

4 July 2014

Ticker	FND	
Price	A\$0.21	
Target Price	A\$0.34	
Upside	62.0%	
Market Cap	A\$138.9m	
Index	S&P/ASX 300 Resources	
Sector	Mining	
Net Cash	A\$20.4m	
Shares in Issue	661.3m	
Next Results	Q2 August 2014	
What's changed	From	To
Adj. EPS (FD)	-2.4c	-1.8c
Recommendation		
Target Price	A\$0.55	A\$0.34

Share Price Performance



Source: Thomson Reuters

%	1M	3M	12M
Actual	+31.3	+24.3	+20.7
Relative	+30.7	+20.3	+7.4

Company Description

Developing a copper mine in Indonesia

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Earnings and valuation update

CORP

Finders Resources recently completed the financing for the construction of its Wetar copper project in Indonesia. A substantial debt package has now been agreed and the company has commenced construction of the full-scale mine. The pilot plant previously used at Wetar has already been restarted and the mine is now producing copper metal, albeit on a small scale. Full-scale production is expected in mid-2015. We have calculated a value for Finders of \$230.4m, equivalent to 34 cents per share.

- ▶ **The Wetar project is now fully permitted and financing has been agreed.** Construction is expected to take around 15 months, with first production in mid-2015. The project has a seven-year life at full capacity, though additional exploration targets have already been identified, which should extend its operating life. The exploration upside is essentially a free option at the present share price.
- ▶ **Using a US\$3.00/lb (US\$6,614/t) copper price, we calculate a value for Finders' 70% interest in Wetar of \$200m, equivalent to 29.5 cents per share.** The small Ojolali gold project and the net cash position bring the target price up to 34 cents. Now that the Wetar project is fully permitted and financed, we see no specific need for any risk discount.

Year ending December (A\$m)	2012A	2013A	2014E	2015E
Data				
Sales (A\$m)	0.0	0.0	14.1	78.9
Adj EBITDA (A\$m)	-13.0	-15.5	-7.8	12.3
Adj PBT (A\$m)	-19.8	-20.4	-12.8	1.1
Tax rate (%)	0	0	0	nm
Adj EPS (FD) (c)	-6.7	-4.9	-1.8	0.2
DPS (c)	0.0	0.0	0.0	0.0
Ratios				
EV/Sales (x)	n/a	n/a	8.4	1.5
EV/EBITDA (x)	n/a	n/a	n/a	9.6
P/E (x)	n/a	n/a	n/a	137.8
Yield (%)	0.0	0.0	0.0	0.0
Cash flow yield (%)	-10.5	-14.2	-60.1	-69.8
EPS growth (%)	4.7	26.6	63.3	108.5

Key Financials

Income Statement				
Year ending December (A\$m)	2012A	2013A	2014E	2015E
Sales	0.0	0.0	14.1	78.9
Gross profit	-7.3	-9.7	3.6	44.2
Operating expenses	-5.7	-5.8	-11.5	-31.9
Adjusted EBITDA	-13.0	-15.5	-7.8	12.3
Depreciation/Amortisation	-0.4	-0.2	-0.2	-5.0
Adjusted EBIT	-13.4	-15.6	-8.0	7.3
Associates/Other	0.0	0.0	0.0	0.0
Net interest	-6.4	-4.7	-4.7	-6.2
Adjusted PBT	-19.8	-20.4	-12.8	1.1
Adjustments	0.0	0.0	0.0	0.0
Reported PBT	-19.8	-20.4	-12.8	1.1
Taxation	0.0	0.0	0.0	0.0
<i>Tax rate (%)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>nm</i>
Reported earnings	-19.1	-19.9	-12.2	1.0
Average no.shares (FD)	286.0	405.3	676.2	676.2
Adj. EPS (FD) (c)	-6.7	-4.9	-1.8	0.2
DPS (c)	0.0	0.0	0.0	0.0

Cash Flow				
Year ending December (A\$m)	2012A	2013A	2014E	2015E
EBITDA	-13.0	-15.5	-7.8	12.3
Net change in working capital	2.9	1.0	-1.3	-40.4
Other items	2.2	0.9	-4.3	-5.8
Operating cash flow	-8.0	-13.6	-13.5	-33.9
Cash interest	0.0	0.0	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0
Capex	-6.6	-6.2	-70.0	-63.0
Free cash flow	-14.6	-19.8	-83.5	-96.9
Disposals	0.0	0.0	45.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Other	7.4	-0.5	50.0	80.0
Issue of share capital/(Buyback)	5.3	26.4	20.3	0.0
Net Change in cash flow	-1.8	6.1	31.8	-16.9
Opening net (debt)/cash	3.6	1.8	7.9	39.7
Closing net (debt)/cash	1.8	7.9	39.7	22.8

Balance Sheet				
Year ending December (A\$m)	2012A	2013A	2014E	2015E
Tangible assets	31.9	42.8	112.6	170.6
Goodwill	0.0	0.0	0.0	0.0
Other intangible	0.4	1.6	2.5	2.5
Other	0.0	0.0	0.0	0.0
Non current assets	32.4	44.4	115.1	173.1
Inventories	0.4	0.8	4.9	27.7
Trade receivables	0.8	0.4	1.4	11.8
Cash	1.8	7.9	39.7	22.8
Other	0.4	0.1	0.1	0.1
Current assets	3.4	9.2	46.1	62.4
Trade payables	-2.3	-4.6	-0.7	-7.9
Other current liabilities	-0.4	-0.5	0.0	0.0
Short term debt	-11.5	0.0	0.0	0.0
Net current assets	-10.8	4.1	45.4	54.6
Long term debt	0.0	0.0	-50.0	-130.0
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-1.7	-2.3	-2.0	-2.0
Net assets	19.8	46.2	108.6	95.7
<i>Net working capital</i>	<i>-1.1</i>	<i>-3.4</i>	<i>5.6</i>	<i>31.7</i>
<i>NAV per share (c)</i>	<i>6.9</i>	<i>11.4</i>	<i>16.1</i>	<i>14.2</i>
<i>NTA per share (c)</i>	<i>6.8</i>	<i>11.0</i>	<i>15.7</i>	<i>13.8</i>

Ratio Analysis				
Year ending December	2012A	2013A	2014E	2015E
Growth				
Revenue growth (%)	-100.0	n/a	n/a	458.1
EBITDA growth (%)	21.9	18.6	49.3	256.5
EPS growth (%)	4.7	26.6	63.3	108.5
DPS growth (%)	n/a	n/a	n/a	n/a
Returns				
Gross margin (%)	n/a	n/a	25.8	56.0
EBITDA margin (%)	n/a	n/a	n/a	15.6
EBIT margin (%)	n/a	n/a	n/a	9.2
RoE (%)	n/a	n/a	n/a	1.1
RoCE (%)	n/a	n/a	n/a	3.2
Liquidity				
Net debt/equity (%)	n/a	n/a	n/a	n/a
Net debt/EBITDA (x)	0.1	0.5	5.1	n/a
Interest cover (x)	nm	nm	nm	2.0
Net working capital to sales (%)	n/a	n/a	39.8	40.1
Cash conversion (%)	108.7	126.4	1,037.	-
			9	1,331.
				4
Dividend cover (x)	n/a	n/a	n/a	n/a

Investment case

Finders Resources offers exposure to a fully funded and permitted high-grade copper project in Indonesia.

We have updated our DCF model to reflect the company's current mining plans and have incorporated the post-funding number of shares in issue. We continue to use a flat forward copper price of US\$6,600/t (US\$3.00/lb).

As part of the recently announced financing package, Finders has sold an approximate 25% interest in the project to Daewoo in exchange for US\$40m. Finders therefore retains an approximate 70% interest, with the Indonesian government holding the remaining 5%.

Summary of valuation of Finders' assets

	\$m	¢/share
Wetar (70%)	200.0	29.5
Ojolali	10.0	1.5
Balance sheet	20.4	3.0
	230.4	34.0

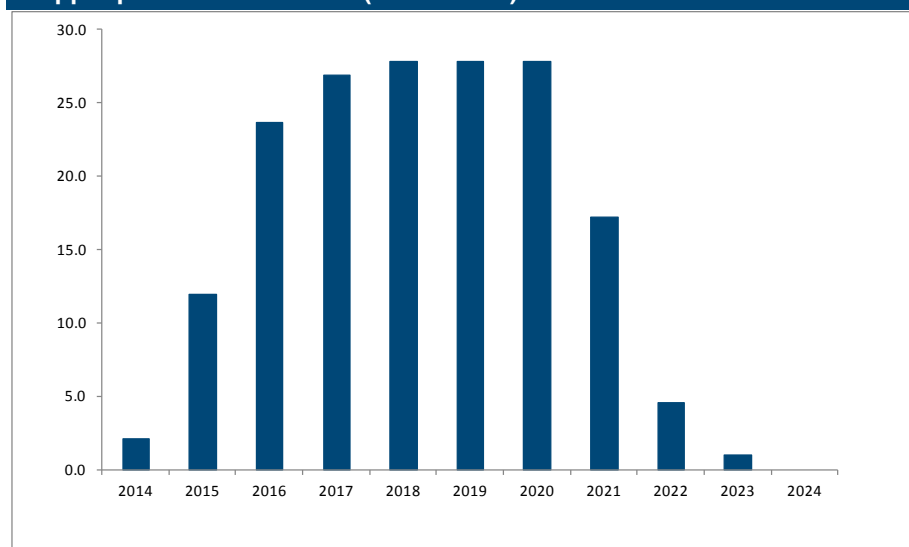
Source: finnCap

In the near term, we see upside coming from the near-mine exploration programme, initially testing known targets. This programme will then move on to test other areas within the virtually unexplored island of Wetar.

Copper production outlook

The following chart shows our expectation of copper production from Wetar. Importantly, Wetar produces copper metal and so is not subject to the recent legislation in Indonesia that prohibits the export of intermediate products including metal concentrates.

Copper production at Wetar ('000 tonnes)



Source: finnCap

Income Statement				
Year ending December (A\$m)	2012A	2013A	2014E	2015E
Sales	0.0	0.0	14.1	78.9
<i>Sales growth (%)</i>	-100.0	n/a	n/a	458.1
Cost of sales	-7.3	-9.7	-10.5	-34.7
Gross profit	-7.3	-9.7	3.6	44.2
<i>Gross margin (%)</i>	n/a	n/a	25.8	56.0
Operating expenses	-5.7	-5.8	-11.5	-31.9
Adjusted EBITDA	-13.0	-15.5	-7.8	12.3
Depreciation/Amortisation	-0.4	-0.2	-0.2	-5.0
Adjusted EBIT	-13.4	-15.6	-8.0	7.3
<i>Adjusted EBIT margin (%)</i>	n/a	n/a	-56.9	9.2
Associates/Other	0.0	0.0	0.0	0.0
Net interest	-6.4	-4.7	-4.7	-6.2
Adjusted PBT	-19.8	-20.4	-12.8	1.1
Adjustments	0.0	0.0	0.0	0.0
Reported PBT	-19.8	-20.4	-12.8	1.1
Taxation	0.0	0.0	0.0	0.0
<i>Tax rate (%)</i>	0	0	0	nm
Post tax profit	-19.8	-20.4	-12.8	1.1
Minorities	0.7	0.5	0.6	-0.1
Reported earnings	-19.1	-19.9	-12.2	1.0
Weighted average no.shares	286.0	405.3	676.2	676.2
Average no.shares (FD)	286.0	405.3	676.2	676.2
Stated EPS (c)	-6.7	-4.9	-1.8	0.2
Adj. EPS (FD) (c)	-6.7	-4.9	-1.8	0.2
DPS (c)	0.0	0.0	0.0	0.0

Source: Company reports, finnCap estimates

Cash Flow				
Year ending December (A\$m)	2012A	2013A	2014E	2015E
EBITDA	-13.0	-15.5	-7.8	12.3
Net change in working capital	2.9	1.0	-1.3	-40.4
Share based payments	0.5	-0.3	0.4	0.4
Profit/loss on disposal	0.0	0.0	0.0	0.0
Net pensions charge	0.0	0.0	0.0	0.0
Change in provision	0.1	0.5	0.0	0.0
Other items	1.5	0.6	-4.7	-6.2
Operating cash flow	-8.0	-13.6	-13.5	-33.9
Cash interest	0.0	0.0	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0
Capex	-6.6	-6.2	-70.0	-63.0
Free cash flow	-14.6	-19.8	-83.5	-96.9
Disposals	0.0	0.0	45.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Other	7.4	-0.5	50.0	80.0
Issue of share capital/(Buyback)	5.3	26.4	20.3	0.0
Net Change in cash flow	-1.8	6.1	31.8	-16.9
Opening net (debt)/cash	3.6	1.8	7.9	39.7
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Other	0.4	0.1	0.1	0.1
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Trade payables	-2.3	-4.6	-0.7	-7.9
Other current liabilities	-0.4	-0.5	0.0	0.0
Short term debt	-11.5	0.0	0.0	0.0
Net current assets	-10.8	4.1	45.4	54.6
Long term debt	0.0	0.0	-50.0	-130.0
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-1.7	-2.3	-2.0	-2.0
Net assets	19.8	46.2	108.6	95.7
<i>Net working capital</i>	<i>-1.1</i>	<i>-3.4</i>	<i>5.6</i>	<i>31.7</i>
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Source: Company reports, finnCap estimates

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