

MMG Limited.

2014 results – beat, operational track record continue to improve

MMG reported better than expected financial results for full year 2014. EPS at US\$1.96 was ahead of our US\$1.42 estimate. The beat was primarily driven by EBITDA doubling at its Century mine; we expected a modest increase of 15% y/y. The company has not announced any dividend for 2014, while net debt has increased to US\$8bn compared to US\$1.5bn at end 2013. Significance of these results from existing assets is limited given the fact the investment case is driven by execution of Las Bambas copper project, where the company says it is on track for first concentrate production in 1Q16. We reiterate our OW rating and highlight that the share price discount to NPV will narrow as the company makes progress on Las Bambas. The Las Bambas site visit proposed for Mid-April is a likely near term catalyst where the company could share more details on the status of the project.

Strong headline numbers illustrate its operational track record: The key highlight of the release is the 83% y/y EBITDA increase from its Century zinc operation; showcases the company's ability to extract the very last bit of value from a mine which is in last year of its operation (when costs generally tend to shoot up). Production at Century in 2014 declined 5% y/y. This offset the negative US\$42.3mn EBITDA recorded by the company in 2H'14 from Las Bambas.

Net debt is lower than expected: The Company reported net debt of US\$8bn, significantly lower than our US\$9.5bn forecast. While the significant y/y increase was driven by its Las Bambas project acquisition and subsequent capex, the key reason for the deviation was the splitting of minorities, reflected in a non-controlling interest of US\$1.3bn, from US\$197mn in 2013, compared to our end 2014 US\$209mn estimate.

Las Bambas remains on track: Capex guidance for Las Bambas in 2015 is US\$1.9-2.4 bn having spent US\$772.4mn between August and December 2014. This is in line with previous guidance of post acquisition capex between US\$2.7-3.2bn. The project's completion rate reached 80% by end 2014; the company reiterated in its production release last month that the execution rate of the remaining 20% will be slower than earlier estimated due to fine tuning of the last stages of operation.

1208.HK: Financial and Valuation Metrics EPS USD Cents

FY Dec	2012	2013	2014	2015	2016
EPS	3.64A	1.95A	1.42E	2.00E	5.92E
Previous EPS	3.64A	1.95A	1.42E	2.00E	5.92E
P/E	7.9	14.7	20.2	14.4	4.9

Source: Barclays Research.

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	HKD 4.10 Unchanged

Price (09-Mar-2015)	HKD 2.23
Potential	+84%
Upside/Downside	
Tickers	1208 HK / 1208.HK

Market Cap (USD mn)	1521
Shares Outstanding (mn)	5289.61
Free Float (%)	26.28
52 Wk Avg Daily Volume (mn)	5.5
52 Wk Avg Daily Value (USD mn)	0.00
Dividend Yield (%)	3.5
Return on Equity TTM (%)	7.44
Current BVPS (USD Cents)	30.81

Source: Thomson Reuters

Price Performance	Exchange-HKG
52 Week range	HKD 3.28-1.22



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Asia ex-Japan Metals & Mining

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Asia ex-Japan Metals & Mining						Industry View: NEUTRAL	
MMG Limited. (1208.HK)						Stock Rating: OVERWEIGHT	
Income statement (\$mn)	2013A	2014E	2015E	2016E	CAGR	Price (09-Mar-2015)	HKD 2.23
Revenue	2,470	2,407	2,061	3,868	16.1%	Price Target	HKD 4.10
EBITDA	778	702	685	2,084	38.9%	Why Overweight? The business mix of MMG is poised to see sharp volume growth especially in copper, where we expect volumes to increase 4x by 2017. Commissioning of Las Bambas is the major catalyst, while it has other growth optionals in the medium term. We expect a substantial increase in EPS by 2017, which implies attractive valuations vs global peers.	
EBIT	266	199	265	1,075	59.3%		
Pre-tax income	201	148	182	645	47.5%		
Net income	103	75	106	313	44.8%		
EPS (reported) (USD Cents)	1.95	1.42	2.00	5.92	44.8%		
EPS (adj) (USD Cents)	2.26	-0.42	-2.79	4.54	26.1%		
Diluted shares (mn)	5,289.6	5,289.6	5,289.6	5,289.6	0.0%		
DPS (\$)	0.01	0.00	0.00	0.00	-100.0%		
Margin and return data					Average	Upside case	HKD 9.80
EBITDA margin (%)	31.5	29.2	33.2	53.9	36.9	Extension of mine life with additional resource discovery at Las Bambas and approval of the Dugald River zinc project are major catalysts, in addition to higher commodity prices, which could bring upside to our base case valuations.	
EBIT margin (%)	10.8	8.3	12.9	27.8	14.9		
Pre-tax margin (%)	8.1	6.1	8.8	16.7	9.9		
Net margin (%)	4.2	3.1	5.1	8.1	5.1		
ROIC (%)	9.9	7.7	10.8	41.0	17.3		
ROE (%)	6.3	4.6	6.3	17.7	8.8	Downside case	HKD 0.90
Payout ratio (%)	51.2	0.0	0.0	0.0	12.8	Delay in commissioning and ramp up of Las Bambas, and higher-than-expected capex are major risks to our forecasts in addition to lower commodity prices.	
Balance sheet and cash flow (\$mn)					CAGR	Upside/Downside scenarios	
Tangible fixed assets	3,323	11,310	13,509	13,567	59.8%		
Intangible fixed assets	284	308	308	308	2.8%		
Cash and equivalents	137	500	500	500	53.8%		
Total assets	4,684	13,022	15,146	15,660	49.5%		
Short and long-term debt	1,627	9,956	11,976	11,961	94.4%		
Net debt/(funds)	1,490	9,456	11,476	11,461	97.4%		
Other long-term liabilities	636	658	658	658	1.2%		
Total liabilities	2,867	11,148	13,149	13,227	66.5%		
Shareholders' equity	1,620	1,666	1,771	2,085	8.8%		
Change in working capital	-86	-21	57	-363	N/A		
Cash flow from operations	555	524	683	1,511	39.7%		
Capital expenditure	-558	-1,254	-2,244	-958	N/A		
Free cash flow	-4	-730	-1,561	553	N/A		
Valuation and leverage metrics					Average		
P/E (reported) (x)	14.7	20.2	14.4	4.9	13.5		
EV/EBITDA (x)	4.1	15.9	19.3	6.4	11.4		
FCF yield (%)	-0.2	-48.0	-102.7	36.3	-28.7		
P/BV (x)	0.9	0.9	0.9	0.7	0.9		
Dividend yield (%)	3.5	0.0	0.0	0.0	0.9		
Net debt/capital (%)	47.9	85.0	86.6	84.6	76.0		
Selected operating metrics (k)					CAGR		
Production summary (000't)							
Copper	188	191	177	415	30.3%		
Zinc	600	587	476	151	-36.8%		
Lead	81	92	80	32	-27.1%		
Production summary (000' ozs)							
Gold	43	11	15	133	46.2%		

Source: Company data, Barclays Research
Note: FY End Dec

FIGURE 1

MMG – summary review of full year 2014 financial results

Financial numbers (US\$'mn)	FY13A	FY14E	FY14A	y/y (%)	vs Barclays (%)
Revenue	2,470	2,407	2,480	0%	3%
Cash costs	-1,327	-1,338	-1,262	-5%	-6%
SG&A	-365	-367	-398	9%	8%
EBITDA	778	702	820	5%	17%
D&A	-473	-505	-537	14%	6%
Operating profit	305	197	283	-7%	44%
Other items	-39	2	-41	4%	-2150%
Net finance cost	-65	-51	-78	21%	51%
Profit before tax	201	148	164	-18%	11%
Taxation	-79	-56	-65	-17%	17%
<i>effective tax rate (%)</i>	39%	38%	40%		
Profit after tax	123	92	99	-19%	7%
Minorities	-19	-17	5		
Net income	103	75	104	0%	38%
Earning per share (US\$c)	1.95	1.42	1.96	0%	38%
Net debt	1,507	9,456	7,958	428%	-16%

Source: Company Data, Barclays Research estimates

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Primary Stocks (Ticker, Date, Price)

MMG Limited. (1208.HK, 09-Mar-2015, HKD 2.23), Overweight/Neutral, E/J/L

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MMG Limited. (1208 HK / 1208.HK)

HKD 2.23 (09-Mar-2015)

Stock Rating

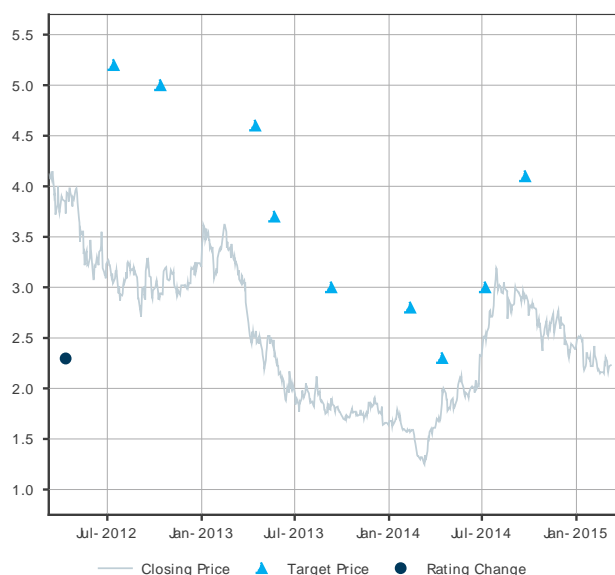
OVERWEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - HKD (as of 09-Mar-2015)

Currency=HKD



Date	Closing Price	Rating	Adjusted Price Target
23-Sep-2014	2.92		4.10
07-Jul-2014	2.50		3.00
14-Apr-2014	1.85		2.30
11-Feb-2014	1.57		2.80
10-Sep-2013	1.90		3.00
22-May-2013	2.41		3.70
15-Apr-2013	2.51		4.60
12-Oct-2012	2.94		5.00
13-Jul-2012	3.05		5.20
11-Apr-2012	3.73	Overweight	

Source: Thomson Reuters, Barclays Research

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Source: IDC, Barclays Research

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