%	0%
Equity production & costs									
Gold (koz)	317	429	455	299	404	432	-6%	-6%	-5%
Gold all in sustaining cost (\$/oz)	1,251	1,236	1,231	1,244	1,244	1,223	-1%	1%	-1%
Tin in concentrate (kt)	3.0	3.6	3.6	3.5	3.7	3.7	16%	3%	3%
Tin C1 cash costs (net of by-products) (A\$/lb)	6.71	5.55	5.77	4.86	4.99	5.20	-28%	-10%	-10%
Earnings									
Revenue (\$m)	788	1104	1130	692	1,002	1,031	-12%	-9%	-9%
EBITDA (\$m)	172	352	348	153	333	353	-11%	-5%	1%
EBIT (\$m)	83	248	241	58	221	237	-29%	-11%	-2%
NPAT (adjusted) (\$m)	84	198	174	59	186	170	-30%	-6%	-2%
EPS (adjusted) (cps)	15	32	29	10	30	28	-30%	-6%	-2%
PER (x)	10.7	4.5	5.2	14.2	4.5	4.9	33%	-1%	-5%
EPS Growth (%)	na	124%	-11%	na	199%	-8%	na	61%	-26%
DPS (reported) (cps)	3	6	6	3	6	6	0%	0%	0%
Yield	2.0%	4.0%	4.0%	2.2%	4.3%	4.3%	8%	8%	8%
Net debt/equity	na	na	na	na	na	na	na	na	na
Valuation (\$/sh)	1.98	2.10	2.53	1.97	2.10	2.50	-1%	0%	-1%
Price Target (\$/sh)	2.10			2.10			0%		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation retained at \$2.10/share

Our valuation of MLX (Table 4) is based on:

- A sum-of-the-parts DCF valuation for each of the current gold, tin and copper mining operations plus the Wingellina Nickel Project using a discount rate of 10%. The projects not in production have been risk weighted to reflect their development uncertainty. Estimates have been made for the value of MLX's other mineral assets based on similarities with other existing mines or deposits.
- Key modelled assumptions, as follows:
 1. C1 cash costs for gold are expected to average about \$A1,081/oz in FY17 as the CMGP and the FGP project ramp up towards their nameplate capacity. C1 cash costs are then forecast to average about \$A1,079/oz in FY18 and about \$A1,059/oz in FY19. The average AISC for these three years is estimated to be around \$A1,250/oz;
 2. Sustaining capex of around \$90mpa;
 3. Annual exploration spend of around \$33mpa;
 4. Reserve upgrades increase mine lives to over 6 years (CMGP is already forecast to have a 12 year mine life and HGO is about 9 years);
 5. The FGP is now being developed in a staged manner to start production by the end of 2016 from treatment of stockpiles to generate cash flow to be used to increase the scale of operations to include open pit and underground mines;
 6. The Rover 1 deposit is forecast to be developed at a capital cost of about \$125m, largely internally funded and initially as an underground mining operation producing about 200ktpa of ore. Production is now expected to start a little later than previously expected in about late 2019; and
 7. The Wingellina Nickel Project to be developed when nickel prices recover, initially as a modest scale operation targeting higher grade mineralisation grading around 1.5% nickel at a rate of ~2Mtpa to produce about 18kt of nickel metal and 1.2kt of contained cobalt and possibly additional by-product scandium with potential for the project to be scaled up into a much larger operation over time.

Table 4 - MLX valuations

	Now		+12 months		+24 months	
	A\$m	\$/sh	A\$m	\$/sh	A\$m	\$/sh
DCF sum-of-parts valuation						
Higginsville Gold Operation (HGO)	58	0.10	60	0.10	60	0.10
South Kalgoorlie Operations (SKO)	152	0.25	162	0.27	166	0.27
Central Murchison Gold Project (CMGP)	551	0.90	592	0.97	632	1.04
Fortnum Gold Project (FGP)	36	0.06	40	0.07	83	0.14
Rover Project	24	0.04	24	0.04	24	0.04
Renison/Rentails/Mt Bischoff	126	0.21	134	0.22	141	0.23
Nifty and Maroochydore Copper Proj.	109	0.18	116	0.19	89	0.15
Central Musgraves Nickel Project	54	0.09	54	0.09	54	0.09
Exploration and other assets	4	0.01	4	0.01	4	0.01
Corporate	(39)	(0.06)	(34)	(0.06)	(29)	(0.05)
Total enterprise value	1,076	1.77	1,151	1.89	1,223	2.01
Net cash/ (debt)	123	0.20	131	0.21	302	0.50
Equity Value	1,199	1.97	1,282	2.10	1,526	2.50

SOURCE: BELL POTTER SECURITIES ESTIMATES

Proforma valuations of Westgold and MLX

Based on the following assumptions for the demerger of the Gold Business Unit from MLX, we derive proforma valuations for Westgold (Table 5) and MLX (post demerger) (Table 6):

- Westgold to comprise HGO; SKO; CMGP; FGP; the Rover Project; and \$110m of cash;
- MLX post demerger to comprise MLX's 50% interest in Renison, Rentails and the Mt Bischoff Tin Project; the Nifty and Maroochydoore Copper Projects; the Wingellina Nickel Project; some minor legacy assets of which the only significant one is a 7.1% interest in Brainchip Holdings; and approximately \$50m of cash;
- Each company has a largely proportionate share of corporate costs and has a very minor amount of interest bearing debt (Westgold \$3.6m; MLX post demerger \$1.6m);
- Westgold to have an issued capital of about 304.7m shares and no performance rights; and
- MLX post-merger will have an issued capital of about 609.3m shares with no performance rights.

Proforma target price for Westgold is \$3.15/share

Based on the 12 months forward valuation for Westgold, we derive a proforma price target of \$3.15 per share.

Table 5 - Proforma sum of the parts valuations for Westgold

	Now		+12 months		+24 months	
	A\$m	\$/sh	A\$m	\$/sh	A\$m	\$/sh
Higginsville Gold Operation (incl. Mt Henry)	58	0.19	60	0.20	60	0.20
South Kalgoorlie Operations	152	0.50	162	0.53	166	0.54
Central Murchison Gold Project	551	1.81	592	1.94	632	2.07
Fortnum Gold Project	36	0.12	40	0.13	83	0.27
Rover Project	24	0.08	24	0.08	24	0.08
Corporate	(27)	(0.09)	(24)	(0.08)	(20)	(0.07)
Total enterprise value	793	2.60	853	2.80	944	3.10
Net cash / (debt)	106	0.35	106	0.35	106	0.35
Equity Value	900	2.95	960	3.15	1,050	3.45

SOURCE: BELL POTTER SECURITIES ESTIMATES

Proforma target price for MLX post demerger is \$0.56/share

Based on the 12 months forward valuation for MLX post demerger, we derive a proforma price target of \$0.56 per share.

Table 5 - Proforma sum of the parts valuations for MLX post demerger

	Now		+12 months		+24 months	
	A\$m	\$/sh	A\$m	\$/sh	A\$m	\$/sh
Renison/Rentails/Mt Bischoff	126	0.21	134	0.22	141	0.23
Nifty and Maroochydoore Copper Project	109	0.18	116	0.19	89	0.15
Central Musgraves Nickel Project	54	0.09	54	0.09	54	0.09
Exploration and other	4	0.01	4	0.01	4	0.01
Corporate	(16)	(0.03)	(13)	(0.02)	(11)	(0.02)
Total enterprise value	279	0.46	295	0.48	277	0.45
Net cash / (debt)	48	0.08	48	0.08	48	0.08
Equity Value	327	0.54	343	0.56	325	0.53

SOURCE: BELL POTTER SECURITIES ESTIMATES

Metals X Limited (MLX)

Company description

MLX is a diversified precious and base metals producer with two key operating divisions being the Gold Division and Tin Division. The Nickel Division has major undeveloped nickel assets in the Musgrave Ranges in Central Australia. The rapidly growing Gold Division comprises gold operations and projects mostly in the Eastern Goldfields region of Western Australia with one project in the Northern Territory (the Rover Project).

The gold assets include the Higginsville Gold Operation (HGO) near Norseman which includes the nearby Mt Henry deposit where open pit mining has just begun and which is likely to become the main ore source, (MLX 100%); the South Kalgoorlie Operations (SKO) near Kalgoorlie and several interests in the Bulong area to the east of Kalgoorlie including a 50% profit sharing interest in the Cannon Gold Project with Southern Gold Ltd (ASX – SAU, not rated), where gold production comes from the ore being treated at SKO and the adjacent Georges Reward Project, (MLX 100%); the Central Murchison Gold Project (CMGP) near Meekatharra, which commenced production in late 2015, is continuing ramping up, (MLX 100%); and the Fortnum Gold Project (FGP) north of Meekatharra that is scheduled to begin initial operations at the end of 2016, (MLX 100%). The Rover Project (MLX 100%) near Tenant Creek in the Northern Territory contains a high grade gold-copper-bismuth Resource that is to be further evaluated by exploration decline prior to potential production from about late in FY19.

The Tin Division comprises a 50% interest in and management of several major tin assets around Renison Bell in Tasmania of which the principal one is the Renison tin mine, which is the only significant tin operation in Australia and is one of the world's great tin mines; the Rentails Project (a planned tailings retreatment and downstream fumer process); and the Mt Bischoff Project (a potential open pit and underground mining project).

The globally significant Wingellina Nickel Project in the Central Musgrave Ranges near the WA/NT border, (MLX 100%), is the main asset in the Nickel Division and it is continuing to advance towards a potential development that would see potentially significant amounts of nickel, cobalt and iron production based on targeting higher grade zones and incorporating important new technology, provided a suitable development arrangement can be agreed.

Valuation

Our valuation of MLX is based on Net Present Value (NPV) estimates for the company's major assets and for which there is considerable information available on their Resources and Reserves. We have applied varying risk-weightings to the NPV estimates for the non-producing assets to reflect the development uncertainty.

Investment thesis: Buy, TP\$2.10/share (unchanged)

MLX has made a good start to FY17 that it should be able to maintain and build on. Gold earnings are expected to continue to rise strongly as the soon-to-be-demerged operations reach target production levels over the next year or so. The company is progressing with the planned demerger of its gold business while progressing with the development of its fourth gold operation at Fortnum, which is expected to begin commissioning towards the end of 2016. Our earnings forecasts and valuations have been updated for the quarterly data, which has resulted in some earnings reductions but our 12-month forward NPV-based target price of \$2.10/share is maintained. We believe the company is well positioned for the proposed demerger of its gold assets from the strengthening base metals business and accordingly we retain our Buy rating.

Shareholders

Major shareholders include: APAC Resources Ltd, 12.9%; the Blackrock Group 9.4%; and the Jinchuan Group Limited 7.4% based on the expanded MLX share capital following the recent capital raising. Directors and management currently have a total interest of about 5%.

Risks of investment

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign exchange rates.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon exploration success and resource and reserve growth to extend mine lives.
- **Regulatory changes risks.** Changes to the regulation of access to infrastructure; to environmental approvals; and to taxation (among other things) can impact the earnings and valuation of resources companies.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining). Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Inappropriate acquisition risks.** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

Table 5 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e	Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e
Revenue	\$m	314	354	692	1,002	1,031	NPAT (adjusted)	\$m	47	(23)	59	186	170
Operating expenses	\$m	(226)	(318)	(539)	(668)	(678)	Adjusted EPS	c/sh	11	(5)	10	30	28
EBITDA	\$m	89	36	153	333	353	EPS growth	%	27%	na	na	199%	-8%
Depreciation and amortisation	\$m	(44)	(64)	(94)	(112)	(116)	PER	x	17.7x	na	14.2x	4.5x	4.9x
EBIT	\$m	44	(28)	58	221	237	DPS	c/sh	6	-	3	6	6
Net interest	\$m	3	1	0	3	6	Franking	%	61%	0%	0%	20%	100%
PBT	\$m	47	(27)	59	224	243	Yield	%	4.1%	0.0%	2.2%	4.3%	4.3%
Tax expense	\$m	-	4	-	(38)	(73)	FCF/share	c/sh	2	(16)	(1)	33	29
Impairments/write-offs/other	\$m	(6)	(1)	-	-	-	FCF yield	%	1%	na	0%	24%	21%
NPAT (reported)	\$m	41	(24)	59	186	170	EV/EBITDA	x	8.0x	19.7x	4.7x	2.1x	2.0x
Abnormal items	\$m	6	1	-	-	-	PROFITABILITY RATIOS						
NPAT (adjusted)	\$m	47	(23)	59	186	170	EBITDA margin	%	28%	10%	22%	33%	34%
PROFIT AND LOSS (INTERIM)						EBIT margin	%	14%	-8%	8%	22%	23%	
Half year ending	Unit	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16e	Return on assets	%	10%	-4%	7%	17%	14%
Revenue	\$m	150	164	148	207	300	Return on equity	%	14%	-6%	9%	23%	18%
Expense	\$m	(94)	(131)	(116)	(202)	(261)	LIQUIDITY & LEVERAGE						
EBITDA	\$m	56	33	32	4	39	Net debt / (cash)	\$m	(94)	(24)	(131)	(302)	(443)
Depreciation	\$m	(20)	(24)	(33)	(31)	(46)	ND / E	%	nc	nc	nc	nc	nc
EBIT	\$m	36	8	(1)	(27)	(7)	ND / (ND + E)	%	nc	nc	nc	nc	nc
Net interest expense	\$m	1	2	(0)	1	(0)	ASSUMPTIONS - Prices						
PBT	\$m	37	10	(1)	(26)	(7)	Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	LT real
Tax (expense)/benefit	\$m	-	-	2	2	-	Gold - Spot	US\$/oz	1,224	1,168	1,428	1,475	1,500
Impairments/write-offs/other	\$m	(11)	4	-	(1)	-	Tin - Spot	US\$/lb	8.60	7.12	8.23	8.93	9.50
NPAT (reported)	\$m	27	14	1	(24)	(7)	Copper - Spot	US\$/lb	2.89	2.22	2.40	2.88	3.10
Abnormal items	\$m	(11)	17	-	1	-	CURRENCY						
NPAT (adjusted)	\$m	16	31	1	(23)	(7)	USD/AUD	US\$/A\$	0.83	0.73	0.74	0.75	0.75
CASH FLOW						ASSUMPTIONS - Production (equity %)							
Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e	Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e
OPERATING CASHFLOW							Gold Division	koz					
Receipts	\$m	298	334	657	980	1,029	Gold production - Higginsville and Mt Henry	koz	132	91	101	98	98
Payments	\$m	(220)	(275)	(513)	(638)	(663)	- South Kalgoorlie Operations	koz	19	45	72	83	85
Tax	\$m	-	-	-	(5)	(70)	- Central Murchison	koz	-	37	114	177	196
Net interest	\$m	3	1	0	3	6	- Fortnum	koz	-	-	13	46	54
Other	\$m	2	2	-	-	-	- Total	koz	151	174	299	404	432
Operating cash flow	\$m	83	62	144	340	303	All in sustaining costs - Higginsville and Mt Henry	A\$/oz	891	1,364	1,276	1,440	1,526
INVESTING CASHFLOW							- South Kalgoorlie Ops.	A\$/oz	1,251	1,302	1,158	1,059	1,090
Capex and exploration	\$m	(74)	(128)	(189)	(138)	(126)	- Central Murchison	A\$/oz	-	1,429	1,263	1,207	1,107
Other	\$m	(1)	(4)	41	-	-	- Fortnum	A\$/oz	-	-	1,300	1,297	1,301
Investing cash flow	\$m	(74)	(132)	(148)	(138)	(126)	- Total	A\$/oz	938	1,362	1,244	1,244	1,223
FINANCING CASHFLOW							Tin Division						
Net equity proceeds	\$m	-	-	111	-	-	Tin production (in concentrate)	kt	3.5	3.2	3.5	3.7	3.7
Debt proceeds/(repayments)	\$m	(1)	(3)	-	-	-	Tin all in sustaining costs	US\$/lb	7.65	6.17	4.86	4.99	5.20
Dividends	\$m	(10)	(10)	-	(30)	(36)	Copper Division						
Other	\$m	44	23	-	-	-	Copper production (in concentrate)	kt	-	-	21.1	22.3	22.3
Financing cash flow	\$m	33	10	111	(30)	(36)	Copper all in sustaining costs	US\$/lb	-	-	2.71	2.64	2.50
Change in cash	\$m	42	(60)	107	171	141	VALUATION						
BALANCE SHEET						Issued capital					Unit		
Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e	Ordinary shares				m	606.0	
ASSETS						Performance rights					m	3.4	
Cash & short term investments	\$m	99	39	146	318	458	Total				m	609.3	
Accounts receivable	\$m	16	16	51	73	74	Current + 12 months + 24 months						
Inventory	\$m	37	52	52	52	52	Sum of parts valuation	\$m	\$/sh	\$m	\$/sh	\$m	\$/sh
Mine development and PPE	\$m	225	277	321	313	288	Higginsville Gold Operation (including Mt Henry)	23	0.04	25	0.04	25	0.04
Exploration & evaluation	\$m	100	165	225	259	293	South Kalgoorlie Operations	152	0.25	162	0.27	166	0.27
Other	\$m	10	50	50	50	50	Central Murchison Gold Project	551	0.90	592	0.97	632	1.04
Total assets	\$m	487	599	844	1,063	1,215	Fortnum	70	0.12	75	0.12	118	0.19
LIABILITIES						Rover	24	0.04	24	0.04	24	0.04	
Accounts payable	\$m	37	68	80	94	93	Renison Tin mine, Rentals and Mt Bischoff	126	0.21	134	0.22	141	0.23
Borrowings	\$m	5	15	15	15	15	Central Musgrave Nickel Project	54	0.09	54	0.09	54	0.09
Other	\$m	99	120	106	156	175	Nifty and Maroochydore Copper Project	109	0.18	116	0.19	89	0.15
Total liabilities	\$m	141	204	202	266	284	Other exploration and shareholdings	4	0.01	4	0.01	4	0.01
SHAREHOLDER'S EQUITY						Corporate	(39)	(0.06)	(34)	(0.06)	(29)	(0.05)	
Share capital	\$m	333	407	595	595	595	Enterprise value	1,076	1.77	1,151	1.89	1,223	2.01
Reserves	\$m	3	13	13	13	13	Net cash/(debt)	123	0.20	131	0.21	302	0.50
Retained earnings	\$m	(10)	(46)	13	168	302	Equity value	1,199	1.97	1,282	2.10	1,526	2.50
Non-controlling interest	\$m	-	-	-	-	-	SUBSTANTIAL SHAREHOLDERS						
Total equity	\$m	346	395	642	798	931	Shareholder				M Shares	Interest	
Weighted average shares	m	415	448	574	606	606	APAC Resources Ltd				77.9	12.9%	
							BlackRock Group				56.9	9.4%	
							Jinchuan Group Limited				44.0	7.3%	

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Sam Haddad	Industrials	612 8224 2819	shaddad
Jonathon Higgins	Industrials	613 9235 5706	jhiggins
John O'Shea	Industrials	613 9235 1633	joshea
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	Isotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Associates			
Hamish Murray	Associate Analyst	613 9256 8761	hmurray
Tim Piper	Associate Analyst	612 8224 2825	tpiper

Bell Potter Securities Limited

ACN 25 006 390 7721

Level 38, Aurora Place

88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au**The following may affect your legal rights. Important Disclaimer:**

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Peter Arden owns 128614 shares in MLX.

Disclosure: Bell Potter Securities acted as Co-Manager for the \$100.6m August 2016 placement and received fees for that service.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner; (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report; and (3) The Analyst responsible for this report does hold an interest (128,614 shares) in the securities of Metals X Ltd at the date of this report.