BELL POTTER

**Speculative**

See key risks on page 12. Speculative securities may not be suitable for Retail clients.

22 July 2020

**Analyst**
Peter Arden 613 9235 1833

**Authorisation**
Stuart Howe 613 9235 1856

Recommendation
Buy (unchanged)
Price
$0.082
Valuation
$0.19 (previously $0.11)
Risk
Speculative

**GICS Sector**

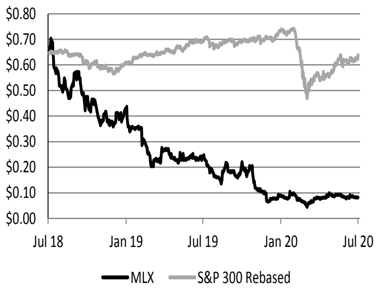
**Materials**

| Expected Return | |
|---|---|
| Capital growth | **132%** |
| Dividend yield | **0%** |
| Total expected return | **132%** |
| **Company Data & Ratios** | |
| Enterprise value | **$97m** |
| Market cap | **$74m** |
| Issued capital | **907.3m** |
| Free float | **56%** |
| Avg. daily val. (52wk) | **$698,000** |
| 12 month price range | **$0.043 - $0.25** |

**Price Performance**

| | (1m) | (3m) | (12m) |
|---|---|---|---|
| Price (A$) | 0.09 | 0.08 | 0.23 |
| Absolute (%) | -3.5 | -1.2 | -64.8 |
| Rel market (%) | -6.2 | -14.0 | -57.1 |

**Absolute Price**




SOURCE: IRESS

# Metals X Ltd (MLX)

## Hold tight for longer term gains

### Renison makes FY20 production guidance, Area 5 to come

Steady tin production in concentrate in 4Q20 enabled MLX to meet guidance for Renison even after the 2H FY20 delay in accessing higher grade ore in Area 5. Despite tin sold being down 44% quarter-on-quarter (qoq) at 1,160t (100% basis), and 3% lower average net realised tin price of A$21,608/t, an 18% fall in all in sustaining cost (AISC) helped Renison lift its EBITDA contribution to MLX to $4.2m and limit its share of net mine cash outflow to only $1.0m despite increased Area 5 capex, which caused MLX to breech some debt covenants. Nifty remained on care and maintenance at a net cost of $5.4m. MLX had net liabilities of about $22.1m at 30 June 2020 (made up of cash of $14.8m, bank debt of $30.5m and estimated finance leases of $5.9m). MLX's recent Renison studies show how Area 5 is set to become a cash generating powerhouse with tin output rising to over 10,000tpa and much lower operating costs.

### Copper business review makes very strong case for retention

The negative opinion of MLX's copper business, which comes from years of very poor performance by Nifty as an underground operation, is reminiscent of Fimiston before it was replaced by the Super Pit. Despite the company's recent Scoping Study on Nifty showing an open pit operation and existing infrastructure could unlock great value in the copper business, MLX is now offering the copper business for sale, apparently in response to some shareholder pressure. IGO's recent $32m exploration deal on much of MLX's large, strategic tenement position around Nifty highlights Nifty's value.

### Investment thesis – Spec. Buy, Valn. $0.19/sh (prev. $0.11/sh)

Very positive studies for expanded tin output at Renison (incorporating the high grade Area 5) and viable copper output at Nifty by open pit mining point to a much brighter future for MLX. Our forecasts assume retention of the company's copper business as that makes most sense because we see considerable potential value in Nifty being developed as an open pit mine based on the Scoping Study. MLX needs about $85m to fund the Renison and Nifty developments, much of which we assume comes from new equity and additional debt. **Our risked NPV-based MLX valuation is increased by 73% to $0.19/share after applying a 70% discount for Nifty and the valuation assumes a $40m equity raising**. Our Speculative Buy recommendation is retained.

**Earnings Forecast**

| Year end June | 2019a | 2020e | 2021e | 2022e |
|---|---|---|---|---|
| Sales (A$m) | 205 | 147 | 93 | 160 |
| EBITDA (A$m) | (18) | (8) | 10 | 25 |
| NPAT (reported) (A$m) | (117) | (67) | (15) | (13) |
| NPAT (adjusted) (A$m) | (53) | (33) | (15) | (13) |
| EPS (adjusted) (¢ps) | (7.7) | (3.9) | (1.2) | (0.9) |
| EPS growth (%) | na | na | na | na |
| PER (x) | na | na | na | na |
| FCF Yield (%) | -118% | -64% | -17% | -35% |
| EV/EBITDA (x) | na | na | 9.4 | 3.9 |
| Dividend (¢ps) | - | - | - | - |
| Yield (%) | 0% | 0% | 0% | 0% |
| Franking (%) | 0% | 0% | 0% | 0% |
| ROE (%) | na | na | na | na |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Renison production lifts to meet FY20 guidance

## Renison generated 39% higher 4Q FY20 EBITDA

MLX achieved its production guidance for FY20, coming in at just over the mid-point of tin production with actual output of 7,181t compared to guidance of 7,000 – 7,300t of tin in concentrate (on 100% basis) and at the very bottom of costs with the average AISC of A$18,200/t compared to the guidance of A$18,200 – 19,100/t. Renison remained the sole operation for MLX in 4Q FY20. Although tin sales were 44% lower qoq and the average realised tin price was also down (Table 1), Renison was able to lift its EBITDA contribution by 39%, aided by lower operating costs (down 18% qoq) and working capital changes. Positive outcomes from the Area 5 optimisation study and Renison Life of Mine (LOM) Study point to higher tin output and lower costs as discussed in more detail on page 4.

### Positive outcome of copper business strategic review but sale now being proposed

Nifty remained on care and maintenance in 4Q FY20 at a smaller net cost of $5.4m. After completing its strategic review of its copper business, which considered all options including joint ventures and the partial or complete divestment of some or all of its copper assets, MLX concluded that an open pit operation processing sulphide ore through the existing concentrator with a potential additional heap leach copper operation based on oxide ore and the existing historic leach dumps was very economically attractive and a major exploration agreement was executed. After receiving a Section 249D Notice from its largest shareholder requesting the removal of three current directors and the appointment of two new ones, the company subsequently announced on 2 July 2020 that it was offering its entire copper business for sale. See discussion of these matters on pages 5 to 7.

**Table 1 – MLX 4Q FY20 production report summary**

| Year to 30 June | | Jun-19 Actual | Sep-19 Actual | Dec-19 Actual | Mar-20 Actual | Jun-20 Actual | Jun-20 BP est | Change on prev. (%) | Actual vs BP est (%) |
|---|---|---|---|---|---|---|---|---|---|
| **Tin Division (Renison)** | | | | | | | | | |
| Ore milled (100% basis) | kt | 183 | 178 | 166 | 175 | **170** | 180 | (3%) | (6%) |
| Tin grade | % | 1.23% | 1.56% | 1.35% | 1.36% | **1.40%** | 1.35% | 3% | 4% |
| Recovery[1] | % | 73.3% | 74.3% | 73.7% | 73.1% | **73.0%** | 72.5% | (0%) | 1% |
| Tin production (in concentrate, 100% basis) | Kt | 1,649 | 2,056 | 1,652 | 1,740 | **1,733** | 1,760 | (0%) | (2%) |
| Tin sales (in concentrate, 100% basis)) | Kt | 1,789 | 1,757 | 1,826 | 2,080 | **1,160** | 1,298 | (44%) | (11%) |
| Average net realised tin price[2] | US$/lb | 8.21 | 7.02 | 6.83 | 6.65 | **6.27** | 5.78 | (6%) | 8% |
| Average net all in sustaining cost[2] | US$/lb | 5.93 | 5.01 | 6.30 | 6.19 | **4.92** | 5.99 | (20%) | (18%) |
| Operating EBITDA | A$m | 7.6 | 9.3 | 4.1 | 3.0 | **4.2** | (2.3) | 39% | na |
| **Copper Division (Nifty)** | | | | | | | | | |
| Ore milled | kt | 208 | 290 | 186 | | | | | |
| Copper grade | % | 1.58% | 1.29% | 1.41% | | | | | |
| Recovery | % | 93.3% | 91.6% | 92.1% | | | | | |
| Copper production (in concentrate) | Kt | 3.1 | 3.4 | 2.6 | | | | | |
| Copper sales (in concentrate) | Kt | 4.0 | 4.1 | 5.0 | | | | | |
| Average net realised copper price received[2] | US$/lb | 2.44 | 2.34 | 2.35 | | | | | |
| Average net all in sustaining cost | US$/lb | 3.16 | 3.62 | 3.66 | | | | | |
| Operating EBITDA | A$m | (5.5) | (13.0) | (13.0) | (6.3)[3] | **(5.4)[3]** | (3.6) | (14%) | 50% |
| **Financials** | | | | | | | | | |
| Operating EBITDA | A$m | 2.1 | (3.6) | (8.9) | (3.3) | **(1.3)** | (5.9) | (62%) | (79%) |
| Capital expenditure | A$m | (15.1) | (15.3) | (25.7) | (10.7) | **(8.3)** | (7.9) | (23%) | 5% |
| Cash | A$m | 11.4 | 50.9 | 43.7 | 20.8 | **14.3** | 21.2 | (31%) | (32%) |
| Total interest bearing liabilities (debt + leases) | A$m | (9.4) | (44.4) | (43.4) | (38.9) | **(36.4)** | (45.9) | (6%) | (21%) |
| Net cash/(liabilities) | A$m | 2.0 | 6.5 | 0.3 | (18.1) | **(22.1)** | (24.7) | na | (11%) |

SOURCE: METALS X LTD, BELL POTTER SECURITIES LTD ESTIMATES NOTES : 1. CONCENTRATOR RECOVERY; 2. PRICE REALISED AFTER SMELTING & REFINING CHARGES; 3.CARE AND MAINTENANCE COSTS

The main features of MLX's 4Q FY20 production result were:

**Renison – steady production as higher ore grades offset lower processing rate**

- Tin production in concentrate was steady qoq at 1,733t (100% basis), reflecting a 3% decline in ore processed and a 3% lift in average ore grade from continuation of the changed mining sequence from delay to start of mining in the high grade Area 5, a planned mill shutdown, and more use of ore sorters, reducing the amount of material going to the concentrator and lifting the average grade. Tin production was achieved at 11% lower qoq average C1 cash cost of A$16,203/t (11% lower at US$4.84/lb) and 18% lower average net AISC of A$16,965/t (18% lower at US$5.06/lb).
- Sales of tin in concentrate were sharply lower, down 44% qoq at 1,160t (100% basis) at a 3% lower average realised price of A$21,608/t (6% lower in US terms at US$6.27/lb) after treatment and refining charges. However the lower operating costs and working capital movements meant MLX's 50% share of the Renison mine generating a 39% higher mine operating surplus (EBITDA) of $4.3m and its share of net cash outflow was 32% lower at $1.0m despite increased capex on Area 5.
- The company continued to deliver on its strategy for Renison, which is to convert the considerable in-mine exploration success into a substantial, long-life mining operation delivering higher cash margins through increased mining rate, grade and recovery whilst continuing to seek higher productivity and reduce costs. Key areas of focus in relation to that in the latest quarter saw the release of upgraded Mineral Resource and Ore Reserve Estimates; completion of the Area 5 Optimisation Study and Life of Mine (LOM) plan and progressing the major Metallurgical Improvement Program (MIP). These are discussed in more detail on page 4.
- Guidance for FY21 is tin production (in concentrate, 100% basis) of 8,200 – 8,700t at an average AISC of A$19,000 – 20,000/t.

**Nifty – on care and maintenance, strategic review points to attractive open pit option**

- Operations remained on care and maintenance at a net cost of $5.4m, slightly higher than the company's revised guidance related to the acceleration of lease payments resulting from the sale of a light vehicle and loader. Guidance for the net care and maintenance cost for 1Q FY21 is $4.2m.
- The strategic review of the company's copper business was completed at the end of the quarter. The review considered all options including joint ventures and the partial or complete divestment of some or all of the copper assets being considered. There were several outcomes from the review – namely a positive Scoping Study on a potential open pit and heap leach option at Nifty and a farm-in and joint venture agreement with IGO Ltd ( ASX – IGO, Buy TP $5.35) on MLX's large tenement area surrounding Nifty and Maroochydore, now known as the Paterson Exploration Project (PEP). See detailed discussion of the company's copper business on page 5.
- Subsequent to the end of the quarter, MLX announced it was seeking offers for the proposed sale of its entire copper business.

**Wingellina Nickel-Cobalt Project – commenced strategic review of options**

- MLX commenced a strategic review of options to advance the Wingellina Nickel-Cobalt Project, which contains Australia's largest undeveloped nickel-cobalt deposit. Consulting group, CSA Global, was engaged to assist with the study on the very large limonitic deposit. The scope of works to be undertaken in the study includes a business environment review of global lateritic nickel mines and development projects along with a gap analysis in relation to the completed 2008 Phase I Feasibility Study.

**Financials – 62% lower operating EBITDA loss**

- Total mine or operating EBITDA was a further but significantly lower loss of $1.3m compared with a loss of $3.3m in the previous quarter. Total capex was estimated to have been 23% lower qoq at $8.3m, the majority of which ($5.4m) was for care and maintenance at Nifty but capex at Renison increased for Area 5.

- A hedging gain of $0.7m was achieved from the delivery of 660t into hedges in the latest quarter. The company's current tin hedging arrangements at the end of June 2020 involved 2,010kt of tin at an average price of A$24,911/t, out to June 2021, representing about 48% of production over the period of the arrangement.
- MLX had cash of $14.3m at 30 June 2020. The balance on the company's debt facility with Citi was reduced to $30.5m during the quarter with repayment of $2.5m, giving the company estimated interest-bearing obligations (Citi debt plus estimated finance leases of $5.9m) totalling about $36.4m, at 30 June 2020 giving MLX estimated net interest bearing liabilities of about $22.1m. MLX subsequently announced on 21 July 2020 it is currently in discussions with Citi to remedy financial covenant breeches (see page 7).

## Area 5 to drive very strongly profitable Renison LOM tin output

**Long awaited studies forecast tin output of over 10ktpa from FY25 at lower costs**

MLX is now moving to begin to reap the benefits of its considerable exploration success at Renison resulting in the discovery of very high grade tin mineralisation in relatively close proximity to existing workings at locations such as Area 5, Bell 50, Leatherwood and Huon North. The company has not been able to access this high grade mineralisation as quickly or to the extent it previously intended because of the need to do more extensive and expensive upgrades to the existing mine services, which required detailed technical studies. MLX has recently completed several important studies and programs related to its strategy for Renison which is to convert the considerable in-mine exploration success of the past few years into a substantial, long-life mining operation delivering higher cash margins through increased mining rate, grade and recovery whilst continuing to seek higher productivity and reduce costs. These studies included:

- upgraded Mineral Resource and Ore Reserve Estimates;
- the Area 5 Optimisation Study and 2020 LOM plan; and
- progressing the major Metallurgical Improvement Program (MIP)

Renison's upgraded Mineral Resource now stands at 18.6Mt at an average grade of 1.57% tin for 292kt of contained tin, confirming the deposit's global status and being a strong base for the recent estimation of a 46% increase to the Renison Ore Reserve, which now stands at 8.6Mt at an average grade of 1.40% tin for 120kt of contained tin. The Area 5 Ore Reserve of 3.3Mt at an average grade of 1.87% tin for 62kt of contained tin is now a prime component of the Renison Ore Reserve and **Area 5 has a particularly high grade segment of 2.2Mt at an average grade of 2.11% tin for 46kt of contained tin**.

The incorporation of significant ore from Area 5 is set to underpin at least a 10-year mine life of increased tin production at Renison (on 100% basis) that is forecast to rise from 8.5 – 9.0ktpa in FY21 and FY22 to over 10.0ktpa from FY25 with the **forecast average AISC to reduce significantly at the same time from about A$21,000 – 22,000/t in FY21 and FY22 to under A$13,000/t from FY25**. The 2020 LOM plan forecasts mining of 9.3Mt over 10 years at an average grade of 1.38% tin for 128kt of contained tin with the grade increasing from 1.25 – 1.30% tin in early years to 1.4 – 1.5% from FY25. Area 5 is expected to contribute about 40% of the ore. The capital cost for Area 5 is estimated by the company at $50 – 55m (100% basis) over two years, which we have incorporated in our forecasts and which is why our forecast average AISCs for FY21 and FY22 are significantly higher than the level of A$16,962/t in 4Q FY20 even with higher ore grades.

The MIP continues to deliver results as the latest quarterly production report shows with increased use of the ore sorters reducing the amount of material going to the concentrator and lifting the average head grade of ore to the concentrator, which leads directly to improved tin recovery. In conjunction with the increased mill feed grades under the 2020 LOM plan, MLX expects the MIP to see recoveries increase from current levels of around 72% to around 74 – 75% in the next few years and then to reach around 77 – 78% from FY25. Key aspects of the MIP currently being focused on include on-stream analysis; raw water upgrade; and upgrade of primary gravity spirals.

## Copper business review makes very strong case for retention

**Nifty isn't a major deposit but open pit mining looks set to make it a real "goer"**

An almost universally negative opinion of MLX's copper business, largely driven by an extremely poor performance by Nifty as an underground operation over the past four years, seems to be a blinkered one that overlooks the fact that major step changes in older mining operations by adopting newer and more appropriate mining techniques have yielded very attractive outcomes elsewhere. **The negative view of Nifty is reminiscent of the view of underground gold mining at Fimiston before it was replaced by highly efficient open pit mining that has created the Super Pit**, which is still one of the world's largest gold operations over 30 years since open pit mining started. Nifty isn't a major copper deposit but it does have significant modern infrastructure and we believe open pit mining is set to make it a potentially very economically attractive copper operation at current copper prices with great upside. The company's recent Scoping Study on Nifty as an open pit operation with potentially valuable additional solvent extraction and electrowinning (SX/EW) heap leach copper production (that also has potentially very significant environmental benefits) looks to be an elegant solution to unlocking great value in MLX's copper business. The copper business includes the company's large, strategic tenement position in the Paterson Province surrounding Nifty and the Maroochydore copper deposit. IGO's recent $32m exploration deal on much of MLX's Paterson Province tenure highlights Nifty's value.

**Positive Nifty Scoping studies on open pit mining plus SX/EW heap leach output**

MLX recently concluded a strategic review of its copper assets and as part of that, the company considered all options including joint ventures and the partial or complete divestment of some or all of the copper assets being considered. There were several outcomes from the review – namely a positive Scoping Study on a potential open pit and SX/EW heap leach option at Nifty and a farm-in and joint venture agreement with IGO on MLX's large tenement area surrounding (but excluding) Nifty and Maroochydore, known as the Paterson Exploration Project (PEP). The results of the Nifty Scoping Study showed that open pit mining, principally of sulphide ore for processing in the modern concentrator currently on care and maintenance and potentially also of oxide ore to be incorporated in a modest SX/EW operation based on the historical heap leach facility would generate very attractive returns at the current copper price of about A$9,100/t (US$2.90/lb).

Nifty was originally mined by open pit so the Scoping Study envisaged a major cut-back to support processing about 2.8Mtpa of sulphide (and minor transition) ore with an average grade of 1.24% copper through the existing concentrator to produce 250 – 270kt of contained copper or about 26ktpa of copper in concentrate over 10 years. About 96% of concentrator feed is in the Measured and Indicated Resource categories. The Study showed this output would have an average AISC of about A$5,400 – 5,800/t (US$1.67 – US$1.79/lb) based on an average waste:ore strip ratio of about 7.6:1 and overall recovery of 91% (91 – 93% for sulphide ore; 81 – 84% for transition ore). The Study also showed that such an outcome could be achieved at a capital cost of about $40 - 60m, which includes studies, pre-production drilling, concentrator and infrastructure refurbishment, open pit pre-strip and commissioning. The Study also identified the opportunity to re-commission the existing SX/EW heap leach facility to treat oxide ore from open pit mining as well as reprocess the existing heap leach pads to produce an additional 40 – 50kt of copper as cathode over eight years at a capital cost of A$16 - 20m. MLX continues to meet its environmental obligations but the SX/EW processing could greatly assist with that.

**Ore production could begin in about eighteen months subject to positive FID**

The Scoping Study indicated a Feasibility Study (FS) on the Nifty re-development could cost $10m (which is included in the above-mentioned capital cost) and take eight months with ore production potentially starting six to nine months after completion of the FS, subject to a positive Final Investment Decision (FID) by the Board of MLX. Based on those indicative timings, we have assumed ore processing could begin in early 2022. While our modelling of the potential Nifty open pit production shows the value for the sulphide component from it is currently considerably back-ended, meaning the greatest annual returns occur in the later years of operation, we would expect that this is likely to be improved considerably by more detailed studies.

## IGO executes binding $32m farm-in and joint venture term sheet on PEP

IGO recently executed a binding farm-in and joint venture term sheet on most of MLX's extensive and highly prospective tenement position (of granted and pending licences) surrounding (but excluding) Nifty and the Maroochydore copper deposit covering 2,394km$^2$, which is known as the Paterson Exploration Project (PEP). Key features of this agreement are as follows:

- IGO can sole fund up to $32m of exploration activities over 6.5 years to earn up to 70% interest in the PEP including a minimum spend of $11m over 3.5 years;
- Upon earning a 70% interest, a joint venture will be formed and IGO will free-carry MLX to the completion of a Preliminary Feasibility Study on a new mineral discovery;
- Standard dilution clauses apply each of the party's interests. Should a party's interest drop below 10%, it shall automatically convert to a 1% net smelter return royalty; and
- Provided MLX continues to own at least 50% of and is manager of the Nifty copper operation, IGO must offer MLX the opportunity to treat copper ores from any new discovery made within the PEP.

### PEP of particular value to IGO given its ownership of De Beers geochem database

The PEP has had minimal exploration attention for many years. The previous owners (Aditya Birla) are understood to have effectively ceased all exploration, even at Nifty, several years before selling the asset to MLX in August 2016. Because of MLX's focus on getting the Nifty operation established and from not having had much ability to fund any meaningful exploration on the PEP over the past four years, only limited exploration has been done in that time but several prospects have shown promising results and been prioritised for further exploration such as Rainbow, Juniper, Noosa and Spitfire. The PEP has particular interest for IGO, which already has other interests in the Paterson Province and owns the extensive proprietary geochemical database it acquired from De Beers, which is believed to include significant coverage in the Paterson Province.

### Shareholder moves have disrupt funding and development plans

The largest shareholder of MLX, APAC Resources Strategic Holdings Ltd (APAC), served a Section 249D Notice on MLX on 23 June 2020 seeking the removal of three MLX Directors – Patrick O'Connor, Brett Lambert and Tony Polglase – and APAC indicated its intention to request a meeting of MLX shareholders to seek the appointment of Mr Grahame White and Mr Peter Gunzburg as Directors of MLX. That Section 245D Notice from APAC came about a week after MLX had released the Area 5 Optimisation Study for Renison, showing that the Renison operation could be developed to incorporate Area 5 and to generate significantly stronger returns, subject to obtaining funding. Besides the generally disruptive nature of such Notices, the timing of that Notice was particularly disruptive for the company as it had recently released the strategic review of the copper business and the Area 5 Study, both showing potentially strong business outcomes subject to funding, and MLX was in a position to start discussions with Citi on the debt facility. The Section 249D Notice effectively disrupted the funding and development plans of MLX. MLX had announced in its release of the outcome of the strategic review of the copper business with the Scoping Study on open pit mining at Nifty that it intended to make a decision on undertaking a Feasibility Study (FS) on open pit mining at Nifty in July 2020.

**Entire copper business now being offered for sale, APAC nominees appointed**

The company announced on 2 July 2020 that it was offering its entire copper business for sale. MLX indicated in that announcement on 2 July 2020 of that proposed course of action that it had determined that an amount of about $20m would be needed to fund the proposed FS on Nifty and to cover the associated project holding costs and that it had progressed discussions with several parties, which included consideration of funding proposals that sought to have MLX free-carried through to the completion of the FS up to the point of the FID. MLX announced on 10 July 2020 that Brett Lambert and Tony Polglase had resigned as Directors of the company and that the two persons nominated by APAC on 23 June and 25 June 2020 to become Directors of MLX – Mr Grahame White and Mr Peter Gunzburg – had been appointed Directors of MLX. Mr Gunzburg was appointed Chairman.

**Funding situation under review, Citi facility to be paid out**

MLX announced on 10 July 2020 that although it had made a scheduled repayment of $2.5m on 30 June 2020 in accordance with the terms of the Citi facility, it had not been able to meet the forecast cash flow cover ratio and the forward debt service cover ratio for the quarter ended 30 June 2020. The company explained that the reason for not meeting either of those covenants related to its decision to proceed with capital expenditure under Renison's proposed $50 – 55m capital expenditure plan to develop Area 5. On 21 July 2020 MLX announced that it had submitted a proposal to Citi to cure the financial covenant breeches. MLX plans to pay out the Citi facility in full, being outstanding principal of $30.5m plus accrued interest and to close out existing hedging contracts on or before 3 September 2020. MLX indicated it planned to achieve this outcome by way of a refinancing and the use of the company's existing cash resources.

# Valuation raised by 73% to $0.19/share

## FY20 and FY21 losses reduced but FY22 loss increased

We have revised our MLX forecasts following the company's 4Q FY20 production report and allowance for slightly higher ongoing care and maintenance costs at Nifty and some minor revisions to commodity and US$/A$ forecasts. We have retained our assumption of an equity raising of about $40m before costs in FY21.

We are now forecasting lower normalised losses for FY20 and FY21. We are now forecasting a larger loss for FY22 on the assumption of a later resumption of copper production by open pit mining at Nifty (Table 2).

**We have increased our valuation, which is based on the average of our 12-month and 24-month forward NPV valuation, by 73% to $0.19 per share.** We believe the average of our 12-month and 24-month forward valuations is a better measure of valuation as the 12-month forward valuation reflects the benefits of the lower cost Renison and Nifty production but does not have all the debt forecast to be needed to develop those two growth projects over the next two years. Our valuations still use a discount rate of 12% reflecting the current level of uncertainty affecting the company, particularly from the ongoing global impact of the COVID-19 pandemic.

**Table 2 – Summary of revised earnings estimates and valuation for MLX**

| | Previous | | | New | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ending 30 June | 2020e | 2021e | 2022e | **2020e** | **2021e** | **2022e** | 2020e | 2021e | 2022e |
| **Prices & currency** | | | | | | | | | |
| Tin (US$/lb) | 7.38 | 7.05 | 7.85 | **7.38** | **7.40** | **7.85** | 0% | 5% | 0% |
| Copper (US$/lb) | 2.59 | 2.85 | 3.20 | **2.57** | **2.95** | **3.20** | -1% | 4% | 0% |
| US$/A$ | 0.67 | 0.67 | 0.71 | **0.67** | **0.68** | **0.71** | 1% | 2% | 0% |
| **Equity production & costs** | | | | | | | | | |
| Tin in concentrate (kt) | 3.6 | 4.2 | 4.6 | **3.6** | **4.2** | **4.5** | 0% | 1% | -3% |
| Tin all in sustaining costs (US$/lb) | 5.68 | 5.60 | 4.91 | **5.43** | **6.10** | **6.26** | -4% | 9% | 27% |
| Renison operating EBITDA (A$m) | 11.1 | 23.7 | 34.7 | **17.6** | **25.6** | **32.5** | 58% | 8% | -6% |
| Copper in concentrate (kt) | 6.0 | 0.0 | 20.4 | **6.0** | **0.0** | **7.8** | 0% | na | -62% |
| Copper all in sustaining costs (US$/lb) | 4.21 | na | 3.13 | **4.24** | **na** | **2.56** | 1% | na | -18% |
| Nifty operating EBITDA (A$m) | (28.8) | (19.4) | 24.5 | **(30.6)** | **(16.5)** | **(0.8)** | na | -15% | na |
| **Earnings** | | | | | | | | | |
| Revenue (A$m) | 143 | 89 | 265 | **147** | **93** | **160** | 3% | 4% | -39% |
| EBITDA (A$m) | (21) | (24) | 40 | **(8)** | **10** | **25** | -64% | na | -39% |
| EBIT (A$m) | (44) | (47) | (2) | **(31)** | **(13)** | **(9)** | -30% | -72% | 319% |
| NPAT (adjusted) (A$m) | (45) | (48) | (5) | **(33)** | **(15)** | **(13)** | -27% | -69% | 145% |
| EPS (adjusted) (Acps) | (4.6) | (3.4) | (0.4) | **(3.9)** | **(1.2)** | **(0.9)** | -16% | -66% | 148% |
| PER (x) | na | na | na | **na** | **na** | **na** | na | na | na |
| EPS Growth (%) | na | na | na | **na** | **na** | **na** | na | na | na |
| DPS (reported) (Acps) | 0.0 | 0.0 | 0.0 | **0** | **0** | **0** | na | na | na |
| Yield (%) | 0.0% | 0.0% | 0.0% | **0%** | **0%** | **0%** | na | na | na |
| Net cash / (debt including finance leases) (A$m) | 15 | 4 | (23) | **(22)** | **1** | **(40)** | na | -71% | 75% |
| Valuation ($/sh) | 0.11 | | | **0.19** | | | 73% | | |

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Valuation increased by 73% to $0.19/share

Our valuations of MLX (Table 4 over page) are based on:

- A sum-of-the-parts NPV valuation for each of the current tin and copper mining operations **using a discount rate of 12%** plus an NPV-related estimate for the Wingellina Nickel Project. Projects not in production (including expansion projects at existing operations) have been risk weighted to reflect their development uncertainty.
- Key modelled assumptions, as follows:
  1. Renison is now targeting the mining of higher grade ore from the new Area 5 area progressively over the next two years as full access and services are

established in accordance with the recent Area 5 mining optimisation and Renison LOM studies. We are now forecasting tin production (on a 100% basis) of 8,430t at an average AISC of about US$6.10/lb (A$20,105/t) for FY21 and 8,950t at an average AISC of about US$6.28/lb (A$19,435/t) for FY22;

2. Our forecasts for Nifty assume development of the operation based on open pit mining, with first ore expected to be treated early in 2022. We are forecasting 7.8kt of copper in concentrate for FY22 at an average net AISC of around US$2.56/lb (A$7,300/t). While our modelling of the potential Nifty open pit production shows the value in it is currently considerably back-ended, meaning the greatest annual returns occur in the later years of operation, we would expect that this is likely to be considerably improved by more detailed studies;
3. Based on MLX proceeding with both development projects (Area 5 at Renison and Nifty as an open pit operation (but not including the SX/EX at this stage), we are forecasting sustaining and project capex of about $46m in FY21; and $61m in FY22 for its share of those projects (excluding the Rentails development);
4. Annual exploration spend is forecast to reduce to around $1 - 3m (excluding Resource drilling for the Nifty restart as an open pit, which is included above). Under the earn-in by IGO, initial spending on regional exploration on MLX's large tenement holding in the Paterson Province is to be $11m over the first 3.5 years;
5. The major Renison expansion project, Rentails, remains under active development consideration. At tin prices of around US$7.70/lb (A$24,300/t), which is a bit less than the current spot price, the project has attractive economics with an indicative average AISC of A$16,500/t of tin after copper credits based on prospective annual production of about 5.4kt of tin metal and 2.2kt of copper in high grade matte (100% basis). The total indicative project construction cost was previously estimated at A$205m (MLX 50% share being A$102.5m) for a 2Mtpa concentrator, tin fuming plant and new tailings dam. MLX and its partner (Yunnan Tin Group) are currently investigating possible funding arrangements as the approvals process progresses;
6. The Maroochydore Copper Project, which is located about 85km to the south-east of Nifty, may come under consideration for development after a more detailed understanding of the extent of the oxide and sulphide mineralisation has been gained from further drilling and metallurgical test work programs;
7. We have retained our valuation of $28.5m on the Central Musgrave Nickel Project (CMNP) because we see little likelihood of it being developed in the next few years due to MLX's reduced financial position. Development of CMNP in conjunction with a major Asian industrial group using their proprietary nickel extraction process when nickel prices demonstrate stability above about US$7/lb remains a likely path but the CMNP asset is currently the subject of a strategic review. With the company particularly focused on Renison and to a lesser extent on advancing the Rentails Project, the CMNP is not a priority development project at this time. We expect the CMNP will initially be developed as a modest scale operation targeting higher grade mineralisation that is expected to be defined following completion of appropriate test work and economic studies; and
8. The company's only investment is an approximately 2.4% interest in Nelson Resources (ASX – NES, not rated) which is currently valued at about $0.1m.

### Copper business sale outcome will determine extent of any capital raising

Although MLX stated on 18 December 2019 that it was considering the timing and options for a capital raising in the first half of 2020, the company did not raise capital in 1H 2020. The timing and extent of any capital raising really depends on the outcome of the potential sale of the company's copper business. While we currently have a highly discounted value of about $100m for MLX's copper business, we see its potential value at more like $300m but we very much doubt the sale of the copper business at this time is likely to yield anything like its potential value and may not even realise our heavily discounted value. Accordingly we have assumed MLX does raise additional equity capital of about $40m over the next year (Table 3) as we see development of Area 5 at Renison and Nifty as an open pit operation as very attractive and logical growth options for the company. We have assumed part of this additional equity will be used to meet repayments under the Citi facility in the short term and then, assuming that facility (or a similar one) is still available and can be expanded, used to help fund the development of Area 5 over the next two years starting in 1Q FY21 and also to fund the restart of Nifty as an open pit operation starting in about early-2021 with first production in about early-2022.

**Rentails still being advanced and could need funding from about 2022**

MLX is also continuing to advance the Rentails Project and given its indicative favourable economics, Rentails could be an alternative and/or additional need for funding, likely to be starting from about 2022 but depending on various factors. Although we can see MLX starting to generate strong operating cash flows by the end of FY22 if it has developed Area 5 at Renison and Nifty as an open pit operation in accordance with the studies for both operations and we would expect Rentails is likely to be able attract significant project funding in its own right, MLX is still likely to be required to contribute some equity to it. We have assumed that any equity raised in FY21 is done at the current share price even though there could be favourable outcomes from a decision to develop or sell the company's copper business and the potential impact of higher copper and tin prices once the COVID-19 issues have been completely overcome, which may lead to a reduction in the amount of any equity raised then and potentially a share price re-rating by the time any equity capital is actually sought.

**Table 3 - Forecast additional equity to be raised by MLX in FY21**

| | |
|---|---|
| Year to June | 2021e |
| Gross amount to be raised[1] (A$m) | 40.0 |
| Share price assumed (A$) | 0.082 |
| Number of shares to be issued (m) | 487.8 |
| Total number of shares on issue at year end (m) | 1,395.1 |

SOURCE: BELL POTTER SECURITIES

NOTE 1. BEFORE CAPITAL RAISING COSTS

Our valuations of MLX (Table 4) are based on **tin and copper price and FX forecasts in Table 2** (on page 8). Our **valuations are equity diluted to account for potential additional shares issued in FY21 (Table 3)**.

**Table 4 - MLX summary valuations**

| | Now | | +12 months | | +24 months | |
|---|---|---|---|---|---|---|
| **DCF sum-of-parts valuation** | **A$m** | **$/sh[1]** | **A$m** | **$/sh[1]** | **A$m** | **$/sh[1]** |
| Tin Division | 160 | 0.11 | 174 | 0.12 | 176 | 0.13 |
| Copper Division | 82 | 0.06 | 96 | 0.07 | 106 | 0.08 |
| Nickel Division | 28 | 0.02 | 28 | 0.02 | 28 | 0.02 |
| Other assets | 1 | 0.00 | 1 | 0.00 | 1 | 0.00 |
| Corporate | (25) | (0.02) | (23) | (0.02) | (20) | (0.01) |
| Enterprise Value | **247** | **0.18** | **277** | **0.20** | **292** | **0.21** |
| Net cash/ (liabilities)[2] | 15 | 0.01 | 1 | 0.00 | (40) | (0.03) |
| Equity Value | **262** | **0.19** | **279** | **0.20** | **251** | **0.18** |

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD DUE TO ROUNDING AND DILUTION; BASED ON DILUTIVE CAPITAL OF 1,401.8M SHARES THAT ASSUMES CAPITAL RAISING IN FY21
2. DOES NOT INCLUDE ANY CASH FROM EXERCISE OF OPTIONS THAT ARE NOT DILUTIVE AT THE ABOVE VALUATIONS BUT DOES INCLUDE THE ASSUMED NET EQUITY TO BE RAISED IN FY21 (INCLUDING THE "NOW" CASE).

# Metals X Limited (MLX)

## Company description

MLX demerged its gold business in December 2016, and following suspension of the Nifty Copper Operation in November 2019, MLX now only has one operating division being 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 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, currently producing between 7.0 – 7.4kt of tin in concentrate from lower ore grades despite a recent expansion that included a tertiary crushing and ore sorter to lift output; the Rentails Project (a planned tailings retreatment based on downstream fumer processing); and the Mt Bischoff Project (a potential open pit and underground mining operation).

The Copper Division comprises the Nifty underground mining and associated modern processing operations and infrastructure in the Great Sandy Desert region of Western Australia (WA), which was put on care and maintenance in December 2019 as it was unlikely to meet planned output at an acceptable cost but a recent Scoping Study has indicated an open pit operation could be economically attractive; and the Maroochydore copper deposit located 90km away, which was previously seen as a potential near term development by open pit mining and possible trucking of ore for processing at Nifty. IGO Ltd (ASX – IGO, Buy TP $5.35) recently agreed to fund up to $32m of exploration on 2,394km$^2$ of tenements surrounding but excluding Nifty and Maroochydore to earn up to 70%. MLX announced on 2 July 2020 that it would seek offers for its copper business

The Nickel Division contains the globally significant Wingellina Nickel-Cobalt Project in the Central Musgrave Ranges near the WA/NT border (MLX 100%). This Project has been under consideration as a potential development that could ultimately see potentially very significant amounts of nickel, cobalt, scandium and iron production based from the staged development of higher grade zones within the very large nickel limonite deposit involving important new processing technology, provided a suitable development arrangement could be agreed with the developer of the processing technology (a major Asian group) and the nickel price recovers further. MLX is currently carrying out a strategic review of this asset.

## 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 their development uncertainty.

## Investment thesis: Spec. Buy, Valn. $0.19/sh (prev. $0.11/sh)

Very positive studies for expanded tin output at Renison (incorporating the high grade Area 5) and viable copper output at Nifty by open pit mining point to a much brighter future for MLX. Our forecasts assume retention of the company's copper business as that makes most sense because we see considerable potential value in Nifty being developed as an open pit mine based on the Scoping Study. MLX needs about $85m to fund the Renison and Nifty developments, much of which we assume comes from new equity and additional debt. **Our risked NPV-based MLX valuation is increased by 73% to $0.19/share after applying a 70% discount for Nifty and the valuation assumes a $40m equity raising**. Our Speculative Buy recommendation is retained.

## Shareholders

The major shareholders of MLX are: APAC Resources Ltd (15.3%); Argyle Street Management (14.2%); Old Peak Group (7.3%) and IOOF Holdings Limited (6.6%). Directors and management currently have a total interest of about 0.2%.

## 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.
- **Global pandemics**: Global pandemics such as the COVID-19 virus may have a very adverse impact on macro-economic factors such as commodity pricing and demand and on all aspects of the operating environment because of the need for social distancing.
- **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 22 July 2020

| | |
|---|---|
| Recommendation | Buy, Speculative |
| Price | $0.082 |
| Valuation | $0.19 |

## Table 5 - Financial summary

**PROFIT AND LOSS**

| Year ending 30 June | Unit | 2018a | 2019a | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|---|
| Revenue | $m | 210 | 205 | 147 | 93 | 160 |
| Operating expenses | $m | (211) | (223) | (155) | (82) | (136) |
| **EBITDA** | $m | **(1)** | **(18)** | **(8)** | **10** | **25** |
| Depreciation and amortisation | $m | (26) | (35) | (23) | (23) | (33) |
| **EBIT** | **$m** | **(26)** | **(53)** | **(31)** | **(13)** | **(9)** |
| Net interest | $m | 0 | 0 | (2) | (2) | (4) |
| **PBT** | $m | **(26)** | **(53)** | **(33)** | **(15)** | **(13)** |
| Tax expense | $m | 0 | 0 | 0 | 0 | 0 |
| Major impairments/write-offs/other | $m | 0 | (64) | (34) | 0 | 0 |
| **NPAT (reported)** | $m | **(26)** | **(117)** | **(67)** | **(15)** | **(13)** |
| Adjustment for abnormal items | $m | 0 | 64 | 34 | 0 | 0 |
| **NPAT (normalised)** | $m | **(26)** | **(53)** | **(33)** | **(15)** | **(13)** |

**PROFIT AND LOSS (INTERIMS)**

| Half year ending | Unit | Jun-18a | Dec-18a | Jun-19a | Dec-19a | Jun-20e |
|---|---|---|---|---|---|---|
| Revenue | $m | 122 | 92 | 113 | 109 | 38 |
| Expense | $m | (116) | (114) | (109) | (122) | (33) |
| **EBITDA** | $m | **5** | **(22)** | **4** | **(13)** | **5** |
| Depreciation | $m | (13) | (15) | (20) | (14) | (9) |
| EBIT | $m | (7) | (36) | (17) | (27) | (4) |
| Net interest expense | $m | (0) | 0 | (0) | (1) | (2) |
| **PBT** | $m | **(7)** | **(36)** | **(17)** | **(28)** | **(5)** |
| Tax (expense)/benefit | $m | (1) | 0 | 0 | 0 | 0 |
| Impairments/write-offs/other | $m | 0 | 0 | 64 | (34) | 0 |
| **NPAT (reported)** | $m | **(8)** | **(36)** | **48** | **(62)** | **(5)** |
| Abnormal items | $m | 0 | 0 | (64) | 34 | 0 |
| **NPAT (normalised)** | $m | **(8)** | **(36)** | **(17)** | **(28)** | **(5)** |

**CASH FLOW**

| Year ending 30 June | Unit | 2018a | 2019a | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|---|
| **OPERATING CASHFLOW** | | | | | | |
| Receipts | $m | 229 | 202 | 148 | 94 | 160 |
| Payments | $m | (203) | (217) | (145) | (62) | (132) |
| Tax | $m | 0 | 0 | 0 | 0 | 0 |
| Net interest | $m | 0 | 0 | (2) | (2) | (4) |
| Other | $m | 0 | 0 | 0 | 0 | 0 |
| **Operating cash flow** | $m | **27** | **(15)** | **1** | **30** | **24** |
| **INVESTING CASHFLOW** | | | | | | |
| Capex and exploration | $m | (37) | (51) | (46) | (47) | (64) |
| Other | $m | (2) | 5 | 0 | (1) | (1) |
| **Investing cash flow** | $m | **(39)** | **(46)** | **(46)** | **(48)** | **(66)** |
| **FINANCING CASHFLOW** | | | | | | |
| Net equity proceeds | $m | 1 | 47 | 30 | 37 | 0 |
| Debt proceeds/(repayments) | $m | (4) | 0 | 31 | (5) | 35 |
| Dividends | $m | (5) | - | (0) | 0 | 0 |
| Other | $m | 1 | 0 | 0 | 0 | 0 |
| **Financing cash flow** | $m | **(7)** | **42** | **53** | **32** | **35** |
| Change in cash | $m | (19) | (20) | 8 | 13 | (7) |
| Free cash flow | $m | (10) | (66) | (45) | (18) | (40) |

**BALANCE SHEET**

| Year ending 30 June | Unit | 2018a | 2019a | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash & short term investments | $m | 31 | 11 | 14 | 33 | 26 |
| Accounts receivable | $m | 14 | 17 | 11 | 11 | 10 |
| Inventory | $m | 55 | 46 | 20 | 20 | 20 |
| Mine development and PPE | $m | 129 | 89 | 94 | 121 | 157 |
| Exploration & evaluation | $m | 11 | 10 | 12 | 12 | 14 |
| Other | $m | 21 | 14 | 14 | 11 | 5 |
| **Total assets** | $m | **261** | **186** | **166** | **207** | **234** |
| **LIABILITIES** | | | | | | |
| Accounts payable | $m | 32 | 25 | 9 | 11 | 14 |
| Interest bearing liabilities | $m | 10 | 9 | 36 | 31 | 66 |
| Provisions | $m | 48 | 50 | 56 | 56 | 57 |
| Other | $m | 1 | 0 | 0 | 19 | 19 |
| **Total liabilities** | $m | **91** | **85** | **101** | **117** | **156** |
| **SHAREHOLDER'S EQUITY** | | | | | | |
| Share capital | $m | 255 | 302 | 332 | 372 | 372 |
| Reserves | $m | 31 | 28 | 28 | 28 | 28 |
| Retained earnings | $m | (115) | (228) | (295) | (310) | (323) |
| Non-controlling interest | $m | 0 | 0 | 0 | 0 | 0 |
| **Total equity** | $m | **170** | **102** | **65** | **90** | **78** |
| Weighted average shares | m | 611 | 681 | 852 | 1,273 | 1,395 |

**SHARE CAPITAL**

| Issued capital | Unit | |
|---|---|---|
| Ordinary shares | m | 907.3 |
| Unlisted employee options | m | 6.7 |
| **Total securities** | **m** | **914.0** |

**FINANCIAL RATIOS**

| Year ending 30 June | Unit | 2018a | 2019a | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|---|
| **VALUATION** | | | | | | |
| NPAT (adjusted) | $m | (26.3) | (52.8) | (33.1) | (14.9) | (12.8) |
| Normalised EPS | c/sh | (4.3) | (7.7) | (3.9) | (1.2) | (0.9) |
| EPS growth | % | na | na | na | na | na |
| PER | x | na | na | na | na | na |
| DPS | c/sh | - | - | - | - | - |
| Franking | % | 0% | 0% | 0% | 0% | 0% |
| Yield | % | 0% | 0% | 0% | 0% | 0% |
| FCF/share | c/sh | (2) | (10) | (5) | (1) | (3) |
| FCF yield | % | -20% | -118% | -64% | -17% | -35% |
| EV/EBITDA | x | na | (5.4) | (12.6) | 9.4 | 3.9 |
| **PROFITABILITY RATIOS** | | | | | | |
| EBITDA margin | % | 0% | -9% | -5% | 11% | 15% |
| EBIT margin | % | -13% | -26% | -21% | -14% | -5% |
| Return on assets | % | na | na | na | na | na |
| Return on equity | % | na | na | na | na | na |
| **LIQUIDITY & LEVERAGE** | | | | | | |
| Net debt / (cash) | $m | (21) | (2) | 22 | (1) | 40 |
| ND / E | % | nc | nc | 34% | nc | 52% |
| ND / (ND + E) | % | nc | nc | 25% | nc | 34% |

**ASSUMPTIONS - Prices**

| Year ending 30 June | Unit | 2018a | 2019a | 2020e | 2021e | LT real |
|---|---|---|---|---|---|---|
| Tin - Spot | US$/lb | 9.36 | 9.00 | 7.38 | 7.40 | 8.50 |
| Copper - Spot | US$/lb | 3.06 | 2.79 | 2.57 | 2.95 | 3.50 |
| Nickel - Spot | US$/lb | 5.65 | 5.60 | 6.46 | 7.05 | 8.00 |
| **CURRENCY** | | | | | | |
| USD/AUD | US$/A$ | 0.78 | 0.72 | 0.67 | 0.68 | 0.74 |

**ASSUMPTIONS - Mineral Resources (equity share)**

| **Tin Division** | Tonnes (M) | Grade Sn | Metal (kt Sn) | Grade Cu | Metal (kt Cu) | |
|---|---|---|---|---|---|---|
| Renison | 8.8 | 1.50% | 132 | 0.20% | 18 | |
| Mt Bischoff | 0.8 | 0.54% | 5 | | | |
| Rentails | 11.9 | 0.44% | 52 | 0.22% | 26 | |
| **Totals** | **21.6** | **0.87%** | **188** | **0.20%** | **44** | |
| **Copper Division** | | | | | | |
| Nifty - Sulphide | 36.3 | | | 1.50% | 546 | |
| - Oxide and Heap Leach | 7.6 | | | 0.79% | 60 | |
| Maroochydore | 48.6 | | | 1.00% | 486 | |
| **Totals** | **92.6** | | | **1.18%** | **1,092** | |
| **Nickel Division** | Tonnes (M) | Grade Ni | Metal (kt Ni) | Grade Co | Metal (kt Co) | Metal (Mt Fe) |
| Wingellina | **168** | **0.93%** | **1,561** | **0.07%** | **123** | **77** |

**ASSUMPTIONS - Production (equity share) and Profitability**

| Year ending 30 June | Unit | 2018a | 2019a | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|---|
| **Tin Division** | | | | | | |
| Ore treated | kt | 366 | 373 | 345 | 380 | 380 |
| Average head grade | % Sn | 1.25 | 1.32 | 1.42 | 1.50 | 1.56 |
| Recovery | % | 73.6 | 72.6 | 73.5 | 74.0 | 75.5 |
| Tin production (in concentrate) | kt Sn | 3.4 | 3.6 | 3.6 | 4.2 | 4.5 |
| Tin all in sustaining costs | US$/lb | 5.83 | 5.42 | 5.43 | 6.10 | 6.26 |
| Operating EBITDA | A$ m | 37.6 | 21.1 | 17.6 | 25.6 | 32.5 |
| **Copper Division** | | | | | | |
| Ore treated | Mt | 1.4 | 1.3 | 0.5 | - | 0.8 |
| Average head grade | % Cu | 1.33 | 1.45 | 1.34 | - | 1.23 |
| Recovery | % | 92.5 | 92.6 | 94.6 | - | 82.9 |
| Copper production (in concentrate) | kt Cu | 16.8 | 16.9 | 6.0 | - | 7.8 |
| Copper all in sustaining costs | US$/lb | 3.66 | 3.48 | 4.24 | - | 2.56 |
| Operating EBITDA | A$ m | (18.6) | (18.4) | (30.6) | (16.5) | (0.8) |

**SUBSTANTIAL & SIGNIFICANT SHAREHOLDERS**

| Shareholder | M Shares | Interest | Date of Latest Change |
|---|---|---|---|
| APAC Resources Ltd | 138.9 | 15.3% | 1/10/19 |
| Argyle Street Management | 128.8 | 14.2% | 14/05/20 |
| Old Peak Group Limited | 66.5 | 7.3% | 14/05/20 |
| IOOF Holdings Limited | 60.1 | 6.6% | 1/10/19 |
| Directors and management | 1.7 | 0.2% | various |
| **Total** | **395.9** | **43.6%** | |

**VALUATION**

| | Current | | + 12 months | | + 24 months | |
|---|---|---|---|---|---|---|
| **Sum of parts valuation** | **$m** | **$/sh[1,2]** | **$m** | **$/sh[1,2]** | **$m** | **$/sh[1,2]** |
| Tin Division | 160 | 0.11 | 174 | 0.12 | 176 | 0.13 |
| Copper Division | 82 | 0.06 | 96 | 0.07 | 106 | 0.08 |
| Nickel Division | 28 | 0.02 | 28 | 0.02 | 28 | 0.02 |
| Other assets | 1 | 0.00 | 1 | 0.00 | 1 | 0.00 |
| Corporate | (25) | (0.02) | (23) | (0.02) | (20) | (0.01) |
| **Enterprise value** | **247** | **0.18** | **277** | **0.20** | **292** | **0.21** |
| Net cash/(liabilities)[3] | 15 | 0.01 | 1 | 0.00 | (40) | (0.03) |
| **Equity value** | **262** | **0.19** | **279** | **0.20** | **251** | **0.18** |

Notes: 1. May not add due to rounding and dilution
2. Based on diluted capital of 1,401.8m securities. Includes assumed equity raising in FY21
3. Liabilities includes equipment leases and assumed extension of Citi debt facility

SOURCE: METALS X LTD AND 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.*

## Research Team


| Staff Member | Title/Sector | Phone | @bellpotter.com.au |
|---|---|---|---|
| TS Lim | Head of Research | 612 8224 2810 | tslim |
| **Industrials** | | | |
| Stephen Anastasiou | Industrials | 613 9235 1952 | sanastasiou |
| James Filius | Industrials | 613 9235 1612 | jfilius |
| Sam Haddad | Industrials | 612 8224 2819 | shaddad |
| Alex McLean | Industrials | 613 8224 2886 | amclean |
| Hamish Murray | Industrials | 613 9235 1813 | hmurray |
| Chris Savage | Industrials | 612 8224 2835 | csavage |
| Jonathan Snape | Industrials | 613 9235 1601 | jsnape |
| Damien Williamson | Industrials | 613 9235 1958 | dwilliamson |
| **Healthcare/Biotech** | | | |
| John Hester | Healthcare | 612 8224 2871 | jhester |
| Tanushree Jain | Healthcare/Biotech | 612 8224 2849 | tnjain |
| Elyse Shapiro | Healthcare | 613 9235 1877 | eshapiro |
| **Financials** | | | |
| TS Lim | Banks/Regionals | 612 8224 2810 | tslim |
| Lafitani Sotiriou | Diversified Financials/Fintech | 613 9235 1668 | lsotiriou |
| **Resources** | | | |
| Peter Arden | Resources | 613 9235 1833 | parden |
| David Coates | Resources | 612 8224 2887 | dcoates |
| Stuart Howe | Resources | 613 9235 1856 | showe |
| **Associates** | | | |
| Joseph House | Associate Analyst | 613 9235 1624 | jhouse |

**Bell Potter Securities Limited**
ACN 25 006 390 7721
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
**Telephone** +61 3 9256 8700
**www.bellpotter.com.au**

**Bell Potter Securities (HK) Limited**
Room 1701, 17/F
Posperity Tower, 39 Queens Road
Central, Hong Kong, 0000
**Telephone +852 3750 8400**

**Bell Potter Securities (US) LLC**
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
**Telephone +1 917 819 1410**

**Bell Potter Securities (UK) Limited**
16 Berkeley Street
London, England
W1J 8DZ, United Kingdom
**Telephone** +44 7734 2929




**Research Policies:**

For Bell Potter's Research Coverage Decision Making Process and Research Independence Policy, please refer to our company website:

https://www.bellpotter.com.au/topnavigation/private-clients/stockbroking/research

**Disclosure of interest:**

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Peter Arden has a long position in the shares of MLX.

**ANALYST CERTIFICATION**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner; (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report; and (3) the analyst responsible for this report does hold an interest in the securities of Metals X Ltd. at the date of this report.