

Australian Equity Research

7 June 2018

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BUY

unchanged

PRICE TARGET A\$1.20↓

from A\$1.25

Price (7-Jun) A\$0.81

Ticker MLX-ASX

52-Week Range (A\$):	0.65 - 1.23
Avg Daily Vol (M) :	2.9
Market Cap (A\$M):	491
Shares Out. (M) :	606.0
Dividend /Shr (AUC):	1.0
Dividend Yield (%) :	1.2
Enterprise Value (A\$M):	458
NAV /Shr (AUC):	1.18
NAV /Shr (5%) (A\$):	1.18
Net Cash (A\$M):	33.0
P/NAV (x) (A\$):	0.68
Major Shareholders:	APAC Resources 9.2% BlackRock 8.2%

FYE Jun	2017A	2018E	2019E	2020E
Sales (A\$M)	264.5	232.9↓	368.8↓	409.8
Previous	-	236.0	389.2	-
EBITDA (A\$M)	26.5	29.6↓	97.3↓	131.6
Previous	-	31.3	104.0	-
Net Income (A\$M)	(103.8)	6.6↓	82.6↓	119.1↓
Previous	-	7.7	89.1	119.7
EV/EBITDA (x)	16.6	15.5	4.0	2.2



Source: FactSet

Priced as of close of business 7 June 2018

Metals X Limited (MLX:ASX) is a tin producer from its 50% owned Renison Mine in Tasmania and also ramping up production to ~40ktpa of copper at its Nifty Copper mine.

Lowering Target Price

Short-term pain, medium-term gain

Nifty production update. MLX has provided a production update, reiterating its ramp-up intentions over the next 6-12 months, which remain largely in line with previous guidance. In the short term, however, production in the JunQ'18 has been flagged to be "below that in the MarQ'18". This implies a <5kt copper production result against our expectations of ~7kt, primarily due to the loss of ~45kt of production while the underground conveyor was upgraded and the sequencing of lower grade stopes (outside the Checkerboard) together with ongoing grade dilution from within the Checkerboard. We have updated our production assumptions for the JunQ'18 to 430kt at 1.25% for 4.9kt copper production (previously assumed 550kt at 1.45% for ~7kt), and also tempered our mining/processing rate assumptions through the 2H'18, which we now view as conservative versus MLX's guidance. We reiterate that we expect the production increase over the next six months will essentially be tonnes driven rather than grade (should average ~1.45% copper), and as such see the meaningful shift in tonnes mined QoQ (to +600kt per Q by the DecQ'18) as the key driver underpinning the production increases.

Medium-term plan still in place. MLX's commentary with respect to targeted production rates remains largely unchanged, expecting to hit a 35ktpa run rate in the SepQ'18 and a 40ktpa run rate by the end of 2018. The company indicated the material step-change (remembering JunQ'18 is a ~20ktpa run-rate) will be driven by additional stoping capacity and production progressively moving out of the problematic Checkerboard area and into the previously undeveloped western and eastern extensions of the orebody. We recognise the aggressive mining and processing rate increases required to achieve guidance, and, in the interest of conservatism, don't forecast the company hitting the 40ktpa production rate until the JunQ'19. As production becomes less reliant on the Checkerboard, we expect forecasting to become much more predictable and head grades should increase through 2019 towards Reserve grade (~1.71% copper).

Balance sheet. With a delayed ramp-up at Nifty, the transition to generating FCF will be deferred (CG est. FCF break-even ~5.5kt per Q), and as such we now forecast MLX finishing FY18 with a cash position of ~A\$33m (debt free), down from A\$50m at the end of FY17. Positively, with capital expansion projects at both Nifty and Renison now largely behind it, the company should generate A\$76m in FCF in FY19, placing it on an undemanding EV/FCF multiple of 6.0x.

Valuation and recommendation. While the miss against our expectations in the JunQ'18 is disappointing, we remain positive on the outlook for MLX, with the material increase in production expected. We note that with MLX's copper production peers (OZL-ASX and SFR-ASX) both trading near recent all-time highs, the potential for MLX to re-rate strongly on the back of validating its expansion plan (SepQ'18 result) could play out quickly in our view. Our NAV-based price target of A\$1.20/sh (previously A\$1.25/sh) is underpinned by Renison and Nifty (NPV8%), net of corporate, balance sheet adjustments and nominal exploration value. With healthy fundamental valuation upside potential (P/NAV 0.67x) and compelling FY19E/20E earnings and cash flow multiples, we retain a BUY recommendation.

FINANCIAL SUMMARY

Metals X Limited ASX:MLX
Analyst: Tim McCormack
Date: 7/06/2018
Year End: June

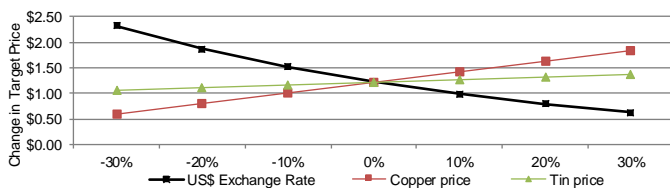
Rating:
Target Price: **BUY**
\$1.20

Market Information			
Share Price	A\$		0.81
Market Capitalisation	A\$m		490.8
12 Month Hi-Lo	A\$	1.93-0.62	
Issued Capital	m		605.95
Options	m		1.64
Fully Diluted	m		607.59

Valuation		A\$m	Risk Adj.	A\$/share
Renison (MLX 50% owner)	NPV @ 8%	197.7		0.33
Nifty	NPV@ 8%	368.0		0.61
Exploration/Development assets		140.0		0.23
Hedging (against CG price deck)		(3.3)		(0.01)
Cash		33.0		0.05
Debt		-		-
Investments		6.4		0.01
Less: Corporate & O'heads		(26.5)		(0.04)
TOTAL NAV		715.2		1.18
Price:NAV				0.68
NAV at spot (copper, tin, FX)				1.35
Target Price (rounded)				1.20

Assumptions	2017a	2018e	2019e	2020e
Tin Price (US\$/t)	20,372	20,793	20,716	20,750
Copper Price (US\$/lb)	2.40	2.90	3.00	3.00
AUD:USD	0.75	0.80	0.79	0.79

Valuation Sensitivity



Production Metrics	2017a	2018e	2019e	2020e
Renison Tin (MLX 50%)				
Tin production (tonnes)	6,972	7,345	8,492	8,544
AISC (A\$/t)	18,776	17,850	16,886	16,951

Production Metrics	2017a	2018e	2019e	2020e
Nifty Copper Mine (MLX 100%)				
Copper production (tonnes)	23,429	17,896	34,639	39,480
C1 cost (A\$/lb)	2.45	3.97	3.01	2.70
AISC (A\$/lb)	3.31	4.50	3.24	2.90

Reserves & Resources

Tin		Mt	Sn %	Sn (kt)
Resources - MLX 50%	Renison (M+I+J)	15	1.35	203
Reserves - MLX 50%	Renison (P+P)	7	1.06	72
Nickel		Mt	Ni%	Ni(kt)
Resources	Total	217	0.95	2,067
Reserves	Total	167	0.98	1,645
Copper (Nifty only)		Mt	Cu%	Cu(kt)
Resources	Total	42	1.50	622
Reserves	Total	14	1.71	238

Directors & Management

Name	Position
Peter Newton	NE Chairman
Warran Hallam	Managing Director
Stephen Robinson	Executive Director
Allan King	COO
Simon Heggen	NE Director
Yimin Zhang	NE Director
Milan Jerkovic	NE Director

Substantial Shareholders

Shareholder	%
APAC	9.2%
BlackRock	8.2%
Jinchuan	7.2%
Ausbil	5.3%

Source: MLX & Canaccord Genuity estimates

Company Description

Metals X Ltd (MLX:ASX) is a tin and copper producer from its 50% owned Renison tin mine (Tasmania) and the Nifty copper mine (WA). The company demerged its gold business to form Westgold (WGX:ASX) in December 2016, and as such we only model continuing base metals operations from 2017.

Profit & Loss (A\$m)	2017a	2018e	2019e	2020e
Revenue	264.5	232.9	368.8	409.8
Operating Costs	-219.1	-194.0	-260.4	-267.1
Corporate & O'heads	-17.6	-6.8	-6.1	-6.1
Exploration (Expensed/WO)	-1.2	-2.5	-5.0	-5.1
EBITDA	26.5	29.6	97.3	131.6
Dep'n	-38.0	-10.1	-16.7	-18.0
EBIT	-11.5	19.5	80.6	113.6
Net interest	4.2	1.4	2.0	5.5
Tax	-36.1	0.6	0.0	0.0
Abnormals (pre-tax)	-60.3	-14.9	0.0	0.0
NPAT (continuing ops)	-103.8	6.6	82.6	119.1
Abnormals (incl. asset disp)	237.8	-14.9	0.0	0.0
NPAT (reported)	134.0	6.6	82.6	119.1

Cash Flow (A\$m)	2017a	2018e	2019e	2020e
Cash Receipts	385.0	255.4	368.8	409.8
Cash paid to suppliers & em	-364.1	-215.1	-266.5	-273.2
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	1.1	0.9	2.0	5.5
Other (WC etc)	4.8	-10.0	0.0	0.0
Operating Cash Flow	26.8	31.1	104.3	142.2
Exploration and Evaluation	-14.1	-9.7	-10.0	-10.0
Capex	-50.3	-33.1	-18.5	-18.5
Other	-58.3	-0.3	0.0	0.0
Investing Cash Flow	-122.6	-43.1	-28.5	-28.5
Debt (repayment)/ gold prep:	0.0	-1.5	0.0	0.0
Share capital	115.6	0.0	0.0	0.0
Dividends	0.0	-4.5	-6.1	-9.7
Financing Expenses	-8.9	0.9	0.0	0.0
Financing Cash Flow	106.7	-5.1	-6.1	-9.7
Opening Cash	39.2	50.1	33.0	102.7
Increase / (Decrease) in cas	10.9	-17.1	69.7	103.9
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	50.1	33.0	102.7	206.6

Balance Sheet (A\$m)	2017a	2018e	2019e	2020e
Cash + S/Term Deposits	50.1	33.0	102.7	206.6
Other current assets	100.8	47.2	59.3	66.5
Current Assets	150.9	80.2	162.1	273.1
Property, Plant & Equip.	40.5	35.9	35.7	35.6
Exploration & Develop.	4.9	9.9	14.9	19.9
Other Non-current Assets	86.8	130.0	165.2	201.7
Payables	29.3	23.4	37.1	41.5
Short Term debt	3.2	0.0	0.0	0.0
Long Term Debt	5.3	0.0	0.0	0.0
Other Liabilities	46.5	33.2	68.6	132.6
Net Assets	198.7	199.3	272.2	356.2
Shareholders Funds	252.5	252.5	252.5	252.5
Reserves	29.1	29.1	29.1	29.1
Retained Earnings	-82.9	-82.3	-9.4	74.6
Total Equity	198.7	199.3	272.2	356.2

Ratios & Multiples	2017a	2018e	2019e	2020e
EBITDA Margin	10%	13%	26%	32%
EV/EBITDA	16.6x	15.5x	4.0x	2.2x
FCF	-95.8	-12.0	75.8	113.6
EV/FCF	-4.8x	-38.2x	6.0x	4.0x
Op. Cashflow/Share	\$0.04	\$0.05	\$0.17	\$0.23
P/CF	18.3x	15.8x	4.7x	3.5x
EPS	-\$0.17	\$0.01	\$0.14	\$0.20
EPS Growth	nm	-106%	1144%	44%
PER	-4.7x	74.0x	5.9x	4.1x
Dividend Per Share	\$0.01	\$0.01	\$0.02	\$0.06
Dividend Yield	1.2%	1.2%	2.0%	7.1%
ROE	67%	3%	30%	33%
ROIC	-18%	6%	30%	41%
Debt/Equity	3%	0%	0%	0%
Net Interest Cover	nm	nm	nm	nm
Book Value/share	\$0.33	\$0.33	\$0.45	\$0.59
Price/Book Value	2.5x	2.5x	1.8x	1.4x

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Investment Recommendation

Date and time of first dissemination: June 07, 2018, 01:11 ET

Date and time of production: June 07, 2018, 01:11 ET

Target Price / Valuation Methodology:

Metals X Limited - MLX

Our valuation is underpinned by Renison and Nifty (NPV8%), net of corporate, balance sheet adjustments and nominal exploration value.

Risks to achieving Target Price / Valuation:

Metals X Limited - MLX

The key investment risks for MLX include: Operating Risks - The Company is subject to risk of such as plant breakdowns, rock falls, seismic activity and other technical issues. Increased extraction costs can severely impact the operating activities of the company and its share price. Adverse weather conditions restricting the company from operating activities could also result in encountering unexpected and costly delays. Exploration risks - Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks are associated in operating in remote areas that lack necessary infrastructure to support a mine life. Uncertainties associated with mining techniques and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. Commodity price fluctuations - The Company as a producer is exposed to commodity price fluctuations. Commodity price fluctuations are driven by many macro-economic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business upon changes in the pricing. Licenses, permits and environment risk - Metals X is subject to licensing and permit approvals which may require renewing of lease on certain tenements. This can result in the risk of lease renewal not being met within a timeframe convenient to the company or alternatively being seen as not meeting satisfactory environmental standards. Such a risk could result in considerable financial resources being drawn upon.

Distribution of Ratings:

Global Stock Ratings (as of 06/07/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	574	61.59%	41.99%
Hold	229	24.57%	24.89%
Sell	22	2.36%	18.18%
Speculative Buy	107	11.48%	64.49%
	932*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

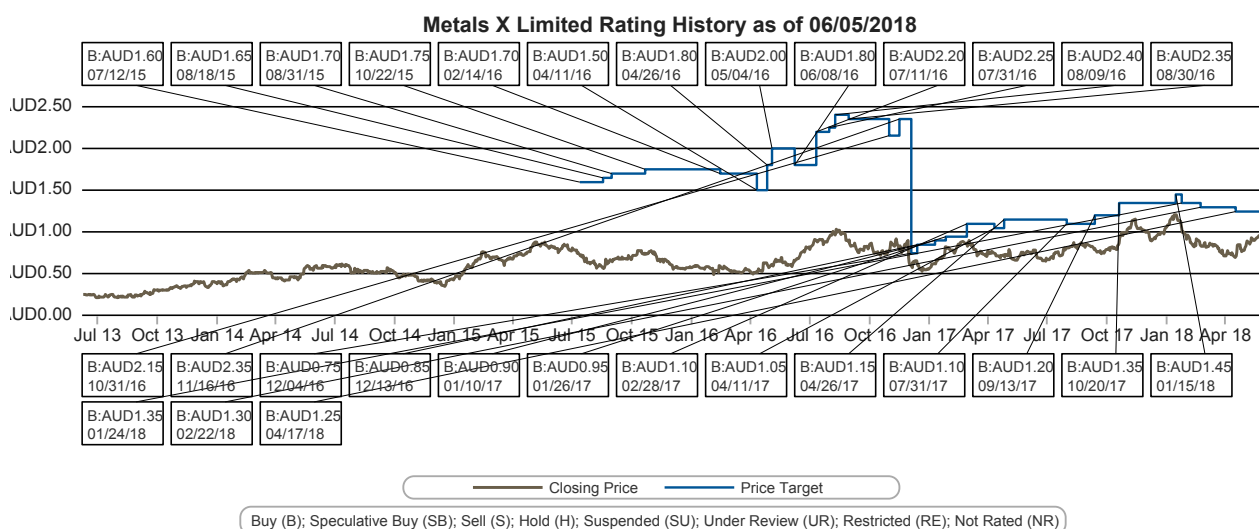
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