

Macarthur Minerals Ltd.

METALS & MINING

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All figures in C\$, unless otherwise noted.

Rating: Buy

unchanged

12-Month Target: \$1.80 ↑

previously \$1.65

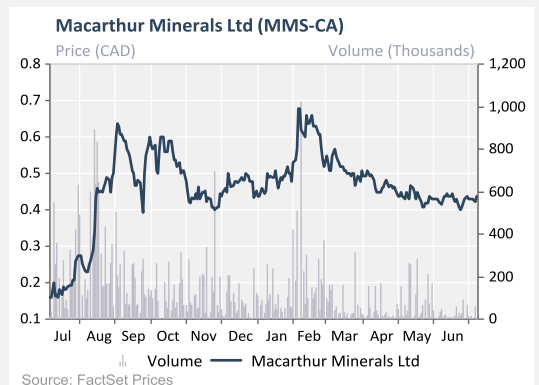
Price	C\$	\$0.44
Ticker		MMS-T
FYE		31-Mar
Potential ROR		298%
Shares O/S	Basic, M	139.6
	FD, M	164.5
Market Cap	Basic, C\$M	61.4
	FD, C\$M	72.4
Net Debt (at 31/03/21)	C\$M	(5.0)
Enterprise Value	C\$M	56.4
NAVPS	C\$	2.38
Working Capital/sh	C\$	(0.04)

**based on in-the-money dilutive securities*

Resources	Tonnage	Fe	DTR []
Magnetite	Mt	%	Grade (%)
Measured	53.9	30.8	66.0
Indicated	218.7	27.5	66.1
Total M&I	272.5	28.1	66.1
Inferred	449.1	27.1	65.0
Total Resource	721.6	27.5	65.4

*DTR [] - Davis Tube Recovery, Concentrate

Resources	Tonnage	Fe	Fe
Hematite	Mt	%	Mt
Indicated	54.5	47.2	25.7
Inferred	26.0	45.4	11.8
Total Resource	80.5	46.6	37.5



Source: FactSet, Company filings, Paradigm Capital Inc.

Company description: Macarthur Minerals has three iron ore projects in the Yilgarn region of Western Australia. The company has also established multiple project areas in the Pilbara, Western Australia for conglomerate gold, hard rock greenstone gold and hard rock lithium. In addition, Macarthur Minerals has lithium brine interests in the Railroad Valley, Nevada, U.S. Macarthur Minerals is an Australian public company listed on both the TSX Venture Exchange and the Australian Securities Exchange (MIO).

Progress at Lake Giles Continues

Investment Thesis. Macarthur Minerals (MMS) is an iron ore development, gold and lithium exploration company that is focused on bringing its 100%-owned Western Australia iron ore projects to production. The Lake Giles iron project includes the Ularring hematite resource (approved for development) and the Moonshine magnetite resource. The company has secured a binding life-of-mine off-take agreement with Glencore International A.G. and is focused on commercializing its iron ore projects utilizing mining, processing and logistics infrastructure in the region, and is progressing toward completing a Bankable Feasibility Study.

Event

Macarthur Minerals (MMS) has made significant progress toward completing a direct shipping ore (DSO) scenario of the hematite resources after entering into a term sheet with rail haulage service provider Pacific National regarding transport of up to 400Ktpa. With iron ore prices currently at ~US\$215/t versus our long-term price assumption of US\$70/t, we have a positive view on the strategy to move sales as forward as possible. Management anticipates having material available as early as Q1/CY22 when we forecast 62% iron ore prices of US\$175/t.

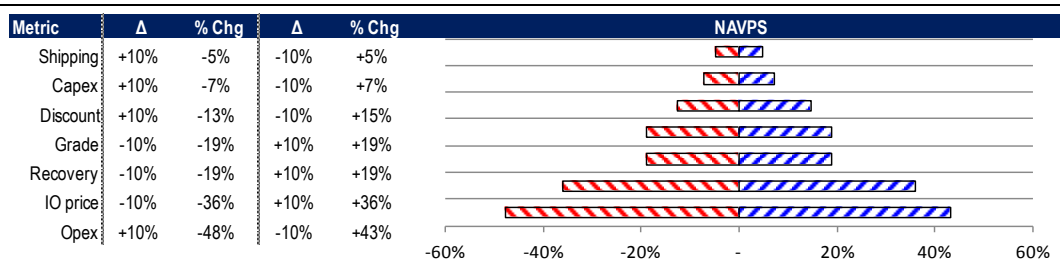
Highlights

- ▶ **DSO Mining** | The concept of DSO mining is simple — sell the ore before substantial beneficiation at a discount to current prices. This allows companies who are still a few years from commercial production to generate positive cash flow while continuing to develop the asset. Further supporting this venture is MMS' recent application for additional tenure adjacent to the Lake Giles project for infrastructure related to DSO shipping.
- ▶ **Our Valuation** | Assuming modest opex and capex (incl. mobile crushing and screening equipment), as well as a discount to our iron ore price forecast, we estimate this strategy would add A\$20M to our Lake Giles NPV₁₂ which can be applied to reducing required funding. Note that MMS signed a co-operation agreement with Jin Sung International on June 15 for a potential strategic investment. For now, we will exclude DSO mining from our base-case valuation pending further disclosures.
- ▶ **Upcoming Catalysts** | As part of the DSO project, a formal mining proposal is expected to be submitted to the Department of Mines by Sept. 30. Also, on July 6, MMS announced a geotechnical drilling campaign to support the mine planning work being undertaken as part of the much anticipated Feasibility Study (FS). Additionally, MMS has submitted budget requests to several local mining contractors and road haulage services to further support the FS. Note that as per traditional valuation practices, the release of the FS will trigger a decrease in the applied discount rate from 12% to 10% and increase our NAVPS to C\$3.14.

Valuation & Conclusion

Our revised NAVPS is C\$2.38 (was C\$2.22), an increase largely attributed to rolling our model forward since our initiation report. Using a 0.75x P/NAV multiple, in line with other industrial metal developers, our target price is now C\$1.80 (was C\$1.65). Our positive view of the company stems from its successful de-risking of the Lake Giles project, forecast production of a premium iron ore that demands premium pricing and an attractive valuation.

Our valuation of Macarthur Minerals is subject to several assumptions, particularly commodity prices, opex and capex. We note that a 10% increase in the iron price results in a 36% increase in our NAV estimate and a 10% rise in the recovery or grade results in a 19% increase in our NAV estimate. Figure 1 highlights sensitivities to several other modelling assumptions.

Figure 1: NAV Sensitivity to 10% Changes in Input Variables


Source: Company filings, Paradigm Capital Inc.

Figure 2: MacArthur Minerals — Summary NAV Estimate

Projects	Ownership	US\$M	C\$M	C\$/Sh	Valuation Basis
Primary Assets					
Lake Giles	100%	312.4	390.5	2.37	NPV @ 12%
Exploration Projects	100%	-	-	-	Balance Sheet as at Q4/FY21
Total Assets		312.4	390.5	2.37	
Corporate Adjustments					
Assets/Liabilities					
Cash and Cash Equivalents		4.0	5.0	0.03	Balance Sheet as at Q4/FY21
Cash from Options & Warrants		5.7	7.1	0.04	Balance Sheet as at Q4/FY21
Current Assets (net of cash)		0.2	0.3	0.00	Balance Sheet as at Q4/FY21
Total Corporate Assets/Liabilities		9.9	12.4	0.08	
Debt and Obligations					
Current Liabilities		9.1	11.4	0.07	Balance Sheet as at Q4/FY21
Long Term Debt (includes converts)		-	-	-	Balance Sheet as at Q4/FY21
Total Corporate Adjustments		9.1	11.4	0.07	
Net Asset Value		US\$313	C\$392	C\$2.38	
Shares Outstanding, Basic (mn)				139.6	
Shares from Options & Warrants (mn)				24.9	
Shares Outstanding, FD (mIn)				164.5	

Iron Ore Fines 62% (US\$/t): '018=67.05; '019=68.39; '020=91.24; '021=123.45; '022=180.12; '023=143.75; '024=118.75; 2025=92.50
 Iron Ore Fines 65.6% (US\$/t): '018=87.05; '019=88.39; '020=111.24; '021=143.45; '022=200.12; '023=163.75; '024=138.75; 2025=112.50
 USD/CAD: '018=0.77; '019=0.75; '020=0.75; '021=0.80; '022=0.80; '023=0.80; '024=0.80; 2025=0.80
 USD/AUD: '018=0.75; '019=0.70; '020=0.69; '021=0.79; '022=0.80; '023=0.80; '024=0.80; 2025=0.80

Source: Company filings, Paradigm Capital Inc.

DISCLAIMER SECTION

Company	Ticker	Disclosures
Macarthur Minerals Ltd.	MMS-CA	3

Note: Please refer to above table for applicable disclosure numbers.

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Stock Coverage History

Date	Target	Rating	Estimates
9/28/2020	\$1.65	Buy	Initiating Coverage

Research Rating System

Paradigm Capital Inc. uses the following rating recommendation guidelines in its research:

Recommendation	Number of Companies	Percentage Breakdown	
Buy	102	58%	Buy – Expected returns of 20% or more over 12 months.
Spec. Buy	47	27%	Speculative Buy - Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early stage companies.
Hold	20	8%	Hold - Expected returns of less than +/- 20% over the next 12 months. Includes companies Under Review.
Sell*	2	1%	Sell - Expected returns of -20% or more over the next 12 months.
Total	171		

*Includes companies with a "Tender" recommendation

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