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# Metals X Ltd (MLX)

## High tin grades lift 1Q21 output, cash flow

### Renison makes strong start to FY21

Record tin output in concentrate, up 34% quarter-on-quarter (qoq) of 2,326t (100% basis) in 1Q21, is an unexpectedly strong start to FY21 by Renison from higher grade ore from the new Area 5. Tin sales up 87% qoq at 2,170t (100% basis) at 12% higher average net realised tin price of A\$21,608/t and a 10% lower average all in sustaining cost (AISC) saw Renison's EBITDA contribution to MLX rise 147% to \$10.2m. MLX's share of net mine cash flow was also a healthy \$7.0m compared to \$1.0m cash outflow in the prior quarter. Nifty remained on care and maintenance at a lower net cost of \$3.4m. MLX had net liabilities of about \$25.5m at 30 September 2020 (made up of cash of \$5.9m, APAC debt of \$26m and estimated finance leases of \$5.4m).

### Rising copper price supports retention of copper business

The MLX's copper business remains shut and for sale as copper prices hit a 28-month high from expectations of robust demand from the largest copper user, China, along with a lower US dollar. The A\$ copper price is up 12% since the decision to shut Nifty 11 months ago. The company's recent Scoping Study for an open pit operation at Nifty using existing infrastructure indicated far great value could be unlocked from the copper business than is likely to be realised by any sale and the \$32m exploration deal on much of MLX's large, strategic tenement position around Nifty highlights its value.

### Investment thesis – Spec. Buy, Valn. \$0.20/sh (prev. \$0.19/sh)

Higher than expected tin output at Renison represents a good start to FY21 and is indicative of the potential for a much brighter future for MLX, especially if viable copper production is established at Nifty by open pit mining. Our forecasts continue to assume retention of the company's copper business as that makes most sense, especially because we doubt MLX will get fair value for it of around \$100m and we think the company will struggle to find and replicate the growth and upside offered by the copper assets. We have revised our forecasts to incorporate the latest quarterly production and revised metal price and FX forecasts resulting in forecast small losses to breakeven for FY 21 and FY22 and small profit in FY23. Our blended and risked NPV-based MLX valuation is lifted by 5% to \$0.20/share, which includes a heavy discount for Nifty and assumes an equity raising. Speculative Buy recommendation is retained.

### Recommendation

**Buy** (unchanged)

Price

**\$0.082**

Target (12 months)

**\$0.20** (previously \$0.19)

Risk

**Speculative**

### GICS Sector

Materials

### Expected Return

Capital growth	<b>144%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>144%</b>

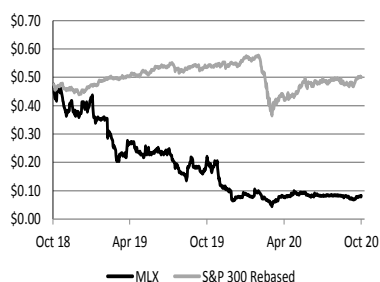
### Company Data & Ratios

Enterprise value	<b>\$100m</b>
Market cap	<b>\$74m</b>
Issued capital	<b>907.3m</b>
Free float	<b>64%</b>
Avg. daily val. (52wk)	<b>\$470,000</b>
12 month price range	<b>\$0.043 - \$0.235</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.08	0.08	0.18
Absolute (%)	5.1	-1.2	-53.1
Rel market (%)	-0.1	-4.6	-46.1

### Absolute Price



SOURCE: IRESS

### Earnings Forecast

Year ending 30 June	2020a	2021e	2022e	2023e
Sales (A\$m)	144	97	166	279
EBITDA (A\$m)	(35)	12	21	44
NPAT (reported) (A\$m)	(80)	(3)	(4)	13
NPAT (adjusted) (A\$m)	(57)	(3)	(4)	13
EPS (adjusted) (eps)	(6.7)	(0.2)	(0.3)	0.1
EPS growth (%)	na	na	na	na
PER (x)	na	na	na	8.7
FCF Yield (%)	-76%	-13%	-36%	21%
EV/EBITDA (x)	(2.9)	8.6	4.7	2.3
Dividend (eps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	na	na	na	13%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Record 1Q21 Renison production a sign of what's to come

## Renison generated higher EBITDA and a net mine cash flow

Record tin output in concentrate, up 34% qoq of 2,326t (100% basis) in 1Q21 is an unexpectedly strong start to FY21 by Renison, aided by higher grade ore coming from the new Area 5. The latest quarterly performance is a sign of what is to come as mining at Renison progressively moves into more stoping areas in Area 5 and other nearby high grade areas. Tin sales in the latest quarter were up 87% qoq at 2,170t (100% basis) at 12% higher average net realised tin price of A\$21,608/t and a 10% lower average all in sustaining cost (AISC), which drove Renison's 147% higher qoq EBITDA contribution to MLX to \$10.2m. This also meant the company's share of net mine cash flow was a healthy \$7.0m compared to \$1.0m cash outflow in the prior quarter (Table 1).

**Table 1 – MLX 1Q FY21 production report summary**

Year to 30 June		Sep-19 Actual	Dec-19 Actual	Mar-20 Actual	Jun-20 Actual	Sep-20 Actual	Sep-20 BP est	Change on prev. (%)	Actual vs BP est (%)
<b>Tin Division (Renison)</b>									
Ore milled (100% basis)	kt	178	166	175	170	165	190	(3%)	(13%)
Average tin grade	% Sn	1.56%	1.35%	1.36%	1.40%	1.87%	1.50%	34%	25%
Recovery <sup>1</sup>	%	74.3%	73.7%	73.1%	73.0%	75.3%	74.0%	3%	2%
Tin production (in concentrate, 100% basis)	Kt	2,056	1,652	1,740	1,733	2,326	2,107	34%	10%
Tin sales (in concentrate, 100% basis)	Kt	1,757	1,826	2,080	1,160	2,170	2,219	87%	(2%)
Average net realised tin price <sup>2</sup>	US\$/lb	7.02	6.83	6.65	6.45	7.24	6.74	12%	7%
Average net all in sustaining cost <sup>2</sup>	US\$/lb	5.01	6.30	6.19	5.06	4.93	6.13	(3%)	(20%)
Operating EBITDA	A\$m	9.3	4.1	3.0	4.2	10.2	6.7	147%	53%
<b>Copper Division (Nifty)</b>									
Ore milled	kt	290	186						
Average copper grade	% Cu	1.29%	1.41%						
Recovery	%	91.6%	92.1%						
Copper production (in concentrate)	Kt	3.4	2.6						
Copper sales (in concentrate)	Kt	4.1	5.0						
Average net realised copper price received <sup>2</sup>	US\$/lb	2.34	2.35						
Average net all in sustaining cost	US\$/lb	3.62	3.66						
Operating EBITDA	A\$m	(13.0)	(13.0)	(6.3)	(5.4)	(3.4)	(4.2)	(37%)	(19%)
<b>Financials</b>									
Operating EBITDA	A\$m	(3.6)	(8.9)	(3.3)	(1.3)	6.8	2.5	na	175%
Capital expenditure	A\$m	(15.3)	(25.7)	(10.7)	(8.3)	(7.3)	(10.5)	(11%)	(30%)
Cash	A\$m	50.9	43.7	20.8	14.3	5.9	13.4	(59%)	(56%)
Total interest bearing liabilities (debt + leases)	A\$m	(44.4)	(43.4)	(38.9)	(36.4)	(31.9)	(42.4)	(12%)	(25%)
Net cash/(liabilities)	A\$m	6.5	0.3	(18.1)	(22.1)	(26.0)	(29.0)	18%	(10%)

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 1Q FY21 production result were:

### Renison – record output as ore grade lifts from high grade Area 5 stoping

- Tin production in concentrate was up 34% qoq to a record 2,326t (100% basis), reflecting the 34% lift in the average ore grade from the mining in the high grade Area 5. Tin production was achieved at 21% lower qoq average C1 cash cost of A\$12,847/t (14% lower at US\$4.17/lb) and 10% lower average net AISC of A\$15,189/t (3% lower at US\$4.93/lb).
- Sales of tin in concentrate were up 87% qoq at 2,170t (100% basis) at a 3% higher average realised price of A\$22,312/t (12% higher in US terms at US\$7.24/lb) after treatment and refining charges. However the lower operating costs meant MLX's 50% share of the Renison mine generated a 147% higher mine operating surplus (EBITDA)

of \$10.2m and its share of net cash flow was a healthy \$7.0m compared to cash outflow of \$1.0m in the previous quarter.

- 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. Development and stoping of the high grade Area 5 has progressed, and increased recovery at 75.3% (up 3% qoq) shows the benefits of the metallurgical improvement program and the higher grade feed are being realised. The operating performance in September was particularly encouraging with record monthly tin production and the second highest monthly recovery since the Renison restart in 2008. In addition, 9,215m of underground drilling was carried out, mainly involving grade control in Area 5, Huon North and Leatherwood.
- Guidance for FY21 was retained for tin production (in concentrate, 100% basis) of 8,200 – 8,700t at an average AISC of A\$19,000 – 20,000/t and project apex is forecast to be \$20 - \$25m over the remainder of FY21.

#### **Nifty – lower care and maintenance costs**

- Operations remained on care and maintenance at a significantly lower net cost of \$3.4m, a 37% reduction qoq that benefited from inventory and equipment sales of \$0.7m. Guidance for the net care and maintenance cost for 2Q FY21 is \$3.3m.
- The company announced its intention to seek offers for the proposed sale of its entire copper asset portfolio, including the Nifty Copper Operation, Maroochydore Copper Project and the Paterson Exploration Project. A shortlist of preferred bidders was selected, on the basis of indicative offers provided during the quarter, to undertake further due diligence and submit final firm bids. The sale process is ongoing with the intention of executing a binding term sheet and thereafter a sale agreement. MLX cautions that there is no certainty that a transaction will be entered into or completed.

#### **Wingellina Nickel Project (WNP) – strategic review of options continues**

- MLX, in conjunction with CSA Global, completed a strategic review of the options to advance the WNP. The scope of works included a business environment review of global lateritic nickel mines and development projects along with a gap analysis in relation to the completed 2008 Phase 1 Feasibility Study. The strategic options identified are being reviewed.

#### **Financials – improved operating EBITDA and cash flow**

- Total mine or operating EBITDA was considerably improved by Renison's strong contribution to be \$3.6m compared with a loss of \$1.3m in the previous quarter. Total capex was estimated to have been 11% lower qoq at \$7.3m, the major part of which (\$3.4m) was for care and maintenance at Nifty with lower capex at Renison.
- All tin hedging relating to a total of 1,890t to the company was closed out in the quarter for a net gain of \$0.067m.
- MLX had cash of \$5.9m at 30 September 2020. The balance on the company's debt facility with Citi was of \$30.5m was fully repaid during the quarter and a new debt facility of \$26m involving an unsecured loan facility agreement with Asia Cheer Trading Limited (ACT), a fellow subsidiary of MLX's substantial shareholder APAC Resources Strategic Holdings Limited (ACT Facility). The loan term is to 31 January 2021. In addition to the \$26 million debt facility, ACT has provided the company with a commitment to increase the ACT Facility by a further \$5 million on the same finance terms if required and to extend the repayment date of the ACT Facility to 31 July 2021. That timing could point to a capital raising being done prior to the expiry date of the facility. MLX had estimated interest-bearing obligations (ACT debt plus estimated finance leases of \$5.4m) totalling about \$31.4m, at 30 September 2020, giving the company estimated net interest bearing liabilities of about \$25.5m.

# Valuation raised by 5% to \$0.20/share

## Forecasts of about breakeven in FY21 and FY22; small profit in FY23

We have revised our MLX forecasts following the company's 1Q FY21 production report and 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 normalised small losses to breakeven for FY 21 and FY22 and a small profit in FY23 on the assumption of a 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 5% to \$0.20 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**

Year ending 30 June	Previous			New			Change		
	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
<b>Prices &amp; currency</b>									
Tin (US\$/lb)	7.40	7.85	8.40	8.01	8.20	8.51	8%	4%	1%
Copper (US\$/lb)	2.95	3.20	3.30	2.96	3.20	3.41	0%	0%	3%
US\$/A\$	0.68	0.71	0.73	0.70	0.71	0.73	3%	0%	0%
<b>Equity production &amp; costs</b>									
Tin in concentrate (kt)	4.2	4.5	4.5	4.3	4.5	4.5	2%	0%	0%
Tin all in sustaining costs (US\$/lb)	6.10	6.26	5.02	5.11	5.25	5.45	-16%	-16%	9%
Renison operating EBITDA (A\$m)	25.6	32.5	38.2	29.1	32.8	33.3	14%	1%	-13%
Copper in concentrate (kt)	0.0	7.8	20.7	0.0	7.8	20.7	na	0%	0%
Copper all in sustaining costs (US\$/lb)	na	2.56	2.56	na	2.56	2.56	na	0%	0%
Nifty operating EBITDA (A\$m)	(16.5)	(0.8)	31.1	(13.5)	0.6	31.1	-18%	na	0%
<b>Earnings</b>									
Revenue (A\$m)	93	160	279	97	166	279	5%	3%	0%
EBITDA (A\$m)	10	25	44	12	21	44	12%	-14%	0%
EBIT (A\$m)	(13)	(9)	19	(2)	(0)	19	-86%	na	0%
NPAT (adjusted) (A\$m)	(15)	(13)	13	(3)	(4)	13	-79%	-72%	0%
EPS (adjusted) (Acps)	(1.2)	(0.9)	0.1	(0.2)	(0.3)	0.1	-79%	-72%	0%
PER (x)	na	na	8.7	na	na	8.7	na	na	0%
EPS Growth (%)	na	na	na	na	na	na	na	na	na
DPS (reported) (Acps)	0.0	0.0	0	0	0	0	na	na	na
Yield (%)	0.0%	0.0%	0%	0%	0%	0%	na	na	na
Net cash / (debt including finance leases) (A\$m)	1	(40)	(16)	2	(41)	(16)	28%	1%	0%
Valuation (\$/sh)	0.19			0.20			5%		

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Valuation increased by 5% to \$0.20/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 8,610t at an average AISC of US\$5.17/lb (A\$16,780/t) for FY21; 8,985t at an average AISC of US\$5.32/lb (A\$16,575/t) for FY22; and 8,950t at an average of US\$5.54/lb (A\$16,715/t) for FY23;

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) and 20.7kt of copper in concentrate for FY23 also 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 \$41m in FY21; \$60m in FY22; and \$14m in FY23 for its share of those projects (excluding any capex for the Rentails development);
4. Annual exploration spend is forecast to reduce to around \$1m to \$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 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 a capital raising in the first half of 2020, no capital was raised 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 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 in FY21 (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 require funding, likely to be needed 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 <sup>1</sup> (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 we have assumed are issued in FY21 (Table 3)**.

**Table 4 - MLX summary valuations**

	Now		+12 months		+24 months	
	A\$m	\$/sh <sup>1</sup>	A\$m	\$/sh <sup>1</sup>	A\$m	\$/sh <sup>1</sup>
<b>DCF sum-of-parts valuation</b>						
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	<b>247</b>	<b>0.18</b>	<b>277</b>	<b>0.20</b>	<b>292</b>	<b>0.21</b>
Net cash/ (liabilities) <sup>2</sup>	15	0.01	1	0.00	(40)	(0.03)
Equity Value	<b>262</b>	<b>0.19</b>	<b>279</b>	<b>0.20</b>	<b>251</b>	<b>0.18</b>

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 and largest tin mines, currently producing around 8kt of tin in concentrate from lower ore grades after 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) is funding up to \$32m of exploration on 2,394km<sup>2</sup> 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. \$0.20/sh (prev. \$0.19/sh)

Higher than expected tin output at Renison represents a good start to FY21 and is indicative of the potential for a much brighter future for MLX, especially if viable copper production is established at Nifty by open pit mining. Our forecasts continue to assume retention of the company's copper business as that makes most sense, especially because we doubt MLX will get fair value for it of around \$100m and we think the company will struggle to find and replicate the growth and upside offered by the copper assets. We have revised our forecasts to incorporate the latest quarterly production and revised metal price and FX forecasts resulting in forecast small losses to breakeven for FY 21 and FY22 and small profit in FY23. Our blended and risked NPV-based MLX valuation is lifted by 5% to

\$0.20/share, which includes a heavy discount for Nifty and assumes an equity raising. Speculative Buy recommendation is retained.

## Shareholders

The major shareholders of MLX are: APAC Resources Ltd (15.3%); Argyle Street Management (12.1%); 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 logistics supply chain, particularly the movement of people.
- **Inappropriate acquisition risks.** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.





**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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

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