

Magnetite Mines Limited

Razorback to unlock a new iron ore province

Magnetite Mines Limited (ASX:MGT) is an ASX-listed iron ore play with a highly progressed project opportunity, the 100%-owned Razorback Iron Ore Project, currently in a Definitive Feasibility Study (DFS) phase, targeting first shipments around end-2024. The company describes the Razorback Iron Ore Project as capable of producing a high-grade iron ore concentrate of ~68% Fe with low deleterious elements in comparison to alternate products. Importantly, the resource base is a massive 5.7 billion tonnes with stage one development plans commercialising only around 8% of the defined resource. The outlook for iron ore prices, we think, remains positive allowing for the volatility associated with Chinese demand, where COVID remains a significant issue for the Central Government. On low capital and operating costs as projected, we suggest the company does have significant scope to deliver a profitable development at Razorback even at the low end of the forecast range.

DFS studies have commenced

The initial Pre-Feasibility Study (PFS) was completed in July 2021, successfully supporting the commercial potential of a mining and processing project supplying 2.7Mtpa for at least 23 years as envisioned. These analyses confirmed a development opportunity with low capital and operating costs based on favourable (simple) geology, low strip ratios and ready access to transport, renewable power and port infrastructure. The stage one development is for a plant capacity of around 3Mtpa of high-grade concentrate at a capital cost of around US\$500mn. The company has now moved into a DFS programme focussed on this initial development, and in parallel is assessing expansion opportunities to increase production. In March, the company released an Expansion Study demonstrating post tax unlevered project returns of 27% at circa 8Mtpa of production. As highlighted by management '...the current DFS is a work in progress and as such, the configuration and execution of the Project is subject to change'. First shipments are expected around end-2024...let's call that 18 months. That timeline is aggressive and likely subject to some risk but there is negligible overburden, strip ratios are low and the ore is readily amenable to efficient processing, producing finer-grained concentrates. The company reported a cash position of \$20.14mn (9-Jun) following a Renounceable Rights issue raising \$15.8mn, which underpins the remaining DFS studies. Project financing awaits completion of the DFS.

A long-life resource with exploration upside

The PFS results supported a maiden JORC defined Probable Ore Reserve of 473Mt containing some 68.5Mt of iron ore concentrate. This is a subset of the ~4.2Bnt of Indicated and Inferred Resources ascribed to the Razorback Iron Ore Project in total. We also note the resource potential of the wholly-owned Muster Dam tenement, formally granted in May and subject to further exploration and evaluation.

Strong iron ore prices suggest the global markets remain robust

Undersupplied markets support strong product pricing and iron ore prices may remain buoyant at least through the remainder of 2022 with upside potential. The outlook for Chinese demand continues to be critical when considering the price outlook and COVID issues remain at the forefront. The Chinese Government has recently stated its commitment to meeting its economic and social targets. We would highlight the company's position in being able to access green energy providing a comparatively low-emissions (and high-quality) product into a price competitive market.

Share Details

| | |
|------------------------|----------|
| ASX code | MGT |
| Share price | \$0.021 |
| Market capitalisation | \$79.6M |
| Number of shares | 3,791.7M |
| Total options on issue | 516.5M |
| Net cash at 31-Mar | \$8.9M |

Share Price Performance (12 months)



Upside Case

- Global demand remains strong, particularly from China, supporting current iron ore prices
- Delivery of first concentrate ahead of schedule
- Commercial definition of expansion stages

Downside Case

- Delays to first concentrate production through cost increases or supply chain impacts
- Collapse in iron ore prices on slowing Chinese demand
- Delays in securing project financing

Catalysts

- Successful completion of DFS
- Successful project financing

Comparative Companies (Australia & NZ)

BIS, TI1, SRK, FEX, HIO

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FINANCIAL SERVICES GUIDE

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