

Metals X Ltd^{4,1*}

BUY

MLX-ASX

30 November 2016

Last: **A\$0.64**
▼ Target: **A\$0.75**

MLX trading ex Westgold distribution

Shareholders vote to spin gold assets out of MLX

On 24th November MLX shareholders voted on a capital reduction of MLX and a 1 for 2 in-specie distribution of the company's gold assets into Westgold Resources Ltd (ASX:WGX). MLX commenced trading on an ex-distribution basis on 29 November 2016. MLX retains the bulk of its previous board, management, corporate infrastructure and tax losses and the entirety of its base metals business and investments. Current Managing Director, Peter Cook will become MD of Westgold and step down from the MLX board. Current Executive Director, Warren Hallam will become MD. Warren is well respected and has extensive experience in base metals and MLX's base metals business.

MLX now a pure play base metals business

Metals X retains a large resource and reserve base in tin, copper, nickel and cobalt through its 50% holding in the 7,500tpa Renison tin operation, its 100% owned 30,000tpa Nifty copper mine and its large undeveloped Wingellina nickel-cobalt deposit.

Balance sheet to support growth projects at a time of improved pricing

The balance sheet has been adjusted post distribution to a last reported cash position of A\$49m, no corporate debt or metal loans and significant exposure to an ongoing carry forward tax loss that can be attributed against future profits. The balance sheet is well placed to support improvements at the newly acquired Nifty project which includes better capital allocation, exploration and expected near term reserve growth. Renison operations are operating at a significantly lower cost base since the company became owner operator this calendar year. This improvement in cash costs is timed with an improved tin price that results in margins of circa A\$10,000/t at current prices.

Maintain BUY rating but lower price target to A\$0.75/share

Our SOTP valuation based price target has fallen due to the removal of the gold division. We have adjusted our balance sheet based on MLX announcements of a pro-forma balance sheet at 30 June 2016. The recent improvement in base metals prices has led to us adjusting our copper and tin prices inline with consensus at long term prices (>2019) of US\$6,100/t Cu and US\$21,000/t Sn. We have lowered our risking discount on Wingellina very slightly from 90% to 85% to reflect the recently improved nickel pricing outlook. Recently published presentations provide confidence in the exploration upside at Nifty as well as the reduced cash costs at Renison and we have made adjustments accordingly.

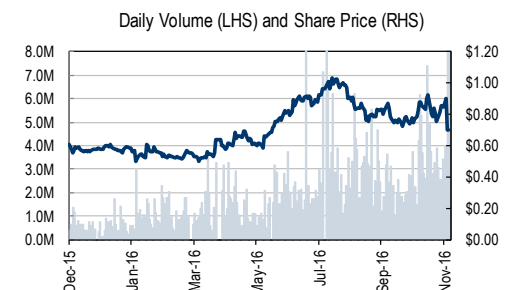
The MLX portfolio of base metals assets looks undervalued by the market and we consequently maintain our BUY rating.

What's changed	Old	New
Rating	n/a	BUY
Target (A\$)	n/a	\$0.75
Tin Production 2016 (kt)	3.18	3.18
Tin Production 2017E (kt)	3.32	3.32
Tin Production 2018E (kt)	3.28	3.28
Copper Production 2016 (Kt)	33.06	33.06
Copper Production 2017E (Kt)	35.76	35.76
Copper Production 2018E (Kt)	44.65	44.65

Share Data	
Share o/s (m, basic)	609.3
52-week high/low (A\$)	1.82/0.88
52-week average daily volume (shares)	2.0 M
Market cap (A\$m)	\$386.93
EV (A\$m)	\$324.87
End Qtr Net debt (A\$m)	-\$62.06
Projected return	18%
NAV0%/share	\$0.75
NAV8%/share	\$0.75
P/NAV0%	0.85
P/NAV8%	0.85

Financial Data			
YE June 30	FY16	FY17E	FY18E
Tin production (kt)	3.18	3.32	3.28
AISC(A\$/t)	\$19,952	\$17,812	\$17,960
Copper production (Kt)	n.a	35.76	44.65
AISC (A\$/lb)	n.a	\$2.66	\$2.48
Capex (A\$m)	-\$102	-\$29	-\$26
Free cashflow (A\$m)	\$39.2	\$33.0	\$34.9
EPS	-\$0.04	\$0.04	\$0.05
FCFPS	\$0.08	n.a.	\$0.06
P/E	-	16.4	14.6
P/FCF	-	7.8	n.a.
EV/EBITDA	-	10.6	5.2

All figures in A\$.



Source: ASX Warning: Past performance is not indicative of future performance

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**See important disclosures on the last page of this report*



Ticker		MLX:ASX		Financial Yr. End		30 June	
Recommendation		BUY		Shares on issue (m)		609.3	
Target Share price (A\$)		0.75		Market Cap (A\$m)		386.9	
Current Share price (A\$)		0.64		Enterprise Value (A\$m)		324.9	
Implied Return (%)		18%		Cash (est. qtr end) (A\$m)		62.1	
P/NAV (x)		0.65		Debt(A\$m)		0.0	

Valuation					Financials (A\$m)							
Asset	Discount rate	Unrisked NAV (A\$m)	NAV "X" Factor	NAV Target (A\$m)	Target Price (A\$)	A\$m	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Nifty	10%	\$159.2	1.00 X	\$159.2	\$0.26	Profit & Loss						
Renison (50%)	10%	\$160.7	1.00 X	\$160.7	\$0.26	Revenue	\$352.3	\$297.3	\$352.5	\$374.6	\$394.2	\$401.3
Rentals (50%)	n.a	\$20.0	1.00 X	\$20.0	\$0.03	Cost of Sales	\$339.7	\$215.8	\$251.6	\$251.6	\$251.6	\$251.6
Wingellina	10%	\$163.0	0.15 X	\$24.5	\$0.04	Gross Profit	\$12.6	\$81.6	\$100.9	\$123.0	\$142.6	\$149.7
Exploration Upside	n.a	\$15.0	1.00 X	\$15.0	\$0.02	EBITDA	(\$30.5)	\$62.1	\$77.5	\$98.6	\$117.6	\$124.4
Cash (est. qtr end)	n.a	\$62.1	1.00 X	\$62.1	\$0.10	Net Profit before tax	(\$27.9)	\$29.8	\$39.4	\$54.4	\$65.9	\$63.9
Listed investments	n.a	\$11.1	1.00 X	\$11.1	\$0.02	Tax Payable	\$4.3	(\$3.3)	(\$9.3)	(\$12.6)	(\$14.9)	(\$14.1)
Corporate (incl.tax credits)	10%	\$4.9	1.00 X	\$4.9	\$0.01	Profit after tax	(\$23.6)	\$26.5	\$30.1	\$41.8	\$50.9	\$49.7
Total NAV		\$596.0		\$457.5	\$0.75							

Valuation Split (%)

- Exploration Upside
- Nifty
- Renison (50%)
- Rentals (50%)
- Wingellina
- Cash (est. qtr end)
- Listed investments

Balance Sheet

Assets

Cash	\$39.2	\$72.1	\$107.0	\$158.0	\$221.6	\$301.3
Total Current Assets	\$113.5	\$152.2	\$187.1	\$238.1	\$301.7	\$381.4
PPE & Exp. & Dev.	\$442.3	\$206.2	\$192.4	\$170.7	\$142.8	\$97.9
Total Non Current Ass	\$485.5	\$213.7	\$199.9	\$178.2	\$150.3	\$105.4
Total Assets	\$599.0	\$365.9	\$387.0	\$416.3	\$452.0	\$486.8

Liabilities

Borrowings	\$15.4	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5
Total Current Liabilities	\$33.4	\$33.4	\$33.4	\$33.4	\$33.4	\$33.4
Total Liabilities	\$204.1	\$79.3	\$79.3	\$79.3	\$79.3	\$79.3

Cashflow Generation

Operating cashflow	\$62.0	\$60.5	\$69.9	\$87.6	\$104.8	\$113.6
Debt Funding	\$23.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Equity Funding	(\$0.1)	\$10.5	\$0.0	\$0.0	\$0.0	\$0.0
Capital Expenditure	(\$101.8)	(\$28.8)	(\$26.0)	(\$24.0)	(\$26.0)	(\$19.0)
Debt Repayments	(\$2.9)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Free cashflow	\$39.2	\$33.0	\$34.9	\$51.0	\$63.6	\$79.7

Dividend Payouts

Dividend paid	(\$10.1)	(\$9.2)	(\$9.0)	(\$12.5)	(\$15.3)	(\$14.9)
Dividend per share	\$0.02	\$0.02	\$0.01	\$0.02	\$0.03	\$0.02
Dividend yield	2.52%	2.38%	2.33%	3.24%	3.95%	3.86%

EPS (A\$)

EPS (A\$)	-4c	4c	5c	7c	8c	8c
FCFPS (A\$)	8c	n.a.	6c	8c	10c	13c
P/E ratio (x)	-16.4 X	14.6 X	12.9 X	9.3 X	7.6 X	7.8 X
P/FCF (x)	7.8 X	n.a.	11.1 X	7.6 X	6.1 X	4.9 X
EV/EBITDA (x)	-10.6 X	5.2 X	4.2 X	3.3 X	2.8 X	2.6 X
Current ratio (x)	3.4	4.6	5.6	7.1	9.0	11.4
Shares on Issue (M)	479.7	609.3	609.3	609.3	609.3	609.3

Directors & Management

Non-Ex Chairman	Peter Newton	Major Shareholders	Apac Resources	12.9%
Managing Director	Warren Hallam	Blackrock		9.4%
Non Executive Director	Stephen Robinson	Jinchuan		7.3%
Non Executive Director	Simon Heggen	Ausbil		4.9%
Non Executive Director	Xie Penggen	Ruffer		4.0%
Chief Financial Officer	Fiona Van Maanen	Total		38.4%

Reserve and Resources Statement (attributable)				
Status	Tonnes (Mt)	Grade	Contained	EV/Oz.t
Nickel Reserve	167.5	1.0	1,645,000	\$197
Nickel Resource	216.5	1.0	2,067,000	\$157
Tin Reserve	27.6	0.7	180,000	\$1,805
Tin Resource	34.7	0.8	286,000	\$1,136
Copper Reserve	8.7	1.9	168,586	\$1,927
Copper Resource	58.8	1.6	920,795	\$353

Production Profile (t Sn,Oz Au) (attributable & before payabilities)					
Operation	FY2016	FY2017	FY2018	FY2019	FY2020
Renison (t Sn)	3,181	3,319	3,280	3,280	3,280
Nifty (t Cu)	33,056	35,759	44,650	44,650	44,650

All in Sustaining Costs (A\$)*					
Operation	FY2016	FY2017	FY2018	FY2019	FY2020
Renison (A\$/t Sn)	\$19,952	\$17,812	\$17,960	\$17,960	\$17,960
Nifty (A\$/lb)	\$2.62	\$2.66	\$2.48	\$2.47	\$2.50

Commodity Prices (A\$)					
AUD / t (oz)	FY2016	FY2017	FY2018	FY2019	FY2020
Tin	\$21,316	\$27,817	\$28,000	\$28,000	\$28,000
Copper	\$6,640	\$7,007	\$7,061	\$7,577	\$8,033
Nickel	\$12,187	\$15,021	\$16,022	\$17,858	\$19,943
AUD:USD	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75

Mine Life assumption		
Operation	Renison	Nifty
Years	8.00	5.50

* after byproduct credits. Expensing and capitalising of cash costs will vary and consequently differ from management guidance
** Discount rate is 8% for Gold and 10% for all other commodities

About the analysts

Duncan Hughes, Director, Mining and Metals analyst

Duncan has over 17 years' experience in the mining sector. Duncan joined Somers and Partners in July 2014 from RFC Ambrian where he was Head of Research based in London and Perth. At RFC Ambrian Duncan was focussed on small to mid-cap mining stocks. Duncan holds a first class honours degree in Geology and worked for 10 years as a geologist in Western Australia. As Exploration Superintendent at Jubilee Mines, he was actively involved in the discovery of a number of high grade nickel sulphide ore bodies that have since been mined. He has also spent time exploring for base metals and gold with Lion Ore Australia and was involved in the discovery of the Deep South Gold Mine whilst at Sons of Gwalia.

On completion of an MBA on investment and risk from Imperial College London, Duncan spent three years as a fund manager investing in small cap resources companies in Australia with the LinQ Resource fund and in London at CD Capital.

Conrad Mulherin, Equities Research analyst

Conrad joined Somers and Partners in 2012 as an Equities Research Analyst covering Mining and Emerging Technology Companies.

Conrad has an Honours degree in Geological Sciences from Queen's University in Canada and a MSc in Resources Management from the University College London in the U.K.

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