

UBS Investment Banking Competition



Vulcan Steel
acquires
Metro Mining

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- 1st Year at UoA
- Studying a **BCom/BSc** conjoint, majoring in Finance, CS, and Math



Reuben Paul

- 1st Year at UoA
- Studying a **BCom/BEng** conjoint, majoring in Finance and Economics



Overview – Vulcan Steel (NZE:VSL)



Operation

- Manufactures and distributes steel and aluminium across Australasia
- A '**key link in the steel value chain between steel producers and bulk traders, and end-users**'
- Annual Revenue: \$1.2 billion
- Output: 250,000 metric tonnes

Growth Strategy

ORGANIC

- Expansion into new geographies
- Average annual revenue increase of 15.7% since 2019

INORGANIC

- Multiple acquisitions over the last decade
- **Acquired Ullrich Aluminium in 2022**

Culture

- Goal is '**to become the most customer focussed and efficient metals distributor in Australasia**'
- Growth credited to delivering superior service
 - 97.4% DIFOT – best in industry

Acquire:

Bauxite ore – for aluminium
Iron ore – for steel



Use ~400,000 WMT of bauxite to produce ~72,000 MT of finished aluminium goods



Produce finished steel and aluminium products in almost every industry



Products: rebar, plates, pipes, general coil processing – turning steel coil into any shape or size

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Industry Summary

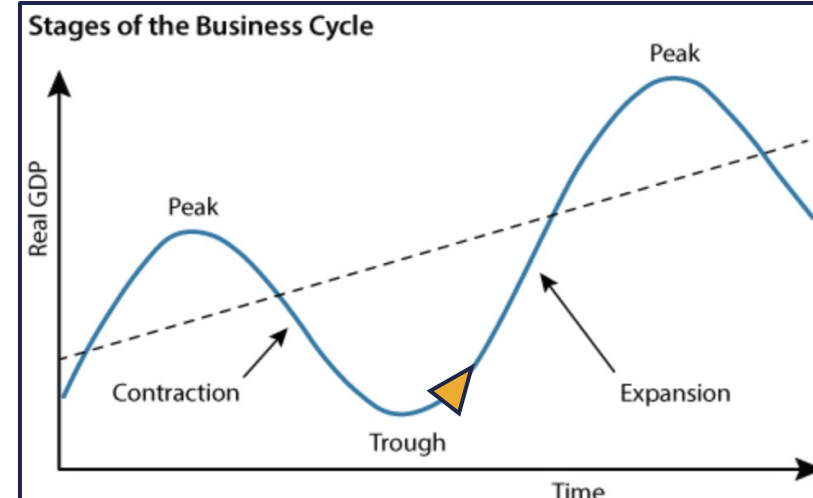


Aluminium > Steel

- **Acquired Ullrich Aluminium in 2022**
- Aluminium is the 'steel of the future', and bauxite is crucial for aluminium production
- 1/3 the weight of steel, but just as strong
- Necessary to diversify away from steel, with China and other concerns for the steel market
- Aluminium is the future, with growing trends of clean energy and EVs
- Gross margin: ~40% compared to ~30% for steel
- Ullrich Aluminium saw a 19% average Y/Y revenue growth from FY21 to FY23 – this is the direction Vulcan Steel is heading

Economic Cycle

- A great company that is struggling in the current economic environment
- Currently at a low point > indicating an uptick in investment spending in the forecast period
- Falling inflationary levels > Reserve Bank will lower the OCR
- Lower interest rates will see companies across Australasia increase investment as debt is cheaper
- Vulcan's products are key investment expenditure, notably higher during the expansion stage



Management Perspective

- Vulcan know they cannot control the business cycle, so they must focus on reducing cost
- One of these key inputs is **bauxite**, which is used in the production of aluminium

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Overview – Metro Mining (ASX:MMI)



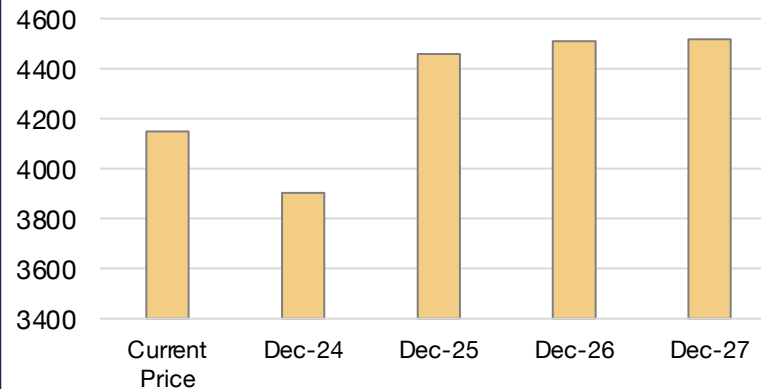
Operation

- Australian **bauxite** mining and exploration company
- Flagship project is the Bauxite Hills Mine, operating since 2018
- Nearly all product is shipped to China, where it is refined to produce alumina and aluminium
- Expected to ramp up to 7 000 WMT in near future, Vulcan only need 400-500 WMT of this

Growth Strategy

- Expansion of the Bauxite Hills Mine
- Developing infrastructure, exploration, and resources
- Expanding to meet the increasing global demand for aluminium / bauxite

Aluminium Market Price per Tonne (NZD)



Metal Price forecasts vary significantly – these were taken from Capital IQ

Key Figures

- Sold 4 600 wet metric tonnes of bauxite in 2023
- 50% Al_2O_3 bauxite as opposed to industry average of ~40% indicates high grade
- Forecast bauxite market CAGR: 4%
- \$256 million revenue in 2023
- Revenue: 35% increase
- COGS: 6% increase

Overview

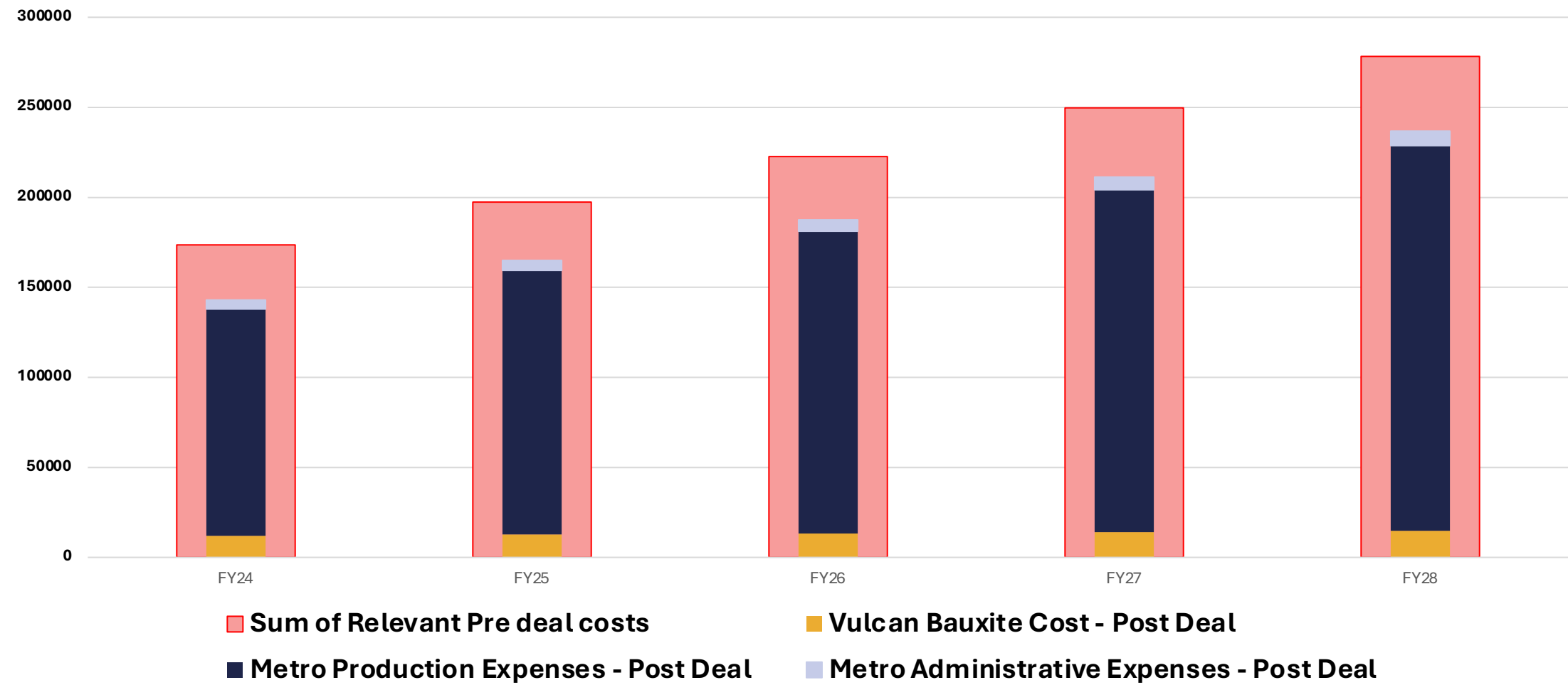
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Value of immediate synergies estimated at 19.3 million



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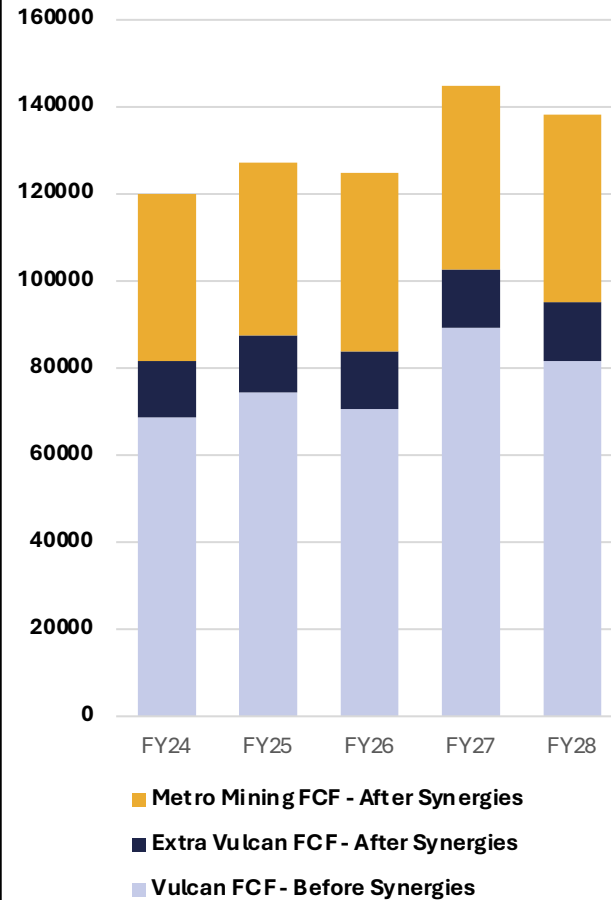
Why Metro Mining?



Synergies / Benefits

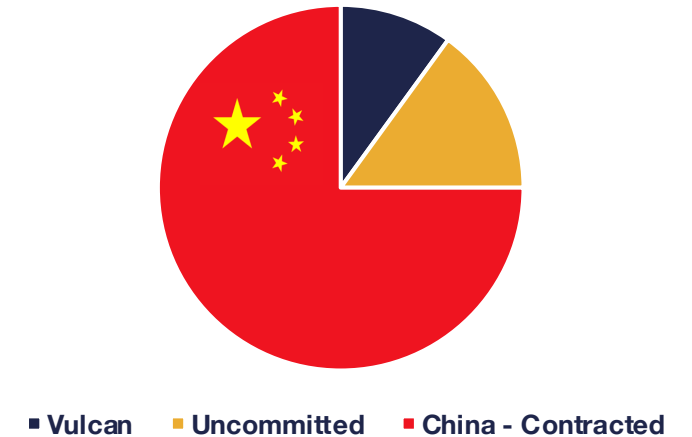
- Immediate synergies are worth an estimated \$19.3 million – \$14 million for bauxite
- Reduction in freight costs and integration of efficient distribution networks
- Vulcan's requirement is 1/10 of Metro Mining's bauxite - Vulcan will add ~38 million per year in free cash flow from Metro Mining's operations
- Vulcan are looking to expand into new markets, something that the existing supply chains held by Metro Mining globally will allow them to do
- Expansion of warehousing facilities used for both materials
- Acquiring an asset which could deplete Vulcan's market share and profitability if acquired by others
- Control of an asset that is crucial for competitors
- Overlap optimisation leads to productivity gain and reduction of fixed corporate costs

Projected Free Cash Flows

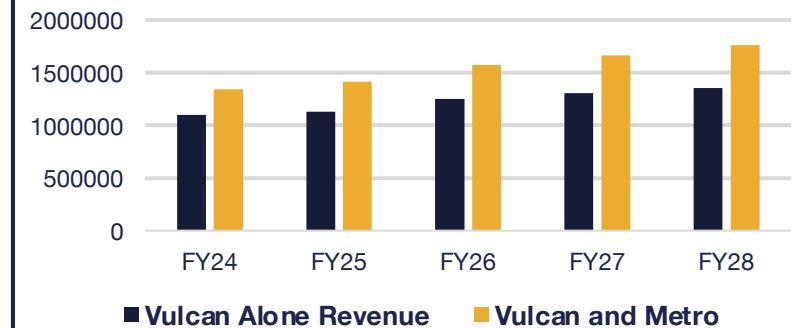


* Based on cash flows that have been discounted using a WACC of 8.2%

FY24 Output



Revenue Expectations



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Deal Structure – Stock Deal

VULCAN



Why a stock deal?

- Vulcan recently acquired Ullrich successfully for cash, but are close to debt covenants, so stock is more sensible
- Vulcan is a great company, but the stock price looks potentially overvalued
- Avoids additional debt when interest rates are so high, and covenants are close to being hit

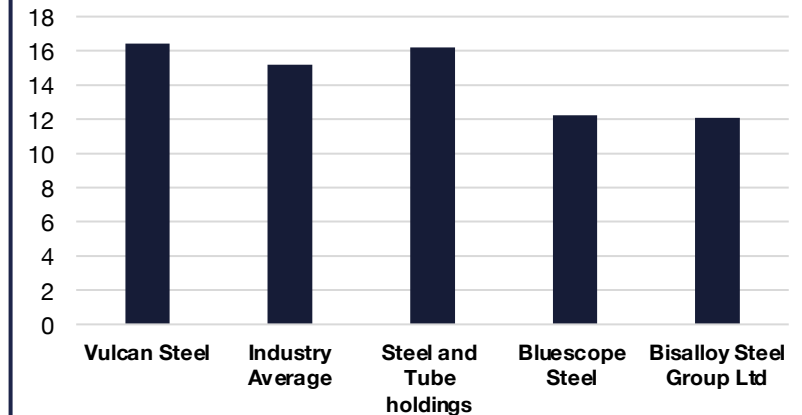
Stock Valuation

- Valuation comparisons present a very good case for a stock deal – Metro could be seen as a bargain

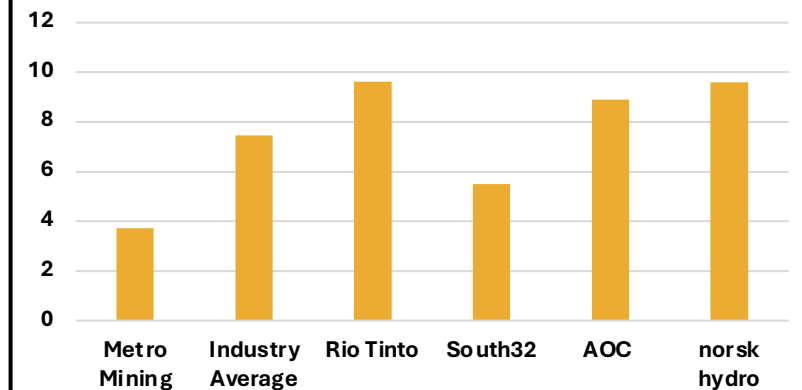
Price to Earning Ratio

Vulcan	16.43	Industry average	15.2
Metro	3.9	Industry average	7.4

Steel Producers PE Ratio



Bauxite PE ratio



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Valuation Implications

VULCAN



Deal Value

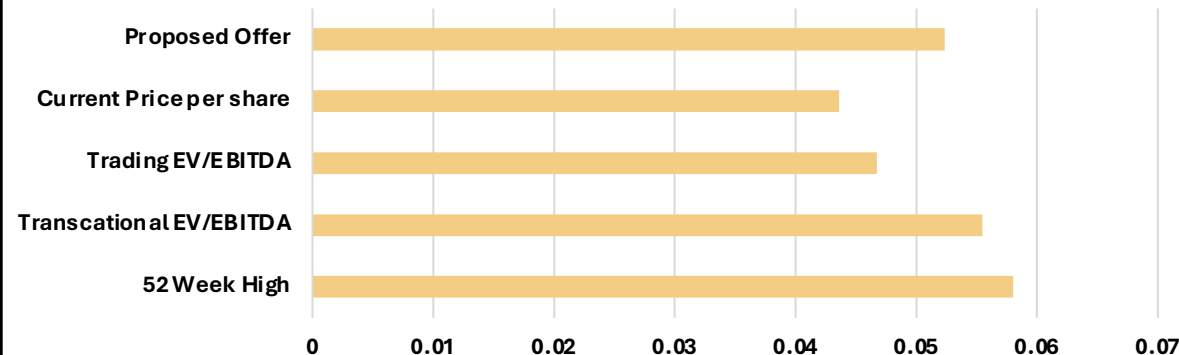
- Buyout will be for 0.05232 NZD per share, a **20% premium** on the 0.0436 NZD per share it is currently trading at
- Total value of buyout – **310 million NZD**
- Based on DCF valuations incorporating cost savings and discounted values of new and old cash flows, the new company will be **undervalued by 17%**

This deal is expected to be EPS accretive of 4.87%

Metro would receive shares from vulcan

ASX:MMI Share price	0.0436
NZSE:VSL share price	7.05
ASX:MMI Market cap	258,970,920
ASX:MMI Total Shares	5,939,700,000
Purchase price per share	0.05232
Premium	20%
Buyout value	310,765,104
Number of new shares of NZSE:VSL issued for each existing share of ASX:MMI	0.007421277
Total number of shares post stock split	176,080,157
Implied value of New Company	1,446,770,967
Implied Return	17%

Price per Share



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Resulting Entity – Summary

VULCAN



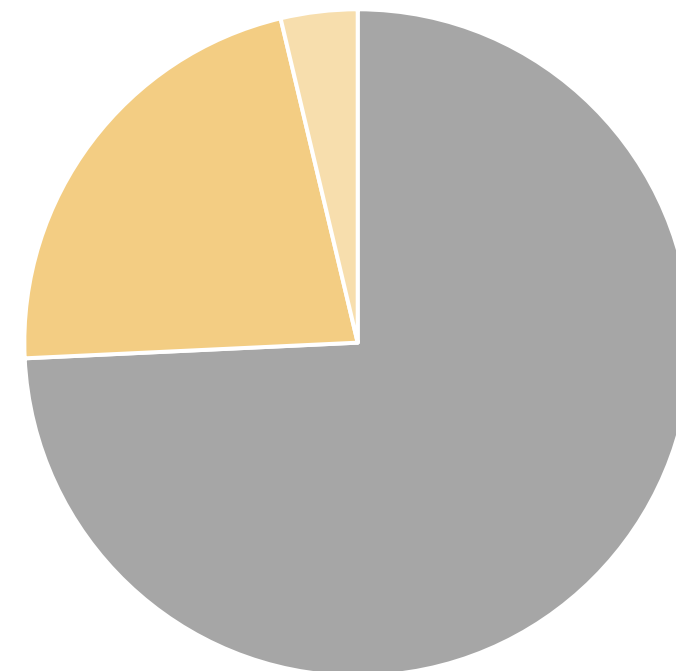
Vulcan Shareholders

- Cost savings for raw materials
- New cash flows
- Move to **17% undervaluation**
- Controlling the bauxite supply chain puts them in a great position for the future of the metals industry

Metro Shareholders

- Will receive an instant return on their shares of **20%**
- Diversified geographic customer base, mitigating China risk
- Access to Vulcan Steel's networks across Australasia

Savings / Synergies Breakdown



- Raw Materials
- Administrative expenses and fees
- Savings in production costs

Sensitivity Table		Growth rate				
	8.2	1.000%	1.500%	2%	2.500%	3.000%
WACC	7.220%	8.185	8.977	9.920	11.063	12.477
	7.720%	7.511	8.188	8.984	9.931	11.080
	8.220%	6.926	7.512	8.192	8.991	9.943
	8.720%	6.413	6.925	7.514	8.197	9.000
	9%	5.958	6.410	6.925	7.516	8.203

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Appendix 1 – Metro Post-Deal



Forecast Free Cash Flow	FY24	FY25	Y26	FY27	FY28
Revenue	245966.4	282084.2	320494.7	361373.6	404847.4
Cost of goods sold	209831.9	241803.9	275779.4	311945.9	350415.4
Gross profit	36134.4	40280.3	44715.3	49427.7	54432.0
Total operating expenses	4873.8	5589.5	6350.6	7160.6	8022.0
Earnings before interest and tax	31260.6	34690.8	38364.7	42267.1	46410.0
Taxes	8752.96787	9713.42947	10742.1091	11834.7955	12994.7867
Depreciation and Amortisation	18542.4	21265.2	24160.8	27242.5	30519.8
Capital Expenditure	5332.73718	6115.79925	6948.56861	7834.8544	8777.39868
Above AAPOR	2%	2%	2%	2%	2%
Change in Net Working Capital	121	321	341	363	386
Free Cash Flow	35596.3	39806.0	44493.7	49477.0	54771.5

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Appendix 2 – Vulcan Post-Deal



\$\$'000 NZD	Assumption reference	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Revenue		617,200.00	640,500.00	731,546.00	972,667.00	1,236,488.00	1,096,487.34	1,130,803.58	1,249,784.09	1,303,301.19	1,355,810.37
Growth percentage			0.04	0.14	33%	27%	-11%	3%	11%	4%	4%
Cost of goods sold		406,600.00	426,100.00	461,154.00	583,882.00	800,942.00	712,716.77	723,714.29	787,363.98	808,046.74	840,602.43
Cost of goods sold as a percentage of revenue		66%	67%	63%	60%	65%	65%	64%	63%	62%	62%
COGS after bauxite savings							699,603.57	709,389.09	771,686.49	790,901.28	821,863.95
Gross profit		210,600.00	214,400.00	270,392.00	388,785.00	435,546.00	396,883.76	421,414.49	478,097.61	512,399.90	533,946.42
Total operating expenses	16	153,800.00	162,700.00	169,871.00	191,708.00	280,462.00	281,194.00	266,829.11	294,904.24	307,532.36	319,922.64
Operating expenses as a percent of revenue		25%	25%	23%	20%	23%	26%				
Earnings before interest and tax		56,800.00	51,700.00	100,521.00	197,077.00	155,084.00	115,689.76	154,585.38	183,193.36	204,867.55	214,023.78
EBIT as a percentage of Revenue		9%	8%	14%	20%	13%					
Taxes		15,100.00	9,600.00	25,070.00	57,349.00	37,000.00	32,393.13	43,283.91	51,294.14	57,362.91	59,926.66
Taxes as a percentage of EBIT		27%	19%	25%	29%	24%	28%	28%	28%	28%	28%
Depreciation and Amortisation	See Fixed Asset Schedule	9,300.00	30,700.00	11,285.00	9,140.00	8,637.00	14,868.85	15,625.26	15,885.97	16,694.03	18,147.48
D and A as a percentage of revenue		2%	5%	2%	1%	1%					
Capital Expendature	See Fixed Asset Schedule	15,500.00	5,000.00	5,700.00	12,200.00	23,000.00	15,757.72	13,214.01	16,220.37	20,294.94	25,219.52
Capital Expendature as a percentage of revenue		3%	1%	1%	1%	2%					
Increase in Net Working Capital	See Net Working Capital			5,728.00	166,441.00	86,215.00		18,154.59	32,425.93	12,618.03	15,415.74
							0.12	1.12	2.12	3.12	4.12
Free Cash Flow							82,407.77	95,558.13	99,138.89	131,285.69	131,609.33
with addition of metro mining cash flow							38799.94339	43388.59026	48498.13924	53929.88529	59700.95214
New total FCF							121,207.71	138,946.72	147,637.03	185,215.57	191,310.28
Present Value of Free Cash Flows							120,061.19	127,198.03	124,907.09	144,820.16	138,245.03

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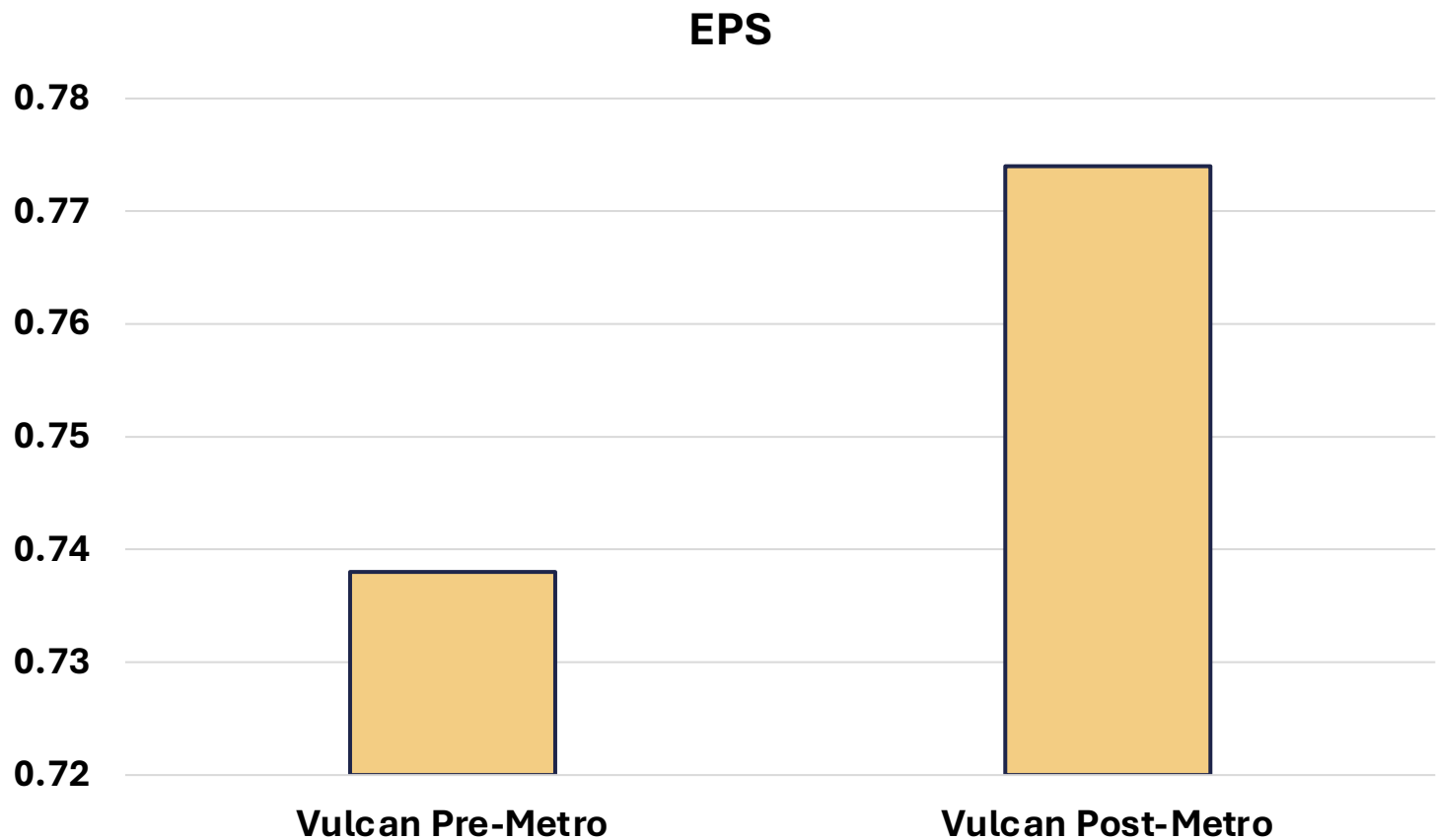
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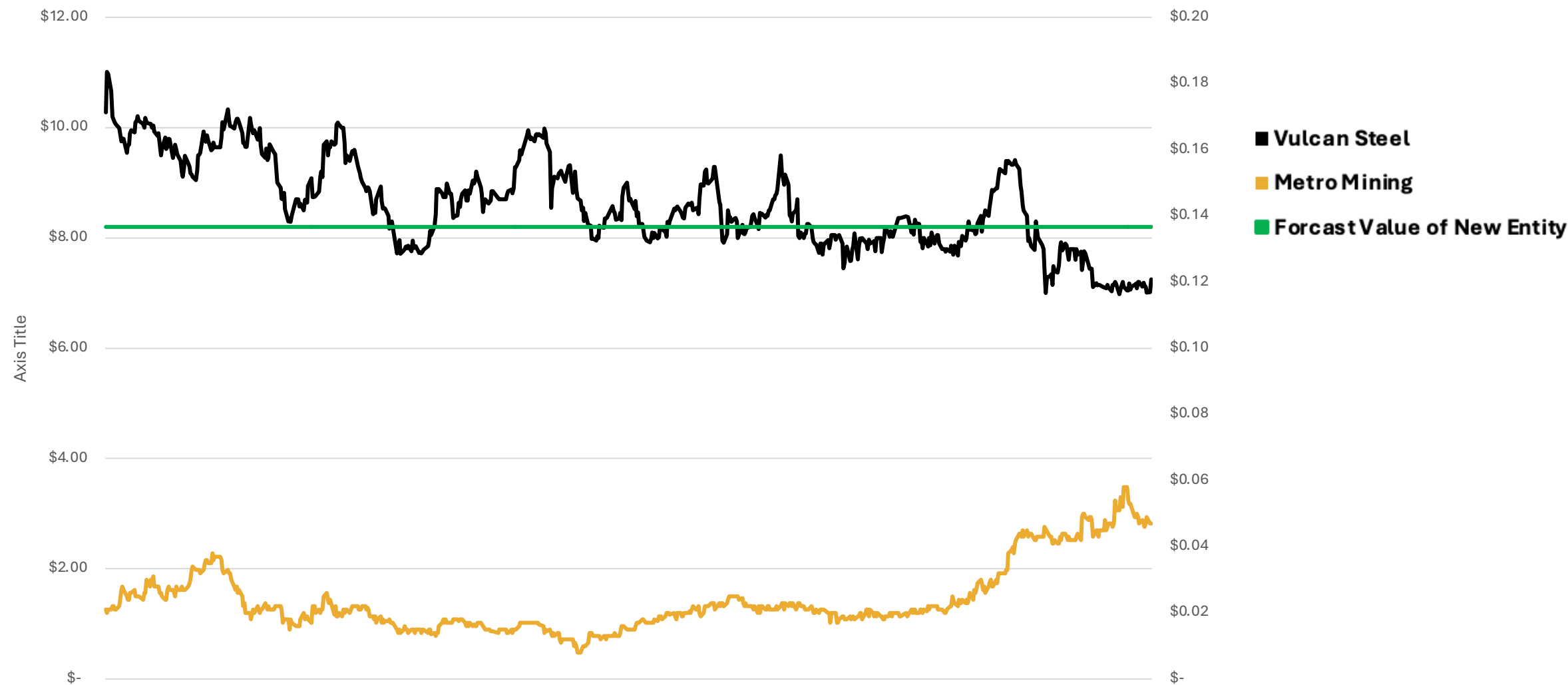
Appendix 3 – EPS accretive



4.87% accretive

* Based on forecast FY25 numbers before and after accounting for synergies, cost savings, and extra cash flows.

Appendix 4 – Last 24 Months Stock Prices



Appendix 5 – Vulcan Value after increase in share count

Metro would receive shares from vulcan	
ASX:MMI Share price	0.0436
NZSE:VSL share price	7.05
ASX:MMI Market cap	258,970,920
ASX:MMI Total Shares	5,939,700,000
Purchase price per share	0.05232
Premium	20%
Buyout value	310,765,104
Number of new shares of NZSE:VSL issued for each existing share of ASX:MMI	0.007421277
Total number of shares post stock split	176,080,157
Implied value of New Company	1,446,770,967
Implied Return	17%

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WACC	7.220%	8.185	8.977	9.920	11.063	12.477
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	8.720%	6.413	6.925	7.514	8.197	9.000
	9%	5.958	6.410	6.925	7.516	8.203

Appendix 6 – DCF

Cost of Debt		
Assumptions		
Interest Expense		38585
Metro interest expense		17600.65616
Total interest expense		56185.65616
Adjusted TIE		57309.36928
Interest Bearing Loans and Borrowings - V	13	591720.0
Interesting Bearing Loans and Borrowings - M		159044
Total IBLB		750764.0
Cost of Debt		7.6%
Effective Tax Rate	8	28%
Cost of Debt After Tax		5.50%
Cost of Equity		
Assumptions		
Risk Free Rate	10	4.3%
Beta	9	1.03
Market Return	12	9.7%
Cost of Equity		9.8%
Weight of Debt and Equity		
Assumptions		
Total Debt	1	750764.0
Total Equity	1	1241365.1
Total		1,992,129
WACC		0.082032474

Assumption reference		
Terminal Growth Rate	7	2%
Terminal Value		2164052.3
Present Value of Terminal Value		1520883.5
WACC		8%
Value of Cash Flows		2176115.0
Less Debt	15	750764.0
Plus Cash	12	21420.0
Implied Market cap		1446771.0
Total Diluted Outstanding Shares	18	131400.0
Total after stock creation		176080.2
Implied Share Price		8.22
Current Share price		7.05

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Revenue/Cost Assumptions

Assumption table		FY22	FY23	FY24	FY25	Y26	FY27	FY28				
Expected Output (Bauxite)		3729.0	4992.2	5450.0	5995.0	6540.0	7085.0	7630.0				
Vulcan Requirement (Bauxite)				437.1	459.1	483.5	509.2	536.2				
Cost to mine (Vulcan portion)				13113.2	13774.2	14505.5	15275.5	16086.4				
estimate of altunative cost for vulcan				26226.4	28099.4	30182.9	32420.9	34824.9				
savings for vulcan				13113.2	14325.2	15677.5	17145.5	18738.5				
Bauxite selling price price	20	56.7	56.1	58.3	60.5	62.9	65.3	67.8				
Revenue		193905.6	257098.3	268103.3	307471.8	349339.2	393897.3	441283.7				
Production Expenses - Pre Vulcan		118310.8	137340.0	153400.5	175926.0	199881.3	225376.0	252489.1				
Above AAPOR		0.7	0.6	0.6	0.6	0.6	0.6	0.6				
Expected Production Expenses - Post Vulcan	21			138352.6	159932.8	182854.8	207257.9	233218.1				
Above AAPOR				0.6	0.6	0.6	0.6	0.6				
Administrative Expenses		6904.1	9448.1	9699.2	11123.5	12638.1	14250.1	15964.4				
Above AAPOR												
Expected SG Expenses - Post Vulcan		3734.3	5237.5	5312.5	6092.5	6922.1	7805.1	8744.0				
Above AAPOR												
COGS - not applicable to Vulcan		94830.0	86655.0	90364.2	103633.4	117744.8	132763.1	148734.7				
Above AAPOR		0.5	0.4	0.4	0.4	0.4	0.4	0.4				
Net finance costs		14597.3	17440.0	19184.7	22001.8	24997.7	28186.2	31577.0				
Above AAPOR		0.1	0.1	0.1	0.1	0.1	0.1	0.1				
depreciation		15260.0	18530.0	20211.2	23179.0	26335.2	29694.3	33266.5				
Above AAPOR		0.1	0.1	0.1	0.1	0.1	0.1	0.1				
Revenue Expectations - Vulcan Pre-Metro	Assumption Reference	FY19A	FY20A	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F	
							Current price	Dec-24	Dec-25	Dec-26	Dec-27	
Aluminium Market Price per Tonne	1						4,149.94	3,903.90	4,459.73	4,508.78	4,516.95	
Growth								-6%	14%	1%	0%	
Applied to Vulcan Aluminium Revenue per Ton	2						9453.0	8706.2	8517.1	9261.5	9312.4	
Output of Aluminium (T'000)							68.0	71.6	75.2	79.2	83.4	
Total Aluminium Revenue							642804.0	623449.8	640655.9	733628.6	776822.6	
Growth								-3%	3%	13%	6%	
Steel Market Price per Tonne	4						820	833	860	860	860	
Growth								2%	3%	0%	0%	
Applied to Vulcan Steel Revenue per Tonne	2						3262.0	2906.7	2952.8	3048.5	3048.5	
Output of Steel (T'000)	5						182.0	162.7	166.0	169.3	172.7	
Total Steel Revenue							593684.0	473037.6	490147.7	516155.5	526478.6	
Growth Percentage								-26%	3%	5%	2%	
Total Revenue (\$\$'000)			617200	640500	731546	972667		1236488.0	1096487.3	1130803.6	1249784.1	1303301.2
Total Output (T'000)								250.0	234.4	241.2	248.5	256.1
Growth								-7%	3%	3%	3%	3%

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