METALS X (MLX)

INCREASING PRICE TARGET TO $2.30

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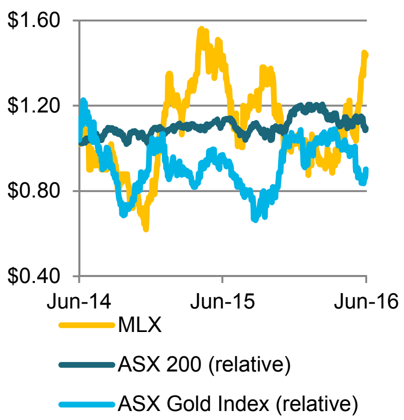
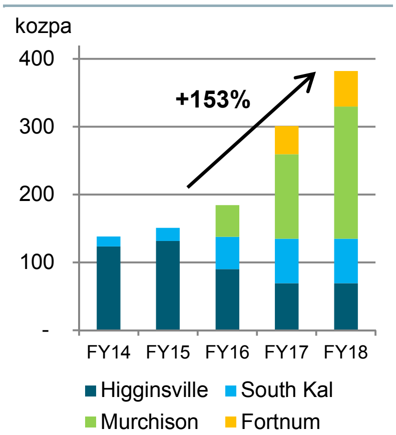
We say	Price	Target	Strategic Target
BUY	1.44	2.30	3.00

Metals X has had a couple of tough quarters, but with a price to NAV of 0.6x compared to many pure gold peers trading at a premium to NAV, we see considerable upside potential if the company delivers a few quarters of solid operational performance and cash flow generation. In addition, we look forward to learning more about the recently acquired Nifty copper mine in WA which we believe could potentially be worth significantly more than the price paid. Maintain Buy.

MLX SHARE PRICE



FORECAST GOLD PRODUCTION



COMPANY DATA & RATIOS

Enterprise value	$789m
Diluted market cap*	$762m
Diluted shares*	529m
Free float	100%
12 month price range	$0.86-1.48
GICS sector	Materials

Management holds ~6.5% (fully diluted)
*Diluted for 1.6m options

IMPLIED RETURN

Implied all-in return	60%

UPGRADING OUR GOLD PRICES TO US$1,400/oz

As a result of Brexit, we see increased global uncertainty and a heightened risk of further macro shocks. We also expect the Fed to taper its rate hiking plans and to us it looks increasingly likely that low interest rates are here to stay for now. We upgrade our gold price 12% to US$1,400/oz (from US$1,250/oz). If anything we see risk to the upside on this forecast.

SUBSTANTIAL UPSIDE IF MLX DELIVERS

Many of MLX's pure gold peers are trading at a premium to NAV and we see significant upside potential (beyond our $2.30 target price) if Metals X delivers a few solid quarters of improved operational performance and cash flow generation. We also flag our forecast underlying loss in FY16 and temporary suspension of dividends.

INCREASING OUR PRICE TARGET TO $2.30

We maintain our Buy on Metals X and increase our price target 35% to $2.30 (from $1.90) based on 12% higher gold prices of US$1,400/oz (from US$1,250/oz) and 1.0x NAV. MLX recently acquired Aditya Birla (including ~$70m in cash) and the Nifty copper mine. We currently value this acquisition at cost, but intend to reassess post visiting the mine and making a more informed assessment.

AN IMPROVING MACRO FOR GOLD ON BREXIT

On Friday last week, the UK surprised global markets with a 52%/48% vote in favour of the UK leaving the EU. In our view, this is a key tipping point for gold which we now believe is firmly in a bull market and we upgrade our gold prices 12% to US$1,400/oz from US$1,250/oz.

We see a number of key drivers for the gold price near-term:

- Increased Global Uncertainty: In our view, the UK's decision to leave the EU last week represents a clear increase in global uncertainty, which we believe could potentially persist for some weeks and perhaps longer. Uncertainty is usually positive for gold.

- Increased Geopolitical Risk and Fear of Contagion in the EU: Polls recently conducted in Italy, France, Germany, Sweden, the Netherlands, Czech Republic and Hungary have showed that these countries could follow Britain if it succeeds in leaving the EU. As such, near-term we believe Brexit has heightened the market's fear of other countries leaving the EU. Given the elevated sovereign debt levels of some member states (like Italy & Greece), we believe this could lead to fears of further financial shocks. Increased fear (of any kind) is usually positive for gold.

- Risk of Weaker Global Growth: Given the increase in global uncertainty, we believe some industries are likely to delay investment and hiring decisions, particularly in Europe. The Brexit news could not come at a worse time in Europe, where recent growth in some areas has been anemic at best.

- Tempered Rate Hikes from the Fed: We believe Brexit is likely to lead to further tempering of the Fed's current rate hiking cycle. While we still believe the Fed may raise rates one more time this year, many market participants believe the rate hiking cycle could now be over and some are suggesting the next move from the Fed could even be a rate cut or further stimulus. Any tapering of the Fed's rate hike is likely to be positive for gold.

- Further Central Bank Stimulus: If the Fed confirms our view that the outlook for global and domestic growth is now weaker, it has relatively limited options to stimulate growth. It will almost certainly need to slow the rate hiking cycle, but may also need to consider further stimulus or quantitative easing. In layman's terms, this means increasing the money supply. We believe further stimulus from the Fed would be a positive for gold.

- Low Real Interest Rates Likely to Persist: However you cut it, we believe Brexit increases the chance that low real interest rates are more likely to persist – a clear positive for gold prices and gold equities.

- Big Upgrades Coming: Importantly, most of the sell side has missed the last 20-30% of the recent rally in gold equities. We were one of the last sell side brokers to take our Buy off Newcrest (at ~$18) but arguably we *still* got it wrong (and by a material margin). We believe Brexit could be the catalyst which *forces* the sell side to reassess and upgrade both gold prices and begin to reintroduce a premium to NAV for gold equities. As such, we expect to see a raft of material upgrades from the sell side on gold equities and recommend buying ahead of this.

UPGRADING OUR PRICE TARGET TO $2.30

We maintain our Buy rating on Metals X and upgrade our Price Target 35% to $2.30 (from $1.70) based on:

- US$1,400/oz gold (from US$1,250/oz) and the A$/US$ forward curve (0.74 declining to 0.67 over 5 years)
- An unchanged 1.0x NAV (previously 1.0x NAV)

It is worth noting that many of Metals X's pure gold peers are trading on 1.5-1.6x NAV at spot gold prices, and we see significant re-rating potential if the company can deliver an improved operational performance and cash flow over the next few quarters.

STRATEGIC TARGET

To calculate our $3.00 Strategic Target we use:

- US$1,400/oz gold and A$/US$ on the forward curve (as described above)
- 1.3x NAV (compared to 1.0x NAV in our base case)

We also see *substantial* potential upside beyond our Strategic Target in several of the company's base metals assets:

- Nifty copper mine: Acquired in MLX's recent acquisition of Aditya Birla. We believe it is highly likely acquisition is worth *considerably* more than the price paid (particularly given the considerable ~$70m in cash in Aditya Birla at end March 2016), but given the relatively poor disclosure of Aditya Birla, we carry this asset at acquisition cost in our valuation for now. We intend to reassess this position once we have the opportunity to visit the mine and make a more informed assessment.
- Wingellina nickel-cobalt project – currently in our valuation with a 95% discount to NPV due to the significant estimated initial capex of $2.5bn (based on a feasibility study completed in 2009) and the current depressed nickel and cobalt prices.
  In our view it is likely Metals X will need a partner to develop Wingellina, and we believe the cobalt could increasingly be of interest to lithium-ion battery manufacturers.
  The EPA recommended the WA Environment Minister approve the project on 21 June 2016 (only last week).

KEY RISKS

Metals X is exposed to all the normal risks associated with developing and operating mining projects. Given a portion of the company's targeted longer term production at South Kal is not currently fully underpinned by reserves, the ability of the company to deliver on these targets remains subject to exploration success.

Metals X's revenue is predominately derived from the sale of gold and tin and fluctuations in these metal prices as well as the Australian dollar could impact the company's cash flow, profitability and share price. All of Metals X's assets are based in Australia which we regard as a relatively low-risk jurisdiction.

MODEL SUMMARY – FINANCIALS & VALUATION

Stock Details					
Recommendation:	**Buy**			Enterprise Value	$789m
Target	$2.30	Share Price	$1.44	Diluted MCap	$762m
NAV	$2.32	52 Week High	$1.48	Diluted Shares	529m
Implied All-in Return	60%	52 Week Low	$0.86	Free Float	73%
				Avg Daily Value	$1.4m

Macro Assumptions	FY14	FY15	FY16E	FY17E	FY18E
Exchange Rate (A$/US$)	0.92	0.84	0.73	0.70	0.68
Gold Price (US$/oz)	1,295	1,224	1,165	1,400	1,400
Tin Price (US$/t)	22,508	18,960	15,714	18,750	19,000

Profit & Loss (A$m)	FY14	FY15	FY16E	FY17E	FY18E
Revenue	237	312	310	521	693
Operating Costs	(150)	(208)	(282)	(396)	(515)
Operating Profit	**87**	**104**	**28**	**125**	**178**
Corporate & Other	(6)	(7)	(9)	(11)	(11)
Exploration Expense	(7)	(6)	(2)	(4)	(4)
EBITDA	**74**	**91**	**17**	**110**	**162**
D&A	(34)	(44)	(51)	(61)	(73)
EBIT	**40**	**46**	**(34)**	**49**	**90**
Net Interest Expense	(0)	3	(1)	(4)	(0)
Pre-Tax Profit	**40**	**49**	**(35)**	**45**	**89**
Tax	(1)	-	2	-	(20)
Minorities	-	-	-	-	-
Underlying Profit	**39**	**49**	**(34)**	**45**	**70**
One-off Items (post tax)	(2)	(8)	0	-	-
Reported Profit	**37**	**41**	**(34)**	**45**	**70**

Cash Flow (A$m)	FY14	FY15	FY16E	FY17E	FY18E
Operating Cashflow	71	80	8	114	166
Tax	-	-	-	-	(6)
Net Interest	2	3	0	(4)	(0)
Net Operating Cash Flow	**73**	**83**	**8**	**110**	**160**
Exploration	(10)	(22)	(20)	(12)	(12)
Capex	(38)	(52)	(97)	(67)	(157)
Acquisitions / Disposals	(29)	0	0	-	-
Other	-	(1)	(3)	-	-
Net Investing Cash Flow	**(78)**	**(74)**	**(120)**	**(79)**	**(169)**
Equity Issue	0	0	(0)	-	-
Borrowing / Repayments	(0)	40	52	-	30
Dividends	-	(10)	(10)	-	(13)
Other	-	3	-	-	-
Net Financing Cash Flow	**0**	**33**	**42**	**-**	**17**
Change in Cash Position	(4)	42	(70)	31	8
FX Adjustments	-	-	-	-	-
Cash Balance	**57**	**99**	**29**	**61**	**68**

Balance Sheet (A$m)	FY14	FY15	FY16E	FY17E	FY18E
Cash & Cash Equivalents	57	99	29	61	68
Other Current Assets	60	59	81	81	81
PP&E	219	225	270	275	360
Exploration & Development	95	100	179	187	194
Other Non Current Assets	1	4	14	14	14
Total Assets	**431**	**487**	**573**	**618**	**718**
Debt (Gold Loan)	0	30	81	17	47
Other Liabilities	119	111	143	143	156
Net Assets	**312**	**346**	**349**	**459**	**515**

Ratio Analysis		FY14	FY15	FY16E	FY17E	FY18E
Diluted Shares	m	1,655	418	529	529	529
EPS - Diluted	Ac	2.4	11.8	(6.8)	8.5	13.2
P/E	x	**15.3x**	**12.2x**	**n.m.**	**17.0x**	**10.9x**
CFPS - Diluted	Ac	4.4	19.9	2.0	20.9	30.3
P/CF	x	**8.1x**	**7.2x**	**73.2x**	**6.9x**	**4.8x**
FCF - Diluted	Ac	1.3	1.5	(20.8)	6.6	(1.6)
P/FCF	x	**26.9x**	**n.m.**	**n.m.**	**21.8x**	**n.m.**
Dividends	Ac	0.68	2.95	-	2.55	3.97
Dividend Yield	%	1.9%	2.0%	-	1.8%	2.8%
Payout Ratio	%	29%	25%	-	30%	30%
Franking	%	100%	26%	-	100%	100%
Enterprise Value	A$m	705	693	814	718	740
EV/EBITDA	x	**9.5x**	**7.6x**	**48.1x**	**6.5x**	**4.6x**
ROE	%	13%	14%	(10%)	10%	14%
ROA	%	9%	10%	(6%)	7%	10%
Net Debt / (Cash)	A$m	(57)	(69)	52	(44)	(22)
Gearing (ND/(ND+E))	%	(22%)	(25%)	13%	(11%)	(4%)

	P&P Reserves			**M&I Resources**			**Inferred**
Gold	mt	g/t,%	moz,kt	mt	g/t,%	moz,kt	moz,kt
Higginsville	3.6	3.0	0.3	8.7	2.9	0.8	0.4
Mt Henry	20.2	1.4	0.9	31.8	1.2	1.3	0.3
South Kal	2.2	2.5	0.2	24.8	2.3	1.9	1.4
Cannon + GR	0.2	3.1	0.0	0.4	3.8	0.0	0.0
Central Murchison	20.5	2.6	1.7	76.7	2.1	5.3	3.1
Fortnum	-	-	-	24.3	1.8	1.4	0.6
Rover	-	-	-	2.7	2.4	0.2	0.2
			3.2			**10.9**	**6.1**
					M+I+I (moz):		**17.0**
Renison (Tin)	6.7	1.29%	86	9.5	1.49%	142	49
Wingellina (Nickel)	167	0.98%	1,645	167	0.98%	1,645	153

Earnings Sensitivity			FY16E	FY17E	FY16E	FY17E
			A$m	A$m	%	%
Gold Price	US$/oz	+10%	20	39	59%	33%
Tin Price	US$/t	+10%	6	6	17%	5%
Exchange Rate	A$/US$	-10%	29	50	84%	43%

Valuation		Discount	Stake	A$m	A$/sh	
Renison	Tin		50%	80	0.15	
Higginsville	Gold		100%	74	0.14	
South Kal	Gold		100%	91	0.17	
Central Murchison	Gold		100%	666	1.26	
Fortnum	Gold		100%	188	0.36	
Rover	Gold		100%	77	0.15	
Wingellina	Nickel	95%	100%	25	0.05	
Projects & Investments				129	0.24	
Corporate & Other				(74)	(0.14)	
Debt (incl Gold Loan)				(57)	(0.11)	
Cash (estimated)				30	0.06	P/NAV
Net Asset Value				**1,229**	**2.32**	**0.62x**

Source: IRESS, Company data, Blue Ocean estimates

MODEL SUMMARY – INPUTS & FREE CASH FLOW

Macro Assumptions		FY14	FY15	FY16E	FY17E	FY18E
Exchange Rate	A$/US$	0.92	0.84	0.73	0.70	0.68
Gold Price	US$/oz	1,295	1,224	1,165	1,400	1,400
Tin Price	US$/t	22,508	18,960	15,714	18,750	19,000

Operational Summary		FY14	FY15	FY16E	FY17E	FY18E
Renison (100% basis)						
Mill Throughput	kt	634	641	695	680	680
Head Grade	% Sn	1.45%	1.56%	1.40%	1.45%	1.40%
Recovery	%	67%	70%	71%	67%	67%
Tin Production	kt	6.2	7.1	6.9	6.6	6.4
All-in Sustaining Cost	A$/t	22,631	19,596	19,084	21,068	21,708
AISC Margin	**%**	**8%**	**14%**	**11%**	**21%**	**22%**
Higginsville						
Mill Throughput	kt	711	1,027	1,122	1,200	1,200
Head Grade	g/t	5.6	4.3	2.7	2.0	2.0
Recovery	%	96%	93%	91%	90%	90%
Gold Production	koz	123	131	90	69	69
All-in Sustaining Cost	A$/oz	997	1,091	1,431	1,425	1,455
AISC Margin	**%**	**29%**	**25%**	**10%**	**29%**	**29%**
South Kal						
Mill Throughput	kt	317	766	873	900	900
Head Grade	g/t	1.6	0.9	1.9	2.5	2.5
Recovery	%	88%	84%	90%	90%	90%
Gold Production	koz	15	19	48	65	65
All-in Sustaining Cost	A$/oz	1,261	1,690	1,278	1,156	1,136
AISC Margin	**%**	**11%**	**(15%)**	**20%**	**42%**	**45%**
Central Murchison						
Mill Throughput	kt	-	-	1,009	1,482	1,923
Head Grade	g/t	-	-	1.6	2.9	3.5
Recovery	%	-	-	91%	90%	90%
Gold Production	koz	-	-	47	124	195
All-in Sustaining Cost	A$/oz	-	-	1,468	1,203	1,338
AISC Margin	**%**	**-**	**-**	**8%**	**40%**	**35%**
Fortnum						
Mill Throughput	kt	-	-	-	800	1,000
Head Grade	g/t	-	-	-	1.8	1.8
Recovery	%	-	-	-	90%	90%
Gold Production	koz	-	-	-	42	52
All-in Sustaining Cost	A$/oz	-	-	-	1,248	1,220
AISC Margin	**%**	**-**	**-**	**-**	**38%**	**40%**

Group Gold Production		FY14	FY15	FY16E	FY17E	FY18E
Production	**koz**	**138**	**151**	**184**	**301**	**382**
All-in Sustaining Cost	A$/oz	1,025	1,169	1,402	1,250	1,309
AISC Margin	**%**	**27%**	**20%**	**12%**	**38%**	**36%**

FCF Contribution	A$m	FY14	FY15	FY16E	FY17E	FY18E
Renison (50% share)						
Revenue		76	80	77	89	89
Operating Costs		58	63	59	63	63
Sustaining Capex		19	9	7	8	8
Sustaining Exploration		3	1	1	2	2
Corp Overheads		3	3	2	3	3
All-in Sustaining Margin		**(7)**	**4**	**6**	**13**	**13**
Higginsville						
Revenue		141	194	124	108	137
Operating Costs		92	119	113	92	94
Sustaining Capex		16	19	11	3	3
Sustaining Exploration		3	3	2	2	2
Corp Overheads		2	2	2	2	2
All-in Sustaining Margin		**28**	**50**	**(5)**	**9**	**36**
South Kal						
Revenue		20	29	61	94	103
Operating Costs		7	23	51	58	56
Sustaining Capex		3	5	7	12	12
Sustaining Exploration		5	3	2	4	4
Corp Overheads		2	2	2	2	2
All-in Sustaining Margin		**4**	**(4)**	**(0)**	**18**	**29**
Growth Capex		-	12	9	-	-
Central Murchison						
Revenue		-	-	58	179	309
Operating Costs		-	-	64	138	245
Sustaining Capex		-	-	2	8	12
Sustaining Exploration		-	-	1	2	2
Corp Overheads		-	-	1	2	2
All-in Sustaining Margin		**-**	**-**	**(10)**	**29**	**48**
Growth Capex		11	21	41	24	20
Fortnum						
Revenue		-	-	-	60	82
Operating Costs		-	-	-	46	58
Sustaining Capex		-	-	-	2	2
Sustaining Exploration		-	-	-	2	2
Corp Overheads		-	-	-	2	2
All-in Sustaining Margin		**-**	**-**	**-**	**8**	**19**
Growth Capex		-	-	5	10	-

Group Production	A$m	FY14	FY15	FY16E	FY17E	FY18E
Revenue		237	303	319	529	720
All-in Sustaining Cost		212	252	328	452	576
All-in Sustaining Margin		**24**	**51**	**(9)**	**77**	**144**
Growth Capex		11	32	58	34	120
Growth Exploration		-	20	14	-	-
All-in Margin		**13**	**(1)**	**(81)**	**43**	**24**

Corporate	A$m	FY14	FY15	FY16E	FY17E	FY18E
Cash Tax		-	-	-	-	6
Working capital & other		20	(10)	31	8	27
FCF pre Debt Service		**(7)**	**9**	**(113)**	**35**	**(9)**
Net Interest		(2)	(3)	(0)	4	0
Debt Drawdown / (Repayment)		(0)	40	52	-	30
FCF post Debt Service		**(5)**	**51**	**(60)**	**31**	**21**

New Equity/Dividends	A$m	FY14	FY15	FY16E	FY17E	FY17E
Proceeds from Shares/Options		0	0	(0)	-	-
Dividends Paid		-	10	10	-	13
Change in Cash		**(4)**	**42**	**(70)**	**31**	**8**
Cash Balance		**57**	**99**	**29**	**61**	**68**

Source: IRESS, Company data, Blue Ocean estimates

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