Southern Cross Equities

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3 February 2011

Metals X (MLX)

MLX's key metal prices soar

Recommendation

Buy

Price

$0.35

Target (12 months)

$0.60

The rise in the tin price to new heights brings immediate revenue and earnings benefits to MLX, Australia's only tin producer. In fact, MLX's suite of metals is very sweet indeed with tin, copper, gold and silver hitting new price highs in recent times, while nickel and zinc are firming. We raise the target price to $0.60 ($0.55) on higher tin forecasts and a solid December quarter. We continue to recommend BUY.

Expected Return

Capital growth	**71%**
Dividend yield	**0%**
Total expected return	**71%**

Company Data & Ratios

Enterprise value	**$409m**
Market cap	**$464m**
Issued capital	**1,366m**
Free float	**46%**
12 month price range	**$0.096-0.37**
GICS sector	**Materials**

Tin, copper prices lead the way

The tin price has reached record levels of over US$30,000/t on the LME as the world's large producers find it difficult to meet demand. Copper, an increasingly significant metal to MLX as a by-product is also trading at record highs. Strong prices for zinc, gold and silver have added value to MLX's strategic investments.

December quarter – setting a solid future

Tin grades and production were lower in the December quarter as the Renison mine focused on development. This, along with reserve and resource upgrades sets the mine up for a solid 2011 and beyond.

Target increased to $0.60

An increase in our tin price forecasts by approximately 15% has resulted in a higher 12 months NPV which is the basis of our target price, to $0.60 ($0.55). We continue to recommend MLX as one of the world's few listed tin producers with great potential value in its Wingellina Nickel Project.

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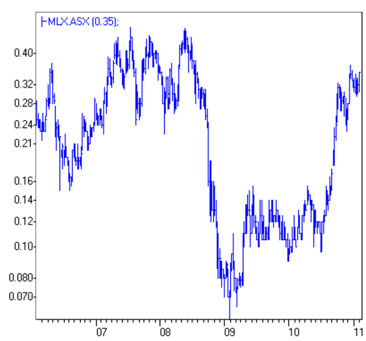
Absolute Price



SOURCE: IRESS

Earnings Forecast

Year end June	2010a	2011f	2012f	2013f
NPAT (reported) (A$m)	9.3	24.7	41.6	37.0
NPAT (adjusted) (A$m)	-9.5	24.7	41.6	37.0
EPS (adjusted) (cps)	0.7	1.8	3.0	2.7
EPS growth (%)	na	165.0	68.5	-11.1
PER (x)	51.7	19.5	11.6	13.0
P/CFPS (x)	107.3	10.5	9.5	10.4
EV/EBITDA (x)	24.6	11.0	6.2	6.5
Dividend (¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	4.6	10.6	15.0	11.6

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

December Quarter – getting set for a solid future

Tin production was down in the December quarter as ore was sourced from lower grade areas of the Renison mine, while development of high grade areas was carried out, setting the mine up for higher production in 2011. Highlights of the quarter were increases in tin Reserves and Resources, underground exploration work and commissioning of a new copper circuit.

Tasmanian Tin Operations

- Production declined to 1,217t (1,610t Sept) due to lower grades of both Renison and Mt Bischoff ore;
- Cash operating cost up 13% to $15,624/t;
- Operating margin up 21% to $10,669/t;
- EBITDA of $13.0m ($6.5m MLX 50% Share);
- Mining Reserves up 53% to 2.53mt at 1.48%Sn containing 38,986t tin;
- Resources increased 19% to 8.6Mt at 1.64%Sn containing 140,814t of tin;
- Copper circuit commissioned;
- Underground exploration drilling – targeting further reserve increases.

Wingellina Nickel Project

- Resource of 270kt Ni and 23kt cobalt added at Claude Hills; already 1.8mt Ni at main deposit;
- Negotiations continue with those interested in possible joint venture and financing.

Strategic Investments

- Jabiru Metals (JML, 19.9% MLX) - further resource upgrades, production was down to 2,008t copper and 3,665t zinc metal in con, low cost zinc production of a **negative** $0.40/lb after credits, market value $73m.
- Westgold Resources (WGR, 32% MLX) - additional high grade copper and gold results at Rover-1, strong drill results at Explorer 142, market value $23m.
- Aragon Resources (AAG, 8.7% MLX, 28.8% voting) – Resources increased to 2.0moz gold, mining Reserves estimated at 614,000oz for Big Bell and Golden Fingall, mining studies completed, market value $5m.

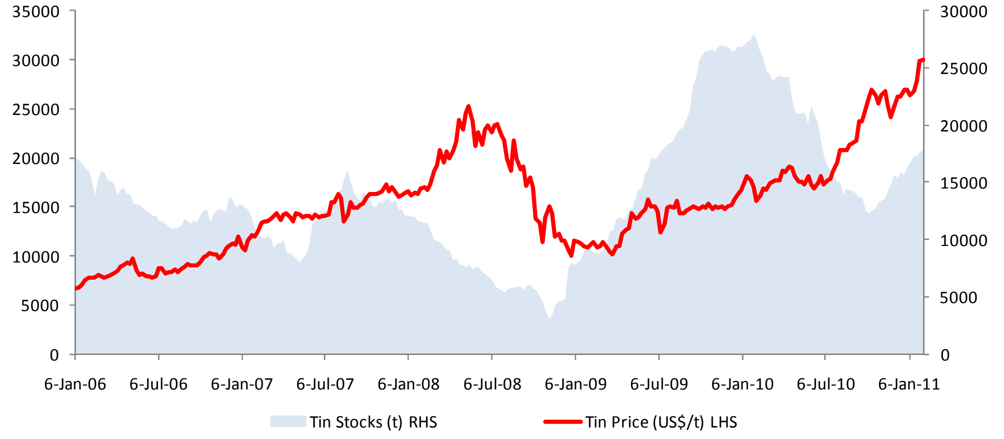
Corporate

- Closing Cash and working capital of $55.3m and no corporate debt.

Metal Prices Soar – tin, copper lead the way

Tin US$30,545/t (LME cash)

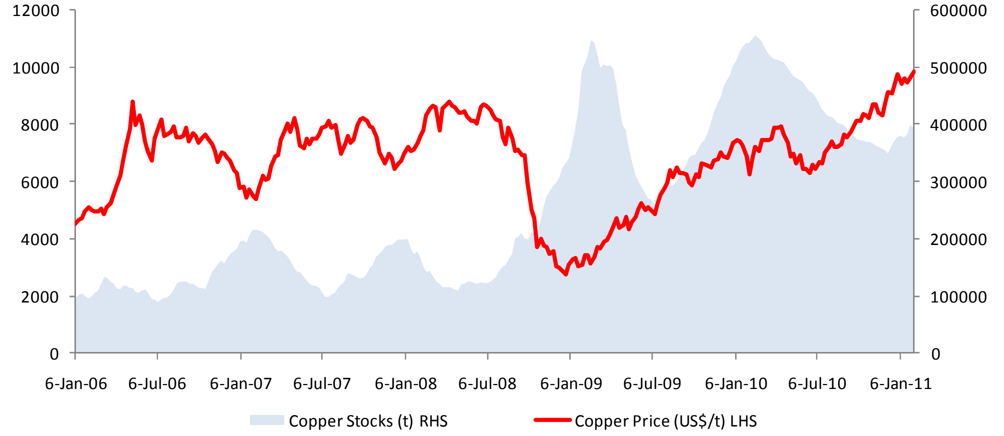
Figure 1 - LME Tin Price and Stockpiles



SOURCE: IRESS

Copper US$9,945/t (LME cash)

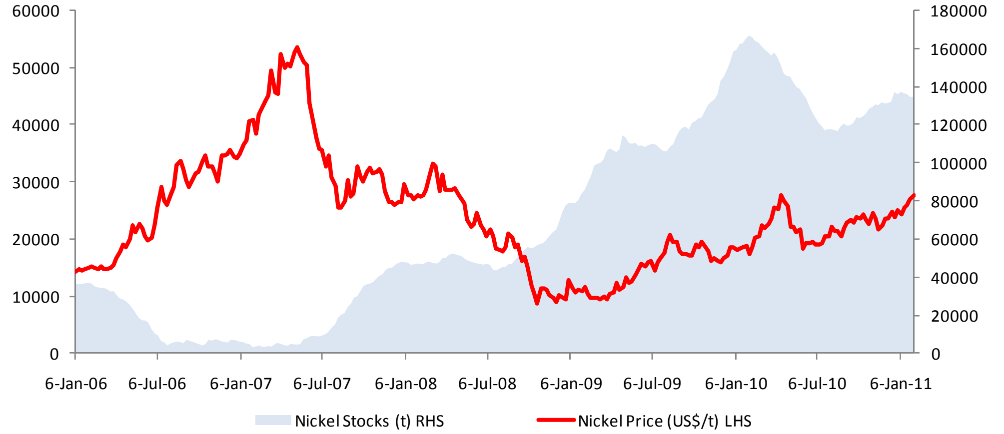
Figure 2 - LME Copper Price and Stockpiles



SOURCE: IRESS

Nickel US$27,715/t (LME cash)

Figure 3 - LME Nickel Price and Stockpiles



SOURCE: IRESS

MLX Sensitivities

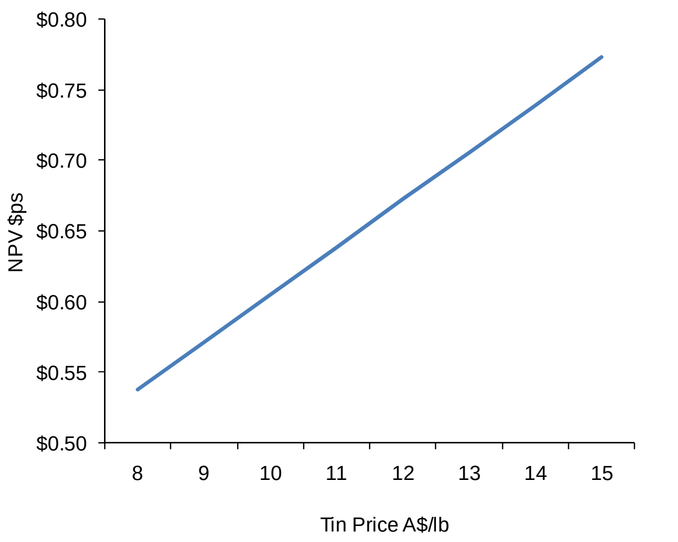
As a large, unhedged producer of tin, MLX's near term earnings are most sensitive to the tin price. We estimate earnings of $42m or 3.0cps in FY12 at a tin price of US$27,000/t or US$12.25/lb (AUDUSD 0.96). At a 10% higher tin price earnings increase by 23% to 3.7cps.

NPV's are also sensitive to tin as we show in Figure 4.

The most significant metal to MLX's valuation is nickel as it is the Wingellina Nickel Project (100% MLX) that has the greatest potential value of the company's assets. NPV sensitivities (10% disc rate) to the nickel price are shown below. At a a nickel price of A$13.00/lb (close to the current price) the SCE valuation of the Wingellina Project is $1.80 per MLX share.

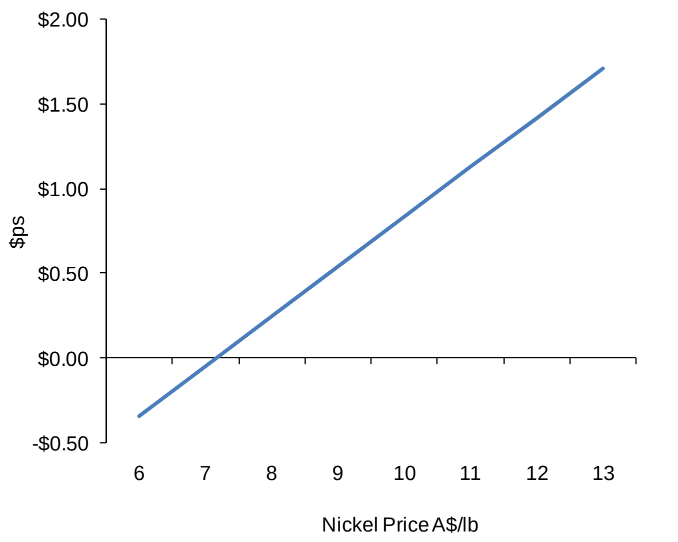
Copper has become a significant factor for the Tasmanian Operations and MLX with the commissioning of the copper circuit in the December quarter. MLX is expecting 600t copper production in FY11 and up to 1,500t in FY12 (US$13m payable at current price).

Figure 4 - MLX NPV sensitivity to tin



SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Figure 5 - Wingellina Project's NPV sensitivities to nickel price



SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Metals X Limited (MLX)

Company Description

Metals X (MLX) is a diversified metals mining house with a key producing asset in the Tasmanian Tin Operations, in which it has a 50% interest. These are the only significant tin operations in Australia, producing around 8,000tpa with the ability to expand. Potentially, the company's most valuable asset is the Wingellina Nickel Project (100% MLX), in Western Australia, containing an enormous 1.8mt nickel and scoped to produce 40kt nickel per year plus 3,000t cobalt over a very long mine life of over 40 years. MLX has several strategic holdings in Australian resource companies comprising Westgold Resources (gold and copper, 1.0mozs gold equiv Resource), Jabiru Metals (zinc), Aragon Resources (2mozs gold Resource) and Agaton Phosphate.

Ordinary shares on issue total 1,365.7m, options 15.3m. Cash and working capital at the end of December was $55m with no corporate debt.

Majority shareholders are APAC Resources (29.1%), Jinchuan Group (12.9%), GPG (6.6%), management (6.0%).

Directors: Peter Cook (Chairman), Warren Hallam (Managing Director), Scott Huffadine (Executive Director), Mike Jefferies (Non–Exec), Sanlin Zhang (Non-Exec), Yimin Zhang (Alternate Director).

Investment Strategy

We recommend Buy MLX for exposure primarily to its prominent position in tin and the very large Wingellina nickel resource that has the potential to grow substantially in value. These two base metals have strong fundamentals as do gold, copper and phosphate. Management has the capacity to bring considerable value to the business.

Valuation

We estimate a current NPV of $0.54 per share and 12 months NPV of $0.60 (10% real discount rate).

Risks

Wingellina is in the early stages of appraisal with many stages ahead before certainty of production can be achieved. Factors to be addressed include ownership, mining and environmental approvals and financing.

Renison Reserves are 39kt tin or five years production but Resources are 141kt indicating potential for considerable expansion of Reserves and mine life.

Rentails forms part of our valuation however there has been no commitment yet to proceed.

Commodity price volatility. Nickel and tin are the two most volatile base metals could lead to high earnings volatility for MLX. A rising A$ is negative for revenues and earnings.

Mineral exploration is inherently high risk, but at the same time offers high potential reward.

Metals X
as at 3 February 2011

Recommendation	Buy
Price	$0.35
Target (12 months)	$0.60

Table 1 - Financial summary

Metals X Ltd (MLX)		Share price:	$ 0.350
As at	3-Feb-11	Market Cap (diluted) $m:	$ 483

PROFIT AND LOSS					
Y/e June 30	2009a	2010a	2011f	2012f	2013f
Sales revenue	65.2	97.4	81.8	110.3	103.0
EBITDA	-12.5	18.6	38.7	62.2	53.6
Depreciation	-34.1	-28.1	-5.6	-6.9	-7.2
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-46.6	-9.5	33.0	55.3	46.4
Other income (expenses)	0.0	0.0	0.0	0.0	0.0
Net Interest Expense	-0.2	0.0	2.2	4.1	6.5
Pre-tax profit	-47.5	-9.5	35.2	59.4	52.9
Tax	-0.5	0.0	-10.6	-17.8	-15.9
Net Profit	-48.0	-9.5	24.7	41.6	37.0
Adjustments	-1.2	0.0	0.0	0.0	0.0
SCEQ adj profit	**-49.2**	**-9.5**	**24.7**	**41.6**	**37.0**
One-off items	-7.8	18.8	0.0	0.0	0.0
Reported net profit	-57.0	9.3	24.7	41.6	37.0

CASHFLOW					
Y/e June 30	2009a	2010a	2011f	2012f	2013f
Receipts from customers	70.9	94.3	84.7	110.3	103.0
Payments to suppliers	-87.9	-90.7	-42.3	-45.9	-47.2
Net interest	1.8	0.1	2.2	4.1	6.5
Tax paid	0.0	0.0	-10.6	-17.8	-15.9
Other	0.9	0.7	11.5	0.0	0.0
Operating cashflow	-14.3	4.5	45.6	50.7	46.4
Capex	-34.7	-11.0	-10.3	-4.7	-4.8
Investments	0.0	0.0	0.0	0.0	0.0
Asset sales	1.3	70.9	0.0	0.0	0.0
Other	-5.9	-51.2	-6.0	-6.0	-6.0
Investing cashflow	-39.4	8.7	-16.3	-10.7	-10.8
Change in borrowings	8.5	0.0	0.0	0.0	0.0
Equity raised	0.0	16.0	3.4	0.4	0.8
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other	-1.4	-6.5	0.0	0.0	0.0
Financing cashflow	7.1	9.5	3.4	0.4	0.8
Net change in cash	-46.6	22.6	32.7	40.4	36.4
Cash at end of period	7.0	29.6	62.3	102.7	139.1

BALANCE SHEET					
Y/e June 30	2009a	2010a	2011f	2012f	2013f
Cash	7.0	29.5	62.2	102.7	139.1
Receivables	3.7	14.9	12.0	5.5	5.1
Inventories	16.0	14.8	3.3	4.4	4.1
Investments	0.0	0.0	0.0	0.0	0.0
Other	6.4	5.9	29.5	31.4	25.3
Current assets	33.0	65.1	106.9	144.0	173.6
PPE	91.7	39.4	44.1	48.8	53.6
Investments	10.9	22.5	0.0	0.0	0.0
Intangibles	71.7	53.4	59.4	65.4	71.4
Other	0.0	36.7	36.7	36.7	36.7
Non-current assets	174.3	152.0	140.1	150.8	161.6
Total assets	207.3	217.0	247.1	294.7	335.2
Payables	14.4	10.0	8.6	11.0	10.3
Debt	10.1	2.8	2.8	2.8	2.8
Provisions	6.0	3.1	3.1	3.1	3.1
Other	0.9	0.9	0.9	0.9	0.9
Total liabilities	31.4	16.8	15.5	17.9	17.2
Shareholders' equity	175.9	200.2	231.6	276.9	318.0
Minorities	0.0	0.0	0.0	0.0	0.0
Total shareholders funds	175.9	200.2	231.6	276.9	318.0
Total funds employed	179.0	173.6	172.2	177.0	181.8
W/A diluted shares on issue	915	1366	1373	1375	1378

VALUATION DATA					
Y/e June 30	2009a	2010a	2011f	2012f	2013f
Net profit adj ($m)	-49.2	-9.5	24.7	41.6	37.0
EPS (c)	-6.2	0.7	1.8	3.0	2.7
EPS growth (%)	-1218.0	-110.9	165.0	68.5	-11.1
P/E ratio (x)	-5.6	51.7	19.5	11.6	13.0
CFPS (c)	-1.6	0.3	3.3	3.7	3.4
Price/CF (x)	-22.4	107.3	10.5	9.5	10.4
DPS (c)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	-39.0	24.6	11.0	6.2	6.5
EBITDA margin (%)	-19.1	19.1	47.3	56.4	52.0
Valuation per share:					**0.54**
Target price (12 mth):					**0.60**
Total Return (including yield)					**71%**
Recommendation:					Buy

PROFITABILITY RATIOS					
Y/e June 30	2009a	2010a	2011f	2012f	2013f
EBITDA/sales (%)	-19.1	19.1	47.3	56.4	52.0
EBIT/sales (%)	-71.4	-9.8	40.4	50.1	45.1
Return on assets (%)	-27.5	4.3	10.0	14.1	11.1
Return on equity (%)	-32.4	4.6	10.6	15.0	11.6
Return on funds empl'd (%)	-31.9	5.3	14.3	23.5	20.4
Dividend cover (x)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	-1.0	0.0	30.0	30.0	30.0

LIQUIDITY AND LEVERAGE					
Y/e June 30	2009a	2010a	2011f	2012f	2013f
Net debt/(cash) ($m)	3.1	-26.7	-59.4	-99.8	-136.2
Net debt/equity (%)	0.0	-0.1	-0.3	-0.4	-0.4
Net interest cover (x)	-0.1	0.0	0.1	0.1	0.1
Current ratio (x)	1.6	4.7	10.4	11.3	14.5
Inventory turnover	4.6	5.1	12.5	10.4	11.5
Inventory/sales	24.5	15.2	3.9	3.9	4.1

VALUATION				
		Current	+12mths	+24mths
	$M	$ps	$ps	$ps
Wingellina Nickel Project (20% NPV)	320	0.23	0.28	0.49
Australian Tin Operations	269	0.20	0.19	0.17
Investments	119	0.09	0.09	0.09
Corporate	-44	-0.03	-0.03	-0.04
Options	5	0.00	0.00	0.00
Exploration	35	0.03	0.03	0.03
Cash	45	0.03	0.04	0.07
Total	**751**	**0.54**	**0.60**	**0.80**

INTERIMS					
Y/e June 30 ($m)	2009a	2010a	2011f	2012f	2013f
EBITDA	-4.0	7.9	13.4	30.4	28.3
EBIT	-21.0	-6.1	10.8	27.0	24.8
SCEQ adj profit	-21.0	-6.1	8.2	20.1	19.4
Reported net profit	-21.0	-6.1	8.2	20.1	19.4

Production					
Tin	2009a	2010a	2011f	2012f	2013f
Renison + Bischoff	3,880	5,340	6,168	7,589	7,834
Cash Cost (US$/lb)	**6.02**	**4.19**	**5.12**	**4.69**	**4.46**
Nickel					
Wingelina (t)	-	-	-	-	-
Royalties ($M)	3.9	4.0	-	-	-

ASSUMPTIONS					
Y/e June 30	2009a	2010a	2011f	2012f	2013f
A$	0.75	0.88	0.97	0.96	0.91
Tin Price (US$/lb)	6.62	7.35	11.54	12.25	10.50
Tin Price (US$/t)	14,591	16,202	25,430	27,006	23,148
Nickel Price (US$/lb)	6.06	8.79	10.58	10.75	10.25
Nickel Price (US$/t)	13,361	19,373	23,318	23,693	22,591

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 0% and +15% on a 12 month view

Reduce: Expect -15% and 0% total return on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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Southern Cross Equities Ltd and its associates hold 5,177,793 shares in MLX as at the date of this report. This position is subject to change without notice..