

Metals X Limited

Base Metals - Producer

Australian Equity Research
4 September 2019

SPECULATIVE BUY

PRICE TARGET A\$0.50
Price (3-Sep) A\$0.15
Ticker MLX-ASX

52-Week Range (A\$): 0.14 - 0.62
Avg Daily Vol (000s): 1,847.78
Shares Out. (M): 689.1
Market Cap (A\$M): 103.4



Priced as of close of business 3 September 2019

Metals X Limited (MLX:ASX) is a tin producer from its 50% owned Renison Mine in Tasmania and also ramping up production to ~32ktpa of copper at its Nifty Copper mine.

Tim McCormack | Analyst | Canaccord Genuity (Australia) Ltd. | tim.mccormack@canaccord.com.au | +61.8.6216.2088
Henry Renshaw | Associate Analyst | Canaccord Genuity (Australia) Ltd. | henry.renshaw@canaccord.com.au |

Company Update

Nifty operations update

Nifty operational update: MLX provided an operational update for its Nifty asset, with the key takeaway being that the mine is performing in line with our expectation, and Phase 1 of the [Nifty Reset Plan](#). Mine output is expected to be flat QoQ, ramping up in the DecQ to achieve its Phase 1 target of 2Mtpa (by MarQ'20). This projection is consistent with our forecasts, and we expect the production ramp up will result in the asset turning cash flow positive in the MarQ'20 (albeit modestly), marking an inflection point for the company.

Key operational improvements:

- **Mine development:** Development completed 10% ahead of schedule and into new mining areas has resulted in 1.4Mt (20.6k CuT) of developed stocks for future production. We highlight this to be +8 months worth of production under the Phase 1 targeted run rate.
- **Mine planning:** A complete overhaul of the systems and processes to improve execution and tracking of the medium term plan. This should improve operational consistency and efficiencies, leading to a reduction in costs and increase the chance of a successful production ramp up, in our view.
- **Geology:** A total of 83km of drilling has been completed post the 2016 acquisition of the asset, underpinning the current Resource and Reserve update (detailed in [FY19 report](#)). Importantly, 90% of the Reserve is now defined outside of the historically problematic Central Zone.
- **Infrastructure:** Ventilation, pastefill and electrical infrastructure has been upgraded to the point that it will not impact production going forward. Improvements to these infrastructure items was a critical aspect of the Reset Plan given its historical role in impeding production. Some minor works are still outstanding but total capex requirement is expected to be lower than originally planned.
- **Campaign processing:** As outlined in our [JunQ'19 report](#), MLX have reduced processing to a two-week-on, two-week-off cycle in a bid to reduce operating costs while the underground production ramps up. While this is expected to impact the timing of shipments between reporting periods, the decision has resulted in a 65% reduction in labour hire. We anticipate milling rates to be ramped up in line with underground production.

Major shareholder issues 203D, 249N and 249D: APAC Resources Strategic Holdings Ltd. (APAC) issued notices proposing the removal of the Chairman (Mr Peter Newton) and appointment of a Director (Mr Brett Smith). MLX announced on Monday (2nd Sep) that Mr Newton intends to resign at the next AGM (late Oct/early Nov). APAC are MLX's largest shareholder (~8%), and discussions are ongoing to alleviate concerns.

Valuation and recommendation:

While there might be some uncertainty increasing regarding board constituents following the notices issued from APAC, we see progression of the Nifty Reset plan as a positive for the company. We now believe two potential catalysts are emerging, namely the construction of a new board and the Nifty asset turning cash flow positive. Our target price remains unchanged at A\$0.50/sh and we maintain a SPECULATIVE BUY rating.

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Investment Recommendation

Date and time of first dissemination: September 04, 2019, 19:33 ET

Date and time of production: September 04, 2019, 19:33 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 09/04/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	517	58.62%	51.64%
Hold	208	23.58%	36.06%
Sell	25	2.83%	12.00%
Speculative Buy	132	14.97%	75.00%
	882*	100.0%	

*Total includes stocks that are Under Review

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

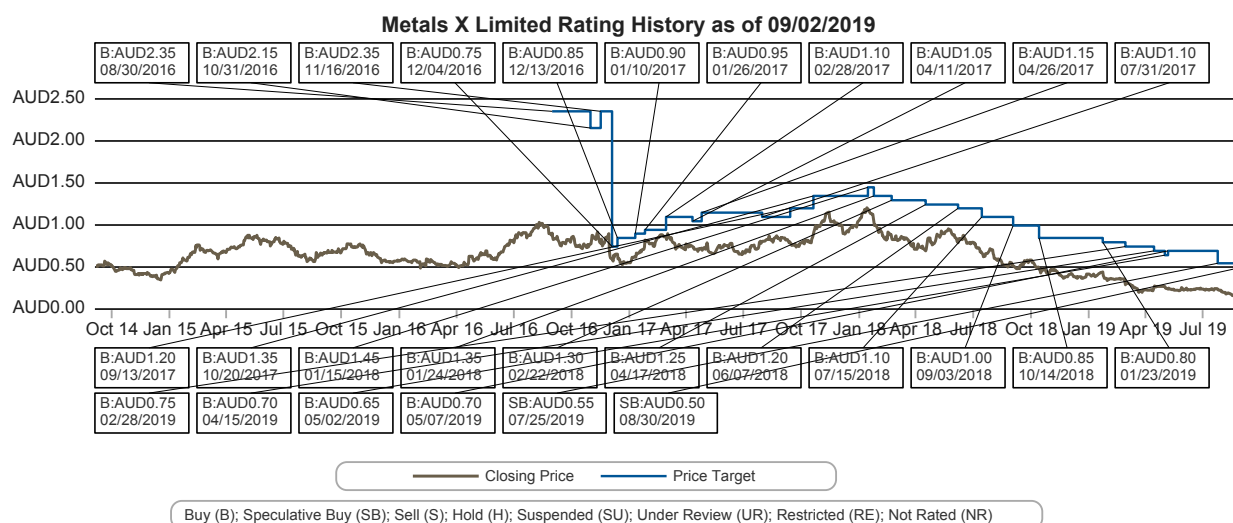
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