

Finders Resources

Low cost copper cathode in production

ADD (no change)

Current price:	A\$0.15
Target price:	A\$0.28 ▲
Previous target:	
Up/downside:	45.5%
Reuters:	FND.AX
Bloomberg:	FND AU
Market cap:	US\$74.60m
	A\$102.50m
Average daily turnover:	US\$0.3m
	A\$0.04m
Current shares o/s	661.3m
Free float:	39.1%

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- The Wetar heap leach and SX-EW project (FND ≈72% interest) is now reaching nameplate capacity of 28ktpy of copper cathode after the first cathode was stripped at the new 25ktpy plant in June 2016, coupled with production from the established 3ktpy plant.
- The C1 cost of US\$1.11/lb Cu for the month of September 2016 confirms to us that Wetar is tracking to its Life-of-Mine target of US\$1.05/lb at its 60Mlb annual production rate. Our modelling at the current price of US\$2.20/lb Cu generates EBITDA of US\$55m for Wetar, with cashflow strongly leveraged to the copper price.
- The US\$165m Wetar project has a fully-drawn debt facility of US\$102m, including US\$12m of VAT loan facilities to be repaid from VAT refunds. Wetar has hedged 16,476t of copper at US\$4,806/t, covering 26% of production to 2019, and 11% of planned mine production.

Wetar – a US\$165m development (FND ≈ 72%)

On Wetar Island, Indonesia, FND and its partners, including Korea's largest trading company Daewoo International, have spent US\$143m upgrading Copper Cathode production from 3ktpy to 28ktpy, with a projected cash cost of US\$1.05/lb Cu. Proved and Probable Reserves (to JORC Code 2012 standards) are 8.9Mt @ 2.4% Cu within the Kali Kuning and Lerokis optimised pit shells which contain 210,000t of copper to support a +six-year mine life. Prior tenement holders identified a 5-10Mt copper sulphide target 2km from Kali Kuning at Meron, and there is further scope for substantial exploration success at other drilled gold-copper deposits to extend the mine life.

Efficient execution despite the location

Construction of the mine and 25ktpy copper SX-EW plant commenced May 2015, with the 3ktpy plant continuing production. Despite the remote location, LME Grade A copper was stripped in June 2016. Production continued to ramp up, achieving 56% of nameplate for the September quarter, reaching nameplate capacity intermittently in the month of September. A C1 cash cost of US\$1.11/lb of copper was reported for the month of September, indicating that the target of 60Mlbs of copper per year at a C1 cost of US\$1.05/lb is in view.

Investment view – after raising A\$12m

With construction and the production ramp-up taking longer than scheduled, FND has closed out some of its hedges (US\$42m) and issued 100m shares at A\$0.12 raising A\$12m. Ongoing leach pad development, realisation of the Reserve grade and tonnage in production and the initial leach performance of the heaps are well understood from operations to date. After the recent equity raising, we see the major risks now as being the rate of copper extraction through the life of each heap, and logistical and operational issues at a remote site. With a C1 cost of US\$1.05/lb the copper price Wetar is a robust mine, although the level of the copper price will determine the value. Our copper price and AUD/USD projections generate a risked valuation and target price of A\$0.28 per share.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (A\$m)	10.0	6.0	36.7	175.2	197.9
Operating EBITDA (A\$m)	-14.6	-41.0	-11.8	78.7	119.6
Net Profit (A\$m)	-13.0	-29.5	-43.7	24.1	64.8
Normalised EPS (A\$)	-0.03	-0.05	-0.06	0.03	0.08
Normalised EPS Growth	-31%	78%	18%	155%	169%
DPS (A\$)	0%	0%	0%	0%	0%
Dividend Yield	0%	0%	0%	0%	0%
Return on net assets (%)	-19%	-14%	-13%	14%	26%
Net debt / (cash) (A\$m)	-9.4	130.5	131.0	75.7	-20.4
Net debt/equity (%)	-14%	149%	276%	106%	-15%
Net interest/EBIT cover (x)	-12.0	-13.4	-3.4	3.4	0.0
ROIC (%)	-28%	-52%	-13%	17%	39%

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Year to 30 Jun (A\$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Price target (A\$)	\$	0.28		
Income statement	2014A	2015A	2016F	2017F	2018F	Valuation (A\$)	\$	0.28		
Divisional sales	10.0	6.0	36.7	175.2	197.9					
Total revenues	10.0	6.0	36.7	175.2	197.9	Valuation summary	A\$m	A\$ps DCF valuation inputs		
EBITDA	-14.6	-41.0	-11.8	78.7	119.6	Wetar Copper Project	195.1	0.25 Rf	5.25%	
Depreciation & amortisation	-1.9	-1.9	-33.2	-33.2	-33.2	Wetar Island Exploration	46.4	0.06 Rm-Rf	6.00%	
EBIT	-16.5	-42.9	-45.0	45.5	86.4	Total operations	241.5	0.31 Beta	1.21	
Net interest expense	-1.4	-3.2	-13.3	-13.3	0.0	Net cash	12.0	0.02 CAPM (Rf+B)	12.5%	
Pre-tax profit	-20.5	-44.4	-58.3	32.2	86.4	Corporate & Other	-20.0	-0.03 Tax rate (t)	30.0%	
Tax expense	0.0	14.9	14.6	-8.0	-21.6	Mark to Market Hedge	-16.6	-0.02 WACC	11.30%	
Abnormals - pre-tax	-3.3	2.1	0.0	0.0	0.0	Total valuation	233.5	0.28 Shares	773.7	
NPAT	-23.8	-27.4	-43.7	24.1	64.8					
Abnormals - post-tax	5.2	0.0	0.0	0.0	0.0					
Minorities	2.3	0.0	0.0	0.0	0.0					
Reported NPAT	-13.0	-29.5	-43.7	24.1	64.8					
Growth ratios	2014A	2015A	2016F	2017F	2018F	Production (kt)	2015A	2016F	2017F	2018F
Sales growth		-39%	507%	378%	13%	Attributable Copper Sales		3.4	3.7	24.6
Operating cost growth		92%	3%	99%	-19%	Attributable Silver Sales		0.0	0.0	0.0
						Total		3.4	3.7	24.6
Cash flow statement	2014A	2015A	2016F	2017F	2018F	Key assumptions	2015A	2016F	2017F	2018F
EBITDA	-14.6	-41.0	-11.8	78.7	119.6	USD / AUD exchange rate	0.82	0.73	0.73	0.74
Cash flow from operations	-17.8	-44.8	-10.5	57.3	98.0	Per share data	2015A	2016F	2017F	2018F
Capex	-10.7	-83.6	-2.0	-2.0	-2.0	No. shares	661.3	773.7	773.7	773.7
Disposals	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-0.04	-0.06	0.03	0.08
Acquisitions	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-0.05	-0.06	0.03	0.08
Cash flow from investing	-10.8	-84.6	-2.0	-2.0	-2.0	Dividend per share (c)	0.00	0.00	0.00	0.00
Incr/(decr) in equity	35.9	0.0	12.0	0.0	0.0	Dividend payout ratio (%)	0%	0%	0%	0%
Incr/(decr) in debt	38.3	124.6	0.0	-50.0	-20.0	Dividend yield (%)	0%	0%	0%	0%
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Operating performance	2015A	2016F	2017F	2018F
Other financing cash flow	-5.6	-9.4	0.0	0.0	0.0	EBIT growth	160%	5%	201%	90%
Cash flow from financing	68.6	115.2	12.0	-50.0	-20.0	NPAT growth	127%	48%	155%	169%
Incr/(decr) cash	40.1	-14.2	-0.5	5.3	76.0	Normalised EPS growth	78%	18%	155%	169%
Equity FCF	-28.5	-128.4	-12.5	55.3	96.0	Asset turnover (%)	3%	13%	74%	81%
						EBITDA margin (%)	-679%	-32%	45%	60%
Balance sheet	2014A	2015A	2016F	2017F	2018F	EBIT margin (%)	-709%	-123%	26%	44%
Cash & deposits	47.9	33.7	33.2	38.5	114.5	Net profit margin (%)	-524%	-119%	14%	33%
Inventory	2.8	6.7	6.7	6.7	6.7	Return on net assets (%)	-14%	-13%	14%	26%
Investments	4.4	1.3	1.3	1.3	1.3	Net debt / (cash) (A\$m)	130	131	76	-20
Intangible assets	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	149%	276%	106%	-15%
Fixed assets	60.2	166.6	135.4	104.2	73.0	Net interest/EBIT cover (x)	-13.4	-3.4	3.4	
Other assets	4.7	82.4	67.4	67.4	67.4	ROIC (%)	-52%	-13%	17%	39%
Total assets	121.6	296.0	249.3	223.4	268.2					
Short-term borrowings	0.0	19.4	19.4	19.4	19.4					
Long-term borrowings	38.5	147.1	147.1	97.1	77.1					
Interest bearing debt	38.5	166.6	166.6	116.6	96.6					
Provisions	6.1	11.2	11.2	11.2	11.2					
Total liabilities	55.7	208.4	201.8	151.8	131.8					
Share capital	156.9	156.9	180.9	180.9	180.9					
Other reserves	16.2	57.3	36.9	36.9	36.9					
Retained earnings	-117.0	-135.7	-179.4	-155.3	-90.5					
Total equity	66.0	87.6	47.4	71.5	136.4					
Minority interest	9.8	9.1	9.1	9.1	9.1					
Total shareholders' equity	56.2	78.5	38.4	62.5	127.3					
Total liabilities & SE	121.6	296.0	249.3	223.4	268.2					

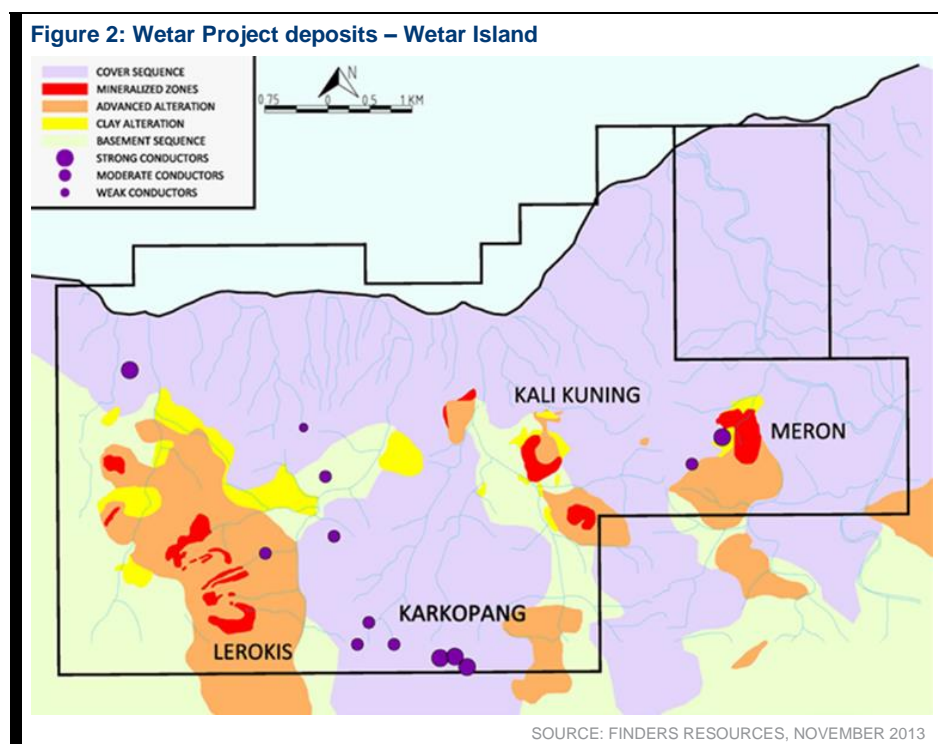
SOURCE: MORGANS RESEARCH, COMPANY

Company overview

Finders' interest in the Wetar Copper Project, Wetar Island, Maluku Province, eastern Indonesia is held through its 75.9% interest in PT Batutua Tembaga Raya (BTR), with Daewoo International Corp. holding 24.1%. BTR has an effective 95% economic interest in the Wetar project, with local partners Gabriel and Henry Mbatemooy. Finders' shareholders include Indonesian investors Provident Capital, Saratoga Capital and Mr Garibaldi Thohir who between them hold 25% of Finders, and provide advice, networks and guidance in operating in Indonesia.

After a five-month production ramp-up, which commenced June 2016, the US\$165m Wetar mine/heap leach/SXEW project is operating close to nameplate capacity of 28ktpy producing LME Grade A copper cathode. The reported C1 cash cost of US\$1.11/lb in the month of September 2016 indicates to us that the project is on target to better its projected cost of US\$1.05/lb Cu over a +six-year mine life from Proved and Probable Reserves in the Kali Kuning and Lerokis deposits (to JORC Code 2012 standards) of 8.9Mt @ 2.4% Cu containing 210,000t of copper.

Evaluation of the nearby Meron deposit is expected to result in a significant mine life extension with other targets yet to be explored.



Investment thesis and share price catalysts

- **Wetar is now operating in line with projections**
The production ramp-up and the performance of the heaps and plant confirm the projections from the DFS. The reserves containing 460Mlbs of copper are projected to deliver 340Mlbs of copper cathode over a +six-year mine life. With a projected C1 cost of US\$1.05/lb Cu and an All-in-sustaining cost (AISC) which we estimate is below US\$1.30/lb, Wetar is a low cost operation, generating an adequate return even at the recent low copper price of US\$2.10/lb. Our valuation is A\$0.15/share from the Ore Reserves at this price.
- **Increased mine life and the copper price**
The exploration target at Meron is 5-10Mt of ore, comparable in grade to Lerokis and Kali Kuning. This could be expected to add three to five years to the mine life, as would exploration success in tenements previously explored for gold where drilling stopped in copper sulphides. A lift in the copper price would have a substantial effect on valuation.

Valuation breakdown

We value FND on its $\approx 72\%$ interest in the Wetar project, which is now in production. Based on our projected commodity prices – copper and oil – and our AUD/USD exchange rate, we generate a value of A\$0.23 per FND share, after allowing for the hedge book. Adding a discounted value for Meron and allowing for corporate charges generates a valuation of A\$0.28, which is our target price.

Risks

There is always some operational risk, but we see the operational risks to our valuation as being largely with the leaching performance of the heaps. A series of trial heaps of 100,000t were leached over a number of years, and the recovery curves determined. Recent data suggests that initial recovery performance is better than was expected, which would improve our valuation. The realised recovery prior to overstacking the heap may prove to be a positive or a negative for copper recovery and our valuation.

As a single-product copper mine, Finders' profit is exposed to the copper price. There is also some risk associated with the oil price, with a higher oil price leading to higher costs of power generation.

Wetar is also remote, supported by crew boats and landing craft, with the logistical risks which that entails. It has operated at a small scale since 2007 on Wetar, and has successfully established relationships with the two nearby villages which provide a large proportion of its workforce. Wetar has established an enviable OH&S record, and is focused on environmental and social governance issues. Its product, LME Grade A copper cathode, is the type of mineral export that Indonesian legislation is designed to encourage.

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