

11 Sep 2019

Share Price	\$0.21
Valuation	\$0.46
Price Target (12 month)	\$0.28

Brief Business Description:

Australian base metals producer and developer, with copper and tin mines in WA and Tasmania

Hartleys Brief Investment Conclusion

Nifty's rehabilitation is ongoing. Increasing copper production is a necessary step to a higher share price.

Chairman & MD

Peter Newton (Chairman)
Damian Marantelli (Executive Director and CEO)

Top Shareholders

Apac Resources Limited	9.2%
Mitsubishi UFJ Financial Group	8.9%
Perennial Value Management	7.6%
Jinchuan Group Limited	7.2%

Company Address

Level 5, 197 St Georges Tce
Perth, WA 6000

Issued Capital	689m
- fully diluted	689m

Market Cap	A\$143m
- fully diluted	A\$143m

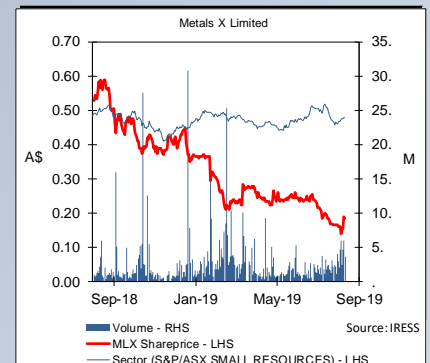
Cash + WC (30 Jun 19)	A\$58m
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Debt (30 Jun 19)	A\$0m
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EV	A\$85m
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	Prelim. (A\$m)	FY19	FY20e	FY21e
Prod (kt Cu)	16.3	20.8	28.5	
Prod (t Sn)	3560	3631	3960	
Op Cash Flw (A\$m)	1	29	21	
Norm NPAT (A\$m)	-109	8	14	
CF/Share (cps)	0.1	4.3	0.0	
EPS (cps)	-15.8	1.2	0.0	
P/E	0.0	17.8	0.0	

	Cu	Sn
Resources (kt)	1112	189
Reserves (kt)	161	90



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METALS X LIMITED (MLX)

Marking a 2020 turnaround

MLX expects Nifty mine output for the SQ 2019 to remain flat from the JQ 2019 performance (273kt at 1.54% ore mined), to be followed by an increase in the DQ 2019. We adjust our model to 1.6Mt at 1.5% Cu, producing 20-22kt Cu in FY2019. April-September copper production was affected by 1. the shift to campaign milling, which interrupted the paste fill schedule and 2. a key development drive in the west was extended to stay in ore. No matter the reason; MLX will continue to be marked down until Nifty hits Company targets.

On the positive side at Nifty drilled and developed stocks outside the Central zone are ahead of plan. Paste filling capability, ventilation and electrical systems no longer impede production and were upgraded for lower capex than planned. Employee turnover is down. The Company's explicit output target is to "build to 2Mtpa mining rates during the March 2020 quarter".

Nifty reserves were revised to 11.1Mt at 1.45% Cu (161kt Cu) as at March 2019, down from the previous 2017 estimate of 13.9Mt at 1.71% Cu. We expect Nifty reserves to be extended, with ongoing lateral development, but hopes of any tongues of bulk mineable +2% Cu, outside the Central Zone, have faded.

Metals X reported a loss for FY2019 of \$117M. Working capital at the end of June 2019 was \$38M, including \$11M cash. The Company had no bank debt at the end of June, and trade and other payables were \$25M. A \$35M loan facility was established post balance date. Non-executive Milan Jerkovic has resigned and Chairman Peter Newton intends to step down at the AGM.

Renison grade lift

Renison resource grade increased from 1.3% to 1.5% Sn in the year to March 2019. Reserves also rose, by 20% net of depletion, to 8.1Mt at 1.0% Sn. High grade resources below the decline at Area 5 are still to be converted to reserves. Extension drilling recently intersected 30m at 4.6% Sn, highlighting the potential for Area 5 and Bell 50 to lift future mine production and mill feed grade. First Area 5 stope ore is due to be mined during DQ 2019. At Renison we assume forward output of 850ktpa mined ore at 1.2% Sn and 7,500ktpa tin in concentrate – based on recent performance. There is upside, but in this situation we think it best to wait for it to materialise.

In A\$ terms tin and copper are down 18% and 8% respectively from March 2019 peaks. Spot prices for both metals are now below our modelled forecasts.

Risks rise.

Production delivery has stayed behind Company forward estimates forcing a series of downgrades to our forecasts, and now soft metal prices are compressing margins. At spot prices our modelled NAV is 23cps (46cps base case). Risks have risen sharply, but we think there is still long-term value in these assets and retain a Speculative Buy recommendation with a 12 month price target of 28 cps.

EARNINGS CHANGES

Fig. 1: Hartleys' earnings changes from March 2019.

	30 Jun 18	30 Jun 19			30 Jun 20			30 Jun 21		
		old	new	% diff	old	new	% diff	old	new	% diff
Hartleys Production - (t Cu)	16	19	16	-14%	26	21	-20%	32	29	-11%
- (kt Sn)	3.3	3.7	3.6	-4%	4.0	3.6	-9%	4.0	4.0	-1%
Cu price (A\$/lb)	3.99	3.98	3.91	-2%	4.33	4.31	-1%	4.38	4.46	2%
Sn price (A\$/t)	26.7	27.9	27.7	-1%	29.0	26.3	-9%	29.0	28.9	0%
AISC - A\$/lb Cu	5.63	4.74	7.15	51%	4.12	4.39	7%	3.45	3.88	13%
- A\$/kt Sn	20.0	19.1	20.1	5%	18.4	19.8	8%	18.1	19.1	6%
Net Revenue	221	272	240	-12%	363	294	-19%	429	396	-8%
Total Cash Costs	-219	-245	-244	0%	-272	-265	-3%	-307	-309	1%
EBITDA	1	27	1	-98%	91	29	-68%	122	88	-28%
- margin	0%	10%	0%	-98%	25%	10%	-60%	28%	22%	-21%
Depreciation/Amort	-53	-24	-105	337%	-37	-17	-53%	-15	-24	57%
EBIT	-51	4	-109	-2824%	54	12	-78%	107	64	-40%
Net Interest	0	0	0	n/a	0	-2	n/a	0	-2	n/a
Pre-Tax Profit	-51	4	-109	-2824%	54	10	-82%	107	62	-42%
Tax Expense	0	0	0	n/a	0	0	n/a	0	0	n/a
- rate	0%	0%	0%	n/a	0%	0%	n/a	0%	0%	n/a
NPAT	-51	4	-109	-2824%	47	8	-83%	92	53	-43%
Capex + exploration	-33	-31	-52	66%	-36	-26	-28%	-17	-11	-36%
Net cash at EOP	39	57	28	-50%	108	52	-52%	203	98	-52%
Dividends Per Share (cents)	1	0	0	n/a	0	-3	n/a	0	0	n/a

Source: Hartleys Research.

PRODUCTION AND COSTS

Fig. 2: Production forecasts.

Production Summary	Unit	Jun 19	Jun 20	Jun 21	Jun 22	Jun 23
Nifty throughput	Mt	1.25	1.57	2.20	2.20	2.20
Mined grade	%Cu	1.45	1.47	1.44	1.44	1.44
Combined Recovery & Payability		90%	90%	90%	90%	90%
Copper prodn	(kt)	16.3	20.8	28.5	28.5	28.5
Mine Life	yr	9.9	6.9	3.9	2.9	1.9
Inventory tonnes	Mt	12.4	10.8	8.6	6.4	4.2
Inventory grade	%Cu	1.44	1.43	1.43	1.43	1.42
Renison mined ore	Mt	0.80	0.85	0.90	0.90	0.90
Mined grade	%Sn	1.21	1.20	1.23	1.23	1.23
Renison mill throughput (whole project)	Mt	0.74	0.69	0.73	0.73	0.73
Milled grade	%Sn	1.21	1.44	1.47	1.47	1.47
Combined Recovery & Payability		73%	73%	73%	73%	73%
Tin prodn (MLX share)	(kt)	3,560	3,631	3,960	3,960	3,960
Mine Life	yr	11.9	11.6	9.7	8.4	7.2
Inventory tonnes	Mt	8.8	8.0	7.1	6.2	5.3
Inventory grade	%Sn	1.22	1.22	1.22	1.22	1.22

Source: Hartleys Research.

Fig. 3: Cost forecasts.

Costs		Jun 19	Jun 20	Jun 21	Jun 22	Jun 23
Nifty						
Cost / milled tonne	A\$/t	128	117	99	98	98
EBITDA / tonne milled ore	A\$/t	-21	4	23	27	24
Cash costs incl. royalty	A\$/lb Cu	4.65	4.18	3.65	3.65	3.62
	US\$/lb	3.30	2.86	2.56	2.58	2.66
+ deprn & amortn	A\$/lb Cu	7.15	4.39	3.88	3.90	3.88
	US\$/lb	5.08	3.00	2.72	2.76	2.85
Renison						
Renison cost / milled tonne	A\$/t	157	173	175	178	179
EBITDA / tonne milled ore	A\$/t	46	44	59	64	52
Cash costs incl. royalty	A\$/t Sn	18.4	18.3	18.2	18.6	18.5
	US\$/t	13.1	12.5	12.8	13.1	13.6
+ sust capital	A\$/t Sn	20.1	19.8	19.1	19.4	18.9
	US\$/t	14.2	13.6	13.4	13.8	13.9

Source: Hartleys Research.

Fig. 4: LME tin price in A\$, 2000-2019.



Source: IRESS.

VALUATION AND PRICE TARGET

Key model assumptions;

1. Nifty 12.6 Mt inventory at 1.44% Cu, mined at 2.2 Mtpa from July 2021. 88% met/payable recovery.
Capital costs of definition and development are included in the model. The mine life is assumed to extend to 2025.
2. Nifty site cost of \$A78/t of milled ore at full capacity, US\$82/t concs transport, US\$95, 0.09 TCRC, 97% payability → A\$3.12/lb C3 (C1+royalty+deprn, AUDUSD 0.74).
3. Cu price as per summary table. (US\$2.94/lb long run).
4. Renison 8.6Mt inventory at 1.2% Sn, mined at 800-900ktpa, 68% sorting/met recovery. The modelled inventory contains 30% more contained tin than the June 2019 reserves. Ore definition at Renison progresses with mining and substantial material is mined each year from outside reserves. Capital costs of definition and development are included in the model. The mine life is assumed to extend to 2028.
5. Site cost of A\$100-110/t crushed ore, US\$110 concs transport, 92% net pay. US\$1.9Mpa Cu revenue → A\$18,000/t AISC.
6. Sn price as per summary table; US\$19,500/t long run.
7. AUDUSD 0.74 long run.
8. A corporate overheads liability is included in the valuation to reflect the cost of management over the operational life of the company. Corporate overhead costs are estimated at A\$7Mpa.

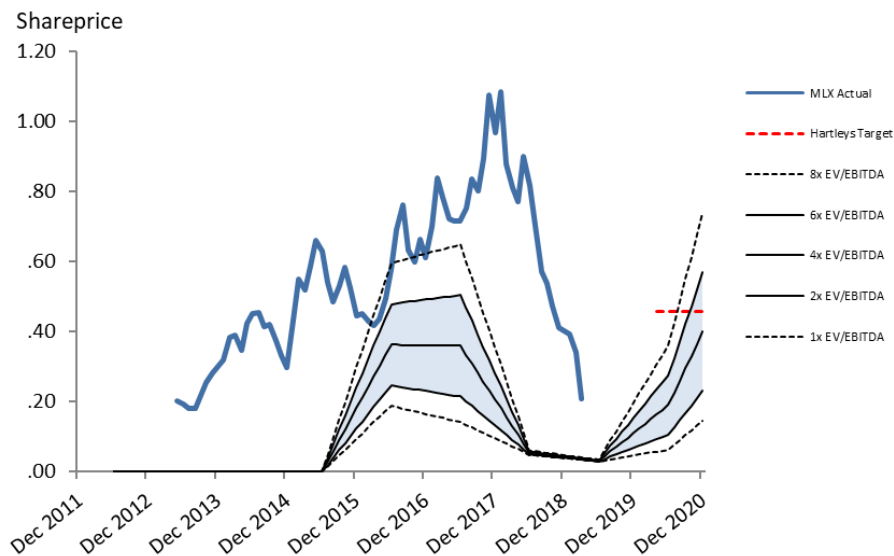
Hartleys' estimated NAV for MLX is 46 cps, using price forecasts similar to consensus as set out in the summary model page.

Real, after tax discount rates of 10% and 7% are used for Nifty and Renison respectively. At real spot price assumptions as at 10 September 2019, the MLX NAV estimate decreases to 23cps.

The 12 month price target for MLX is influenced by our estimated NAV, and by the spot price valuation. The 12 month price target is 28 cps.

EV/EBITDA BANDS

Fig. 5: EV/EBITDA base case assumptions.



Source: Hartleys.

RISKS

Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Copper price	High	High	The current spot price is lower than our LT assumptions. Current settings are considered insufficient to encourage supply growth and meet future demand.
Tin price	High	Industry	Tin is 18% below our long term forecasts. MLX costs at Renison are lower than industry average and lower than spot.
Nifty ramp-up profile	High	High	MLX plans to increase Nifty's output and is behind schedule.
Nifty reserves	Medium	Low	Nifty reserves were downgraded in mid-2019.
Nifty costs	Medium	Medium	MLX has demonstrated unit costs at Nifty over several quarters. Costs are broadly in line with other bulk tonnage underground mines.
Renison reserve extension	Low	Medium	Renison reserves progress with mine development internally and around the margins of the resource.

Conclusion

Apparent risks have risen with Nifty ramp-up delays and the associated financial effects. Establishment of an increasing copper production profile is required to lower the risks.

Source: Hartleys Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.
Buy	

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