

Finders Resources Ltd

(FND \$0.235) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	26 th October 2017	\$0.40/sh

Bidders Statement

Investment case

A \$0.23/sh unsolicited cash bid from an Indonesian Consortium including two of FND's major shareholders (Provident and Saratoga) significantly undervalues Finders. The risks highlighted in the Bidders statement have largely been resolved/refuted by the strong operating performance in CY'17 and we expect the re start of exploration to add mine life. Whilst the Indonesia risk is real, FND has successfully negotiated its way thus far. Whilst we understand the motive for this opportunistic bid, we advise shareholders not to accept this offer. We maintain our Buy recommendation and Price Target of \$0.40/sh.

Key points

- On the 6th of October, FND received an unsolicited \$0.23/sh cash bid by Eastern Field Developments Ltd, a special purpose vehicle jointly owned by Procap Partners (Procap), Pt Saratoga (Saratoga and Pt Kerdeka Copper Gold).
- The offer is subject to Eastern Field obtaining a relevant interest in more than 50% of FND shares, FIRB approval and other limited customary conditions. Provident, who has been a shareholder since 2012, and Sartoga won 19.8% of FND.

Eastern Field Development Rationale for bid

- Merdeka is US\$650m Indonesian listed mining company that is developing the Tujuk Bukit Asset. It has successfully built a +100koz heap leach project but the real prize is the 1.9bt @ 0.45% Cu, 0.45 g/t Au.
- Merdeka is 50% owned by three Indonesian shareholders including Provident and Saratoga Group.
- We believe the strong free cash generation from Wetar could help fund the large Cu Porphyry development and help reduce the external funding required for this development.

Bidders Statement

- The bidders statements from Eastern Field Development consortium has been released and the key points are outlined below;
 - Indonesian risk – sovereign risk associated with operating in Indonesia.
 - Metallurgical risk – risk associated with a sulphide heap leach operation, not a conventional oxide/supergene deposit
 - Limited reserves – only 3 yrs life based on last reserve statement
 - Production risk – Risk of not meeting Dec Q guidance.
 - Copper price volatility
- We believe that most of these key risks have already been resolved/refuted as evidenced by the strong operating performance in CY'17. FND produced 12.9kt of Cu @ AISC of US\$1.46/lb in the 1st H CY'17, generating EBITDA of \$57.5m, operating cashflow of \$30.2m and NPAT of \$41.7m.
- FND has not released official guidance in CY17 – just a target of 28kt of Cu and the minor production hiccup in Sept'17 is likely to result in a small miss to this target. Our forecast is 25.5kt of Cu.
- We do acknowledge that Indonesian risk is real but can be mitigated by having a solid ownership structure and partnering with respected local investors. Previous high profile cases involving Intrepid Mines and the Tujuk Bukit asset ultimately failed as Intrepid did not actually own the asset.

Finders Resources Ltd	Year End 30 June	
Share Price	0.24	A\$/sh
Price Target	0.40	A\$/sh
Valuation	0.39	A\$/sh
	(npv 10%)	

Shares on issue	774	m, diluted *
Market Capitalisation	182	A\$m
Enterprise Value	217	A\$m
Debt (attrib)	39	A\$m
Cash (est)	4	A\$m
Largest Shareholder		Taurus 13%

Production F/Cast	2016a	2017f	2018f
Cu prod (t)	12075	25565	28125
Cash Cost (US\$/lb)	1.27	1.12	1.03
AISC(US\$/lb)	4.90	1.49	1.33

Assumptions	2016a	2017f	2018f
Copper (US\$/lb)	2.21	2.76	3.00
AUDUSD	0.74	0.77	0.78

Key Financials	2016a	2017f	2018f
Revenue (A\$m)	58	212	217
EBITDA (A\$m)	3	116	122
NPAT (A\$m)	-37	44	55
Cashflow (A\$m)	-16	75	100

CFPS (Ac)	-12	8	11
P/CFPS (x)	na	3	2

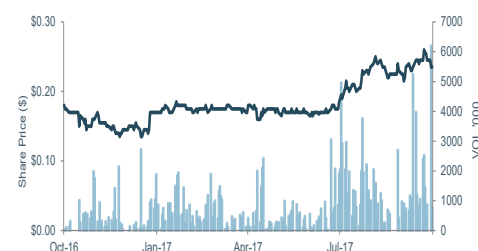
EPS (Ac)	-6	7	8
EPS growth (%)	na	na	21%
PER (x)	0.0	3.5	2.9

EV:EBITDA (x)	87.2	2.6	1.3
EV:EBIT (x)	na	4.3	2.1

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	0%	18%	na
Interest Cover (x)	0.0	8.8	313.1

Share Price Chart



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This analyst declares that he has a beneficial interest in Finders Resources Ltd.

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- The perceived lack of mine life is purely a factor of lack of exploration whilst FND has been in the development/ramp up mode with cashflow used to repay debt. This has now changed with drilling at Lerokis (with success) and soon to be at Meron.
- Our \$0.39/sh valuation is based only on reserves and a nominal \$28m for the exploration upside. Each additional year of mine life add \$0.05/sh to our valuation.
- Since the bid was announced, FND has traded as high as \$0.265/sh.
- FND recommend shareholders Take No Action in the relation to the bid.
- We recommend shareholders do not accept this opportunistic bid as it significantly undervalues FND. We believe that FND could be debt free by the end of CY'18 and then in a position to start paying dividends. With exploration underway and real potential to add mine life there should be plenty of news flow.
- We believe that this bid will need to be increased to be successful and continue to recommend FND as a Buy with \$0.40/sh Price Target.

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Market Statistics		Year End 30 June	
Share Price	\$0.24	Directors	
Issued Capital		G Comb	Chairman
Fully Paid Ord	774.0	B Cahill	MD
Opts - \$0.35/sh		G Caudle	NED
exp. Jun 2017	22.8	G Galt	NED
Opts- \$0.26/sh		Shareholders	
exp. Oct 2017	31.3	Taurus Resources	13%
Employee/dir shares	15.0	Provident	12%
		Saratoga	9.7%
Market Cap (dil)	\$182		
Enterprise Value	\$247		
Debt	\$69		
Cash	\$4		
<i>Hedging 14.6kt @ US\$2.18/lb (est)</i>			

Asset Valuation		A\$m	A\$/sh
Wetar Island (74%)	npv 10%	385	0.50
Exploration	nom	28	0.04
Hedging	npv 10%	-18	-0.02
Corporate	npv 10%	-30	-0.04
Working Capital	nom	0	0.00
Unpaid Capital		0	0.00
Debt (attributable)		(69)	(0.09)
Cash		3	0.00
Total @ 10% nom		300	0.39

F/Cast Production (A\$m)		2016a	Dec H'17	2017f	2018f	2019f
Cathode production	tonnes	12,075	13,219	25,565	28,125	28,125
Total	tonnes	12,075	13,219	25,565	28,125	28,125

Cash Cost		US\$/lb	2016a	2017f	2018f	2019f
C1 cash cost	US\$/lb	1.27	1.01	1.12	1.03	1.03
Total costs (incl. D&A)	US\$/lb	1.89	1.63	1.76	1.67	1.67
All-in sustaining cost	US\$/lb	4.90	1.35	1.49	1.33	1.33

Assumptions		US\$/lb	2016a	2017f	2018f	2019f
Copper Price	US\$/lb	2.21	2.90	2.76	3.00	3.13
FX Rate ass'd	A\$/US\$	0.74	0.78	0.77	0.78	0.78
Copper Price	A\$/t	6,566	8,194	7,937	8,477	8,830
Copper Price Ach'd	A\$/t	6,460	7,610	7,614	7,851	8,709

Ratio Analysis (A\$m)		2016a	Dec H'17	2017f	2018f	2019f
CF (US\$m)		(97.4)	41.5	68.0	94.8	106.3
CF / Sh (Ac/sh)		(12)	5	8	11	13
CF Ratio (x)		na	-	3.0	2.1	1.9
Earnings (US\$m)		(36.6)	22.9	44.4	54.8	52.1
EPS (Ac/sh)		(5.84)	3.48	6.88	8.33	7.92
EPS Growth (%)		na	0%	na	21%	-5%
PER (x)		na	-	3.5	2.9	3.0
E'prise Val. (A\$m)		240	-	224	117	8
EV : EBITDA (x)		87.2	-	2.6	1.3	0.1
EV : EBIT (x)		na	-	4.3	2.1	0.1
Net Debt / ND+Eq (%)		50%	0%	18%	na	na
Interest Cover (x)		na	0	9	313	na
EBIT Margin (%)		na	0%	34%	36%	44%
ROE (%)		-26%	0%	29%	30%	25%
ROA (%)		-4%	0%	24%	0%	0%
Div. (Ac/sh)		-	-	-	-	-
Div. payout ratio		0%	0%	0%	0%	0%
Div. Yield		0.0%	0.0%	0.0%	0.0%	0.0%
Div. Franking		100%	0%	100%	100%	100%

Profit and Loss (A\$m)	2016a	Dec H'17	2017f	2018f	2019f
Copper Cathode sales	58	112	224	238	248
Hedging Revenue	(2)	(10)	(12)	(23)	(4)
Interest Income	1	0	0	1	4
Other Income	-	-	-	-	-
Total Revenue	58	103	212	217	248
Operating Costs	39	42	88	88	88
Exploration	2	1	1	1	1
Corporate	14	4	7	6	6
Other	-	-	-	-	-
EBITDA	3	56	116	122	153
Dep/Amort	14	21	44	45	45
EBIT	(11)	35	72	77	108
Interest exp.	7	3	9	2	(2)
NPBT	(18)	32	63	76	110
Tax	(4)	-	-	-	28
Abnormals	16	-	13	-	-
NET PROFIT	(30)	32	50	76	83
Minorities	(7)	(9)	(6)	(21)	(31)
NET PROFIT (attributable)	(37)	23	44	55	52

Cash Flow (A\$m)	2016a	Dec H'17	2017f	2018f	2019f
Net Profit	(37)	23	44	55	52
+Dep/Amort	14	21	44	45	45
+WC/Writeoff/Other	10	-	(14)	-	-
+ Tax Expense	(4)	-	-	2	26
- Tax Paid	-	-	-	1	11
= Operating Cashflow	(16)	44	75	100	111
-Capex + Development	81	3	7	5	5
-Exploration	1	2	3	4	4
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+Other	-	-	-	-	-
= Investing Cashflow	(82)	(5)	(10)	(9)	(9)
+ Equity Issues (Rts,plc,opts)	11	-	-	-	-
+Loan Drawdown/Receivable	73	-	-	-	-
+Other (hedge close out)	-	-	-	-	-
-Loan Repayment	75	23	49	39	16
-Dividends	-	-	-	-	-
= Financing Cashflow	68	(23)	(49)	(39)	(16)
Surplus/(Deficit)	(30)	16	16	52	87
FX Adjustments	-	-	-	-	-
CASH	5	21	21	73	160

Balance Sheet (A\$m)	2016a	Dec H'17	2017f	2018f	2019f
Assets					
Cash	5	21	21	73	160
Current Receivables	7	19	19	19	19
Other Current Assets	40	46	46	46	46
Non-Current Assets	256	209	209	179	149
Total Assets	308	295	295	318	374
Liabilities					
Borrowings	121	58	59	4	(18)
Current Accounts Payable	42	32	32	32	32
Other Liabilities	30	32	32	32	32
Total Liabilities	193	121	121	67	46
Net Assets	115	174	174	250	329

	Reserves		Resources			
	Tonnage	Grade	Metal	Tonnage	Grade	Metal
	mt	%	kt	mt	%	kt
Wetar Project (95%)	7.4	2.4	202	7.5	2.4	210
Equity Share			145			151
Enterprise Value per Cu t (A\$/t)			1698			1633

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