![SOMERS & PARTNERS]

# Equity Research
For Wholesale Clients only

# Metals X Ltd[4,1*]

# BUY

## MLX-ASX

22 December 2016

Last: A$0.57
▲ Target: A$0.79

## Copper hedging at good prices and great spot tin prices

### Short term copper hedging at good prices to cover Nifty transition

MLX has taken advantage of the recent upsurge in copper prices and put in place copper hedges. MLX has granted calls at A$8,100/t and bought puts at A$7,500/t for a volume of 4,500t per quarter for the first two quarters of CY17. The puts are at a higher price than our assumed spot price (S&Pe: A$6,835/t) and represent additional near-term revenue in our Nifty Mine model. The hedging is a prudent move as MLX protects revenue at a time when the company transitions the Nifty copper project from the recent Aditya Birla ownership through a series of productivity and cost improvements.

### Excellent tin prices expected to provide strong margins at Renison

The Australian Dollar tin price is at record highs for the year. Given the improved cost performance as an owner operator at the Renison tin mine we expect this improvement in prices to further accentuate what we had already modelled as favourable cash margins. This quarter is expected to be a strong cash flow quarter at Renison.

### Maintain BUY rating and lift price target to A$0.79/share

Our SOTP valuation based price target has lifted slightly due to the recent increase in spot tin prices from A$27,000/t to A$29,000/t (1.5c/share) and through the hedging at slightly improved copper puts of A$7,500/t versus our assumed spot pricing of A$6,835/t (1c/share). We have also adjusted our tin production outlook very slightly for FY17 and FY18 after discussions with management (1.5c/share).

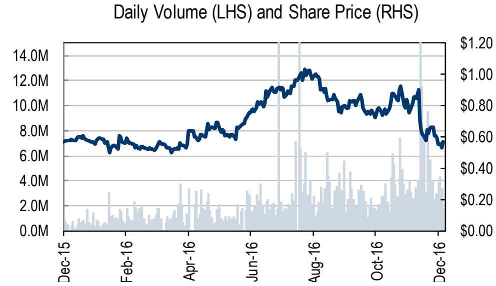
| What's changed | Old | New |
|---|---|---|
| Rating | BUY | n.c |
| Target (A$) | $0.75 | $0.79 |
| Tin Production 2016 (kt) | 3.18 | 3.18 |
| Tin Production 2017E (kt) | 3.32 | 3.59 |
| Tin Production 2018E (kt) | 3.28 | 3.64 |
| Copper Production 2016 (Kt) | 33.06 | 33.06 |
| Copper Production 2017E (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$) | 1.1/0.49 |
| 52-week average daily volume (shares) | 2.2 M |
| Market cap (A$m) | $347.32 |
| EV (A$m) | $287.72 |
| End Qtr Net debt (A$m) | -$59.61 |
| Projected return | 38% |
| NAV0%/share | $0.79 |
| NAV8%/share | $0.79 |
| P/NAV0% | 0.73 |
| P/NAV8% | 0.73 |

| Financial Data | | | | |
|---|---|---|---|---|
| YE June 30 | | FY16 | FY17E | FY18E |
| Tin production (kt) | | 3.18 | 3.59 | 3.64 |
| AISC(A$/t) | | $19,952 | $17,632 | $17,724 |
| Copper production (Kt) | | n.a | 35.76 | 44.65 |
| AISC (A$/lb) | | n.a | $2.66 | $2.48 |
| Capex (A$m) | | -$102 | -$29 | -$26 |
| Free cashflow (A$m) | | $39.2 | $36.4 | $39.1 |
| EPS | | -$0.04 | $0.04 | $0.05 |
| FCFPS | | $0.08 | n.a. | $0.06 |
| P/E | - | 14.7 | 12.9 | 11.6 |
| P/FCF | | 7.0 | n.a. | 8.9 |
| EV/EBITDA | - | 9.4 | 4.4 | 3.5 |

All figures in A$ .

Daily Volume (LHS) and Share Price (RHS)




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

**Duncan Hughes** +61 8 6141 6322
dhughes@somersandpartners.com.au

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

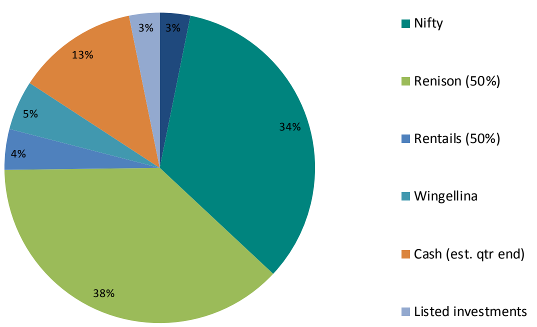
| | |
|---|---|
| **Ticker** | MLX:ASX |
| **Recommendation** | **BUY** |
| **Target Share price (A$)** | 0.79 |
| **Current Share price (A$)** | 0.57 |
| **Implied Return (%)** | 38% |
| **P/NAV (x)** | 0.56 |

| | |
|---|---|
| **Financial Yr. End** | 30 June |
| **Shares on issue (m)** | 609.3 |
| **Market Cap (A$m)** | 347.3 |
| **Enterprise Value (A$m)** | 287.7 |
| **Cash (est. qtr end) (A$m)** | 59.6 |
| **Debt(A$m)** | 0.0 |

### Valuation

| Asset | Discount rate | Unrisked NAV (A$m) | NAV "X" Factor | NAV Target (A$m) | Target Price (A$) |
|---|---|---|---|---|---|
| Nifty | 10% | $159.6 | 1.00 X | $159.6 | $0.26 |
| Renison (50%) | 10% | $178.7 | 1.00 X | $178.7 | $0.29 |
| Rentails (50%) | n.a | $20.0 | 1.00 X | $20.0 | $0.03 |
| Wingellina | 10% | $163.0 | 0.15 X | $24.5 | $0.04 |
| Exploration Upside | n.a | $15.0 | 1.00 X | $15.0 | $0.02 |
| Cash (est. qtr end) | n.a | $59.6 | 1.00 X | $59.6 | $0.10 |
| Listed investments | n.a | $15.0 | 1.00 X | $15.0 | $0.02 |
| Corporate (incl.tax credits) | 10% | $6.2 | 1.00 X | $6.2 | $0.01 |
| **Total NAV** | | **$617.2** | | **$478.6** | **$0.79** |

**Valuation Split (%)**




### Reserve and Resources Statement (attributable)

| Status | Tonnes (Mt) | Grade | Contained | EV/Oz,t |
|---|---|---|---|---|
| Nickel Reserve | 167.5 | 1.0 | 1,645,000 | $175 |
| Nickel Resource | 216.5 | 1.0 | 2,067,000 | $139 |
| Tin Reserve | 27.6 | 0.7 | 180,000 | $1,598 |
| Tin Resource | 34.7 | 0.8 | 286,000 | $1,006 |
| Copper Reserve | 8.7 | 1.9 | 168,586 | $1,707 |
| Copper Resource | 58.8 | 1.6 | 920,795 | $312 |

### Production Profile (t Sn,Oz Au) (attributable & before payabilities)

| Operation | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 |
|---|---|---|---|---|---|
| Renison (t Sn) | 3,181 | 3,591 | 3,642 | 3,642 | 3,642 |
| 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 | $17,632 | $17,724 | $17,724 | $17,724 |
| Nifty (A$/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 | $27,762 | $28,000 | $28,000 | $28,000 |
| Copper | $6,640 | $6,857 | $7,061 | $7,577 | $8,033 |
| Nickel | $12,187 | $14,787 | $16,022 | $17,858 | $19,943 |
| AUD:USD | $0.75 | $0.75 | $0.75 | $0.75 | $0.75 |

Source: Company data, Somers estimates. Warning: Forward looking statements are uncertain and may not actually be achieved

### Financials (A$m)

| A$m | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|---|---|
| **Profit & Loss** | | | | | | |
| Revenue | $352.3 | $305.0 | $361.8 | $383.9 | $403.5 | $410.6 |
| Cost of Sales | $339.7 | $219.3 | $256.3 | $256.3 | $256.3 | $256.3 |
| **Gross Profit** | **$12.6** | **$85.7** | **$105.5** | **$127.6** | **$147.2** | **$154.3** |
| EBITDA | (-$30.5) | $65.8 | $81.6 | $102.8 | $121.7 | $128.5 |
| Net Profit before tax | (-$27.9) | $30.5 | $39.3 | $54.1 | $65.0 | $62.0 |
| Tax Payable | $4.3 | (-$3.5) | (-$9.2) | (-$12.6) | (-$14.7) | (-$13.7) |
| **Profit after tax** | **(-$23.6)** | **$27.0** | **$30.0** | **$41.5** | **$50.3** | **$48.3** |
| **Balance Sheet** | | | | | | |
| Assets | | | | | | |
| Cash | $39.2 | $75.6 | $114.6 | $170.0 | $238.0 | $322.7 |
| Total Current Assets | $113.5 | $155.6 | $194.7 | $250.0 | $318.1 | $402.8 |
| PPE & Exp. & Dev. | $442.3 | $203.2 | $185.2 | $158.9 | $126.0 | $75.2 |
| Total Non Current Ass | $485.5 | $210.7 | $192.6 | $166.4 | $133.5 | $82.7 |
| **Total Assets** | **$599.0** | **$366.3** | **$387.3** | **$416.4** | **$451.6** | **$485.5** |
| 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 | $64.1 | $74.1 | $91.8 | $109.2 | $118.2 |
| 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** | **$36.4** | **$39.1** | **$55.3** | **$68.1** | $84.7 |
| **Dividend Payouts** | | | | | | |
| Dividend paid | (-$10.1) | (-$9.4) | (-$9.0) | (-$12.5) | (-$15.1) | (-$14.5) |
| Dividend per share | $0.02 | $0.02 | $0.01 | $0.02 | $0.02 | $0.02 |
| Dividend yield | 2.52% | 2.69% | 2.59% | 3.59% | 4.34% | 4.17% |
| EPS (A$) | -4c | 4c | 5c | 7c | 8c | 8c |
| FCFPS (A$) | 8c | n.a. | 6c | 9c | 11c | 14c |
| P/E ratio (x) | -14.7 X | 12.9 X | 11.6 X | 8.4 X | 6.9 X | 7.2 X |
| P/FCF (x) | 7.0 X | n.a. | 8.9 X | 6.3 X | 5.1 X | 4.1 X |
| EV/EBITDA (x) | -9.4 X | 4.4 X | 3.5 X | 2.8 X | 2.4 X | 2.2 X |
| Current ratio (x) | 3.4 | 4.7 | 5.8 | 7.5 | 9.5 | 12.1 |
| Shares on Issue (M) | 479.7 | 609.3 | 609.3 | 609.3 | 609.3 | 609.3 |

### Directors & Management

| | |
|---|---|
| Non-Ex Chairman | Peter Newton |
| Managing Director | Warren Hallam |
| Non Executive Director | Stephen Robinson |
| Non Executive Director | Simon Heggen |
| Non Executive Director | Xie Penggen |
| Chief Financial Officer | Fiona Van Maanen |

### Major Shareholders

| | |
|---|---|
| Apac Resources | 12.9% |
| Blackrock | 14.0% |
| Jinchuan | 7.3% |
| Ausbil | 4.9% |
| Ruffer | 4.0% |
| **Total** | **43.0%** |

### 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.

## IMPORTANT: Disclosures

This document has been prepared for the general use of the wholesale clients of Somers and Partners Pty Ltd ACN 149 263 543, AFSL 430684 ("Somers and Partners") and must not be copied, either in whole or in part, or distributed to any other person without prior consent of Somers and Partners. The information contained in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does Somers and Partners assume any responsibility or liability whatsoever. All information is correct at the time of publication; additional Information is available upon request. This report is not to be construed as a solicitation of an offer to buy or sell any securities. Somers and Partners and/or affiliated companies or persons may as principal or agent, buy and sell securities mentioned herein, including options, futures or other derivative instruments thereon.

**Company-Specific Disclosures:**
1 Somers and Partners has, within the previous 12 months, provided paid corporate advisory services, arranged, managed or co-managed a public offering of the company or its affiliates or acted as underwriter to the issuer.
2 Somers and Partners owns 1% or more of this issuer's securities.
3 The analyst is related to an officer, director or advisory board member of the issuer, but that individual has no influence in the preparation of this report.
4 The analyst who prepared this report has viewed the operations of this issuer.
5 The analyst who prepared this research report owns this issuer's securities.
6 A member of the Board of Directors of the subject company is also a member of the Board of Directors of Somers and Partners Pty Limited, but that individual had no influence in the preparation of this report.

Each research analyst and associate research analyst who authored this document and whose name appears herein certifies that:
(1) the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed herein that are within their coverage universe; and
(2) no part of their compensation was, is or will be, directly or indirectly, related to the provision of specific recommendations or views expressed herein.

Somers and Partners analysts are compensated competitively based on several criteria. The Analyst compensation pool is comprised of several revenue sources, including secondary trading commissions, new issue commissions, corporate advisory fees, and directed payments from institutional clients.

The Somers and Partners research recommendation structure consists of the following ratings:

**Buy:** A Buy rating reflects 1) bullish conviction on the part of the analyst; and 2) typically a 15% or greater return to target.

**Speculative Buy:** A Speculative Buy rating reflects a bullish conviction on the part of the analyst accompanied by a substantially higher than normal risk, including the possibility of a binary outcome.

**Hold:** A Hold rating reflects 1) a lack of bullish or bearish conviction on the part of the analyst; and 2) typically a return of 0 to 15%.

**Reduce:** A Reduce rating reflects 1) bearish conviction on the part of the analyst; and 2) typically a 5% or lower return to target.

**Tender:** Clients are advised to tender their shares to a takeover bid or similar offer.

Investing in financial products involves investment risk. Recipients should understand that statements regarding future returns may not be realised. Past performance is not a reliable indication of future performance. Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, Somers and Partners recommends that you consider whether the advice is appropriate for your circumstances. Somers and Partners recommends that you obtain and consider the relevant "Product Disclosure Statement" or other disclosure documents before making any decision about a product including whether to acquire or to continue to hold it.

Somers and Partners Pty Ltd ACN 149 263 543; Australian Financial Services License No: 403684. Level 9, 190 St. Georges Tce, Perth, WA, Australia 6000 Tel + (618) 6141 6300.