



Commodities: Resurgence Explored



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Metals Exploration Plc (MTL: AIM)

Sector: Mining
Sub-sector: General Mining

25-11-09

Company data

Stock data as of 19-11-09

Price	GBP15.75
52-week range	GBP24.25- GBP6.25
Shares outstanding	269.7 million (mn)
Dividend yield	N/A
Last-12-month average daily trading volume (AIM)	524,200

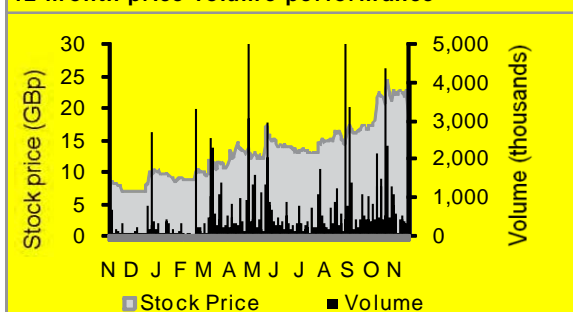
Capitalization

Market capitalization	GBP42.48 mn
Enterprise value	GBP39.20 mn
Net debt / equity	0.004

Price performance (%)

	1M	3M	12M
MTL	(23.2)	0	70.3
FTSE AIM ALL Share Index	(3.0)	15.3	64.4

12-month price volume performance



Major shareholders

Name	Capital
Solomon Capital Ltd	44.10%
Williams de Broe	7.44%
Baker Steel Capital Mngr	6.73%
Allianz Cornhill Insurance	4.45%
Others	25.48%
Total shares	100.00%

TIDM code:	MTL
ISIN number:	GB00B0394F6
Nominated advisor:	Hanson Westhouse Limited
Broker:	Hanson Westhouse Limited
Bankers:	National Westminster Bank Plc
Auditors:	Nexia Smith & William
Lawyers:	Kerman & Co LLP
Country of incorporation:	UK
Head Office location:	UK
Principal area of operations:	South East Asia
Company website:	www.metalexploration.com
Analyst:	Sanket Kulkarni
Managing analyst:	Somatish Banerji
DOR:	Satish Betadpur, CFA

Source: Company data, Bloomberg

Company description

Metals Exploration Plc's (MTL) stated principal activity is to identify, acquire and develop mining companies or projects with an emphasis on precious and base metal mining in the South-East Asia region. The company was founded in April 2004 and listed on the AIM in October 2004. Since then it has acquired 7 projects; Runruno, Dupax, Sulong, Puray, Worldwide and Capaz located in the Philippines, and Waigeo Island located in Indonesia. While Dupax and Sulong have received Exploratory Permits (EP), Puray, Worldwide, Capax and Waigeo are still at the application stage.

The company is currently concentrating on its flagship project, Runruno, which recently received a Financial and Technical Assistance Agreement (FTAA) permit. The FTAA is a legal contract between MTL and the Philippine government, allowing the company the right to 100% ownership of the project and ensuring security of title for 25 years with an option to extend for a further 25 years. It also offers a tax holiday for up to 5 years after commencement of production until the company has recovered its pre-operating expenses and investment. Thereafter the government will receive a 'Government Share' representing 5% of net mining revenues.

Runruno now has estimated total JORC compliant Measured, Indicated and Inferred mineral resources of 1.5Moz gold and 25.4Mlb Molybdenum (Mo), contained within 24.5 Mt at average grades of 1.91 g/t gold and 470 part per million (ppm) Mo. A scoping study released in November 2008 had estimated that Runruno could mine up to 3 Mt pa to produce an average of 183,000 oz of gold and 1.7 Mlb of Mo per year during an initial mine life of nine years, at a cash operating cost of USD285/oz net of projected Mo credits. At the time, the total capital cost of the project was estimated to be around USD208 mn which the company expected to be funded at a debt/equity ratio of 60:40. An independent technical review published on 19 November 2009 reported reduced resource estimates for Runruno, but with Measured and Indicated resources now representing 57% of the total resource, compared to 38% previously. To allow reworking for the revised resource figures, the Bankable Feasibility Study (BFS) will now be delayed beyond the original 1Q 10 target. Following delivery, MTL expects to secure funding and start construction on the project. Production is expected to commence at the end of 2011.

Exhibit 1: Key financials

All figures in GBP '000, unless specified	FY 2007-08		
	FY 2007A	FY 2008A	(%change)
Revenues	0	0	N/A
Operating income	(2,092.0)	(3,259.9)	(55.8%)
Net income	(2,197.4)	(3,438.8)	(56.5%)
Fully diluted EPS (GBP)	(2.81)	(3.55)	(26.3%)
Net cash	3,934.5	1,955.2	(50.3%)
P/E	N/A	N/A	

The figures identified are for the years ended 30 September 2007 & 2008. Subsequently, the reporting period has been realigned to end 31 December.

Source: Company data



SWOT

Strengths	Weaknesses
<p>Flagship project</p> <ul style="list-style-type: none"> With an estimated mineral resource of 1.5Moz gold and 25.4Mlb Mo, at average grades of 1.91 g/t gold and 470ppm Mo, and as mining is expected to be straightforward, Runruno offers scope for healthy returns. <p>Received FTAA for Runruno</p> <ul style="list-style-type: none"> Indicating strong government support (with this only the 4th FTAA permit granted), the permit allows 100% ownership of the project. It ensures security of title for 25 years with an option to extend for a further 25 years. <p>Solid local infrastructure at Runruno</p> <ul style="list-style-type: none"> The project's location, with established road infrastructure and power available directly from the national grid, places it at an advantage to many Greenfield projects. <p>Support from Solomon Capital</p> <ul style="list-style-type: none"> Continued strong backing and an injection of funds from its major shareholder, Solomon Capital, which now holds 44.1% of the company. 	<p>Current dependence on a single project</p> <ul style="list-style-type: none"> The Runruno project is currently the only focus area. The remaining six projects are on hold, of which most are yet to receive EP. <p>Bankable Feasibility Study delayed</p> <ul style="list-style-type: none"> BFS is yet to be completed for Runruno, and has now been delayed to consider revised resource estimates. Until this is completed, commercial viability remains unproven. <p>Funding challenges</p> <ul style="list-style-type: none"> 60% funding for Runruno project is to be through project finance. In the prevailing economic environment, this could be a challenge. <p>Production is targeted to start at the end of 2011 only</p>
Opportunities	Threats
<p>Great potential from Runruno's similarity with Cripple Creek</p> <ul style="list-style-type: none"> An independent study identified that Runruno has remarkable geological similarities with the mineral rich multi-million ounce Cripple Creek mining district located in Colorado, US. With less than 15% of Runruno explored, further exploration is therefore likely to lead to an increase in grades and tonnages. <p>Government focus on mining sector</p> <ul style="list-style-type: none"> The government of the Philippines hopes to attract USD14.5 bn in investment in the mining sector by 2013. 	<p>Potential fall in gold prices</p> <ul style="list-style-type: none"> If gold prices decline to the extent that revenues are insufficient to cover exploration, construction and operating costs, the company could be forced to delay or abandon projects. <p>Opposition from local community to Runruno</p> <p>Volatile Philippine tropical climate</p> <ul style="list-style-type: none"> The tropical climate and the site topography may present obstacles to exploration and development activities.

Key recent news

19 November 2009: The company announced a revised independent resource estimate by Mining Associates Pty Limited (MA) on Runruno. While combined Measured and Indicated resources now comprise 56.7% of the total resource, compared to 37.8% previously, representing a strong conversion rate, both Indicated and Inferred resource estimates have been reduced significantly. Measured gold resource increased from 270,000oz to 560,000oz, Indicated gold resource reduced from 487,000oz to 290,000oz and Inferred gold resource reduced from 1,248,000oz to 650,000oz. As a result, finalization of the feasibility study will be delayed.

29 October 2009: The company announced the signing of its FTAA by the Philippine government for the Runruno gold-Mo project.

Management

Ian Holzberger - Executive Chairman: With over 35 years of experience in the mining industry, he was Managing Director of Highlands Pacific Limited from 1997 to 2007. He has extensive experience in the implementation of major project feasibility studies, equity raising, debt financing, government negotiations and all aspects of project development.

Jonathan Beardsworth - Managing Director: A former head of Standard Bank's mining and metals team, he has more than 12 years of experience in investment banking focused solely on the mining and metals sector. He is responsible for overall company strategy.