

SPEC BUY

Current Price	\$0.06
Valuation	\$0.51
Target Price	\$0.25

Ticker: **MYL**
Sector: **Metals and Mining**

Shares on Issue (m):	663.8
Options (m):	183.7
Market Cap (\$m):	41.8
Net Cash (\$m):	3.9
Enterprise Value (\$m):	37.9

52 wk High/Low:	\$0.10	\$0.03
12m Av Daily Vol (m):		1.98

Bawdwin Total JORC Resource

Tonnes	Silver	Zinc + Lead	Copper
Mt	oz/t	%	%
82.0	3.8	7.1	0.2

Bawdwin Primary High Grade Resource (inclusive)

Tonnes	Silver	Zinc + Lead	Copper
Mt	oz/t	%	%
44.5	5.8	11.4	0.3

Bawdwin Discrete Copper Resource (inclusive)

Tonnes	Copper	Zinc + Lead	Silver
Mt	%	oz/t	oz/t
4.4	3	7.9	5.4

Development Stage: **Scoping Study**

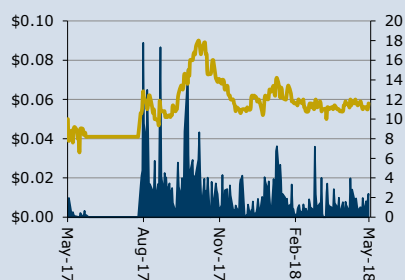
Key Metrics (Argonaut Assumptions)

Capex Estimate	US\$150m
Steady State EBITDA (100% Basis)	US\$440m
Project NPV ₁₂ (100% Basis)	A\$1,128m

Board

John Lamb	Executive Chairman and CEO
Jeffrey Moore	Non-Executive Director
Rohan Caren	Executive Director and Secretary

Share Price Graph and Ave Trading Vol. (msh)



Please refer to important disclosures at the end of the report (from page 5)

Friday, 25 May 2018

Myanmar Metals

Strategic alliance affirms asset quality

Analysts | Matthew Keane | James Wilson

Quick Read

Myanmar Metals (MYL) is now fully funded to exercise its share of the Bawdwin option. The Company has reached a binding agreement with Perilya for a strategic cornerstone investment of up to A\$14.9m at \$0.06/sh. Perilya will emerge with up to 19.9% of MYL's outstanding shares following the upcoming proposed share placement of up to A\$35m. Perilya's parent company Zhongjin Lingnan is China's largest integrated zinc producer with a Market Cap of US\$3.4b. The speed and upfront quantum of their investment confirms the quality of the Bawdwin asset. MYL's largest shareholder Mark Creasy, has also signed a binding agreement to invest an additional \$4.2m. We believe Perilya's investment is analogous to Guangdong Rising Assets Management's (GRAM) cornerstone investment to PanAust (ASX:PAN) in 2009, which ultimately led to a \$1.2b takeover. GRAM is Zhongjin's major shareholder. MYL is capped at <\$40m and earning a majority stake in arguably the best undeveloped polymetallic project globally.

Event & Impact | Positive

Option fully funded: MYL has entered into a binding agreement with Perilya for a 19.9% cornerstone investment to raise up to A\$14.9m. Together with a binding commitment from Mark Creasy (Yandal) to invest A\$4.2m in the upcoming share placement, MYL is fully funded to exercise its US\$13.9m share of the Bawdwin Option. The option gives the Company a 51% stake in Win Myint Mo Industries Co. (WMM), the Myanmar entity which holds the Bawdwin Mining Concession. Bawdwin is a world class polymetallic asset with a recently updated resource of 82Mt at 3.8oz/t Ag, 7.1% Pb + Zn and 0.2% Cu. The Perilya and Yandal investments will support a proposed placement of up to A\$35m in the coming weeks. Proceeds will fund the option exercise, further resource development and feasibility studies. The release of a Scoping Study is expected in the coming weeks.

Strategic alliance: Perilya's parent company, Zhongjin, brings significant advantages and synergies to the Bawdwin partnership, including global expertise in polymetallic mining, refining and marketing along with zinc smelters over the Chinese border in the Yunnan Province. The Alliance includes provisions for technical assistance, procurement, processing, marketing and a non-binding Letter of Support to assist in up to US\$150m financing for project construction.

Recommendation

Argonaut's valuation of \$0.51/sh is risk weighted 50% to achieve a valuation of \$0.25/sh. MYL offers compelling risk reward. SPEC BUY recommendation. A full Company profile is supplied in Argonaut's initiation report ([Awakening a Giant](#)).

**MYL has received a \$14.9m
cornerstone investment from
Perilya...**

Option fully funded

MYL has entered into a binding with Perilya for a 19.9% cornerstone investment to raise up to A\$14.9m. Together with a binding commitment from Mark Creasy (Yandal) to invest A\$4.2m in the upcoming share placement, MYL is fully funded to exercise its US\$13.9m share of the Bawdwin Option. This option gives the Company a 51% stake in WMM, the Myanmar entity which holds the Bawdwin Mining Concession. Two local parties including National Infrastructure Holdings Company Ltd (NIHC) and East Asia Power (Mining) Company Limited (EAP, WMM's parent company) will equally split the remaining 49%.

**...which along with \$4.2 further
investment from Yandal, funds the
Bawdwin Option**

Investment conditions

Conditions of Perilya's investment include:

- Perilya will be issued shares at \$0.06/sh with an investment up to A\$14.9m
- The \$14.9m is held in escrow until Resolutions 1 and 2 at the upcoming MYL General Meeting (5th June) are passed
- Receipt of at least A\$25m of binding commitments (including Perilya's share subscription) in the proposed placement to raise up to A\$35m
- Australian Foreign Investment Review Board (FIRB) approval for the transaction
- If subscription terms are not satisfied, MYL must repay the deposit within three months. If the deposit is not repaid, Perilya can convert the deposit into a MYL shareholding

**MYL and Perilya will form a
strategic alliance with the sharing
of expertise...**

Strategic alliance

Perilya and Zhongjin bring significant advantages and synergies to the Bawdwin partnership. These include global expertise in polymetallic mining, refining marketing along with a zinc smelter over the Chinese border in the Yunnan Province. Key terms of the strategic alliance include:

- Provisions for project technical assistance, procurement, processing, marketing. Importantly, the alliance does not contain obligated off-take rights to Perilya
- A non-binding Letter of Support to assist in project financing for up to US\$150m to construct Bawdwin
- The right to elect a Board Representative. It is proposed this person will be Paul Arndt, Perilya's MD and CEO
- Anti-dilution rights
- The right to partner, on an arm's length basis, on any Myanmar transaction that MYL may be involved in. Argonaut sees significant opportunity for the alliance to consolidate base metal and refining plays in northern Myanmar, including the potential acquisition of the nearby Lashio zinc refinery owned by Cornerstone Resources Myanmar Ltd and operated by NIHC

...and future potential to co-invest

Perilya will have a 2-year standstill up to 25% for 2 years

- Rights remain so long as Perilya maintains a 10% interest in MYL
- Perilya are subject to a standstill in relation to acquiring >25% in MYL for up to two years

A Scoping Study is due in the coming weeks...

...followed by a feasibility study late-2018...

...and first production slated for mid-2021

Next Steps

A General Meeting has been scheduled for 5 June 2018 to approve the cornerstone investment and placement of up to A\$35m. Around this time we also expect the release of the Bawdwin Scoping Study, which we believe, will outline a multi-billion dollar NPV with an exceptional IRR and short payback on capital (Argonaut est. \$1.1b NPV₁₂, 127% IRR and ~12-15 moth payback). Assuming a successful placement, MYL should be fully funded to complete a Pre-Feasibility Study (PFS) by late-2018. We expect a Bankable Study in H2-2019 then the submission of requisite applications for Ministry of Natural Resources and Environmental Conservation (MONREC) and Myanmar Investment Commission approvals. Our model assumes the commencement of construction early-2020 followed by an 18-month build time with commissioning from mid-2021.

Valuation

Argonaut models an open pit operation processing 2.5Mtpa ore with a diluted mining inventory of 44Mt at 160g/t Ag, 10% Pb+Zn and 0.3% Cu. Our base case does not assign any payablity to nickel or cobalt which appear to be enriched within Cu zones. We assume the production of three concentrates, being lead/silver, zinc and copper. Key assumptions are listed below in Table 1.

Table 1: Argonaut's key model assumptions

Measure	Metric	Argonaut Estimate
First Production	Yr	2021
Mine Life	Yrs	17
Inventory	Mt	43.8
Throughput	Mtpa	2.5
Silver Grade	g/t	160
Lead + Zinc Grade	%	10%
Copper Grade	%	0.3%
Metal Recoveries	%	70-90%
Metal Payabilities	%	85-95%
Silver Production	Moz pa	11.6
Lead Production	ktp pa	140
Zinc Production	ktp pa	68
Copper production	ktp pa	5.3
Pre-Production Capex	US\$m	150
Sustaining Capex	US\$m	10
All-in Sustaining Cost	US\$/lb Pb	0.88
Average Attributable EBITDA	US\$m	140
EBITDA Margin	%	72%
Post-tax NPV ₁₂ (100% Basis)	A\$m	1,128
Post-tax IRR	%	127%

Source: Argonaut

We derive an NPV₁₂ of A\$1,128m for Bawdwin and a 127% IRR

We derive a A\$1,128m post-tax NPV₁₂ for Bawdwin (100% basis) and a compelling 127% IRR (at a WMM level). We have applied a high proportion of debt financing (67%), based on our forecast 18-month payback on development capital and high free cash generation from the commencement of processing. Equity capital, incorporating funding to exercise the option, funding for feasibility studies and development capex, is applied at an average of \$0.08/sh (weight averaged for near-term and future equity raising). We estimate total diluted shares on issue of ~1.5b.

Argonaut assigns a net smelter return of A\$5/t to unmined resources (\$191m) and \$100m to exploration upside. Our valuation of \$786m (\$0.51/sh) is discounted by 50%, to account for sovereign, financing and development risks to achieve a target price of \$0.25/sh.

Table 3: Argonaut's valuation summary

NAV Valuation		
Sum of Parts	AUD M	AUD / Share
Bawdwin Share	575.2	0.37
Unmined Resources	191.3	0.12
Exploration Upside	100.0	0.06
Corporate NPV	(84.0)	(0.05)
Cash	3.9	0.00
Debt	-	-
Sub Total	786	0.51
Risk Weighting		50%
Target Price		0.25

Source: Argonaut

Argonaut's valuation of \$0.50/sh is risk-weighted 50% to achieve a \$0.25/sh target price

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Argonaut acts as Financial Adviser to MYL and will receive fees commensurate for this service.

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