

<b>Ticker:</b> MTR LN	<b>Est cash:</b> ~US\$7m	<b>Project:</b> T3, regional domes
<b>Market cap:</b> £21m	<b>Price:</b> 1.5p/sh	<b>Country:</b> Botswana
<b>RECOMMENDATION:</b> BUY	<b>TARGET PRICE:</b> 2.1p/sh	<b>RISK RATING:</b> VENTURE

*In short, we see today's news as a triple-win for Metal Tiger. Firstly, we estimate a 38c script bid – if it eventuates - values MTR's stock at 2.2p/sh including cash and exploration holding at pre-announcement value, an increase of 46% from its current price. Secondly, if MOD goes ahead with an equity raise, Metal Tiger is well funded to follow its rights and cover 30% of regional drilling, and at spot prices has double the leverage to exploration success of MOD with its 30% exploration asset-level holding and 24% FD TopCo holding. Finally, under either scenario, Metal Tiger can retain its exposure to the last under-explored sedimentary copper belt globally.*

## Proposed MOD raise and Sandfire bid interest

MOD Resources, in which Metal Tiger owns a 24.1% fully-diluted shareholding, plus 30% of regional exploration holdings, has received commitments for a A\$10m equity raise at A\$0.30/sh vs. yesterday's close of A\$0.22/sh. This is to be followed by a rights issue for A\$5m at 24c/sh. In addition, MOD has announced that Sandfire Resources (SFR AU, A\$1.2bn mkt cap, ~A\$220m cash, A\$5.4m 3M avg. daily vol.) has expressed non-binding conditional interest in an all-share offer valuing MOD at A\$0.38/sh.

## Our view: MOD

We think MOD's exploration package is world-class as it sits in one of only seven sediment-hosted copper belts globally and is mostly undrilled. MOD has already demonstrated exploration success here using geophysical methods and regional drilling, which in the past consistently supported a MOD price >60c and as high as 80c in 1Q17. In fact, we estimate that drilling offers more upside *per share* than taking its T3 deposit into production. This is based on an SCPe DFS post-tax project NPV<sub>8%</sub> at spot 273c/lb of US\$223m for T3, mining 50Mt @ 0.90% Cu (vs. PFS 21.4Mt @ 1.02% Cu), and lifting production from 3Mtpa to 4Mtpa in year four. This drops to US\$170m post G&A and finance cost during build. Diluted for today's equity raise, and assuming mine-build equity at 30-40c/sh and 60% gearing can be secured at <10% lender IRR, this equates to 29-34c/sh at build start or 35-40c/sh at production start.

Firstly, MOD has been active on the belt since 2010, acquiring Discovery Metals' licences three years ago, but regional drilling only stepped up seven months ago after permitting and airborne EM 'unlocked' the belt. Since then, all drill targets have returned significant, if not economic, copper, a testament to the prospectivity of the belt. Secondly, in February 2017, a single drill hole at T3 deeps added 51c or A\$82m to MOD's market cap at the time. Finally, if MOD used the entirety of the cash raised today to drill such targets, focussing on pittable <300m deep holes, this could fund ~250 regional holes, testing perhaps 10, 20 or even 30 targets. If one single hole from this added the same value as in 1Q17 (A\$82m), this would equate to a +A\$0.27 MOD share price lift. Adding this to today's equity-raise price of A\$0.30/sh would value MOD at ~A\$0.60/sh (~3p/sh for MTR), above the SCPe FF FD build value for T3, and today's 38c interest from Sandfire. Thus, although it comes with exploration risk, we see full commitment to regional exploration as the best path forward for MOD and MTR.

## Our view: Metal Tiger

Metal Tiger is now sitting in an enviable position of (i) seeing simple upside if a Sandfire bid is accepted, (ii) being funded to follow its rights in an equity raise or contribute to exploration, and (iii) having a 30% holding in the regional exploration which benefits from either scenario, and give its shares higher leverage to exploration upside than MOD.

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Firstly, we estimate a A\$0.38/sh transaction values Metal Tiger's ~72m MOD shares at £15m, taking MTR's value to 2.2p/sh if exploration is included at our estimated pre-announcement attributable value of US\$12m. However, Metal Tiger would be able to either hold onto its residual stake, or could see value uplift should Sandfire see upside in drilling the belt. Either way puts the MTR value well over spot 1.6p/sh.

Secondly, MTR holds 24.1% FD in MOD, but 12.5% of issued shares. This entitles them to 2.4m rights shares, which at only A\$570k is easily covered by the company's treasury, and would take MTR to a FD 20.6% of MOD. After the £6.2m equity raise in 3Q18, MTR is not only fully covered for this investment, but has the flexibility of funding either (or both) pro-rata 30% of regional exploration cost, or buying MOD shares on market, whichever is more accretive.

Finally is the structural exposure to exploration. Post proposed equity issue, if A\$82m of value was created from regional drilling as occurred in 1Q17, we estimate that MTR's NAV would ~double from A\$37m to A\$72m (1.6p/sh to 3.1p/sh). For MOD, the NAV would lift by lift by ~40% from spot A\$142m to A\$198m (41c to 57c), in both cases FD for ITM options, and proposed raise, but not a mine build.

## Valuation:

Per above we estimate a 38c bid would value MTR at 2.2p/sh vs. spot 1.5p (+46%), and we note that MOD's 22.5p LSE quote equates to 40c/sh. Nonetheless, we see better upside from exploration (ie toward or over 60c/sh for MOD). As this is impossible to value, we maintain our valuation methodology for MTR, being 21% FD / 72m shares in MOD, valuing MOD on the project-level NPV for the SCPe DFS case for T3. Adding cash, investments and 30% holding in regional licences equates to 4.1p/sh, down from 4.6p/sh based on lower copper price (273c/lb from 277/lb) and MOD equity dilution. As such, we maintain our BUY rating, and update our 0.5xNAV PT from 4.6p to 4.2p.

## Why we like Metal Tiger

1. Exposure to least-explored and most (recently) prospective sedimentary copper belt globally
2. Direct leverage (30% asset and 21% TopCo) to >11,000m<sup>2</sup> land position
3. Indirect leverage to +8,700km<sub>2</sub> via 50% holding in private company Kalahari Metals
4. Regional exploration taking off, belt heating up, with MOD/MTR JV drill permits granted
5. Proven exploration strategy: EM for domes, mag for stratigraphy, soils for prospecting

## Catalysts

- 1Q19: Closing of A\$15m equity issue
- 1H19: Sandfire to table or drop A\$0.38/sh equity interest in MOD
- 2Q19: T3 DFS and mining licence application
- 2019: Conceptual studies into T3 Expansion and underground mining
- 2019: Follow up drilling at T4 and T23 dome
- 2019: Infill T3 to complete

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<b>Ticker:</b> MTR LN	<b>Share price:</b> 1.52p/sh	<b>Market P/NAV (MOD):</b> 0.42x	<b>Recommendation:</b> BUY
<b>Author:</b> Brock Salier	<b>Market cap:</b> £20.5m	<b>Market P/NAV (MTR):</b> 0.40x	<b>Price target:</b> 2.3p/sh

Commodity price	CY19E	CY20E	CY21E	CY22E	CY23E
Copper price (US\$/lb)	2.73	2.73	2.73	2.73	2.73
<b>1xNAV project valuation*: MOD</b>	US\$m	FD o/ship	NAVx	A\$/sh	
T3 project NPV8% 273c/lb: SCPe DFS case*	223	100%	1.0x	0.88	
Exploration^	23	70%	1.0x	0.06	
Cash (SCPe 4Q18)	7.3	100%	1.0x	0.03	
	<b>246</b>			<b>0.98</b>	

\*Build start, ex fin. cost and G&A, dil. for options not mine build; ^per MOD/MTR arb

Project valuation: MTR	US\$m	FD o/ship	NAVx	p/sh
Holding in MOD*	246	21%	1.0x	2.92
Cash (MTR, SCPe 4Q18)	6.9	100%	1.0x	0.40
Project-level exploration holding^	22.9	30%	1.0x	0.40
MTR investments	1.8	100%	1.0x	0.11
	<b>66</b>			<b>3.82</b>

\*72m MOD shares x US\$257m NAV above; ^Implied by spot MOD share price

**Asset value: 1xNPV project @ build start (US\$m, ungeared)\***

MOD NAV (US\$m)	\$2.25lb	\$2.50lb	\$2.73lb	\$3.00lb	\$4.00lb
10% discount	55	132	192	244	426
8% discount	88	176	<b>246</b>	306	516
6% discount	128	231	313	383	627
Ungeared project IRR:	12%	18%	22%	24%	30%
Metal Tiger look through (p/sh)	\$2.25lb	\$2.50lb	\$2.73lb	\$3.00lb	\$4.00lb
10% discount	1.5	2.5	3.2	3.8	6.0
8% discount	1.9	3.0	<b>3.8</b>	4.5	7.0
6% discount	2.4	3.6	4.6	5.4	8.3

\*Project level NPV, excl finance costs and central SGA, discounted to build start

**Spot MTR valuation**

Spot MTR valuation	A\$m	FD o/ship	NAVx	p/sh
Value of MOD holding	29.9	100%	1.0x	1.23
Implied 30% expl'n cash and investments	6.9	100%	1.0x	0.28
	<b>37</b>			<b>1.52</b>

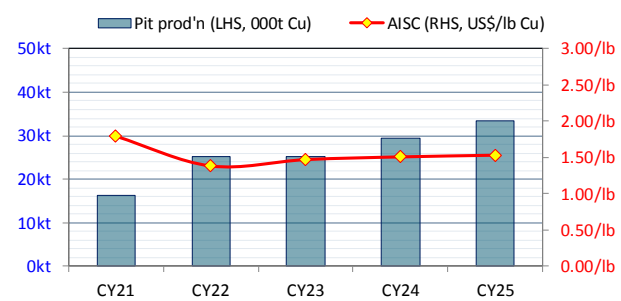
**Sensitivity of above MTR value to T3 and exploration value uplift\***

MTR value (p/sh)	T3 value:	US\$29m	US\$50m	US\$75m	US\$100m	US\$200m
Exploration value: US\$27m	<b>0.85</b>	1.10	1.40	1.70	2.88	
Exploration value: US\$50m	1.04	1.29	1.59	1.89	3.07	
Exploration value: US\$75m	1.25	1.50	1.80	2.09	3.28	
Exploration value: US\$100m	1.46	1.71	2.00	2.30	3.49	
Exploration value: US\$200m	2.29	2.54	2.83	3.13	4.32	

\*T3 and expl'n on 100% basis, per share diluted for options not mine-build

Production (Y1 from 3Q20)	CY21	CY22	CY23	CY24	CY25
Production (000t Cu)	16	25	25	29	34
C1 cost (US\$/lb Cu)	1.67	1.30	1.39	1.43	1.46
AISC cost (US\$/lb Cu)	1.80	1.38	1.47	1.51	1.53
C3 cost (US\$/lb Cu)	2.13	1.68	1.75	1.80	1.84

AISC = C1 + sustaining capex + central G&A, C3 = AISC + depreciation



Source: SCP estimates

Resource / Reserve	Mt	Cu %	Mt	Cu %
Meas., Indicated & Inferred:	60.1	0.98%	T1 global:	2.7
Reserves:	21.4	1.02%		2.00%

Project financing	Company financing
Min capex (US\$m)	Gearing (%)
193	60%
Drilling/FS cost (US\$m)	Build equity raised (US\$m)
10	101
G&A + finance cost (US\$m)	Spot price (MOD, A\$/sh)
22	0.23
Working capital (US\$m)	Equity issue premium (%)
6	33%
Min. build finance (US\$m)	Share issue price (A\$/sh)
231	0.30

Share data	Basic (m)	FD (m)	FD with mine build equity (m)
MOD	<b>302.7</b>	351.4	819.9
Metal Tiger	1,350	1,350	1,350

Ratio analysis (MOD)	CY19E	CY20E	CY21E	CY22E	CY23E
Average shares out (m)	749	866	866	866	866
EPS (USc/sh)	-	-	0.3	3.9	3.9
CFPS before w/c (US\$/sh)	-	-	-	5.3	3.5
EV (US\$m)	41.9	79.8	125.7	187.1	290.0
FCF yield (%)	-	-	-	33%	22%
PER (x)	-	-	3.7x	0.30x	0.31x
P/CF (x)	-	-	-	3.1x	4.6x
EV/EBITDA (x)	-	-	7.2x	3.8x	6.1x

Income stmt (MOD)	CY19E	CY20E	CY21E	CY22E	CY23E
Revenue (US\$m)	-	-	94.6	146.0	146.0
COGS (US\$m)	-	-	60.0	72.0	76.8
<b>Gross profit (US\$m)</b>	<b>-</b>	<b>-</b>	<b>34.6</b>	<b>74.0</b>	<b>69.2</b>
Admin (US\$m)	3.3	3.7	3.7	3.7	3.7
D&A, attrib (US\$m)	-	-	11.7	16.8	15.6
Finance cost (US\$m)	3.4	13.6	12.6	9.9	7.1
Tax (US\$m)	-	-	3.9	9.6	9.4
<b>Net income (US\$m)</b>	<b>(6.7)</b>	<b>(17.2)</b>	<b>2.8</b>	<b>34.1</b>	<b>33.4</b>

Cash flow stmt (MOD)	CY19E	CY20E	CY21E	CY22E	CY23E
EBIT (US\$m)	(3.3)	(3.7)	19.2	53.6	49.9
Add back D&A (US\$m)	-	-	11.7	16.8	15.6
Less tax + net interest (US\$m)	(3.4)	(13.6)	(16.5)	(19.5)	(16.5)
Net change in wkg cap (US\$m)	-	-	(18.5)	(0.8)	0.3
<b>Cash flow ops (US\$m)</b>	<b>(6.7)</b>	<b>(17.2)</b>	<b>(4.1)</b>	<b>50.1</b>	<b>49.3</b>
PP&E - build + sust. (US\$m)	(32.9)	(160.5)	(4.6)	(4.6)	(18.9)
PP&E - expl'n (US\$m)	(6.4)	-	-	-	-
<b>Cash flow inv. (US\$m)</b>	<b>(39.4)</b>	<b>(160.5)</b>	<b>(4.6)</b>	<b>(4.6)</b>	<b>(18.9)</b>
Share issue (US\$m)	110.9	-	-	-	-
Debt draw (repay) (US\$m)	100.7	50.3	(22.7)	(30.2)	(30.2)
<b>Cash flow fin. (US\$m)</b>	<b>211.5</b>	<b>50.3</b>	<b>(22.7)</b>	<b>(30.2)</b>	<b>(30.2)</b>
Net change in cash (US\$m)	165.5	(127.4)	(31.3)	15.3	0.2

Balance sheet (MOD)	CY19E	CY20E	CY21E	CY22E	CY23E
Cash (US\$m)	170.7	43.3	12.0	27.3	27.5
Acc rec. + inventories (US\$m)	0.6	0.6	22.7	23.9	23.8
PP&E (US\$m)	34.6	195.1	188.0	175.8	179.0
Others (US\$m)	37.3	37.3	37.3	37.3	37.3
<b>Total assets (US\$m)</b>	<b>243.2</b>	<b>276.3</b>	<b>260.0</b>	<b>264.2</b>	<b>267.7</b>
Debt (US\$m)	100.7	151.0	128.4	98.2	68.0
Accounts payable (US\$m)	1.4	1.4	5.0	5.3	5.6
Others (US\$m)	4.6	4.6	4.6	4.6	4.6
Total liabilities (US\$m)	106.6	157.0	137.9	108.0	78.1
Shareholders' equity (US\$m)	189.1	189.1	189.1	189.1	189.1
Retained earn'gs + rsvs (US\$m)	(52.4)	(69.7)	(66.9)	(32.8)	0.6
Non-controlling interest (US\$m)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
<b>Liabilities + equity (US\$m)</b>	<b>243.2</b>	<b>276.3</b>	<b>260.0</b>	<b>264.2</b>	<b>267.7</b>

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**NOT RATED ((N/R):** The stock is not currently rated

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HOLD:	0
SELL:	0
NOT RATED:	12
TOTAL	100%

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