

Sector

Mining

**Metals Exploration
plc****10p Speculative Buy**

Date of previous note

4th January 2008

Previous recommendation

Speculative Buy

Announcement date

13th October 2008

Metals Ex continues to report good progress on its 100% owned Runruno gold project in the Philippines. The near 100% conversion of Inferred Resources, initially to Indicated and increasingly to Measured is impressive.

The physical gold price has held up better than other commodities, this is in spite of a stronger dollar.

Ignoring Runruno's molybdenum (moly) value and the Waigeo nickel project, we estimate that they trade at £5 per ounce of JORC Compliant Measured, Indicated and Inferred Resources. This is half what it was nine months ago and is still very attractive in comparison to other gold explorers. Centamin Egypt (CEY) for example is currently valued at £31.6/oz.

Analyst

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Report date

15th October 2008

Year end September	Turnover £m	Admin Expenses £m	Interest £m	Loss before and after tax £m	EPS (p)	PE times
2007A	-	(2.8)	0.1	(2.6)	NM	NM
2008E	-	(2.6)	0.1	(2.5)	NM	NM
2009E	-	(2.7)	0.1	(2.6)	NM	NM

Source data: Company reports and Hoodless Brennan estimates. As the outcome of the Scoping Study is unknown, steady state is assumed for 2009. It is possible that mine financing and construction will occur in 2009. Where necessary £1=US\$1.75.

Key Data

AIM TickerMTL
Broker... Hanson Westhouse
Website
www.metalsexploration.com

Year High/Low ..41.32p/6.5p
No. of Shares112.28m
Mkt. Cap.....£11.5m
Fully diluted No of shares
131m
Results ... Finals March 2008

NMS25,000
Bid/Offer 9.75p/10.25p
(5.2%)
Screen Size25,000
No of Market Makers.....7

- Total diluted JORC Compliant Measured, Indicated and Inferred Mineral Resources at Runruno are now estimated by the company at 2Moz of gold, and 34.4 million pounds of Moly. The current spot moly oxide price is US\$33/lb. Over 37% of the contained gold and almost 50% of the contained moly are now classified as Measured Resources. This is one step away from being classified as Reserves, and is an important criterion in obtaining outside finance for mine construction.

- Scoping study is about to be finalised. The concept study postulated a 200,000ozpa and 2Mlbp moly mine costing £115m, with gold cash costs of US\$250/oz net of moly credits.

- Recent metallurgical work has shown improved moly recoveries. A forward sale of moly oxide could be used to finance any mine development.

Strengths

- Have 2Moz of gold resources at Runruno in a small area of the 4km diameter geological complex.
- Have £4m of cash, sufficient to complete the scoping study which is about to be released and progress to full feasibility study.

Weaknesses

- No production until 2010.
- Perceived financing risk.
- Political situation in the Philippines might deteriorate.

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Profit and Loss

Year to September £m	2007A	2008E	2009E
Turnover	-	-	-
Admin expenses	(2.8)	(2.6)	(2.7)
Interest	0.1	0.1	0.1
Loss before and after tax	(2.6)	(2.5)	(2.6)

Balance Sheet

Year to September £m	2007A	2008E	2009E
Exploration assets	6.7	9.0	10.0
Tangible assets	0.2	0.5	1.0
Quoted investment	0.3	0.2	0.1
Debtors	0.5	0.5	0.5
Cash	3.9	3.7	0.6
Creditors	(0.5)	(0.5)	(0.5)
Net current assets	4.0	3.7	0.6
Convertible	(2.0)	(2.0)	(2.0)
Total assets	11.7	13.4	11.7
Total liabilities	(2.5)	(2.5)	(2.5)
Net assets	9.2	10.9	9.2

Source data: Company reports and Hoodless Brennan estimates. For Balance Sheet purposes the Convertible has been accounted for as long term debt. As the outcome of the Scoping Study is unknown, steady state is assumed for 2009. It is possible that mine financing and construction will occur in 2009. Where necessary n£1=US1.75.

Cash Flow

Year to September £m	2007A	2008E	2009E
Loss after tax	(2.8)	(2.5)	(2.6)
Depreciation and impairment	0.4	0.3	0.5
Share payments	0.3	0.4	0.5
Forex movement	0.0	(0.5)	0.0
Debtor movement	(0.4)	0.0	0.0
Creditor movement	0.3	0.0	0.0
Quoted investment	(0.5)	0.0	0.0
Exploration	(1.3)	(1.5)	(1.0)
Fixed assets	(0.2)	(0.3)	(0.5)
15% of Runruno	(3.8)	0.0	0.0
Convertible	2.0	0.0	0.0
Share issues	9.4	3.9	0.0
Cash movement	3.6	(0.2)	(3.1)

Activities:

The company is exploring the Runruno gold project in the Philippines.

Key Events

Date	Event
13 th October 2008	Runruno resource upgrade
16 th May 2008	20.2m new shares @20p
15 th April 2008	Runruno concept study released

Financial Calendar

Date	Event
September	Year End
March 2009	Finals
June 2009	Interims

Major Shareholders

Shareholder	%
Allianz Insurance	10.45
Baker Steel Capital Managers	5.78
AXA Framlington	4.73
Majedie Investment PLC	4.60
City Natural Resources High Yield Trust	3.35
Other Directors/Officers	1.34

Board of Directors

Name	Position held
Ian Holzberger	Executive Chairman
Jonathan Beardsworth	Chief Executive
Gary Powell	Executive Director
Tim Wheeler	Finance Director
Jonathan Pearson	Non-Executive Director

Share Price Chart



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Relevant disclosures: NA

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