BELL POTTER

19 November 2015

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MetalsX Ltd (MLX)

New gold output adds lustre, ABY big ask

Recommendation
Buy (unchanged)
Price
$1.17
Target (12 months)
$1.75 (previously $1.70)

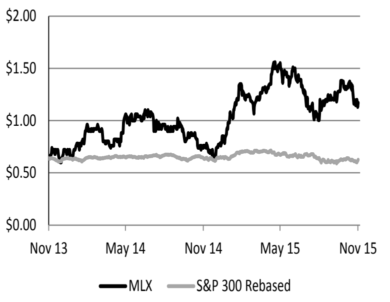
Expected Return	
Capital growth	50%
Dividend yield	5%
Total expected return	55%

Company Data & Ratios	
Enterprise value	$453m
Market cap	$536m
Issued capital	458.2m
Free float	54%
Avg. daily val. (52wk)	$1.0m
12 month price range	$0.76 - $1.59
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.32	1.05	0.76
Absolute (%)	-11.4	11.4	53.9
Rel market (%)	-10.9	13.4	57.6

Absolute Price



SOURCE: IRESS

Acquisition of Aditya Birla a big ask but competition unlikely

MLX has made a number of astute gold acquisitions in the Eastern Goldfields of WA that are complementary to its growing gold footprint and which have begun coming into operation after the company has applied its proven development and operating skills. MLX recently made a conditional off-market offer for chronically underperforming copper miner, Aditya Birla (ABY), after failing to engage with it. ABY's principal asset is the troubled Nifty copper mine in the East Pilbara region of WA. While ABY currently has a net cash balance of about $47m, it has considerable potential obligations and faces a huge challenge to get Nifty working efficiently. We doubt ABY is likely to be able to rejuvenate Nifty but we believe MLX is possibly uniquely positioned to do so. Initial rejection by ABY's major shareholder (Hindalco with 51%) of MLX's offer makes it unlikely that the offer can be successful but ABY is conducting a strategic review that could see common sense prevail to MLX's advantage.

New gold output starts after lower gold, better tin in 1Q FY16

New gold production has just commenced at MLX's Central Murchison Gold Project (CMGP) and from processing of high grade ore from Stage 1 of the new Cannon mine Joint Venture near Kalgoorlie. This new production will boost MLX's gold production that was affected in 1Q FY16 by lower grades. The Higginsville Gold Operations (HGO) went through a lower grade phase in the resource and the South Kalgoorlie Operations (SKO) were transitioning to underground stoping in the HBJ mine. Renison's tin output was affected by disruption from additional concentrator equipment but the equipment had an immediate and positive impact on throughput and recovery.

Investment thesis – Buy, TP $1.75/sh (previously $1.70/sh)

We expect that MLX's gold production will increase strongly over the balance of FY16 as new gold production that has just started at its CMGP and from the Cannon mine Joint Venture near Kalgoorlie ramps up, making up for lower production recently. We have revised our forecasts, upgrading earnings by 4% to 15%, but we do not include any interest in ABY. Our target price is based on the 12-month forward NPV valuation, both of which are raised by 3% to $1.75/share. We retain our Buy rating.

Earnings Forecast

Year end June	2015a	2016e	2017e	2018e
Sales (A$m)	314	459	802	848
EBITDA (A$m)	89	135	327	281
NPAT (reported) (A$m)	41	71	194	142
NPAT (adjusted) (A$m)	47	71	194	142
EPS (adjusted) (¢ps)	11	16	42	31
EPS growth (%)	402%	37%	172%	-27%
PER (x)	11.4	7.5	2.8	3.8
FCF Yield (%)	2%	-15%	39%	20%
EV/EBITDA (x)	5.1	3.4	1.4	1.6
Dividend (¢ps)	6	6	11	11
Yield (%)	4.8%	5.1%	9.4%	9.4%
Franking (%)	61%	0%	0%	100%
ROE (%)	14%	16%	32%	21%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Makes offer for Aditya Birla (ABY)

Poor record of Nifty indicates others unlikely to have any interest

MLX recently made an all-scrip, conditional off-market offer for chronically underperforming copper miner, ABY. MLX is offering 1 of its shares for every 5 ABY shares. The offer is conditional on a number of usual matters including a 90% minimum acceptance requirement that needs major Indian shareholder, Hindalco (with 51% interest) to accept for that condition to satisfied. Some other conditions such as completion of the Mt Gordon sale and receipt of FIRB approval have been fulfilled, so the offer has become free of those conditions. At the current MLX share price of $1.17, the MLX offer values ABY at $73.3m or $0.234 per share, a 6% premium to the current ABY share price of $0.22.

Desire to become a more diversified mining group driving MLX's offer for ABY

We interpret the offer by MLX to be based on several factors of which the main one is related to MLX's desire to become a more diversified mining group. We believe MLX has a strong desire to become a significant copper producer because the company views the longer term outlook for copper as very favourable and sees the current copper market downturn as a good time to acquire suitable copper production as it expects a recovery from such depressed conditions.

Significant deterioration in ABY's business deters others from competing with MLX

ABY's latest half yearly result shows that its business has deteriorated significantly over the course of 2015, with the company reporting a loss for the half year to 30 September 2015 of $100.8m. That result included a loss of $69.4m from the continuing Nifty operation (that contained an impairment charge of $35.5m for the oxide and sulphide operations) and a loss of $32.4m from the discontinued (and recently sold) Mt Gordon operation. The impairment charges in ABY's latest financial results follow a change in the macroeconomic assumptions due to a reduction in forecast copper price over the remaining life of mine (LOM) and a reduction in contained copper due to more dilution of the copper grade. The supporting information in ABY's most recent announcement on the Nifty underground Ore Reserve Estimate and the impairment charges cast doubt on the viability of Nifty with the recent forecasts showing that Nifty is essentially uneconomic at present and would be losing a significant amount of cash if it continued for very long at current prices.

Besides the sink hole matter, we believe ABY's challenges at Nifty include developing a suitable new mine plan that gets production back up to the proper scale for the orebodies; having the courage to invest the necessary capital to put such a mine plan into operation; attracting and retaining a suitable and stable high quality technical and operations staff to make the necessary changes to the new LOM plan; and overcoming a reluctance to carry out adequate (and we understand at present, any) exploration to ensure a robust LOM.

Besides the major operational challenges currently facing Nifty, we believe the legacy issues of the operation (such as the sink hole that developed in 2014 and the poor workplace reputation of the site) and the existence of an entrenched controlling shareholder in Hindalco are likely to deter any other potential parties from expressing any interest in ABY and making a competing offer for the company.

While the resource base at ABY's Nifty mine has some appeal as a sizeable one, we believe the reality is that the poor operating record at Nifty over an extended time of many years is likely to deter any other groups from wanting to take on the risk of ABY.

ABY's cash balance may look attractive but much of it needed for Nifty development

Following the recent sale of ABY's Mt Gordon operation, ABY indicated that it had cash and equivalents of $72.4m at 27 October 2015 and in addition it had a cash deposit of $8.1m as security deposit in compliance with the terms of the finance facility from the bank. At 30 September 2015, ABY had debt of $25.1m. We estimate that ABY's net cash balance is about $47.3m, equivalent to $0.15 per share. While the cash balance is a significant one, we estimate that a significant amount of cash will need to be spent at Nifty to achieve improved operating performance. ABY has given guidance of capital expenditure of $12 – 17m for FY16 but we believe this is maintenance capital expenditure and will need to be augmented by additional expenditure to modify the mine plan given the current low copper price. ABY has also suspended exploration at Nifty and we believe exploration needs to be reinstated, requiring additional expenditure.

ABY's strategic review seems belated attempt to recognise its shortcomings

ABY is currently conducting a strategic review on its assets. The outcome of the strategic review is expected to be available by the end of the March quarter 2016. We believe the strategic review is long overdue and that it is a belated attempt by ABY to recognise its shortcomings. While ABY's major shareholder, Hindalco, is supportive of ABY and presumably keen to continue to get copper concentrate from Nifty, with the current operation estimated to be losing cash at current prices, the future of Nifty under ABY's management is uncertain. We believe MLX is far more likely to be able to continue to operate Nifty and to be able to do so in a more efficient manner that could not only ensure the longer term supply of copper concentrate to Hindalco, but potentially an increased supply of it.

New gold output to follow 1Q FY16 dip

Table 1 – MLX 1Q FY16 production summary

Operations		Sep-14 Actual	Dec-14 Actual	Mar-15 Actual	Jun-15 Actual	Sep-15 Actual	Sep-15 Estimate	Variance % qoq	Variance % BP est.
Renison									
Ore milled (100%)	kt	168	166	157	151	**172**	170	14%	1%
Tin grade (100%)	%	1.6%	1.7%	1.4%	1.6%	**1.3%**	1.6%	-15%	-14%
Tin production (in conc, 100%)	Kt	1,831	1,960	1,578	1,704	**1,645**	1,792	-3%	-8%
Cash costs of sales	A$/lb Sn	8.58	7.41	8.64	7.50	**7.76**	7.96	3%	-3%
Operating surplus (EBITDA)	A$m	4.4	6.7	3.4	3.0	**3.2**	3.3	6%	-5%
Capital expenditure	A$m	(1.8)	(2.3)	(2.6)	(2.6)	**(2.0)**	(2.5)	-23%	-20%
Higginsville Gold Operations (HGO)									
Ore milled	kt	215	217	275	320	**339**	300	6%	13%
Gold grade	g/t	5.67	3.87	4.32	3.55	**2.63**	3.75	-26%	-30%
Recovery	%	97%	94%	90%	92%	**88%**	93%	-4%	-5%
Gold produced	koz	37.8	25.5	34.6	33.6	**25.3**	33.8	-25%	-25%
Cash cost of sales	A$/oz	895	773	1,004	921	**1,234**	926	34%	33%
Total cost of sales	A$/oz	1,119	1,014	1,253	1,166	**1,518**	1,171	30%	30%
South Kalgoorlie Operations (SKO)									
Ore milled (excludes 3rd party ore)	kt	180	258	141	188	**270**	150	44%	80%
Gold grade	g/t	0.81	0.73	0.65	1.42	**1.37**	2.3	-4%	-39%
Recovery	%	95%	85%	82%	87%	**90%**	92%	4%	-2%
Gold produced	koz	4.5	5.1	2.4	7.5	**10.8**	10.0	44%	8%
Cash cost of sales	A$/oz	1,510	2,347	1,818	1,217	**1,425**	1,148	17%	24%
Total cost of sales	A$/oz	1,679	2,544	2,636	1,313	**1,615**	1,223	23%	32%
Gold Division Totals (excludes development projects)									
Ore Milled	kt	394	475	416	508	**609**	450	20%	35%
Gold Grade	g/t	3.46	2.17	3.08	2.76	**2.07**	3.25	-25%	-36%
Gold produced	koz	42.3	30.6	37.0	41.1	**36.1**	43.7	-12%	-18%
Gold sold	koz	42.3	30.7	37.0	41.1	**36.3**	43.7	-12%	-17%
Average realised gold price	A$/oz	1,400	1,415	1,544	1,537	**1,510**	1,575	-2%	-4%
Cash cost of sales	A$/oz	960	1,037	1,057	975	**1,291**	977	32%	32%
Total cost of sales	A$/oz	1,178	1,271	1,343	1,193	**1,547**	1,183	30%	31%
Operating surplus (EBITDA)	A$m	22.2	17.7	18.1	23.5	**8.2**	17.1	-65%	-52%
Capital expenditure	A$m	(5.6)	(5.3)	(5.3)	(15.3)	**(12.1)**	(9.5)	26%	-28%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The main features of the 1Q FY16 production report were:

- Production of gold from the company's two operating mines in the Eastern Goldfields district of Western Australia – HGO and SKO - was 12% lower than in the previous quarter at 36.1kozs (Table 1). The production came from processing 20% more ore but the overall average head grade was lower than expected, being 25% down on the grade in the previous quarter at 2.07g/t because the Trident underground mine entered a lower grade zone and the HBJ underground mine was transitioning to the stoping phase. MLX's average cash cost of sales rose by 32% on the previous quarter to $A1,291/oz while the average total cost of sales was 30% higher at $A1,547/oz.
- The average realised gold price was 2% lower at A$1,510/oz (3% below the average spot price of A$1,550/oz) on gold sales that mirrored production and were 12% lower at 36.3kozs. The gold division generated an operating surplus of $8.2m, down 65% on the previous quarter.
- The Central Murchison Gold Project (CMGP) entered the pre-production phase during the quarter with all staff and contractors on site in readiness for plant commissioning that began in early October 2015. Mining was carried out in the Yaloginda Group open pits with 145kt of ore grading 1.48g/t added to the existing stockpile of low grade ore

stocks. Commissioning was successfully completed and the first gold pour occurred on 26 October 2015, predominantly from gravity concentrates. CMGP has a very large resource base of 127Mt grading 2.07g/t containing 8.4Mozs in 72 separate gold deposits. The Mining Reserve is also large at 20.5Mt grading 2.58g/t containing 1.7Mozs. Underground mining using contractors was commenced at Paddy's Flat with all services established and the decline advancing so that the first ore drives were intercepted in the third week of October 2015. Following a revision of the mining schedule, the three Reedy open pits (Callisto, Rand and Jack Ryan) will commence next and prior to the commencement of a second underground mine. The Triton and South Emu mines are expected to be added to that schedule with an open pit contractor engaged. Plans for recommencement of mining at the Bluebird and Surprise pits near the Yaloginda plant will see them operated by MLX's owner-miner crews. The overall long term development strategy for CMGP is unchanged with the objective of underground mines being the main source of production as it was historically.

- The purchase of the Mt Henry Project (MHP) was completed at the end of the quarter. MHP is about 70km south of HGO and it has a combined Resource of 43.2Mt grading 1.19g/t gold containing 1.7Mozs in three main deposits, all of which are amenable to simple open pit mining. MLX has commenced studies to integrate the project into HGO. An initial mining phase of oxide and transition ores is planned with metallurgical studies into processing the sulphide ores co-incident with a plant expansion underway.
- The purchase of the Grosvenor Project was completed on 19 October 2015 and it has been re-badged back to its original name, Fortnum. MLX has commenced work on the development strategy for Fortnum, which is made up of three historic gold mining centres of Fortnum, Horseshoe and Peak Hill. The assets include a 1.0Mtpa CIP plant, 100 person camp, airstrip and borefield along with an overall resource base of 2Mozs.
- MLX's 50% share of the production of tin in concentrates from the Renison mine was 823t, down 3% on the previous quarter despite the average head grade being 15% lower. Additional equipment installed at the concentrator had an immediate and positive impact on throughput and recovery and the concentrator is now operating at above nameplate capacity. The improved mine and plant productivity could have been better and contributed to greater output but operations were disrupted by a minor seismic event in August 2015 that resulted in the processing plant being shut down for five days and mining being re-scheduled to alternative working areas. Average cash costs only rose 3% to A$7.76/lb. The average realised tin price was up 5% to A$20,933/t, aided by the fall in the value of the Australian dollar. MLX generated an operating surplus of $3.2m from its tin operations, up 6% on the previous quarter.
- Total capex of $14.2m was 21% lower than the previous quarter (with $9m spent on mine capital development; $1.3m on plant and equipment; and $3.9m on exploration).
- Cash and bullion was estimated to be about $87.6m at 30 September 2015, down from $99m at the end of FY15 reflecting the relatively heavy capital expenditure, the payment of $4.8m for the Georges Reward Project and reduced operating cash flow. MLX continued to have no corporate debt.
- The company entered into a gold hedge program comprising 245kozs of gold with scheduled deliveries out to September 2018 at an average flat forward price of A$1,631/oz. We estimate the marked to market value of the hedge position is currently about $31.6m as the average hedge price is at a 9% premium to the current spot price.
- MLX was active on the exploration front at all its operations with considerable success. Diamond drilling aimed at expanding the down-plunge continuity of the high grade Artemis and Helios lodes at the Trident underground mine at HGO was completed with results including 4.3m grading 71.5g/t from 155m and 13.6m at 7.0g/t from 144m. Highly encouraging first pass results were also received from aircore drilling of conceptual targets such as the Igloo target on Lake Cowan at HGO. At SKO,

extensional and definition drilling continued to return strong results at the HBJ underground mine. Better results there included 42.35m grading 1.42g/t from 16.5m; 13.37m grading 4.06g/t from 113.6m; and 51.46m grading 2.98g/t from 92.0m that have reaffirmed the significant potential of the very large gold system there. Further spectacular extensional and definition drilling results were obtained at Renison. These results included 6.6m grading 7.68% tin and 0.39% copper from 152.4m in Area 4; 11.5m grading 2.29% tin and 0.75% copper from 2.9m in the CFB Lode; and 5.8m grading 15.46% tin and 0.26% copper from 11.8m in the Lower Federal Lode.

- Drilling at the high grade Rover 1 Prospect in the 100% owned Rover Copper-Gold Project returned another spectacular intersection in this virgin deposit of 5.46m averaging 15.8g/t gold, 4.03% copper, 0.96% bismuth and 0.06% cobalt from 937m down hole. Another hole was drilled in the newly discovered Curiosity Prospect, but no results had been returned at the end of the quarter.
- An 8-week public review period began on 14 September 2015 for the Environmental Review document for the very large Wingellina Nickel-Cobalt-Iron Project following completion and approval of the document by the Environmental Protection Agency. MLX reports continued strong co-operation and desire to assist with development of the project from the State and Federal Governments. Mapping of the Lewis Calcrete deposit located approximately 30km from the project has indicated a significant deposit of calcrete over a 4km by 4km area. Previous drilling of the deposit indicated it has an average thickness of about 3.5m. Calcrete is a form of limestone and is one of the main reagents to be used for neutralisation in the processing plant.

2Q FY16 and FY16 guidance

MLX has given production guidance for its gold division for 2Q FY16 of 43kozs at a cash cost of sales of A$1,200 per ounce.

MLX has not changed its guidance for FY16 gold production of:

- HGO: 120koz gold with total cash cost of sales (C1 plus royalties) of $1,050/oz; and
- SKO: 60koz with total cash cost of sales (after toll processing credits) of $1,050/oz.

In addition to its limited gold guidance for FY16, MLX has recently indicated that it is targeting additional gold production totalling about 100kozs in FY16 from the new operations at CMGP and Fortnum that are under development for total guidance and target gold production in FY16 of 280kozs.

MLX has not given any FY16 production guidance for tin.

Earnings and valuation changes

FY16 to FY18 earnings upgraded from cost revisions

We have upgraded our earnings forecasts and valuations for MLX (Table 2) following some revisions to our gold production and operating cost forecasts for FY16 to FY18. In FY16 and FY17 we see the addition of high grade open pit gold from the new Cannon mine (being operated as a joint venture between MLX and Southern Gold, SAU) near Kalgoorlie with the ore treated at MLX's SKO plant as having positive cost and financial results as it displaces much lower grade stockpiled ore. The net result is upgrades of 4 – 15% to our FY16 to 18 earnings forecasts and increases of 1 – 3% in our valuations. This results in a 3% increase in our 12-month forward valuation to $1.75/sh.

We have not incorporated any ownership of ABY in our forecasts.

Table 2 – Summary of revised earnings estimates, valuations and price target

	Previous			New			Change		
Year ending 30 June	2016e	2017e	2018e	**2016e**	**2017e**	**2018e**	2016e	2017e	2018e
Prices & currency									
Gold (Spot, US$/oz)	1,200	1,250	1,300	**1,200**	**1,250**	**1,300**	0%	0%	0%
Tin (US$/lb)	8.00	9.20	8.83	**8.00**	**9.20**	**8.83**	0%	0%	0%
Copper (US$/lb)	2.80	3.05	3.15	**2.80**	**3.05**	**3.15**	0%	0%	0%
US$/A$	0.73	0.70	0.72	**0.73**	**0.70**	**0.72**	0%	0%	0%
Gold (Spot, A$/oz)	1,644	1,786	1,818	**1,644**	**1,786**	**1,818**	0%	0%	0%
Tin (A$/lb)	10.96	13.14	12.35	**10.96**	**13.14**	**12.35**	0%	0%	0%
Equity production & costs									
Gold (koz)	281	441	472	**259**	**438**	**461**	-8%	-1%	-2%
Tin in concentrate (kt)	3.5	3.5	3.5	**3.4**	**3.4**	**3.4**	-2%	-1%	-1%
Gold all in sustaining cost ($A/oz)	1488	1,200	1,310	**1,392**	**1,172**	**1,305**	-6%	-2%	0%
Tin C1 cash costs (net of by-products) (A$/lb)	5.25	5.22	5.81	**4.59**	**4.46**	**4.96**	-13%	-15%	-15%
Earnings									
Revenue ($m)	496	802	848	**459**	**802**	**848**	-8%	0%	0%
EBITDA ($m)	123	314	268	**135**	**327**	**281**	10%	4%	5%
EBIT ($m)	60	242	190	**70**	**251**	**199**	17%	4%	5%
NPAT (adjusted) ($m)	61	170	136	**71**	**194**	**142**	16%	14%	5%
EPS (adjusted) (cps)	13	37	30	**16**	**42**	**31**	15%	13%	4%
PER (x)	8.4	3.0	3.8	**7.5**	**2.8**	**3.8**	-10%	-8%	-1%
EPS Growth (%)	37%	177%	-20%	**37%**	**172%**	**-27%**	0%	-5%	-6%
DPS (reported) (cps)	6	11	11	**6**	**11**	**11**	0%	0%	0%
Yield	5.3%	9.7%	9.7%	**5.1%**	**9.4%**	**9.4%**	-3%	-3%	-3%
Net debt/equity	nc	nc	nc	**nc**	**nc**	**nc**	na	na	na
Valuation ($/sh)	1.69	1.70	2.15	**1.71**	**1.75**	**2.20**	1%	3%	3%
Price Target ($/sh)		1.70			**1.75**			3%	

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation increased by 3% to $1.75/shr (previously 1.70/sh)

Our valuation of MLX is based on:

- A sum-of-the-parts DCF valuation for each of the current gold and tin mining operations and for the three new gold projects (Cannon/Georges Reward, CMGP and GGP) plus the Wingellina Nickel Project using a discount rate of 10%. The projects not in production have been risk weighted to reflect their development uncertainty. Estimates have been made for the value of MLX's other mineral assets based on similarities with other existing mines or deposits.
- Key modelled assumptions, as follows:

1. C1 cash costs for gold are expected to average about $A1,108/oz in FY16 as the CMGP and the Fortnum projects commence production and ramp up to nameplate capacity. Cash costs are then forecast to drop to average about $A916/oz in FY17 and about $A1,063/oz in FY18. Apart from in FY16, when there is significant residual capex and new gold production is ramping up, when the average all in sustaining cost (AISC) for that year are estimated to be approximately $A1,392/oz, the average AISCs are expected to be about $A1,200/oz to $A1,350/oz over the following five years;
2. Sustaining capex of around $90m pa;
3. Annual exploration spend of around $20m;
4. Reserve upgrades increase mine lives to about 6 years (CMGP is forecast to have a 12 year mine life);
5. The Rover 1 deposit to be developed initially as a 200ktpa underground operation at a capital cost of about $125m starting production in early 2019 and largely internally funded from operating cash flow;
6. The Wingellina Nickel Project to be developed initially as a smaller scale operation targeting the higher grade mineralisation grading around 1.5% nickel at a rate of 2Mtpa to produce about 18kt of nickel metal and 1.2kt of contained cobalt with potential to be scaled up into a much larger project over time; and
7. Dividends are forecast to move over the next few years to a more sustainable basis of about 30% of NPAT and we forecast that dividends should be fully franked from FY18.

Table 3 - MLX valuations

	Now		+12 months		+24 months	
DCF sum-of-parts valuation	**A$m**	**$/sh**	**A$m**	**$/sh**	**A$m**	**$/sh**
Renison/Rentails/Mt Bischoff	68	0.15	72	0.16	72	0.16
Higginsville Gold Operation	159	0.35	126	0.27	105	0.23
South Kalgoorlie Operations	109	0.24	121	0.26	128	0.28
Central Murchison Gold Project	323	0.70	349	0.76	404	0.88
Fortnum/Ht Henry/Georges Reward	6	0.01	30	0.07	17	0.04
Rover Project	30	0.07	30	0.07	30	0.07
Central Musgraves Nickel Project	43	0.09	52	0.11	69	0.15
Exploration and other	4	0.01	4	0.01	4	0.01
Corporate	(39)	(0.08)	(34)	(0.07)	(29)	(0.06)
Total enterprise value	703	1.53	751	1.63	800	1.74
Net cash/ (debt)	83	0.18	51	0.11	214	0.47
Equity Value	786	1.71	803	1.75	1,014	2.20

SOURCE: BELL POTTER SECURITIES ESTIMATES

Metals X Limited (MLX)

Company description

MLX is a diversified precious and base metals producer with two key operating divisions being the Gold Division and Tin Division. The Nickel Division has major undeveloped nickel assets in the Musgrave Ranges in Central Australia. The rapidly growing Gold Division comprises gold operations and projects mostly in the Eastern Goldfields region of Western Australia with one project in the Northern Territory (the Rover Project).

The gold assets include the Higginsville Gold Operation (HGO) near Norseman, (MLX 100%); the South Kalgoorlie Operation (SKO) near Kalgoorlie, (MLX 100%); the Central Murchison Gold Project (CMGP) near Meekatharra that recently commenced production, (MLX 100%); the Fortnum Gold Project (FGP) north of Meekatharra that is planned to be developed in FY16, (MLX 100%); the Mt Henry Project (MHP), a gold deposit near Norseman that is likely to be integrated into HGO, (MLX100%); and several interests in the Bulong area just east of Kalgoorlie including a 50% joint venture interest in the Cannon Gold Project with Southern Gold Ltd (ASX – SAU, not rated), where gold production from treatment at SKO has recently begun and the Georges Reward Project, (MLX 100%). The Rover Project near Tenant Creek in the Northern Territory contains a high grade gold-copper-bismuth Resource that is to be further evaluated by exploration decline.

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; the Rentails Project (a planned tailings retreatment and downstream fumer process); and the Mt Bischoff Project (a potential open pit and underground mining project).

The globally significant Wingellina Nickel Project in the Central Musgrave Ranges near the WA/NT border, (MLX 100%), is the main asset in the Nickel Division and it is continuing to advance towards a potential development that would see potentially significant amounts of nickel, cobalt and iron production based on targeting higher grade zones and incorporating important new technology, provided a suitable development partner can be obtained.

We are forecasting that MLX's equity gold production will grow from 151koz in FY15 to over 400kozpa by FY17. We estimate that the Gold Division will contribute about 70% to 85% of MLX earnings in FY16 – 18. The Renison tin mine is currently producing around 7.5ktpa of tin in concentrate, making it one of the largest tin mines in the world.

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. We have applied varying risk-weightings to the NPV estimates for the non-producing assets to reflect the development uncertainty.

Investment thesis: Buy, TP$1.75/sh (previously $1.70/sh)

We expect that MLX's gold production will increase strongly over the balance of FY16 as new gold production that has just started at its CMGP and from the Cannon mine Joint Venture near Kalgoorlie ramps up, making up for lower production recently. We have revised our forecasts, upgrading earnings by 4% to 15%, but we do not include any interest in ABY. Our target price is based on the 12-month forward NPV valuation, both of which are raised by 3% to $1.75/share. We retain our Buy rating.

Shareholders

Major shareholders include: APAC Resources Ltd, 21.8%; the Jinchuan Group Limited, 9.6%; and the Blackrock Group 9.5% based on the expanded MLX share capital following the recent issue of 40.0m shares to acquire the Mt Henry and Fortnum gold projects. Directors and management currently have a total interest of about 7%.

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.
- **Inappropriate acquisition risks.** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

MetalsX Ltd
as at 19 November 2015

Recommendation	Buy
Price	$1.17
Target (12 months)	$1.75

Table 4 - Financial summary

PROFIT AND LOSS

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
Revenue	$m	242	314	459	802	848
Expense	$m	(170)	(226)	(324)	(475)	(567)
EBITDA	$m	**72**	**89**	**135**	**327**	**281**
Depreciation and amortisation	$m	(34)	(44)	(64)	(76)	(82)
EBIT	**$m**	**37**	**44**	**70**	**251**	**199**
Net interest expense	$m	2	3	1	2	4
PBT	$m	**39**	**47**	**71**	**252**	**203**
Tax expense	$m	-	-	-	(59)	(61)
Impairments/write-offs/other	$m	(2)	(6)	-	-	-
NPAT (reported)	$m	**37**	**41**	**71**	**194**	**142**
Abnormal items	$m	-	6	-	-	-
NPAT (adjusted)	$m	**37**	**47**	**71**	**194**	**142**

PROFIT AND LOSS (INTERIM)

Half year ending	Unit	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15e
Revenue	$m	73	169	150	164	154
Expense	$m	(57)	(113)	(95)	(131)	(129)
EBITDA	$m	**16**	**56**	**56**	**33**	**25**
Depreciation	$m	(7)	(28)	(20)	(24)	(28)
EBIT	$m	10	28	36	9	(3)
Net interest expense	$m	2	0	1	1	1
PBT	$m	**11**	**28**	**37**	**10**	**(2)**
Tax expense	$m	-	-	-	-	-
Impairments/write-offs/other	$m	(2)	0	(11)	4	-
NPAT (reported)	$m	**9**	**28**	**27**	**14**	**(2)**
Abnormal items	$m	2	-	(11)	17	-
NPAT (adjusted)	$m	**11**	**28**	**16**	**31**	**(2)**

CASH FLOW

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
OPERATING CASHFLOW						
Receipts	$m	238	298	429	782	846
Payments	$m	(165)	(220)	(302)	(463)	(559)
Tax	$m	-	-	-	-	(71)
Net interest	$m	2	3	1	2	4
Other	$m	(2)	2	-	-	-
Operating cash flow	$m	**73**	**83**	**128**	**321**	**220**
INVESTING CASHFLOW						
Capex and exploration	$m	(49)	(74)	(206)	(113)	(112)
Other	$m	(29)	(1)	-	-	-
Investing cash flow	$m	**(78)**	**(74)**	**(206)**	**(113)**	**(112)**
FINANCING CASHFLOW						
Net equity proceeds	$m	-	-	47	-	-
Debt proceeds/(repayments)	$m	(1)	(1)	-	-	-
Dividends	$m	-	(10)	(12)	(46)	(50)
Other	$m	1	44	-	-	-
Financing cash flow	$m	**0**	**33**	**35**	**(46)**	**(50)**
Change in cash	$m	(4)	42	(43)	163	58

BALANCE SHEET

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
ASSETS						
Cash & short term investments	$m	57	99	56	219	277
Accounts receivable	$m	19	16	36	56	58
Inventory	$m	33	37	37	37	37
Mine development and PPE	$m	219	225	314	336	350
Exploration & evaluation	$m	95	100	143	157	173
Other	$m	8	10	10	10	10
Total assets	$m	**431**	**487**	**596**	**815**	**904**
LIABILITIES						
Accounts payable	$m	33	37	59	71	79
Borrowings	$m	0	5	5	5	5
Other	$m	86	99	79	138	127
Total liabilities	$m	**120**	**141**	**143**	**214**	**212**
SHAREHOLDER'S EQUITY						
Share capital	$m	331	333	380	380	380
Reserves	$m	20	23	23	23	23
Retained earnings	$m	(39)	(10)	49	197	289
Non-controlling interest	$m	-	-	-	-	-
Total equity	$m	**312**	**346**	**453**	**601**	**692**
Weighted average shares	m	416	415	437	458	458

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
VALUATION						
NPAT (adjusted)	$m	37	47	71	194	142
Adjusted EPS	c/sh	8	11	16	42	31
EPS growth	%	126%	402%	37%	172%	-27%
PER	x	14.3x	11.4x	7.5x	2.8x	3.8x
DPS	c/sh	3	6	6	11	11
Franking	%	100%	61%	0%	0%	100%
Yield	%	2.3%	4.8%	5.1%	9.4%	9.4%
FCF/share	c/sh	(1)	2	(18)	45	24
FCF yield	%	-1%	2%	-15%	39%	20%
EV/EBITDA	x	6.3x	5.1x	3.4x	1.4x	1.6x
PROFITABILITY RATIOS						
EBITDA margin	%	30%	28%	29%	41%	33%
EBIT margin	%	15%	14%	15%	31%	23%
Return on assets	%	9%	10%	12%	24%	16%
Return on equity	%	13%	14%	16%	32%	21%
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(57)	(94)	(51)	(214)	(272)
ND / E	%	nc	nc	nc	nc	nc
ND / (ND + E)	%	nc	nc	nc	nc	nc

ASSUMPTIONS - Prices

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	LT real
Gold - Spot	US$/oz	1,295	1,224	1,200	1,250	1,214
Tin - Spot	US$/lb	10.2	8.6	8.0	9.2	9.3
Copper - Spot	US$/lb	3.2	2.9	2.8	3.1	2.7
CURRENCY						
AUD/USD	US$/A$	0.92	0.83	0.73	0.70	0.75

ASSUMPTIONS - Production (equity %)

Year ending 30 Jun	Unit	2014a	2015a	2016e	2017e	2018e
Gold Division	koz					
Gold production - Higginsville and Mt Henry	koz	123	132	116	119	119
- South Kalgoorlie Operations	koz	15	19	59	88	87
- Central Murchison	koz	-	-	65	173	197
- Fortnum	koz	-	-	18	58	59
- Total	**koz**	**138**	**151**	**259**	**438**	**461**
All in sustaining costs - Higginsville	A$/oz	837	1,073	1,334	1,330	1,391
- South Kalgoorlie Ops.	A$/oz	938	1,652	1,510	1,120	1,160
- Central Murchison	A$/oz	-	-	1,363	1,035	1,290
- Fortnum	A$/oz	-	-	1,478	1,339	1,392
- Total	**A$/oz**	**847**	**1,148**	**1,392**	**1,172**	**1,305**
Tin Division						
Tin production (in concentrate)	kt	3.2	3.5	3.4	3.4	3.4
Tin cash costs	US$/lb	10.6	3.2	4.6	4.5	5.0

VALUATION

Issued capital	Unit	
Ordinary shares	m	458
Ordinary partly paid (restricted)	m	2
Total	**m**	**460**

	Current		+ 12 months		+ 24 months	
Sum of parts valuation	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Renison Tin mine, Rentails and Mt Bischoff	68	0.15	72	0.16	72	0.16
Higginsville Gold Operation	126	0.27	92	0.20	71	0.15
South Kalgoorlie Operations	109	0.24	121	0.26	128	0.28
Central Murchison Gold Project	323	0.70	349	0.76	404	0.88
Grosvenor, Mt Henry and Georges Reward	39	0.09	63	0.14	51	0.11
Rover	30	0.07	30	0.07	30	0.07
Central Mulgrave Nickel Project	43	0.09	52	0.11	69	0.15
Other exploration and shareholdings	4	0.01	4	0.01	4	0.01
Corporate	(39)	(0.08)	(34)	(0.07)	(29)	(0.06)
Enterprise value	**703**	**1.53**	**751**	**1.63**	**800**	**1.74**
Net (debt)/cash	83	0.18	51	0.11	214	0.47
Equity value	**786**	**1.71**	**803**	**1.75**	**1,014**	**2.20**

SUBSTANTIAL SHAREHOLDERS

Shareholder	M Shares	Interest
APAC Resources Ltd	99.4	21.7%
Jinchuan Group Limited	44.0	9.6%
BlackRock Group	43.5	9.5%

SOURCE: 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.

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