

## Update on Bid: MDL release TiZir Financial and Operations Guidance for 2018 and 2019, ERAMET revises bidders statement

### MDL AU

14 May, 2018

Market Capitalisation: US\$251m  
Look-through Enterprise Value: US\$421m

Last price: A\$1.70  
Target Price: A\$1.82

### Our View - MDL underpin their opinion that "Offer is grossly inadequate" with some powerful guidance.

MDL released, last week, its 2018 and 2019 guidance for the 50% owned TiZir joint venture. This is not something management would normally do but is in defence to the unsolicited offer made by ERAMET on 27<sup>th</sup> April 2018 to acquire MDL for A\$1.46/share (vs our Target Price of A\$1.82/sh). Meanwhile ERAMET have now provided more detail on their bid (without changing the price offered) – we summarise the key changes at the end of this note.

See table below for the MDL guidance. We note HMC production forecast of 815kt in 2018 is 27% higher than our forecast due to higher grades and recoveries, as well as increased ore mined as a result of better than forecast mining rates. This confirms our view that operations are really starting to get into their stride (as well as a hitting a high grade patch which will happen from time to time when mining a 100km strip of land).

The company's financial guidance is broadly in line with Tamesis estimates, forecasting US\$116 million and US\$138 – 241 million of EBITDA in 2018 and 2019, and US\$49 million and US\$82 – 162 million of Free Cash Flow in 2018 and 2019 after capital expenditure and US\$18 million working capital outflow this year.

Figure 1 – Updated TiZir Guidance

	2016	2017	2018	2019	Tamesis 2018 est	Δ	Tamesis 2019 est	Δ
<b>Mining</b>								
Ore mined (Mt)	39	45	50	55	46	9%	55	0%
HMC Produced (kt)	614	725	815	745	641	27%	748	(0%)
<b>Production (kt)</b>								
Ilmenite	416	492	530	510	474	12%	554	(8%)
Zircon	53	62	68	67	51	33%	60	12%
Medium Grade Zircon Sands	0	20	30	14	13	134%	15	(6%)
Rutile and Leucoxene	10	10	12	13	13	(6%)	15	(13%)
Titanium Slag	104	181	200	230	208	(4%)	232	(1%)
High-purity pig iron	43	74	80	89	87	(8%)	100	(11%)
<b>Key Financials (US\$m)</b>								
EBITDA	24	62	116	138 - 241	126	(8%)	159	19%
Sustaining Capital	21	10	16	~11	10	60%	9	22%
Free cash flow	-2	-6	49	82 - 162	72	(32%)	99	23%

Source: Tamesis, Mineral Deposits

This guidance reinforces our view that the US\$217 million hostile takeover offer for MDL's share of the TiZir joint venture (implying a look-through enterprise value of US\$386 million) significantly undervalues the business. Based on the updated guidance, the offer represents a 6.6x attributable 2018 EV/EBITDA on a look-through basis and 4.1x average 2019 EV/EBITDA. On a free cash flow basis, the offer implies a multiple of 8.9x 2018 FCF and 3.6x of the average 2019 FCF guidance.

Figure 2 – MDL takeover valuation multiples

At A\$1.47/share	2018	2019
EV/EBITDA (look through basis)	6.6x	4.1x
P/FCF	8.9x	3.6x

Source: Tamesis

Moreover \$29.5m of the cashflow from operations generated is currently going to bond holders. Equity shareholders who have patiently supported the build, development and now product delivery would surely want to wait or be compensated for missing out on this cash (effectively the debt to equity part of the investment case). Put another way ERAMET will be using their cash, currently yielding next to nothing (EURIBOR is negative 0.326%), to buy a business that at the offer price delivers a free cashflow yield of 11.3% this year, 28.5% in 2019 (which the market will start to price in over Q3 2018 in our experience) and 34.9% when the debt is paid off.

## Valuation

We value MDL at A\$1.82/share using a sum of the parts DCF basis to value their 50% shareholding in TiZir. The valuation does not include any control premium or the immediate simple synergies of closing the MDL head office, saving an estimated US\$3.5 million p.a. or a further NPV of A\$24c/share. With the MDL shares trading at an 19.7% premium to the offer price, we expect ERAMET will have to use more of its strong balance to take control of the company.

## Key Changes to ERAMET Bidder's Statement.

There has been some additional detail added by ERAMET to its statement including a timeline to the offer which has officially launched today and stays open to June 21<sup>st</sup> (unless extended). More detailed historical financial and operational data is provided too but no forward guidance. Interestingly a summary of the shareholder's agreement at Tizir level has been added which shows that if ERAMET had bid MDL for its TiZiR stake rather than the whole company, then MDL would have been able to counterbid at the same price.

For further information please see our report "*ERAMET Goes Hostile: Not Nearly Enough, 29<sup>th</sup> April 2018*" or contact:

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