

SPEC BUY

Current Price	\$0.08
Valuation	\$0.30
Target Price	\$0.18

Ticker:	MYL	
Sector:	Metals and Mining	
Shares on Issue (m):	1,276.3	
Options (m):	48.5	
Market Cap (\$m):	102.1	
Net Cash (\$m):	8.0	
Enterprise Value (\$m):	94.1	
52 wk High/Low:	\$0.09	\$0.05
12m Av Daily Vol (m):	2.61	

Bawdwin Ore Reserve

Tonnes	Silver	Lead	Zinc
Mt	oz/t	%	%
18.4	5.4	6.4	3.4

Bawdwin Total JORC Resource

Tonnes	Silver	Zinc + Lead	Copper
Mt	oz/t	%	%
94.2	3.4	6.2	0.2

Bawdwin Primary High Grade Resource (inclusive)

45.0	5.7	10.6	0.3
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Bawdwin Discrete Copper Resource (inclusive)

Tonnes	Copper	Zinc + Lead	Silver
Mt	%	%	oz/t
4.4	3.0	7.8	5.7

Key Metrics (Argonaut Assumptions)

Capex Estimate	US\$300m
Steady State EBITDA (100% Basis)	US\$148m
Project NPV ₁₂ (100% Basis)	A\$622m

Development Stage

PFS

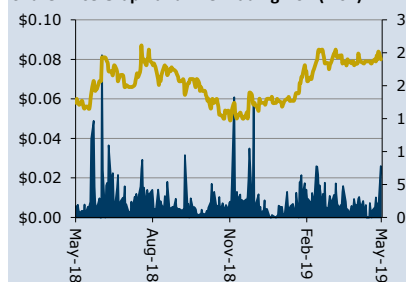
Board

John Lamb	Executive Chairman and CEO
Jeffrey Moore	Non-Executive Director
Rowan Caren	Executive Director and Secretary
Bruce Goulds	Non-Executive Director
Paul Arndt	Non-Executive Director

Substantial Shareholders

Perilya Ltd	19.5%
Yandal Investments	12.3%

Share Price Graph and Ave Trading Vol. (msh)



Please refer to important disclosures at end of the report (from page 9)

Friday, 10 May 2019

Myanmar Metals

The start of something big

Analysts: Matthew Keane | James Wilson

Quick Read

Myanmar Metals (MYL) released a Pre-Feasibility Study (FPS) for the starter pit of the Bawdwin Joint Venture (BJV, 51% MYL). Whilst this is only the first of potentially 14 mines on the Bawdwin concession, it still delivers an enviable 13-year mine life producing on average 149ktpa Zn+Pb and 9Mozpa Ag. Pre-production capex is estimated at US\$300m (100% basis), incorporating US\$33m in contingencies. MYL estimates a pre-tax NPV₈ of US\$580m and a 30% IRR. The BJV is looking to complete a DFS, attain requisite approvals and commence construction in ~12 months. Bawdwin is a Tier 1 asset with lowest quartile operating costs, low capital intensity and multi decade mine life potential. **SPEC BUY.**

Event & Impact: Starter Pit PFS - Positive

Bawdwin PFS: MYL has released a PFS for the starter pit in the China Lode of the Bawdwin Project outlining a 13-year mine life with average production of 149ktpa Zn+Pb and 9Mozpa Ag. Operating cash costs are minus US\$0.45/lb payable Zn, placing the project in the lowest quartile for Zn/Pb producers globally. While pre-production capital of US\$300m represents a ~US\$110m increase on the Scoping Study, the project still has a lower capital intensity than its base metal developer/recently developed peer group. South 32's (ASX:S32) Hermosa Project, which is arguably the closest comparable undeveloped project, has 50% higher capital intensity. MYL derives an NPV₈ of US\$580m and a 30% IRR.

Conservatism and upside: We see significant upside on the starter pit, much of which is derived from understudied elements of the PFS. Four key areas of conservatism include; 1) high strip ratios due to a lack of geotechnical data resulting in low angle pit walls, 2) very low recoveries of lower grade (halo) ore due to a lack of metallurgical testing of this material, 3) recently discovered mineralisation both within and adjacent to the China pit is not included the current resource, and 4) no recovery of Cu, Ni and Co which are present, but not drilled/tested to a sufficient confidence level. Additionally, the starter pit only incorporates 26% of the current 94.2Mt resource. The remaining Shan, Meingtha and deeper China lodes will likely be exploited by an additional 3 underground mines. Beyond the known resources, the Bawdwin district has had virtually no modern exploration, as evidenced by the recent discoveries of the nearby Yegon and ER Valley lodes.

Next steps: A DFS on the starter pit is due for release in early-2020. In the coming months, MYL will likely release a Scoping Study(s) on potential underground development. Assuming requisite approvals and project financing are attained, construction is due to commence in ~12-months' time with first production ~18-months thereafter.

Recommendation

Argonaut maintains a SPEC BUY recommendation with a revised valuation of \$0.30/sh (previously \$0.40/sh). We assign a 40% discount to account for country, permitting and financing risk to achieve a \$0.18/sh target price. Key changes to our valuation are details from page 7.

Positive PFS

MYL released a PFS for the Bawdwin Starter Pit...

Myanmar Metals (MYL) released a Pre-Feasibility Study (FPS) for the starter pit of the Bawdwin Joint Venture (BJV, 51% MYL) in Myanmar. The study outlines a 13-year mine life with mill throughput of 2.0Mtpa producing on an average 106.7ktpa Pb, 9.1Mozpa Ag and 42.7ktpa Zn in concentrate. Test work has shown recoveries for Pb, Ag and Zn of 88%, 85% and 60-80% respectively. Metal payabilities, provided by two metal refineries over the border in China, are estimated at 95% for both Pb and Ag and 85% for Zn.

...with a 13-year mine life...

Table 1. Key metrics for the Starter Pit PFS

Parameter	Unit	Annual Estimate (Steady State)	Life of Starter Pit Estimate
Mining			
Starter pit mine life	Years		13
Material mined	Mt	19.1	222.9
Ore mined	Mt	2.2	24.7
Waste mined	Mt	16.9	198.2
Strip ratio	Ratio		8.0
Processing			
Processing life	Years		13
Tonnes processed	Mt	2.0	24.7
Average lead grade	%		6.4
Average silver grade	g/t		168.1
Average zinc grade	%		3.2
Metal recovered to concentrate			
Lead	kt	118.0	1,385.9
Silver	kOz	10,062.4	118,798.7
Zinc	kt	49.0	555.4
Weighted average concentrate grade			
Lead	%		60%
Silver in lead concentrate	g/t		1,186
Zinc	%		53%
Concentrate production			
Lead - silver concentrate	kt	196	2,312
Zinc concentrate	kt	93	1,054

Source: MYL

...producing 1386kt Pb, 118.8Moz Ag and 555kt Zn over the life of mine

Strong financials

MYL estimates a US\$580m (100% basis) and a 30% IRR

MYL estimates a pre-tax NPV₈ of US\$580m (100% basis) and a 30% IRR versus Argonaut's post-tax NPV₁₂ for the starter pit of US\$334.8m with a 29% post-tax IRR. Pre-production capex is estimated at US\$300m and cash-costs after by production credits are minus US\$0.45/lb payable Zn. The project has a four-year payback period, after which the established plant and infrastructure will service not only the starter pit, but the numerous mines expected within the Bawdwin district. At steady state production, the starter pit will generate ~US\$195mpa EBITDA and ~US\$150mpa free cashflow.

The starter pit generates an average annual EBITDA of US\$137.3mpa...

...and US\$112mpa free cashflow

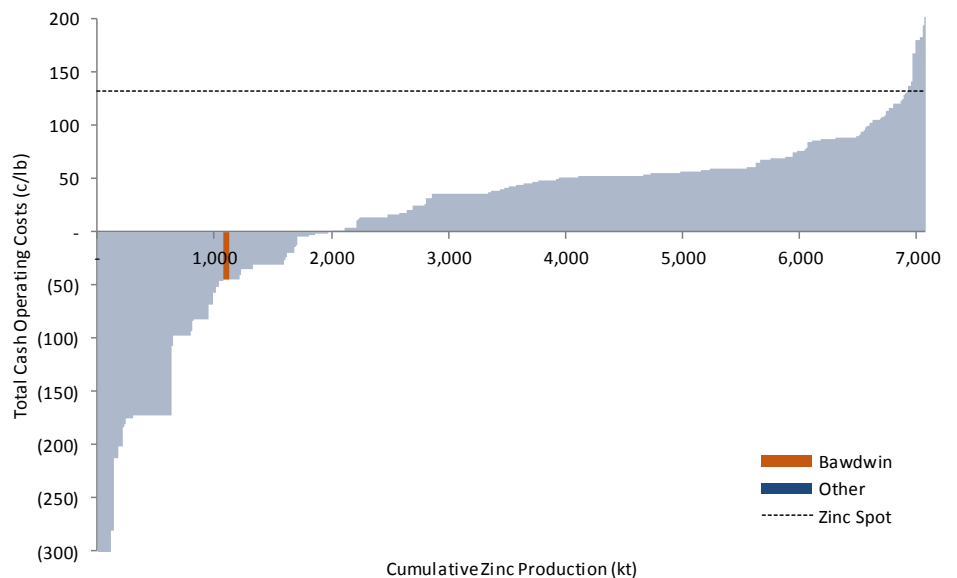
Table 2. Key financial outputs for the Starter Pit

Parameter	Units	Life of Starter Pit Estimate
Metals prices		
Lead	US\$/t	2,170
Silver	US\$/Oz.	17.3
Zinc	US\$/t	2,535
Project cashflows		
Revenue	US \$ million	5,891
Operating costs	US \$ million	2,665
Mineral and production sharing taxation	US \$ million	1,442
EBITDA	US \$ million	1,785
Capital expenditure	US \$ million	267
Capital expenditure contingency	US \$ million	33
Sustaining capex. & mine closure provision	US \$ million	28
Undiscounted free cash flow	US \$ million	1,458
Valuation		
Net present value (8% real discount rate)	\$	US\$ 580 m. / A\$ 828 m.
Internal rate of return	%	30%
Payback period	Years	4
Foreign exchange rate		
AUD:USD		0.70

Source: MYL

Operating cash costs of minus US\$0.45/lb payable Zn, placing the project in the lowest quartile for Zn/Pb producers globally.

Figure 1. Cost curve for global Zinc producing mines (representing 68% of global Zn supply)



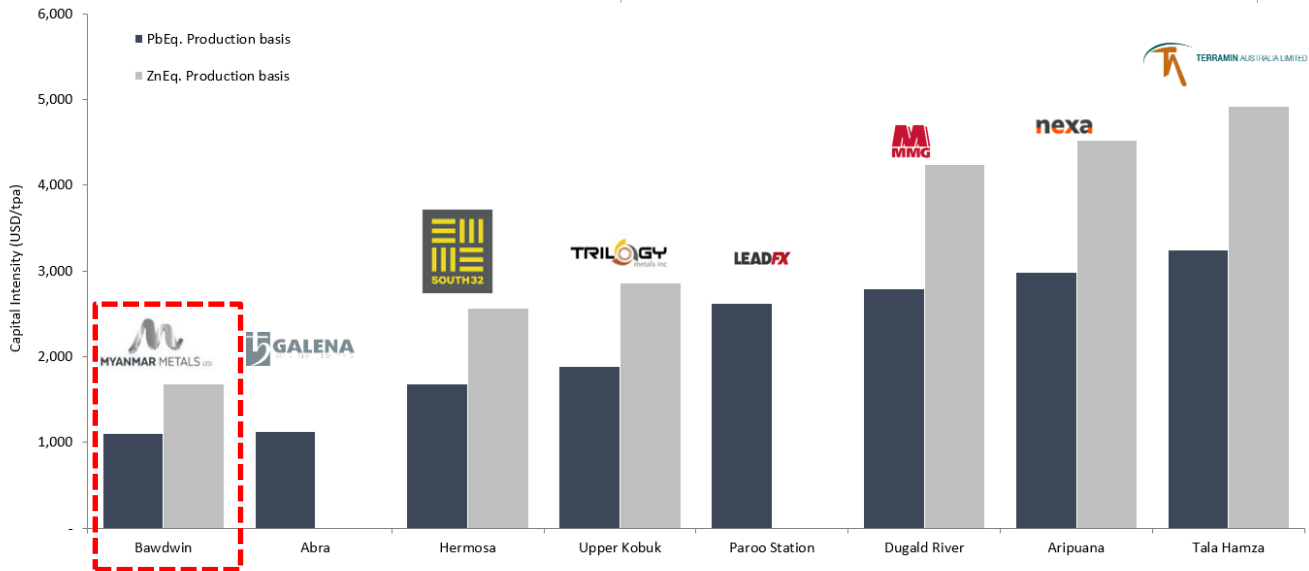
Cash costs of minus US\$0.45/lb Zn place the mine in the lowest quartile for Zn/Pb projects globally

Source: S&P Global Market Intelligence, edited by Argonaut

Bawdwin also has the lowest capital intensity than its base metal peer group

Pre-production capital of US\$300m results in a capital intensity lower than peer group of base metal projects under feasibility or those which have been recently developed (per tonnes per annum of Zn or Pb). South 32's (S32) Hermosa Project, with a resource of 111.1Mt @ 8.7% Zn+Pb and 2.3oz/t Ag, is arguably the closest comparable undeveloped project. It has a 50% higher capital intensity than Bawdwin starter pit, primarily driven by a lack of open pitable mineralisation.

Figure 2. Capital intensity for base metal projects either under feasibility or recently developed recently developed (Kt pa Zn and Pb production vs development capital in USD)



Source: S&P Global Market Intelligence, Company Filings

Key variances to the Scoping Study

The key changes between the Scoping Study and the PFS include a higher throughput rate (from 1.8Mtpa to 2.0Mtpa), an increased mining inventory (up 18%), a higher strip ratio (from 3:1 to 8:1) and higher pre-production capex (up US\$110m). Total on-site capex remained constant, however the PFS incorporates additional waste stripping, US\$32.8m owner (management) costs and a US\$32.7m contingency.

Table 3. Comparison of PFS to the Sept. 2018 Scoping Study and Argonaut's estimates

Measure	Metric	Scoping Study	PFS	Argonaut Model
First Production	Yr	NA	2022	2022
Mine Life ¹	Yrs	13	13	25
Inventory	Mt	20.90	24.7	57.2
Strip Ratio	#	2.8	8.0	8.0
Throughput	Mtpa	1.8	2.0	2.0
Silver Grade	g/t	149.1	168.1	160.0
Lead + Zinc Grade	%	9.1	9.6	10.2
Copper Grade	%	0.2	NA	0.3%
Metal Recoveries	%	65-80%	80-90%	70-90%
Metal Payabilities	%	85-95%	85-95%	85-95%
Silver Production (Ave. LOM)	Moz pa	6.2	9.1	8.3
Lead Production (Ave. LOM)	kt pa	78	106.6	113.2
Zinc Production (Ave. LOM)	kt pa	40.00	42.7	46.8
Copper production (Ave. LOM)	kt pa	2.4	0	2.6
Pre-Production Capex	US\$m	190	300	300
Sustaining Capex	US\$m pa	NA	1.8	1.8-5.0
Net Cash Cost (US\$/lb Zn)	US\$/lb Zn	NA	-0.45	-0.42
Average Project Level EBITDA	US\$m pa	NA	137.3	148
EBITDA Margin	%	NA	30%	40%
Pre-tax NPV ₈ (100% Basis) ²	US\$m	260-620	580	593
Pre-tax IRR ²	%	NA	30%	28%

Source: MYL, Argonaut

¹ Argonaut's model incorporates three additional underground mines (see Valuation below)

² This pre-tax NPV is not the basis for our sum-of-parts valuation outlined in our Valuation

A number of key facets of the PFS have a high degree of conservatism...

...which presents potential upside for the upcoming DFS

Bawdwin is the largest primary lead deposit globally...

...and the 9th largest by silver

Substantial conservatism built-in

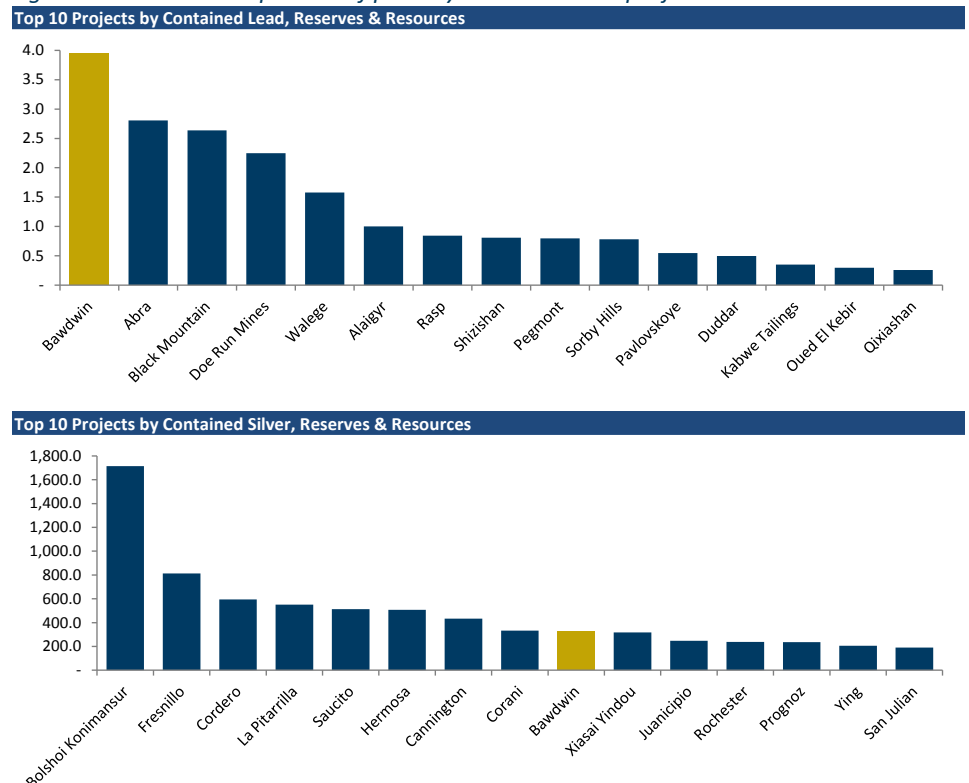
Four key areas of conservatism applied to the PFS include:

- High strip ratios resulting from a lack of geotechnical data which drives low angle pit walls (down to 17° in places). The stability of the historic pit walls and nearby road cuttings indicate that these pit walls may be steepened following detailed geotechnical analysis.
- Very low recoveries from lower grade (halo) ore due to a lack of metallurgical testing of this material. Further test work could significantly lift recoverable metal from these zones.
- Recently discovered mineralisation both within and adjacent to the China lode starter pit shell is not included in the current resource and therefore cannot be scheduled under a mining scenario. This includes some mineralisation from the recently discovered Yegon Ridge Lode.
- No recovery of Cu, Ni and Co, which are present in the orebody, but not drilled or metallurgically tested to a level required for resource estimation or plant recovery.

Globally significant Resource and maiden Ore Reserve

In conjunction to the PFS, MYL released a maiden Ore Reserve of 18.4Mt @ 9.8% Zn+Pb and 5.4oz/t Ag, which represents 74% of mining from the China Lode Starter pit. The 24.7Mt mining inventory is only 26% of current resource of 94.2Mt @ 6.3% Zn+Pb, 3.4oz/t Ag and 0.2% Cu. This resource makes Bawdwin the largest primary Pb project and the 9th largest primary Ag deposit globally.

Figure 3. Resource comparison of primary lead and silver projects



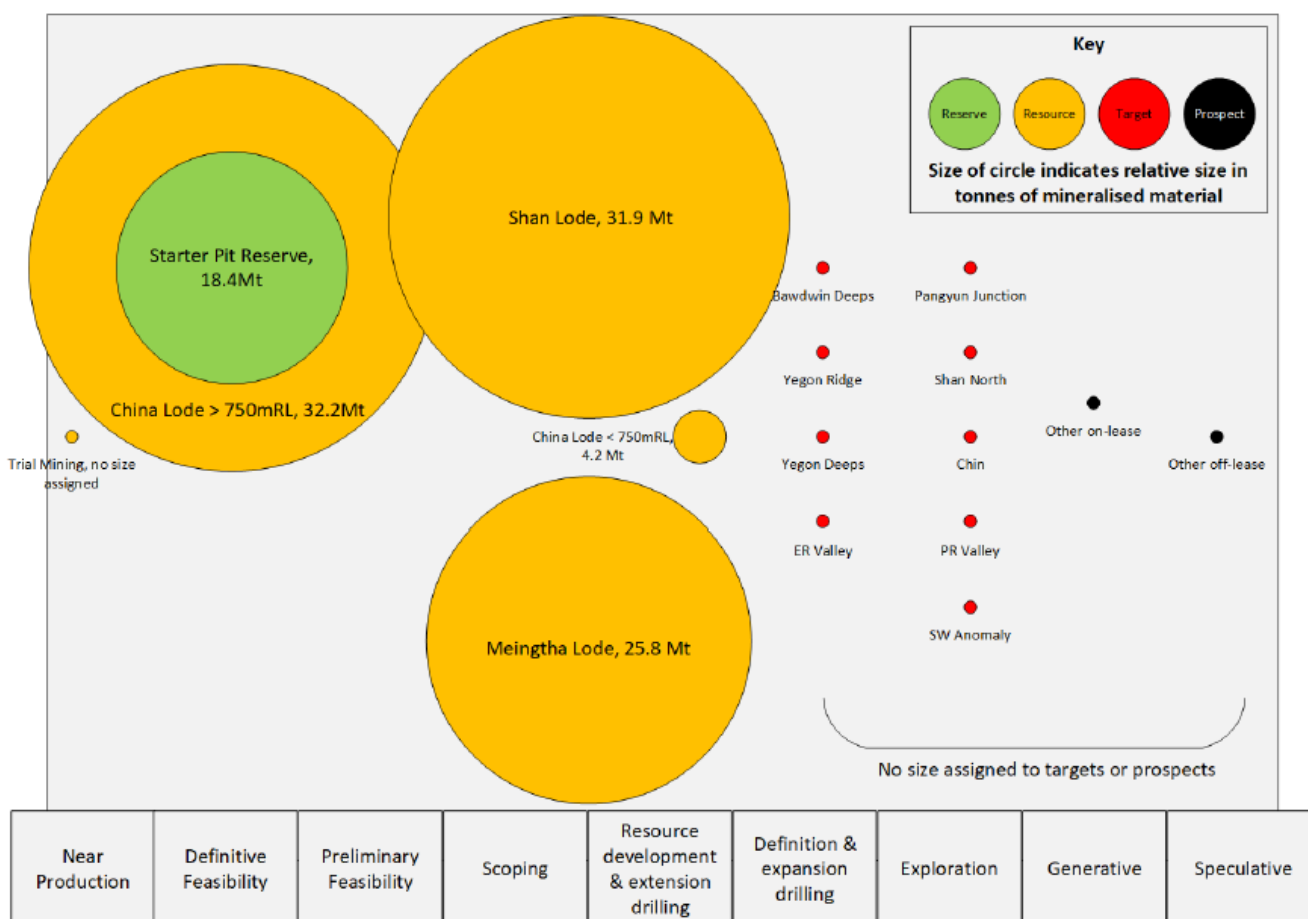
Source: S&P Global Market Intelligence, Argonaut

Upside from unmined resources and new discoveries

Deeper zones of the China Lode and the northern and southern Shan and Meingtha lodes will likely be mined from underground. The latter two could be easily accessed via portals from the China Starter Pit whilst the open pit is in production. Conceptually, these underground mines could contribute ~500ktpa each of higher-grade ore. This could boost mill head grades, extend the life of the open pit and reduce annual waste movement.

New discoveries, including the Yegon Ridge Lode, Yegon Deeps and the ER Valley offer potential for further mines (see reports ([Already a giant, but still growing](#) and [Discovery of high-grade copper lode](#)). Submissions by MYL to the Myanmar Government highlight the potential for 6 phases of mining with up to 14 mines within the Bawdwin concession. Figure 4 below depicts MYL’s proposed Bawdwin project pipeline.

Figure 4. Bawdwin project pipeline



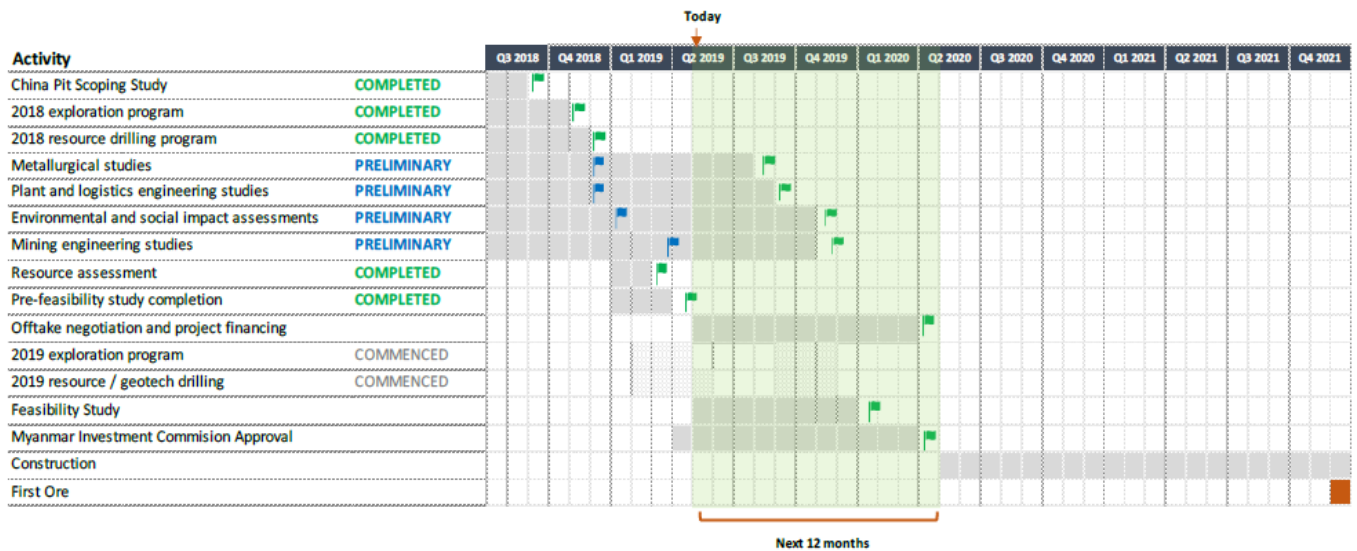
Source: MYL

Timeline to production and oncoming milestones

A DFS on the starter pit is due for release in early-2020. In the coming months, MYL will likely release a Scoping Study(s) on potential underground development. Following the DFS, the Company will seek approvals from the Myanmar Investment Commission (MIC) pursuant to a recommendation from the Ministry of Natural Resources and Environmental Conservation for requisite approvals to develop Bawdwin. Assuming approvals and

project financing are attained, construction is due to commence in ~12-months' time with first production in late-2021 to early-2022. We expect MYL to maintain regional exploration throughout the development of the China Lode Starter Pit.

Figure 5. Key milestones



Source: MYL

Valuation

Argonaut's model is not based exclusively on the starter pit. We assume the initial development of this pit, as per the details outlined in the PFS, but then incorporate underground mining from the seventh year of production. We stagger the development of underground mines into the Shan and Meingtha lodes from 2027 to 2030. During this period we assign US\$90m development capital for underground development and infrastructure, underground mining fleets and a paste fill plant. This capital also incorporates that addition of a copper floatation circuit in the plant as Cu-Ni-Co ore appears more prominent in deeper zones of the resource. We estimate ~500ktpa production per mine extracting higher-grade ore (~176g/t Ag and 10-12% Zn+Pb) which displaces open pit ore for mill feed to maintain a 2.0Mtpa throughput. Subsequently, we extend the mine life of the starter pit to 2037 at a lower mining rate of 1Mtpa. After the completion of the open pit, we schedule the mining of the deeper remnant China Lode via underground, also at a rate of 500ktpa. Excluding tonnes consumed in the starter pit, we assign a ~50% conversion of the current Resources to underground mining inventory, resulting in a mine life to 2055.

We achieve a post-tax NPV₁₂ for the open pit and three underground mines of A\$622m (100% basis) including production sharing deductions from the Myanmar Government. We assign ~A\$5/t to unmined low-grade resources (A\$198.7m) and A\$100m to the exploration potential of the Bawdwin concession (including discoveries such as the copper rich ER Valley). Our NAV valuation of \$0.30/sh (previously \$0.40/sh) is impacted most by the increased capex in the PFS and changes to our model to encompass underground mining of the Shan and Meingtha lodes. Previously our model extracted these lodes via open pit mining. We assign a 40% discount (previously 50%) to account for country, permitting and financing risk to achieve a \$0.18/sh target price. Our reduced discount to NAV reflects a degree of de-risking resulting from the higher confidence level of the PFS.

Argonaut's valuation assumes equity dilution of an additional 500m shares to account for future capital raisings to fund further studies and project development. Due to the high cashflow potential of the project we believe it will support a high level of debt financing. We also see potential for offtake financing of secondary products (i.e. Zn, Cu, Ni and/or Co).

Table 4. Argonaut's MYL Valuation Summary

NAV Valuation		
Sum of Parts	AUD M	AUD / Share
Bawdwin 51% Share	317.4	0.18
Unmined Resources	198.7	0.11
Exploration Upside	100.0	0.06
Corporate NPV	(91.3)	(0.05)
Cash	8.0	0.00
Debt	-	-
Sub Total	533	0.30
Risk Weighting		40%
Target Price		0.18

Source: Argonaut

Table 5. Argonaut's model summary

Measure	Metric	2020	2021	2022	2023	2024	//	2040
Assumptions								
FX	AUD/USD	0.72	0.72	0.72	0.72	0.72		0.72
Silver Price	US\$/t	17.0	17.0	17.0	17.0	17.0		17.0
Lead Price	US\$/lb	1.10	1.10	1.10	1.10	1.10		1.10
Zinc Price	US\$/lb	1.25	1.25	1.25	1.25	1.25		1.25
Copper Price	US\$/lb	3.00	3.00	3.00	3.00	3.00		3.00
Operations								
Throughput	Mt	-	0.0	1.5	2.0	2.0		1.5
Silver Grade	g/t	-	-	159	190	154		176
Lead Grade	%	-	-	5.6%	5.6%	6.5%		7.5%
Zinc Grade	%	-	-	1.9%	4.5%	2.1%		4.0%
Copper Grade	%	-	-	-	-	-		0.3%
Metal Recoveries	%	-	-	80-90%	80-90%	80-90%		80-90%
Production								
Silver Production	Moz	-	-	6.6	10.9	8.9		10.9
Lead Production	kt	-	-	72.2	97.9	113.5		97.9
Zinc Production	kt	-	-	8.0	50.3	27.9		50.3
Copper Production	kt	-	-	-	-	-		-
Lead/Silver Concentrate Production	kt	-	-	122.4	164.0	189.2		176.0
Zinc Concentrate Production	kt	-	-	15.1	94.9	52.6		83.8
Copper Concentrate Production	kt	-	-	-	-	-		-
Financials								
Project Revenue	US\$m	-	-	291	519	471		489
Project Revenue	A\$m	-	-	405	721	654		680
Capex	US\$m	-	20	244	36	2	2	5
Opex (C2 Level)	US\$m	-	-	30	212	274	266	250
Project Level EBITDA	US\$m	-	-	30	122	302	262	283
Project FCF Post-Tax Incl. Govt. Profit Share	US\$m	-	20	274	28	94	74	140
MYL Attributable Revenue	US\$m	-	-	112	202	184		196
MYL Attributable EBITDA	US\$m	-	11	26	6	52	38	58
MYL Attributable NPAT	US\$m	-	3	18	2	41	30	43

Source: Argonaut

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Important disclosure

Argonaut acted as Lead Manager to the Placement that raised \$35M in June 2018 and received fees commensurate with this service. Argonaut acted as exclusive Financial Adviser to MYL in relation to the Perilya financing and continues to act as Financial Adviser to MYL and will receive fees commensurate with this service. Argonaut holds or controls 1M MYL shares and 35M MYL Options exercisable at \$0.078 on or before 15 June 2020.

The analyst(s) owns shares in MYL

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