BELL POTTER

12 February 2019

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Metals X Limited (MLX)

Upside for Renison with record tin output in January, more exceptional tin intersections

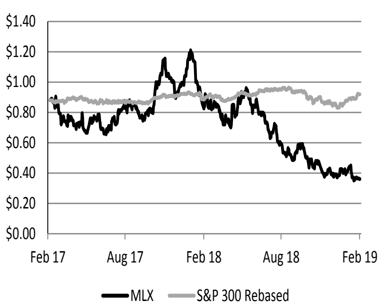
Recommendation
Buy (unchanged)
Price
$0.36
Target (12 months)
$0.80 (unchanged)

Expected Return	
Capital growth	122%
Dividend yield	0%
Total expected return	122%
Company Data & Ratios	
Enterprise value	$225m
Market cap	$248m
Issued capital	689.1m
Free float	59%
Avg. daily val. (52wk)	$2.1m
12 month price range	$0.34 - $0.98
GICS sector	
Materials	

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.405	0.47	0.88
Absolute (%)	-11.1	-23.4	-59.1
Rel market (%)	-16.0	-26.0	-61.9

Absolute Price



SOURCE: IRESS

Renison's tin output well above target rates as A$ price firms

The recent expansion of MLX's 50%-owned Renison tin mine is hitting its straps at just the right time. After sorting out some usual teething issues with the new ore sorting technology over the past six months, the company has reported that the operation produced a record output of 871 tonnes of tin in concentrate in January 2019. That output is equivalent to a rate of around 10.5ktpa of tin, which is well above the target rate of 8 – 8.5ktpa (being 15 – 20% above the annual rate of ~7kt in each of the past two years). The new high tin production rate is well timed, benefiting from the A$ denominated tin price being at a 7-year high of around A$29,700/t, enabling the operation to generate much stronger operating cash flows. All in sustaining costs are forecast to return towards the A$15,000 – 16,100/t levels of 2Q/3Q FY18 from the A$17,400 – 19,400/t levels in the previous three quarters, which were affected by lower grades and disruptions associated with the introduction of the ore sorter.

Mine plan potential for exceptional intersection mineralisation

The receipt of further assay results for 25 holes from recent drilling programs at Area 5 and 22 holes from the Leatherwood Trend have defined exceptional intersections of very high tin grades over substantial widths at Renison. This new mineralisation occurs near the Federal-Basset Fault, in close proximity to existing development and mining areas, and has the potential to be brought into the mining schedule relatively quickly.

Investment thesis – Buy, TP $0.80/sh (unchanged)

Investors have mainly been focused on Nifty's performance in recent quarters and the company's ability to convincingly lift its copper in concentrate output towards the targeted rate of 40ktpa. With Renison's performance also having been adversely affected in recent quarters (mainly by the ore sorter expansion), its reporting of significant high grade tin intersections in new places such as Area 5 and the Leatherwood Trend have not received the attention they deserve. We have not revised our earnings forecasts or target price for the higher tin production and exceptional drilling results at Renison at this stage, pending receipt of more definitive information. Our target price is unchanged at $0.80/sh and our Buy recommendation is retained.

Earnings Forecasts

Year end June	2018a	2019e	2020e	2021e
Sales (A$m)	210	258	409	431
EBITDA (A$m)	(1)	9	102	109
NPAT (reported) (A$m)	(26)	(20)	65	72
NPAT (adjusted) (A$m)	(26)	(20)	65	72
EPS (adjusted) (¢ps)	(4)	(3)	9	10
EPS growth (%)	na	na	na	11%
PER (x)	na	(12.2)	3.8	3.4
FCF Yield (%)	-5%	-16%	23%	27%
EV/EBITDA (x)	na	26.2	2.2	2.1
Dividend (¢ps)	-	-	2.0	2.5
Yield (%)	0.0%	0.0%	5.6%	6.9%
Franking (%)	0%	0%	0%	0%
ROE (%)	-15%	-10%	25%	22%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Record Renison tin output as A$ prices hit 7-year high

The recent expansion of MLX's 50%-owned Renison tin mine is hitting its straps at just the right time. After dealing with some lower grade issues and sorting out some usual teething issues with the new ore sorting technology over the past six months, the company has reported that the operation produced a record output of 871 tonnes of tin in concentrate in January 2019. That output is equivalent to a rate of around 10.5ktpa of tin, which is well above the target rate of 8 – 8.5ktpa (being 15 – 20% above the annual rate of ~7kt in each of the past two years). We were expecting total tin production of around 1.9kt in 3Q FY19 but the high January total indicates production for the period could be well above this level.

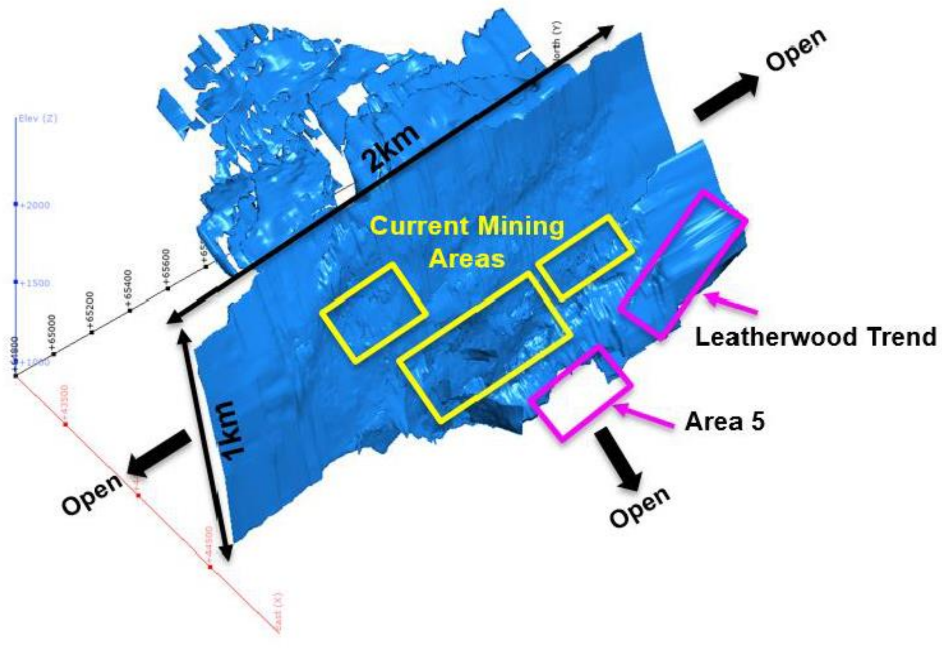
Renison's operating cash flows set to increase significantly

The new high tin production rate is well timed, benefiting from the A$ denominated tin price being at a 7-year high of around A$29,700/t, enabling the operation to generate much stronger operating cash flows. All in sustaining costs are forecast to return towards the A$15,000 – 16,100/t levels of 2Q/3Q FY18 from the A$17,400 – 19,400/t levels in the previous three quarters, which were affected by lower grades and disruptions associated with the introduction of the ore sorter. Renison is set to generate significantly higher operating cash flows for MLX, which are expected to be well above the recent rate of about A$17 – 19m in each of the previous two years. We are currently forecasting MLX's share of operating cash flow from Renison will increase to around $36m in FY19 and then to $48 – 50m in each of the next two years. This forecast operating cash flow excludes any contribution from the Rentails Project, which we currently forecast could begin operation in about mid-2021, assuming all the necessary approvals are obtained and all the necessary development and funding arrangements are finalised by about the end of 2019.

More exceptional intersections at Area 5 and Leatherwood Trend

The receipt of further assay results for 25 holes from recent drilling programs at Area 5 and 22 holes from the Leatherwood Trend have defined exceptional intersections of very high tin grades over substantial widths at Renison. This new mineralisation occurs near the Federal-Basset Fault and is in close proximity to existing development and mining areas (Figure 1), so it has the potential to be brought into the mining schedule relatively quickly.

Figure 1 - Simplified Renison Resource model showing Area 5 and Leatherwood Trend



SOURCE: METALS X LTD

Further multiple high grade and thick intersections at both locations

Further multiple exceptional intersections of thick, high grade tin mineralisation have recently been made at the Area 5 and Leatherwood Trend. These intersections have included:

- **12.5m at 5.14% tin; 20.0m at 6.27% tin; and 8.7m at 5.21% tin** from Area 5; and
- **5.6m at 4.18% tin; 17.0m at 2.40% tin; and 15.0m at 3.67% tin** from the Leatherwood Trend

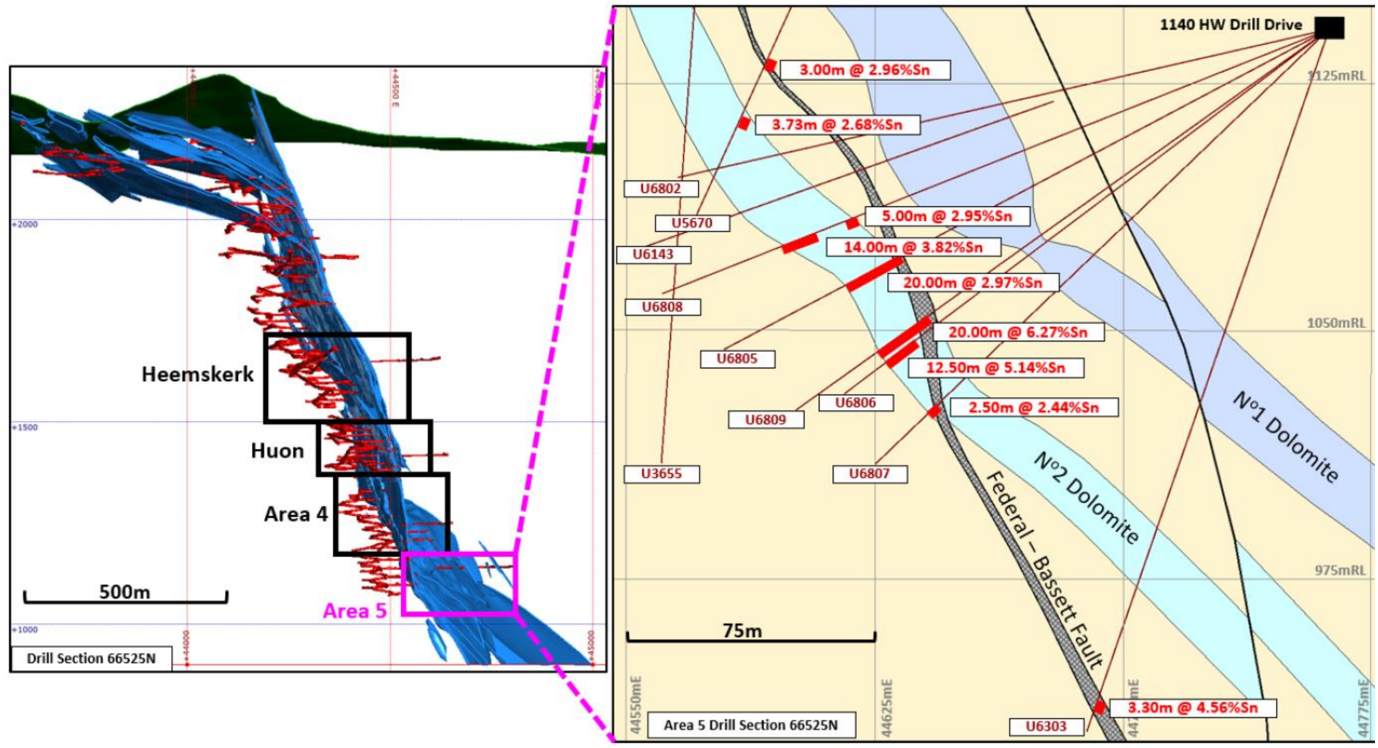
As shown in the examples of cross sections through these new zones of mineralisation (Figure 2 and Figure 3 over page), there is consistency to the mineralisation that confirms it represents a meaningful body of material at each location.

Potential for rapid inclusion in mine plan

There is growing evidence now that the high grade zones of tin mineralisation at Area 5 and the Leatherwood Trend now constitute a meaningful amount of material that warrants the increasing attention it is getting, especially as this high grade mineralisation is proximal to existing mine development and to some actual mining areas, so it could be incorporated into mining schedules relatively quickly, meaning it could be physically mined in a relatively short time. The mineralisation at both targets remains open at depth and along strike. We estimate that there is potentially at least about 200kt of this high grade tin mineralisation at each target with a possible average grade of about 2.5 - 3.0% tin, which is double the current average mined grade. There could potentially be up to 0.5Mt of this high grade mineralisation in each of these areas and we believe it is potentially feasible that it could be mined at an initial rate of at least 50ktpa.

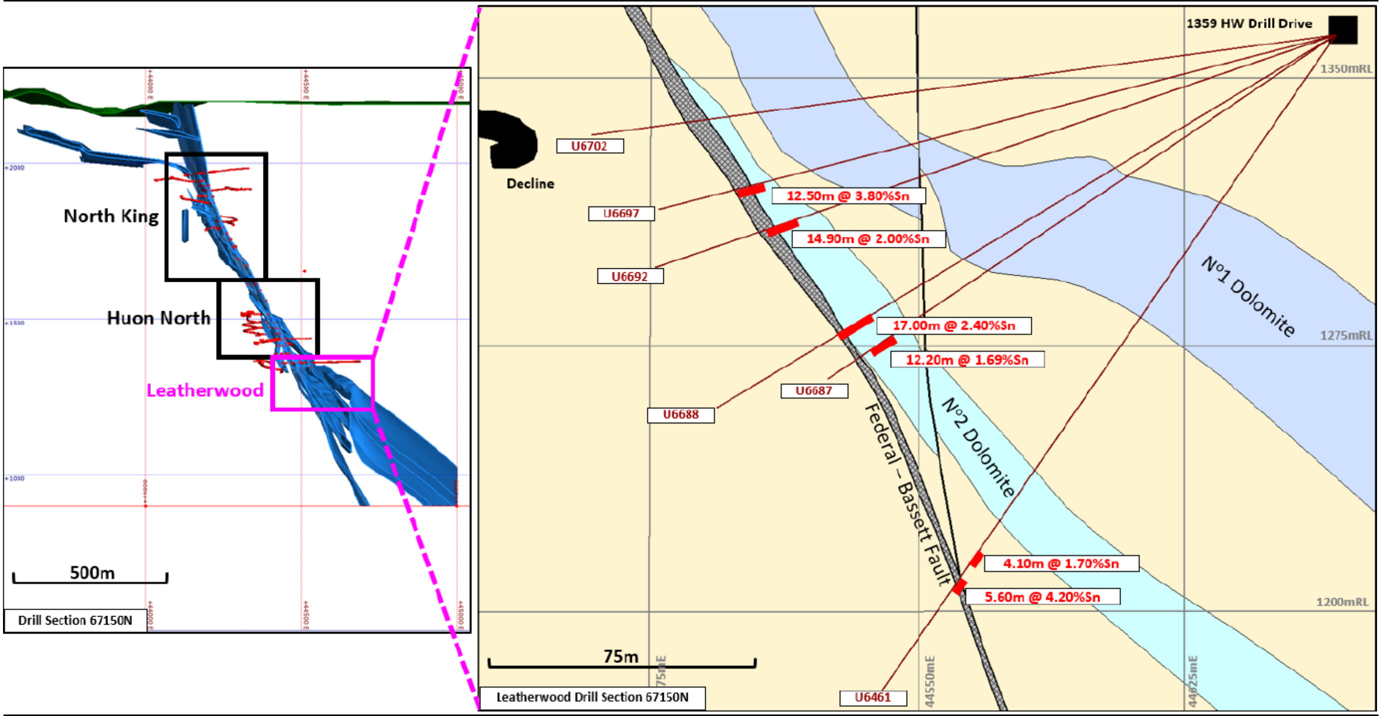
Infill drilling programs are underway at both areas and an additional drilling rig has been mobilised to accelerate these programs in preparation for a planned Mineral Resource Estimate during the June 2019 quarter in advance of mine planning studies after that.

Figure 2 – Cross section looking north showing examples of new drill intersections into Area 5



SOURCE: METALS X LTD

Figure 3 – Cross section looking north showing examples of new drill intersections into the Leatherwood Trend



SOURCE: METALS X

Metals X Limited (MLX)

Company description

Following the demerger of its gold business in December 2016, MLX is now a diversified base metals producer with two key operating divisions being the Copper Division and the Tin Division. The company also has a Nickel Division that contains major undeveloped nickel-cobalt assets at Wingellina in the Musgrave Ranges in Central Australia.

The Copper Division comprises the Nifty underground mining and associated modern processing operations in the Great Sandy Desert region of Western Australia (WA), which is undergoing a production revamp aimed initially at lifting annual copper in concentrate output to around 35kt and ultimately to 40kt; and the Maroochydore copper deposit located 90km away, which is a potential near term development involving open pit mining and possible trucking of ore for processing at Nifty or in a stand-alone concentrator.

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 based on downstream fumer processing); and the Mt Bischoff Project (a potential open pit and underground mining project).

The Nickel Division contains the globally significant Wingellina Nickel-Cobalt Project in the Central Musgrave Ranges near the WA/NT border (MLX 100%), which is the main asset of the CMNP. Although the value of the CMNP was written down to zero in August 2017 because of low nickel prices, this Project continues to be under active consideration as a potential development that could ultimately see potentially very significant amounts of nickel, cobalt, scandium and iron production based on the staged development of higher grade zones within the very large nickel limonite deposit involving important new processing technology, provided a suitable development arrangement can be agreed with the developer of the processing technology (a major Asian group) and the nickel price recovers further. MLX is currently reviewing the potential for initial production of nickel sulphate and cobalt sulphate from high grade zones of cobalt mineralisation within the deposit.

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 and development proposals. We have applied varying risk-weightings to the NPV estimates for the non-producing assets to reflect the development uncertainty. We have retained our valuation of the company's Central Musgrave Nickel Project as we expect it to be developed in coming years.

Investment thesis: Buy, TP $0.80/sh (unchanged)

Investors have mainly been focused on Nifty's performance in recent quarters and the company's ability to convincingly lift its copper in concentrate output towards the targeted rate of 40ktpa. With Renison's performance also having been adversely affected in recent quarters (mainly by the ore sorter expansion), its reporting of significant high grade tin intersections in new places such as Area 5 and the Leatherwood Trend have not received the attention they deserve. We have not revised our earnings forecasts or target price for the higher tin production and exceptional drilling results at Renison at this stage, pending receipt of more definitive information. Our target price is unchanged at $0.80/sh and our Buy recommendation is retained.

Shareholders

Major shareholders include: APAC Resources Ltd (8.1%); the Blackrock Group (7.1%); the Jinchuan Group Limited (6.4%); Morgan Stanley and subsidiaries (6.2%); Australian Super (5.3%); and IOOF Holdings Limited (5.0%). Directors and management currently have a total interest of about 2.6%.

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.

Metals X Ltd
as at 12 February 2019

Recommendation	Buy
Price	$0.36
Target (12 months)	$0.80

Table 1 - Financial summary

PROFIT AND LOSS

Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e
Revenue	$m	267	210	258	409	431
Operating expenses	$m	(225)	(211)	(249)	(307)	(322)
EBITDA	$m	**42**	**(1)**	**9**	**102**	**109**
Depreciation and amortisation	$m	(38)	(26)	(29)	(35)	(35)
EBIT	**$m**	**4**	**(26)**	**(20)**	**68**	**74**
Net interest	$m	1	0	0	1	2
PBT	$m	**5**	**(26)**	**(20)**	**68**	**76**
Tax expense	$m	(0)	-	-	(3)	(3)
Impairments/write-offs/other	$m	129	-	-	-	-
NPAT (reported)	$m	**134**	**(26)**	**(20)**	**65**	**72**
Abnormal items	$m	(129)	-	-	-	-
NPAT (normalised)	$m	**5**	**(26)**	**(20)**	**65**	**72**

PROFIT AND LOSS (INTERIMS)

Half year ending	Unit	Dec-16a	Jun-17a	Dec-17a	Jun-18a	Dec-18e
Revenue	$m	127	138	89	122	92
Expense	$m	(90)	(132)	(94)	(117)	(115)
EBITDA	$m	**36**	**6**	**(6)**	**5**	**(23)**
Depreciation	$m	(21)	(17)	(13)	(13)	(14)
EBIT	$m	16	(12)	(19)	(8)	(37)
Net interest expense	$m	1	1	0	(0)	0
PBT	$m	**16**	**(11)**	**(19)**	**(8)**	**(37)**
Tax (expense)/benefit	$m	(2)	2	1	(1)	-
Impairments/write-offs/other	$m	131	(2)	-	-	-
NPAT (reported)	$m	**145**	**(11)**	**(18)**	**(9)**	**(37)**
Abnormal items	$m	(131)	2	-	-	-
NPAT (normalised)	$m	**14**	**(10)**	**(18)**	**(9)**	**(37)**

CASH FLOW

Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e
OPERATING CASHFLOW						
Receipts	$m	385	229	248	388	420
Payments	$m	(364)	(203)	(252)	(303)	(327)
Tax	$m	-	-	-	-	-
Net interest	$m	1	0	0	1	2
Other	$m	5	0	-	-	-
Operating cash flow	$m	**27**	**27**	**(4)**	**86**	**95**
INVESTING CASHFLOW						
Capex and exploration	$m	(64)	(37)	(36)	(28)	(29)
Other	$m	(59)	(2)	-	-	30
Investing cash flow	$m	**(123)**	**(39)**	**(36)**	**(28)**	**1**
FINANCING CASHFLOW						
Net equity proceeds	$m	110	1	48	-	-
Debt proceeds/(repayments)	$m	-	(4)	-	-	-
Dividends	$m	-	(5)	-	-	(14)
Other	$m	-	1	-	-	-
Financing cash flow	$m	**110**	**(7)**	**48**	**-**	**(14)**
Change in cash	$m	15	(19)	8	58	82
Free cash flow	$m	(37)	(10)	(40)	58	66

BALANCE SHEET

Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e
ASSETS						
Cash & short term investments	$m	50	31	39	98	180
Accounts receivable	$m	45	14	23	35	36
Inventory	$m	44	55	55	55	55
Mine development and PPE	$m	118	129	128	115	104
Exploration & evaluation	$m	5	11	20	25	30
Other	$m	22	21	30	46	69
Total assets	$m	**283**	**261**	**295**	**374**	**474**
LIABILITIES						
Accounts payable	$m	29	32	32	43	46
Borrowings	$m	8	10	10	10	10
Other	$m	46	49	53	56	63
Total liabilities	$m	**84**	**91**	**95**	**109**	**120**
SHAREHOLDER'S EQUITY						
Share capital	$m	253	255	305	305	305
Reserves	$m	29	31	31	31	31
Retained earnings	$m	(83)	(115)	(136)	(70)	(12)
Non-controlling interest	$m	-	-	-	-	-
Total equity	$m	**199**	**170**	**200**	**265**	**324**
Weighted average shares	m	595	611	686	689	689

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e
VALUATION						
NPAT (adjusted)	$m	4.9	(26.3)	(20.3)	65.1	72.4
Normalised EPS	c/sh	0.8	(4.3)	(2.9)	9.4	10.4
EPS growth	%	na	na	na	na	11%
PER	x	51x	na	-12.2x	3.8x	3.4x
DPS	c/sh	1.0	-	-	2.0	2.5
Franking	%	0%	0%	0%	0%	0%
Yield	%	2.8%	0.0%	0.0%	5.6%	6.9%
FCF/share	c/sh	(6)	(2)	(6)	8	10
FCF yield	%	-17%	-5%	-16%	23%	27%
EV/EBITDA	x	5.4x	na	26.2x	2.2x	2.1x
PROFITABILITY RATIOS						
EBITDA margin	%	16%	0%	3%	25%	25%
EBIT margin	%	1%	-13%	-8%	17%	17%
Return on assets	%	2%	-10%	-7%	17%	15%
Return on equity	%	2%	-15%	-10%	25%	22%
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(42)	(21)	(29)	(87)	(170)
ND / E	%	nc	nc	nc	nc	nc
ND / (ND + E)	%	nc	nc	nc	nc	nc

ASSUMPTIONS - Prices

Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	LT real
Copper - Spot	US$/lb	2.44	3.06	2.94	3.25	3.30
Tin - Spot	US$/lb	9.02	9.36	8.87	9.30	9.70
Nickel - Spot	US$/lb	4.61	5.65	6.08	7.15	7.40
CURRENCY						
USD/AUD	US$/A$	0.75	0.78	0.73	0.75	0.75

ASSUMPTIONS - Production (equity share)

Year ending 30 Jun	Unit	2017a	2018a	2019e	2020e	2021e
Copper Division						
Ore treated	Mt	1.4	1.4	1.7	2.3	2.4
Average head grade	% Cu	1.78	1.33	1.47	1.69	1.73
Recovery	%	94.0	92.5	92.1	93.0	93.1
Copper production (in concentrate)	kt Cu	23.4	16.8	23.3	36.8	38.6
Copper all in sustaining costs	US$/lb	2.05	3.66	3.18	2.55	2.54
Tin Division						
Ore treated	kt	369	366	373	371	371
Average head grade	% Sn	1.29	1.25	1.33	1.42	1.42
Recovery	%	73.2	73.6	73.4	75.8	75.8
Tin production (in concentrate)	kt Sn	3.5	3.4	3.6	4.0	4.0
Tin all in sustaining costs	US$/lb	5.58	5.83	5.43	5.15	5.29

SUBSTANTIAL & SIGNIFICANT SHAREHOLDERS

Shareholder	M Shares	Interest	Date of Latest Change
APAC Resources Ltd	55.9	8.1%	16/02/17
BlackRock Group	49.0	7.1%	24/08/18
Jinchuan Group Limited	44.0	6.4%	9/09/16
Morgan Stanley and subsidiaries	42.6	6.2%	22/11/18
Australian Super	36.7	5.3%	18/12/18
IOOF holdings Limited	34.5	5.0%	15/08/18
Directors and management	17.6	2.6%	various
Total	**280.4**	**40.7%**	

VALUATION

Issued capital	Unit	
Ordinary shares	m	689.1
Unlisted employee options	m	11.8
Total securities	**m**	**700.8**

	Current		+ 12 months		+ 24 months	
Sum of parts valuation	**$m**	**$/sh[1]**	**$m**	**$/sh[1]**	**$m**	**$/sh[1]**
Copper Division	293	0.42	295	0.42	245	0.35
Tin Division	176	0.25	172	0.25	167	0.24
Nickel Division	74	0.11	74	0.11	74	0.11
Exploration, shareholdings and other assets	7	0.01	7	0.01	7	0.01
Corporate	(25)	(0.04)	(22)	(0.03)	(20)	(0.03)
Enterprise value	**525**	**0.75**	**525**	**0.75**	**473**	**0.68**
Net cash/(debt)[2]	27	0.04	33	0.05	91	0.13
Equity value	**551**	**0.79**	**558**	**0.80**	**564**	**0.81**

Notes: 1. May not add due to rounding and dilution
2. Based on diluted capital of 697.1m shares (includes unlisted options that are dilutive at above valuations)
2. Includes cash from exercise of options

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 200000 shares in MLX.

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