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MetalsX Ltd (MLX)

Forget 1H FY16, strong results ahead

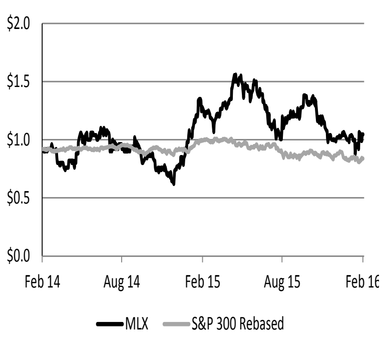
Recommendation
Buy (unchanged)
Price
$1.045
Target (12 months)
$1.67 (unchanged)

Expected Return	
Capital growth	60%
Dividend yield	4%
Total expected return	64%
Company Data & Ratios	
Enterprise value	$446m
Market cap	$479m
Issued capital	458.2m
Free float	52%
Avg. daily val. (52wk)	$1.1m
12 month price range	$0.855 - $1.59
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.00	1.18	1.34
Absolute (%)	4.5	-11.1	-21.7
Rel market (%)	3.5	-7.8	-6.5

Absolute Price



SOURCE: IRESS

Breakeven 1H FY16 result; new gold mines now operating

MLX's financial performance in 1H FY16 of a breakeven result was largely as expected as it coincided with the company transitioning one of its existing operations (SKO) to major underground production and bringing a refurbished large operation (CMGP) and one new satellite mine (Cannon) on stream. MLX reported a profit of $0.8m for 1H FY16 after a tax credit of $1.8m. Gold sales were up 7% to 78kozs at a 10% higher average realised gold price of A$1,545/oz. Cash costs of sales were 11% higher at A$1,166/oz and total costs of sales were 8% higher at A$1,412/oz.

Operating cash flow was lower than expected at only $12.5m, down 67%. Capex was higher than expected at $68m, which was 119% up on the pcp with mine development of $54m and exploration of $14m, so cash reserves were reduced more than expected. Cash and bullion at 31 December 2015 were estimated to have been about $36.7m so with debt of $4.3m, the net cash position was lower than expected at $32m.

MLX's all scrip offer for poorly performing copper producer, Aditya Birla (ABY), is unconditional and is now due to close on 24 February 2016, unless extended.

Strongly geared to gold

MLX has been astutely acquiring and developing new gold production to enhance its future financial performance. We estimate MLX has the second largest gold resource base of the Australian gold companies at 18.1Moz, making it strongly geared to gold.

Investment thesis – Buy, TP $1.67/sh (unchanged)

MLX's 1HFY16 result was breakeven as expected and it is now well positioned to deliver much stronger financial results from its growing gold production over the course of 2016 and beyond. The new gold operations recently brought on stream are expected to contribute strongly as they reach full production. We have made modest revisions to our MLX forecasts, resulting in a slight earnings downgrade for FY17 of 2% but we have upgraded our FY16 and FY18 earnings by 6% and 3% respectively. Our valuations are little changed. Our 12-month forward NPV-based target price is unchanged at $1.67/share. We continue to see very significant attraction in MLX with its strong gold leverage and accordingly retain our Buy rating.

Earnings Forecast

Year end June	2015a	2016e	2017e	2018e
Sales (A$m)	314	366	730	823
EBITDA (A$m)	89	109	267	308
NPAT (reported) (A$m)	41	44	157	159
NPAT (adjusted) (A$m)	47	44	157	159
EPS (adjusted) (¢ps)	11	10	34	35
EPS growth (%)	27%	-16%	260%	1%
PER (x)	10.2	11.0	3.0	3.0
FCF Yield (%)	2%	-10%	25%	26%
EV/EBITDA (x)	5.0	4.1	1.7	1.4
Dividend (¢ps)	6	4	9	10
Yield (%)	5.4%	3.8%	8.6%	9.6%
Franking (%)	61%	0%	0%	100%
ROE (%)	14%	11%	29%	25%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Breakeven result in 1H FY16; heavy capex

Table 1 – 1H FY16 financial summary

Year to 30 June	1H FY15 Actual	1H FY16 Actual	1H FY16 BP est	Change on pcp (%)	Actual vs BP est (%)
MLX share of - Gold production (koz)	72.9	**81.1**	81.1	11%	
- Tin production in conc (kt cont Sn)	1.9	**1.8**	1.8	-7%	
Average realised gold price (A$/oz)	1,405	**1,545**	1,545	10%	
Average realised tin price (A$/lb)	11.13	**9.47**	9.47	-15%	
Sales Revenue ($m)	149.3	**146.3**	138.8	-2%	5%
EBITDA ($m)	56.2	**32.3**	30.3	-43%	7%
Normalised NPAT ($m)	26.5	**0.8**	(1.6)	-97%	-151%
Earnings Per Share (normalised) (¢/share)	6.3	**0.2**	(0.4)	-97%	-146%
Dividend Per Share (¢)	2.7	**0.0**	0.0	-100%	
Operating cash flow ($m)	37.3	**12.5**	19.4	-67%	-36%
Net capital expenditure ($m)	(30.9)	**(67.5)**	(48.9)	119%	38%
Cash ($m)	107.1	**30.3**	49.5	-72%	-39%
Total debt ($m)	(0.1)	**(4.3)**	(4.5)	4205%	4%
Net cash/(debt)($m)	107.0	**26.0**	45.0	-76%	-42%

SOURCE: METALSX LTD; BELL POTTER SECURITIES ESTIMATES

The main features of the 1H FY16 financial result were:

- EBITDA and NPAT were largely as expected as the company was transitioning to new production at several gold operations. MLX's result was essentially breakeven as expected and while it reported NPAT of $0.8m, it came after a tax credit of $1.8m. MLX has not traditionally provided for tax in recent years so we were expecting a small loss. The company's overall average cash cost of sales for its gold division was 11% higher than in the previous corresponding period (pcp) at $A1,166/oz while the average total cost of sales was 8% higher at $A1,412/oz. These higher costs in the latest period resulted from a combination of lower grades at HGO; the transition to underground in the HBJ mine at SKO plus the addition of higher grade open pit ore in place of low grade stockpiled material also at SKO; and the commencement of production at the Central Murchison Gold Project (CMGP), which started processing low grade ore.
- The average realised gold price is estimated to have been 10% higher at A$1,545/oz, which was slightly above the average spot price of A$1,535/oz. Gold sales were 7% higher than in the pcp but were 4% below production at 77.9kozs. The average realised tin price was 15% lower than in the pcp at A$9.47/lb as the world tin price continued to fall over the course of 1HFY16 and those falls were so severe that they more than offset the impact of the weaker Australian dollar. The unit cost of tin sales was 3% lower in the latest half from improved efficiencies in mining and processing.
- Operating cash flow was lower than expected at $12.5m, down 67% on the pcp.
- Total capex up strongly but it was higher than expected. It was up 119% to $67.5m of which most ($53.5m) was spent on mine development and associated plant, the vast majority by the gold division with a large part of it on completing development of the CMGP. Exploration expenditure was also higher than expected at $14m but it has been well spent given the number and nature of successes achieved.
- Cash and bullion was estimated to have declined more than expected to be about $36m at 31 December 2015, down 65% from about $102m at 30 June 2015 reflecting the continued capital expenditure on development of new operations, mainly CMGP, but including new operations related to SKO; and the relatively modest operating cash flow. MLX continues to fund its developments internally and has no corporate debt. Net cash and bullion at 31 December was estimated to have been about $32m, down 67% on the position at 30 June 2015.

- The company continued to deliver its high cost gold production, which in 1HFY16 came from the new CMGP operations, into its successful gold hedge program that previously comprised 245kozs with scheduled deliveries out to September 2018 at an average flat forward price of A$1,631/oz. We estimate the hedge position is now about 220kozs with a current marked to market value of about negative $16m at the current Australian dollar gold price of around A$1,703 per ounce. Other Australian gold producers have estimated hedge book values of up to negative $50 - 90m (Table 2 on page 5).
- No interim dividend was declared as expected.

3QFY16 and 2016 guidance

MLX has given production guidance for its gold division for 3QFY16 of 58kozs at an average cash cost of sales (approximately equivalent to all in sustaining costs) of A$1,300 per ounce. We regard this cost guidance as being conservative given MLX achieved an average cash cost of sales of A$1,377 per ounce in 2Q FY16 when the HBJ mine was transitioning to underground at SKO and the new Cannon mine and the CMGP operations were getting underway with the CMGP operation only treating low grade material averaging 1.08g/t gold.

MLX has not given revised guidance for FY16 gold production but instead has given gold production guidance for 2016 of 300kozs at an average cash cost of sales of A$1,115 per ounce. This 2016 guidance, which excludes potential production from Fortnum as a final development decision is yet to be made, is made up of the following operations guidance:

- For SKO – 65kozs at a cash cost of sales of A1,000 per ounce;
- For HGO – 120kozs at a cash cost of sales of A1,000 per ounce; and
- For CMGP - 115kozs at a cash cost of sales of A1,300 per ounce;

MLX has not given any FY16 production guidance for tin.

Offer for ABY is now unconditional

MLX lifts interest in ABY to 26.4%, starts processing acceptances

MLX has declared its all-scrip offer for poorly performing copper producer, Aditya Birla Minerals (ABY) unconditional. MLX has lifted its voting interest in ABY to 26.4% as at 18 February 2016. MLX increased its off-market all scrip offer for ABY on 7 December and is now offering 1 of its shares for every 4.75 ABY shares. The major shareholder in ABY is the large Indian group, Hindalco (with 51% interest), which has rejected the MLX offers and instead has indicated it will await the results of the drawn out staged strategic review/sales process of ABY currently being conducted by Moelis Australia Advisory Pty Ltd (Moelis). The level of acceptances received by MLX indicates that about 54% of the non-Hindalco shareholder base has accepted its offer and sees a better future with MLX owning and running Nifty. MLX has started to process the ABY acceptances resulting in the initial issue of MLX shares to accepting ABY shareholders.

At the current MLX share price of $1.045, the MLX offer values ABY at $68.9m or about $0.22 per share, a 10% premium to the current ABY share price of $0.20. We note that the MLX offer terms have generally represented about an 8% premium to the ABY share price.

MLX offer due to close 24 February (unless extended, MLX not intending to extend)

The offer by MLX for ABY is due to close at 5pm Western Standard Time on Wednesday, 24 February 2016, unless it is extended. **MLX has stated that it its present intention is not to extend the offer closing date**. MLX reports that it continues to seek meaningful engagement with ABY and its major shareholder, Hindalco, but that this has not been forthcoming at any time.

Desire to become a more diversified mining group driving MLX's offer for ABY

We interpret the offer by MLX to be based on several factors of which the main one is related to MLX's desire to become a more diversified mining group. We believe MLX has a strong desire to become a significant copper producer because the company views the longer term outlook for copper as very favourable and sees the current copper market downturn as a good time to acquire suitable copper production based on its expectations for a recovery from such depressed conditions.

No rival bidders for ABY as latest quarterly performance indicates high grading

Although Moelis has been conducting the strategic review/sale process of the Nifty mine for ABY since being appointed in early October 2015, after more than four months ABY has not announced to the market that it holds any reasonable prospect of securing a superior proposal to the offer by MLX.

After ABY's latest half yearly result showed that its business deteriorated significantly over the course of 2015, ABY reported improved operating results in its latest quarterly report (for the December 2015 quarter). ABY's latest quarterly report indicates that Nifty's short term performance had been improved by high grading (the copper grade of ore treated was up 42% on previous quarter, the grade was 70% above average grade in 2015 and 33% above the reserve grade), which can have a major adverse impact on the longer term performance and viability of the operation.

MLX is strongly geared to gold

With the second largest equity gold resource base (which we estimate at 18.1Moz) of the listed Australian gold companies, that is second only to Australia's largest gold producer Newcrest Mining (ASX – NCM, not rated), MLX is strongly geared to gold (Table 2). MLX has built up its large resource base over the past few years, following its initial gold acquisition in the form of the Australian gold operations of Alacer Gold (ASX – AQG, not rated) in October 2013, by further astute acquisitions, mostly of mothballed operations or inadequately developed deposits that were often owned by groups in a degree of financial stress.

Besides its very large gold resource base, MLX also has the following attributes:

- The third lowest valued Enterprise value (EV) per Resource ounce rating;
- The sixth highest average gold resource grade at 2.2g/t; and
- Arguably the best quality gold hedge position because although MLX has the second highest average gold hedge price of A$1,631 per ounce, MLX's position is backed by clearly viable gold operations whereas the company with the highest average hedge price (Perseus Mining, ASX – PRU, not rated) has extremely high cost operations in Ghana, which PRU reported most recently as having an AISC equal to about A$1,983/oz, which was well above its average hedge price of about A$1,797/oz.

Table 2 - Comparison table of Australian listed gold producing companies ranked by size of gold resource base

Gold Company	ASX Code	Share Price	Financial Status (A$m)			Current Annual Equity Gold Production[2]		Gold Hedging				Equity Gold Resource Base		EV per resource ounce
		($)	Market Cap	Net Cash/ (Debt)	EV[1]	Rate kozpa	AISC A$/oz	Total koz	Ave hedge price	Marked to market value[3] ($m)	Hedging Out To	Moz	g/t Au	
Newcrest Mining[4]	NCM	16.21	12,425	(3,738)	16,163	2,483	1,066	Policy is to be unhedged				216.6	1.0	75
MetalsX	**MLX**	**1.045**	**479**	**36**	**443**	**180**	**1,377**	**220**	**1,631**	**(16)**	**Sep18**	**18.1**	**2.2**	**24**
Oceanagold Corp[4]	OGC	4.05	2,448	114	2,334	478	975	310	1,578	(39)	Dec17	17.2	1.6	136
Evolution Mining[4]	EVN	1.81	2,655	(410)	3,064	815	1,016	807	1,590	(91)	Dec19	12.7	1.3	241
Resolute Mining[4]	RSG	0.48	308	75	233	256	1,290	Does hedge gold, none currently				12.7	1.5	18
St Barbara[4]	SBM	1.7	842	(204)	1,046	368	992	50	1,600	(5)	Jun16	9.2	2.0	113
Northern Star Resources[4]	NST	3.87	2,322	223	2,099	581	1,040	117	1,624	(9)	Dec16	8.9	3.7	236
Regis Resources[5]	RRL	2.52	1,259	76	1,183	302	918	260	1,441	(68)	~Apr19	8.4	1.1	140
Alacer Gold[4]	AQG	2.7	971	508	463	147	1,151	Policy is to be unhedged				8.0	1.5	58
Saracen Minerals[4]	SAR	0.95	753	42	711	177	1,009	265	1,511	(51)	Mar19	7.6	1.7	93
Kingsgate[4]	KCN	0.495	111	(47)	157	113	1,487	9	1,551	(1)	Mar16	7.5	0.8	21
Beadell Resources[4]	BDR	0.24	192	(24)	215	160	1,268	nil	na	na	na	6.0	1.9	36
Silver Lake Resources[4]	SLR	0.335	168	38	130	153	1,250	53	1,566	(7)	Sep16	5.1	2.5	26
Perseus Mining[4]	PRU	0.355	188	99	89	130	1,983	120	1,797	11	**not disclosed**	2.2	1.0	40
Ramelius Resources[4]	RMS	0.41	194	40	154	111	1,046	124	1,585	(15)	Dec17	2.2	2.6	69
Troy Resources[4]	TRY	0.415	141	(53)	194	99	1,473	75	1,543	(12)	Dec16	1.8	3.5	109
Doray Minerals[6]	DRM	0.8	246	18	228	86	1,100	170	1,596	(18)	~Jun18	1.2	7.8	196
Medusa Mining[4]	MML	0.6	125	23	102	119	1,338	Policy is to be unhedged				1.2	10.2	89
Millennium Minerals[4]	MOY	0.097	72	8	64	90	1,191	27	1,465	(6)	Jun16	1.1	1.2	57
Taranga Gold Cor[4]	TGZ	0.59	231	41	190	205	1,365	nil	na	na	na	0.9	1.9	201
Alkane Exploration[4]	ALK	0.25	104	19	84	61	1,316	15	1,606	(1)	Dec16	0.7	1.9	123
Independence Group[7]	IGO	2.7	1,381	(141)	1,521	160	796	129	1,550	(20)	Jun17	0.6	1.9	2,415
Kingsrose Mining[8]	KRM	0.22	79	(4)	83	25	1,356	Policy is to be unhedged				0.6	9.6	140

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

NOTES: 1. EV = ENTERPRISE VALUE; 2. ANNUALISED BASED ON LATEST (DECEMBER 2015) QUARTERLY REPORT; 3. BASED ON GOLD PRICE OF A$1,703/OZ; 4. NOT RATED; 5. SELL, TARGET PRICE $2.05/SH; 6. HOLD, TARGET PRICE $0.64/SH; 7. BUY, TARGET PRICE $3.60/SH; 8. BUY. TARGET PRICE $0.46/SH

Minor earnings and valuation changes

FY16 and FY18 earnings upgraded; FY17 earnings downgraded

We have made some revisions to our production and earnings forecasts in light of the 1H16 financial performance (Table 3). We have principally revised our production forecasts for the FGP, which is now expected to be a staged development starting with the treatment of stockpiles to generate initial cash flow that will then be used to expand the scale of operations to incorporate open pit and underground mining.

The revisions to our forecasts see our FY17 earnings forecast reduced by 2% and our FY16 and FY18 have been increased by 6% and 3% respectively. The net result of these revisions to our earnings forecasts is that our valuations are little changed.

We have retained our target price, which is based on our 12-month forward NPV valuation, unchanged at $1.67/sh.

Although MLX has declared its offer for ABY unconditional and has started to issue shares to accepting ABY shareholders, we still do not include any impact for MLX's interest in ABY in our forecasts as there is still uncertainty about the level of that interest and other related developments since ABY is currently carrying out a strategic review/sale process of the Nifty Copper Mine.

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

	Previous			New			Change		
Year ending 30 June	2016e	2017e	2018e	**2016e**	**2017e**	**2018e**	2016e	2017e	2018e
Prices & currency									
Gold (Spot, US$/oz)	1,124	1,230	1,300	**1,124**	**1,230**	**1,300**	0%	0%	0%
Tin (US$/lb)	4.59	6.35	6.90	**4.59**	**6.35**	**6.90**	0%	0%	0%
Copper (US$/lb)	2.28	2.78	3.10	**2.28**	**2.78**	**3.10**	0%	0%	0%
US$/A$	0.72	0.70	0.72	**0.72**	**0.70**	**0.72**	0%	0%	0%
Gold (Spot, A$/oz)	1,559	1,757	1,818	**1,559**	**1,757**	**1,818**	0%	0%	0%
Tin (A$/lb)	6.36	9.07	9.66	**6.36**	**9.07**	**9.66**	0%	0%	0%
Equity production & costs									
Gold (koz)	206	419	462	**206**	**405**	**448**	0%	-4%	-3%
Gold all in sustaining cost ($A/oz)	1,429	1,310	1,335	**1,429**	**1,297**	**1,302**	0%	-1%	-2%
Tin in concentrate (kt)	3.5	3.4	3.4	**3.5**	**3.4**	**3.4**	0%	0%	0%
Tin C1 cash costs (net of by-products) (A$/lb)	4.56	4.51	5.01	**4.56**	**4.51**	**5.01**	0%	0%	0%
Earnings									
Revenue ($m)	356	755	848	**366**	**730**	**823**	3%	-3%	-3%
EBITDA ($m)	107	269	301	**109**	**267**	**308**	2%	-1%	2%
EBIT ($m)	40	190	217	**42**	**187**	**225**	5%	-2%	3%
NPAT (adjusted) ($m)	41	160	154	**44**	**157**	**159**	6%	-2%	3%
EPS (adjusted) (cps)	9	35	34	**10**	**34**	**35**	6%	-2%	3%
PER (x)	10.5	2.7	2.8	**11.0**	**3.0**	**3.0**	4%	12%	7%
EPS Growth (%)	-20%	287%	-3%	**-16%**	**260%**	**1%**	4%	-27%	5%
DPS (reported) (cps)	4	9	10	**4**	**9**	**10**	0%	0%	0%
Yield	4.2%	9.5%	10.5%	**3.8%**	**8.6%**	**9.6%**	-0.4%	-0.9%	-1.0%
Net debt/equity	na	na	na	**na**	**na**	**na**	na	na	na
Valuation ($/sh)	1.56	1.67	1.94	**1.57**	**1.67**	**1.92**	1%	0%	-1%
Price Target ($/sh)		1.67			**1.67**			0%	

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation retained at $1.67/share

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

- A sum-of-the-parts DCF valuation for each of the current gold and tin mining operations and for the three new gold projects (Cannon/Georges Reward, CMGP and FGP) 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 $A968/oz in FY16 as the Cannon and Georges Reward mines supplant low grade ore at SKO and the CMGP project ramp up towards its nameplate capacity. Cash costs are then forecast to average about $A958/oz in FY17 and about $A965/oz in FY18. Apart from in FY16, when there is significant residual capex and new gold production is ramping up, and the average all in sustaining cost (AISC) for that year is estimated to increase to around $A1,429/oz, the average AISCs are expected to be in the range of $A1,250/oz to $A1,350/oz over the following five years;
    2. Sustaining capex of around $90m pa;
    3. Annual exploration spend of around $20m;
    4. Reserve upgrades increase mine lives to about 6 years (CMGP is already forecast to have a 12 year mine life);
    5. The FGP is now expected to be 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 to be developed at a capital cost of about $125m, largely internally funded by MLX and initially as an underground mining operation producing about 200ktpa of ore. Output is expected to start in about early 2019;
    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; and
    8. Dividends are forecast to move to a more sustainable basis of about 30% of NPAT. We forecast that dividends should be fully franked from FY18.

Table 4 - MLX valuations

	Now		+12 months		+24 months	
DCF sum-of-parts valuation	**A$m**	**$/sh**	**A$m**	**$/sh**	**A$m**	**$/sh**
Higginsville Gold Operation	134	0.29	141	0.30	131	0.28
South Kalgoorlie Operations	103	0.22	111	0.24	112	0.24
Central Murchison Gold Project	325	0.70	349	0.76	376	0.81
Fortnum	54	0.12	54	0.12	54	0.12
Rover Project	30	0.06	30	0.06	30	0.06
Renison/Rentails/Mt Bischoff	60	0.13	64	0.14	66	0.14
Central Musgraves Nickel Project	15	0.03	15	0.03	15	0.03
Exploration and other	4	0.01	4	0.01	4	0.01
Corporate	(39)	(0.08)	(34)	(0.07)	(29)	(0.06)
Total enterprise value	687	1.49	734	1.59	760	1.65
Net cash/ (debt)	37	0.08	39	0.08	129	0.28
Equity Value	723	1.57	773	1.67	888	1.92

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, (MLX 100%); the South Kalgoorlie Operations (SKO) near Kalgoorlie, (MLX 100%); the Central Murchison Gold Project (CMGP) near Meekatharra that recently commenced production, (MLX 100%); the Fortnum Gold Project (FGP) north of Meekatharra that is under consideration for development in 2016, (MLX 100%); the Mt Henry Project (MHP), a gold deposit near Norseman that is likely to be integrated into HGO, (MLX 100%); 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 coming from the ore being treated at SKO has recently begun and the Georges Reward Project, (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 2019.

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 partner can be obtained.

We are forecasting that MLX's equity gold production will grow from 151koz in FY15 to over 400kozpa by FY17. We estimate that the Gold Division will contribute about 70% to 85% of MLX earnings in FY16 – 18. The Renison tin mine is currently producing around 7.5ktpa of tin in concentrate, making it one of the largest tin mines in the world.

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$1.67/sh (unchanged)

MLX's 1H FY16 result was breakeven as expected and it is now well positioned to deliver much stronger financial results from its growing gold production over the course of 2016 and beyond. The new gold operations recently brought on stream are expected to contribute strongly as they reach full production. We have made modest revisions to our MLX forecasts, resulting in a slight earnings downgrade for FY17 of 2% but we have upgraded our FY16 and FY18 earnings by 6% and 3% respectively. Our valuations are little changed. Our target price based on the 12-month forward NPV valuation is unchanged at $1.67/share. We continue to see very significant attraction in MLX with its strong gold leverage and accordingly retain our Buy rating.

Shareholders

Major shareholders include: APAC Resources Ltd, 21.8%; the Jinchuan Group Limited, 9.6%; and the Blackrock Group 9.5% based on the expanded MLX share capital following the recent issue of 40.0m shares to acquire the Mt Henry and Fortnum gold projects. Directors and management currently have a total interest of about 7%.

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.

MetalsX Ltd
as at 22 February 2016

Recommendation	Buy
Price	$1.045
Target (12 months)	$1.67

Table 5 - Financial summary

PROFIT AND LOSS

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
Revenue	$m	242	314	366	730	823
Expense	$m	(170)	(226)	(257)	(464)	(515)
EBITDA	$m	**72**	**89**	**109**	**267**	**308**
Depreciation and amortisation	$m	(34)	(44)	(67)	(80)	(83)
EBIT	**$m**	**37**	**44**	**42**	**187**	**225**
Net interest expense	$m	2	3	(0)	1	3
PBT	$m	**39**	**47**	**42**	**188**	**228**
Tax expense	$m	-	-	2	(30)	(68)
Impairments/write-offs/other	$m	(2)	(6)	-	-	-
NPAT (reported)	$m	**37**	**41**	**44**	**157**	**159**
Abnormal items	$m	-	6	-	-	-
NPAT (adjusted)	$m	**37**	**47**	**44**	**157**	**159**

PROFIT AND LOSS (INTERIM)

Half year ending	Unit	Jun-14a	Dec-14a	Jun-15a	Dec-15e	Jun-16e
Revenue	$m	169	150	164	149	218
Expense	$m	(113)	(94)	(131)	(116)	(141)
EBITDA	$m	**56**	**56**	**33**	**32**	**77**
Depreciation	$m	(28)	(20)	(24)	(33)	(34)
EBIT	$m	28	36	8	(0)	43
Net interest expense	$m	0	1	2	(1)	0
PBT	$m	**28**	**37**	**10**	**(1)**	**43**
Tax (expense)/benefit	$m	-	-	-	2	-
Impairments/write-offs/other	$m	0	(11)	4	-	-
NPAT (reported)	$m	**28**	**27**	**14**	**1**	**43**
Abnormal items	$m	-	(11)	17	-	-
NPAT (adjusted)	$m	**28**	**16**	**31**	**1**	**43**

CASH FLOW

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
OPERATING CASHFLOW						
Receipts	$m	238	298	351	704	818
Payments	$m	(165)	(220)	(280)	(438)	(513)
Tax	$m	-	-	-	-	(67)
Net interest	$m	2	3	1	1	3
Other	$m	(2)	2	1	-	-
Operating cash flow	$m	**73**	**83**	**74**	**267**	**241**
INVESTING CASHFLOW						
Capex and exploration	$m	(49)	(74)	(116)	(145)	(115)
Other	$m	(29)	(1)	(3)	-	-
Investing cash flow	$m	**(78)**	**(74)**	**(119)**	**(145)**	**(115)**
FINANCING CASHFLOW						
Net equity proceeds	$m	-	-	-	-	-
Debt proceeds/(repayments)	$m	(1)	(1)	(1)	-	-
Dividends	$m	-	(10)	(10)	(32)	(50)
Other	$m	1	44	-	-	-
Financing cash flow	$m	**0**	**33**	**(11)**	**(32)**	**(50)**
Change in cash	$m	(4)	42	(56)	90	75

BALANCE SHEET

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
ASSETS						
Cash & short term investments	$m	57	99	43	133	208
Accounts receivable	$m	19	16	26	52	57
Inventory	$m	33	37	53	53	53
Mine development and PPE	$m	219	225	259	306	319
Exploration & evaluation	$m	95	100	183	202	221
Other	$m	8	10	19	19	19
Total assets	$m	**431**	**487**	**584**	**765**	**877**
LIABILITIES						
Accounts payable	$m	33	37	42	68	70
Borrowings	$m	0	5	4	4	4
Other	$m	86	99	123	153	154
Total liabilities	$m	**120**	**141**	**169**	**225**	**228**
SHAREHOLDER'S EQUITY						
Share capital	$m	331	333	386	386	386
Reserves	$m	20	23	7	7	7
Retained earnings	$m	(39)	(10)	22	147	256
Non-controlling interest	$m	-	-	-	-	-
Total equity	$m	**312**	**346**	**415**	**540**	**649**
Weighted average shares	m	416	415	437	458	458

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
VALUATION						
NPAT (adjusted)	$m	37	47	44	157	159
Adjusted EPS	c/sh	8	11	10	34	35
EPS growth	%	792%	27%	-16%	260%	1%
PER	x	12.8x	10.2x	11.0x	3.0x	3.0x
DPS	c/sh	3	6	4	9	10
Franking	%	100%	61%	0%	0%	100%
Yield	%	2.6%	5.4%	3.8%	8.6%	9.6%
FCF/share	c/sh	(1)	2	(10)	27	27
FCF yield	%	-1%	2%	-10%	25%	26%
EV/EBITDA	x	6.2x	5.0x	4.1x	1.7x	1.4x
PROFITABILITY RATIOS						
EBITDA margin	%	30%	28%	30%	37%	37%
EBIT margin	%	15%	14%	12%	26%	27%
Return on assets	%	9%	10%	7%	21%	18%
Return on equity	%	13%	14%	11%	29%	25%
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(57)	(94)	(39)	(129)	(204)
ND / E	%	nc	nc	nc	nc	nc
ND / (ND + E)	%	nc	nc	nc	nc	nc

ASSUMPTIONS - Prices

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	LT real
Gold - Spot	US$/oz	1,295	1,224	1,124	1,230	1,214
Tin - Spot	US$/lb	10.21	8.60	4.59	6.35	9.30
Copper - Spot	US$/lb	3.18	2.89	2.28	2.78	3.14
CURRENCY						
USD/AUD	US$/A$	89.29	0.83	0.72	0.70	0.75

ASSUMPTIONS - Production (equity %)

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
Gold Division	koz					
Gold production - Higginsville and Mt Henry	koz	123	132	105	123	123
- South Kalgoorlie Operations	koz	15	19	55	83	87
- Central Murchison	koz	-	-	46	177	193
- Fortnum	koz	-	-	-	21	44
- Total	**koz**	**138**	**151**	**206**	**405**	**448**
All in sustaining costs - Higginsville	A$/oz	767	1,073	1,348	1,281	1,341
- South Kalgoorlie Ops.	A$/oz	868	1,652	1,441	1,289	1,234
- Central Murchison	A$/oz	-	-	1,600	1,319	1,354
- Fortnum	A$/oz	-	-	-	1,230	1,101
- Total	**A$/oz**	**778**	**1,148**	**1,429**	**1,297**	**1,302**
Tin Division						
Tin production (in concentrate)	kt	3.2	3.5	3.5	3.4	3.4
Tin cash costs	US$/lb	1,044.2	3.2	4.6	4.5	5.0

VALUATION

Issued capital	Unit	
Ordinary shares	m	458
Ordinary partly paid (restricted)	m	3
Total	**m**	**462**

	Current		+ 12 months		+ 24 months	
Sum of parts valuation	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Higginsville Gold Operation	95	0.21	102	0.22	93	0.20
South Kalgoorlie Operations	103	0.22	111	0.24	112	0.24
Central Murchison Gold Project	325	0.70	349	0.76	376	0.81
Fortnum, Mt Henry and Georges Reward	92	0.20	92	0.20	92	0.20
Rover	30	0.06	30	0.06	30	0.06
Renison Tin mine, Rentails and Mt Bischoff	60	0.13	64	0.14	66	0.14
Central Mulgrave Nickel Project	15	0.03	15	0.03	15	0.03
Other exploration and shareholdings	4	0.01	4	0.01	4	0.01
Corporate	(39)	(0.08)	(34)	(0.07)	(29)	(0.06)
Enterprise value	**687**	**1.49**	**734**	**1.59**	**760**	**1.65**
Net (debt)/cash	37	0.08	39	0.08	129	0.28
Equity value	**723**	**1.57**	**773**	**1.67**	**888**	**1.92**

SUBSTANTIAL SHAREHOLDERS

Shareholder	M Shares	Interest
APAC Resources Ltd	99.4	21.5%
Jinchuan Group Limited	44.0	9.5%
BlackRock Group	43.5	9.4%

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.

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Peter Arden owns 85000 shares in MLX.

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