

Finders Resources Ltd

(FND \$0.25) Buy



Analyst	Date	Price Target
Andrew Clayton	9 th January 2017	\$0.40/sh

Company update

Investment case

Qtrly production of 4.1kt was at the lower end of guidance (4-5kt) however, debt continues to reduce and the successful renegotiation of the Debt Service Reserve Account ('DSRA') is positive. The bid is scheduled to close on the 19th of Jan'18, so Eastern Field will need to notify FND of its intentions at the latest on the 12/1/18. Our valuation remains at \$0.38/sh, slightly above the independent experts valuation of \$0.31 - \$0.35/sh. We continue to believe a higher bid will be required to be successful and maintain our Buy recommendation.

Key points

- Dec Qtr provisional Cu production of 4.1kt in line with revised production guidance of 4-5kt Cu.
- A further US\$7.5m debt repayment to reduce total project debt to US\$60.5m was made at the end of Dec'17.
- The Debt Service Reserve Account ('DSRA') represents a separate account which, in FND's case, is the future six months debt obligations. This amount was US\$18m.
- Due to the lower Dec'Q production, insufficient funds were available for the DSRA, however, FND has been able to successfully negotiate a revised schedule as set out below;
 - US\$9m to be deposited by 31/12/17,
 - US\$4.5m to be deposited by end of 31st March'18,
 - US\$4.5m to be deposit by the end of 30th of June'18.
- The US\$9m has been deposited at the end of Dec'17, and if taken into account would reduce total debt to US\$51.5m.
- Since Eastern Field Developments Ltd launched its opportunistic \$0.23/sh cash bid for FND it has rec'd acceptances for ~ 5% of FND to take its current interest to 24.5%. In addition, shareholders holding 38.2% have indicated they will not accept this bid.
- On the 13/12/17 Eastern Field extended the Offer period by 30 days to close on the 19th of January and waived the 50% minimum acceptance condition.
- This means that by Friday the 12th of January 2018, Eastern Field will need to indicate if they intend to extend the bid, make the offer final or increase the bid price.
- We continue to believe the bid significantly undervalues FND. The re schedule of the DSRA is positive and we still believe that FND could be debt free by 3rd Q/4th Q of CY'18 – depending on production and copper price.
- Our valuation remains at \$0.38/sh and Price Target \$0.40/sh.
- If Eastern Field decide to walk away from the bid we do not see much downside from current prices as FND was trading at \$0.24-0.25/sh at the time of the bid, the US\$ Copper price has increased by 6.5% since the bid and ASX listed Copper producers (OZL, SFR, MLX and AVB) are on average, up 20% since the bid.
- We maintain our Buy and believe Eastern Field will need to increase to significant increase the bid to be successful.

Finders Resources Ltd	Year End 31 Dec	
Share Price	0.25	A\$/sh
Price Target	0.40	A\$/sh
Valuation	0.38	A\$/sh (npv 10%)

Shares on issue	774	m, diluted *
Market Capitalisation	194	A\$m
Enterprise Value	247	A\$m
Debt (attrib)	57	A\$m
Cash (est)	4	A\$m
Largest Shareholder		Taurus 11%

Production F/Cast	2016a	2017f	2018f
Cu prod (t)	12075	22471	28125
Cash Cost (US\$/lb)	1.27	1.18	1.03
AISC(US\$/lb)	4.90	1.59	1.33

Assumptions	2016a	2017f	2018f
Copper (US\$/lb)	2.21	2.80	3.00
AUDUSD	0.74	0.77	0.78

Key Financials	2016a	2017f	2018f
Revenue (A\$m)	58	188	217
EBITDA (A\$m)	3	98	122
NPAT (A\$m)	-37	35	52
Cashflow (A\$m)	-16	50	99

CFPS (Ac)	-12	5	11
P/CFPS (x)	na	5	2

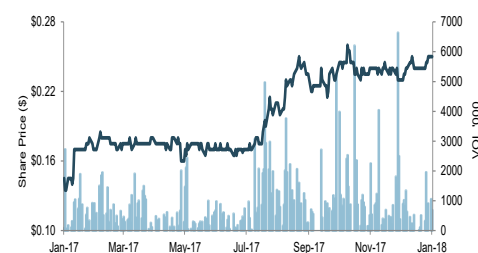
EPS (Ac)	-6	5	8
EPS growth (%)	na	na	48%
PER (x)	0.0	4.5	3.0

EV:EBITDA (x)	87.2	3.4	1.6
EV:EBIT (x)	na	5.9	2.7

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

ND:Net Debt+Equity (%)	0%	30%	na
Interest Cover (x)	0.0	5.5	33.7

Share Price Chart



Disclaimer

Finders Resources Ltd ("Finders" or the "Company") is currently the subject of a takeover offer from Eastern Field Developments Ltd. Euroz has been engaged by Finders to assist the Company to defend the takeover offer. Euroz will be paid a monthly retainer, and an additional fee if the takeover is unsuccessful.

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

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Finders Resources Ltd

(FND \$0.25) Buy

Market Statistics		Year End 30 June				
Share Price	\$0.25	Directors				
Issued Capital		Gary Comb	Chairman			
Fully Paid Ord	774.0	Barry Cahill	MD			
		Gavin Caudle	NED			
		Gordon Galt	NED			
Employee/Dir shares	15.0	Shareholders				
Market Cap. (dil)	\$194	Taurus Resources	13%			
Enterprise Value	\$247	Provident	12%			
Debt	\$57	Saratoga	9.7%			
Cash	\$4					
Hedging 14.6kt @ US\$2.18/lb (est)						
Asset Valuation		A\$m	A\$/sh			
Wetar Island (74%)	npv 10%	354	0.46			
Exploration	nom	28	0.04			
Hedging	npv 10%	-13	-0.02			
Corporate	npv 10%	-21	-0.03			
Working Capital	nom	0	0.00			
Unpaid Capital		0	0.00			
Debt (attributable)		(57)	(0.07)			
Cash		3	0.00			
Total @ 10% nom		294	0.38			
F/Cast Production (A\$m)		2016aDec	H'17	2017f	2018f	2019f
Cathode production	tonnes	12,075	10,125	22,471	28,125	28,125
Total	tonnes	12,075	10,125	22,471	28,125	28,125
Cash Cost						
C1 cash cost	US\$/lb	1.27	1.11	1.18	1.03	1.03
Total costs (incl. D&A)	US\$/lb	1.90	1.73	1.84	1.68	1.68
All-in sustaining cost	US\$/lb	4.90	1.53	1.59	1.33	1.33
Assumptions						
Copper Price	US\$/lb	2.21	3.00	2.80	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	8,441	8,064	8,477	8,830
Copper Price Ach'd	A\$/t	6,460	7,580	7,666	7,851	8,709
Ratio Analysis (A\$m)		2016aDec	H'17	2017f	2018f	2019f
CF (US\$m)		(97.4)	17.1	43.7	94.1	105.1
CF / Sh (Ac/sh)		(12)	2	5	11	12
CF Ratio (x)		na	-	4.6	2.2	1.9
Earnings (US\$m)		(36.7)	13.3	34.8	52.4	50.6
EPS (Ac/sh)		(5.86)	2.02	5.38	7.96	7.69
EPS Growth (%)		na	0%	na	48%	-3%
PER (x)		na	-	4.5	3.0	3.1
E'prise Val. (A\$m)		240	-	251	146	39
EV : EBITDA (x)		87.2	-	3.4	1.6	0.3
EV : EBIT (x)		na	-	5.9	2.7	0.5
Net Debt / ND+Eq (%)		50%	0%	30%	na	na
Interest Cover (x)		na	0	6	34	na
EBIT Margin (%)		na	0%	31%	35%	44%
ROE (%)		-26%	0%	24%	32%	27%
ROA (%)		-4%	0%	21%	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)		2016aDec	H'17	2017f	2018f	2019f
Copper Cathode sales		58	90	201	238	248
Hedging Revenue		(2)	(11)	(13)	(23)	(4)
Interest Income		1	0	0	1	3
Other Income		-	-	-	-	-
Total Revenue		58	79	188	217	248
Operating Costs		39	36	82	88	88
Exploration		2	1	1	1	1
Corporate		14	4	7	6	6
Other		-	-	-	-	-
EBITDA		3	39	98	122	153
Dep/Amort		14	16	39	46	46
EBIT		(11)	22	59	76	107
Interest exp.		7	4	9	4	-
NPBT		(18)	18	50	72	107
Tax		(4)	-	-	-	27
Abnormals		16	-	13	-	-
NET PROFIT		(30)	18	37	72	80
Minorities		(7)	(5)	(2)	(20)	(30)
NET PROFIT (attributable)		(37)	13	35	52	51
Cash Flow (A\$m)		2016aDec	H'17	2017f	2018f	2019f
Net Profit		(37)	13	35	52	51
+Dep/Amort		14	16	39	46	46
+WC/Writeoff/Other		10	(10)	(24)	-	-
+ Tax Expense		(4)	-	-	4	27
- Tax Paid		-	-	-	3	13
= Operating Cashflow		(16)	20	50	99	110
-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	14	40	34	16
-Dividends		-	-	-	-	-
= Financing Cashflow		68	(14)	(40)	(34)	(16)
Surplus/(Deficit)		(30)	1	1	56	85
FX Adjustments		-	-	-	-	-
CASH		5	5	5	61	146
Balance Sheet (A\$m)		2016aDec	H'17	2017f	2018f	2019f
Assets						
Cash		5	5	5	61	146
Current Receivables		7	19	19	19	19
Other Current Assets		40	46	46	46	46
Non-Current Assets		256	213	213	182	152
Total Assets		308	283	283	309	363
Liabilities						
Borrowings		121	69	71	22	-
Current Accounts Payable		42	32	32	32	32
Other Liabilities		30	32	32	32	32
Total Liabilities		193	133	133	85	64
Net Assets		115	150	150	223	300
Reserves and Resources						
		Reserves		Resources		
		Tonnage	Grade	Metal	Tonnage	Grade
		mt	%	kt	mt	%
						kt
Wetar Project (95%)	7.4	2.4		202	7.5	2.4
Equity Share				145		151
Enterprise Value per Cu t (A\$/t)				1695		1630

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