Metals X Ltd. (MLX) – Tin exposure with a free option on nickel.

Buy. PT $0.45 (Price: $0.29; Market Cap $396m).

- **MLX is a multi-commodity diversified Australian explorer, developer and producer** with exposure to the buoyant tin, nickel and cobalt markets and investment exposure to copper, gold, phosphate, lead and zinc.
- **MLX, Australia's only major tin producer, operates the Renison mine (50% ownership with China's Yunnan Tin) in Tasmania. It produces ~2.5% of the world's tin and currently takes advantage of the high tin price environment**. The mine produces ~8,000tpa of tin metal at a cash cost of A$10,350/tonne and has expansion plans of an additional ~5,000/tpa tin through the Rentails Project bringing total production to ~13,000/tpa by 2012.
- **Rentails Project (50% MLX)** - MLX's tin expansion project in Tasmania aims to use the application of new technology and tin fuming for treatment of over 19mt of historic tailings from the Renison Tin Concentrator. Annual production is 4,500t – 5,500t of tin @ 0.44% and 1,500t – 2,500t of copper @ 0.21%.
- **Wingellina Nickel Project (100% MLX) -** located in Western Australia, this is a world scale nickel deposit targeting production of 40,000tpa of nickel and 3,000tpa of cobalt over a 40 yr mine life.
- **Investments** - MLX has 32% of WGR, 20% of JML, and 28% of AAG with a combined market value of ~$115m. In addition, it has $55m cash.
- **Tin's outlook is strong**. Demand has skyrocketed in the past few years with ITRI (the world authority on the tin industry) forecasting growth will rise by 15% to 345,000t in 2010. The switch to tin solders, due primarily to the bans and restriction of lead solders in Europe and US over the last ten years have also created a healthy demand for tin. Further, tin's ever increasing usage in computers, cars and the electronic industry has helped to fuel demand.
- **Supply constrained for the near term**. ITRI declares that world production has been flat or declining over the current year. Firstly, Indonesian production of ~129,000tpa is falling. PT Timah, Indonesia's largest producer of tin, will miss production guidance by 10,000t while 18 smaller smelters are set to shut down. Secondly, due to the problem of 'conflict minerals' in parts of Africa, mining activities in the eastern provinces of Democratic Republic of Congo, which accounts for 5% of global supply, have stopped since mid September. With no new mines set to come online until 2012 at the earliest, there appears to be no ease on the supply constraint in the near term.
- The demand/supply imbalance is reflected in the recent price spike with tin currently trading at US$26,400/t.

<u>LME Tin Price (Nov 2008 – Oct 2010)</u>

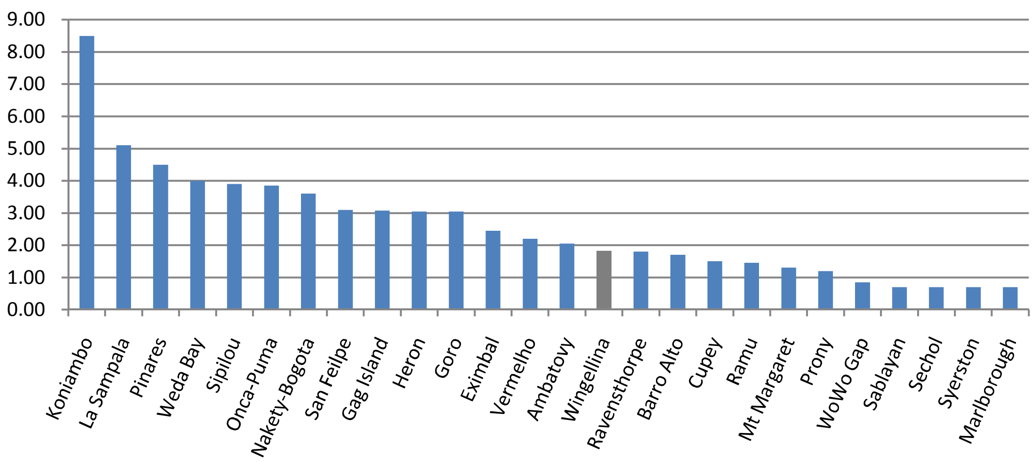
Source: LME

- **Nickel: MLX has 100% of the Wingellina Nickel Deposit** which hosts a resource of 1.8mt of contained nickel - with a JORC compliant resource of 183.2mt @ 1% Ni (38% measured, 54% indicated and the remaining inferred). It is a laterite deposit but displays vastly different characteristics to other laterites developed in Australia. It is classified as a "Pure Oxide Tropical Laterite" similar to **Moa Bay**, Cuba where the HPAL process was developed over forty years ago.

- **Moa Bay** uses open pit mining to extract laterite nickel and cobalt ore which it produces onsite into mixed sulphides containing nickel and cobalt. It was established in 1994 through a JV with Sherritt International (Canada) and General Nickel (Cuba) where it produced ~34,000tpa and 3,800tpa nickel and cobalt respectively. It has a mine life of ~25 years.

- **Funding options with Jinchuan Group Ltd (14.8% holding in MLX), China's largest nickel producer, is currently being discussed.** MLX is in talks with the Jinchuan Group to possible form a joint venture. The probability of a deal closing is high, in our view. This is a clear indication that the nickel asset at Wingellina is worth much more than the market gives it credit.

Mt contained nickel



Source: Company Reports

- **Ravensthorpe Nickel operation (formerly BHP's)**, broadly similar in size to Wingellina with a resource base measuring 378mt @ 0.61% Ni, was bought by First Quantum in late 2009 for US$340m amidst a very depressed market. The project itself was fraught with cost overruns due to complications in producing low-grade nickel ore and the then low nickel price. Using Ravensthorpe's valuation as a benchmark and deducting 20% for the plant value we arrive at an acquisition multiple of $1.18/mt. Applying that multiple to Wingellina provides an **estimate for Wingellina of $0.10/share**. This also assumes a JV financing deal resulting in the equity ownership remaining at ~60%.
- **Valuation.** We arrive at our valuation for MLX using a DCF based model on the Renison Project - this assumes a US$20,000/t tin price for the near term and a long term price of US$15,000/t. Using sensitivity analysis, ceteris paribus, it highlights the effect short term tin price has on MLX'S valuation.

Tin price US$/tonne	Effect on valuation A$/share
15,000	0.30
20,000	0.34
25,000	0.39
30,000	0.42

Source: FSB Research

- Using a combination of the Rentails expansion, MLX's investments and cash we derive a value of **$0.35/share**.

VALUATION SUMMARY	A$m	A$/sh
Renison (50% ownership)	298	$0.22
Rentails (50% risked)	30	$0.02
Investments	115	$0.08
Cash	55	$0.04
Corporate	-16	-$0.01
TOTAL	**483**	**$0.35**
Wingellina Project (60% ownership)	130	$0.10
TOTAL incl. Wingellina Project	**613**	**$0.45**

Source: FSB Research

- We recommend MLX as a Buy as it is our preferred tin exposure with **an upside of 55% on today's share price and a free option on Wingellina which we value at $0.10/share.**
- **Recommendation: BUY MLX, (Price: $0.29; PT $0.45/share; Mkt Cap. $396m)**

Recently released Talking Points are now available on our website:http://www.fostock.com.au/talkingpoint.htm

Foster Stockbroking Pty Limited
A.B.N. 15 088 747 148
Licence No. 223687
Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
Participant of ASX Group

in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment.

Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation or warranty is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this document and, to the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this document. Foster Stockbroking is under no obligation to update or keep current the information contained herein and has no obligation to tell you when opinions or information in this report change.

Foster Stockbroking, and its directors, officers and employees or clients may have or had interests in the securities of the instruments referred to herein, and may make purchases or sales in them as principal or agent at any time and may effect transactions which may not be consistent with the opinion set out in this report. Foster Stockbroking and its Associates state that they may earn brokerage, fees or other benefits from securities referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant company.

Specific disclosure: Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by MLX at the time of this report. Diligent care has been taken to maintain an honest and fair objectivity in writing the report and making the recommendation.