

# Finders Resources Ltd

## (FND \$0.24) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	25 <sup>th</sup> January 2018	\$0.40/sh

### Dec Qtrly

#### Investment case

Despite the production hiccup in Oct'17, Wetar generated EBITDA of US\$6.8m for the Q and US\$72.2m for CY'17 - an impressive effort. The bid has been extended to the 28/2/18 and thus far has got little traction. Our valuation remains at \$0.38/sh, slightly above the independents 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.

#### Key points

- Qtrly production of 4.1kt of Cu @ C1 cost of US\$1.45/lb was in line with guidance of 4-5kt @ C1 US\$1.40-US\$1.80/lb.
- AISC increased to US\$2.53/lb with hedging losses of US\$0.57/lb and lower production the key differences. Full yr AISC was US\$1.66/lb.
- EBITDA of US\$6.8m within guidance of US\$5-15m. CY'17 EBITDA of US\$72.2m (A\$92m) is pleasing, despite production hiccup in Dec'Q.
- Production issues getting resolved with copper leached in Dec up 30% from Nov. We forecast Mar' Q production of 5.5kt Cu and expect them to finish Mar at a run rate of >6kt of Cu per Q.
- Debt reduced to US\$60.5m at Q end and the DSRA successfully re negotiated with initial US\$9m deposited, effectively reducing net debt to US\$51.5m.
- Total hedging of 14.1kt @ US\$2.55/lb consists of mandatory hedging of 8.7kt @ US\$2.17/lb and discretionary hedging of 5.4kt @ US\$3.17kt.
- The unsolicited cash bid by Eastern Field Developments Ltd was extended to the 28th of Feb'18. Since the bid was launched on 6th of Oct, it has received acceptances for only 5% of shares it did not already own. Independent Directors continue to recommend shareholders reject this bid.

#### Analysis

Despite the production hiccup in the Dec'Q, Wetar still managed to generate EBITDA of US\$6.8m and full yr EBITDA of US\$72m. Wetar has demonstrated it can produce at >\$100m EBITDA at full production run rate.

Our CY'18 forecast is 26kt of Cu @ AISC of US\$1.37/lb generating EBITDA of \$111m. This puts FND on a CY'18 EV/EBITDA of <2x.

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 December	
Share Price	0.24	A\$/sh
Price Target	0.40	A\$/sh
Valuation	0.38	A\$/sh (npv 10%)

Shares on issue	774	m, diluted *
Market Capitalisation	186	A\$m
Enterprise Value	242	A\$m
Debt (attrib)	57	A\$m
Cash (est)	1	A\$m
Largest Shareholder		Taurus 11%

Production F/Cast	2016a	2017f	2018f
Cu prod (t)	12075	23146	26438
Cash Cost (US\$/lb)	1.27	1.18	1.05
AISC(US\$/lb)	4.90	1.60	1.37

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	189	202
EBITDA (A\$m)	3	96	111
NPAT (A\$m)	-37	32	46
Cashflow (A\$m)	-16	49	91

CFPS (Ac)	-12	5	10
P/CFPS (x)	na	5	2

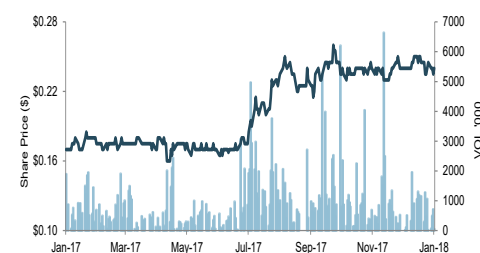
EPS (Ac)	-6	5	7
EPS growth (%)	na	na	42%
PER (x)	0.0	4.8	3.4

EV:EBITDA (x)	87.2	3.5	1.9
EV:EBIT (x)	na	6.4	3.2

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

ND:Net Debt+Equity (%)	0%	32%	na
Interest Cover (x)	0.0	5.3	28.1

#### 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

#### Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

## Finders Resources Ltd

(FND \$0.24) Buy

## Market Statistics

		Year End 31 December	
<b>Share Price</b>	<b>\$0.24</b>	<b>Directors</b>	
Issued Capital		G Comb	Chair'
Fully Paid Ord	774.0	B Cahill	MD
		G Caudle	NED
		G Galt	NED
Employee/director shares	15.0		
<b>Market Capitalisation (dil )</b>	<b>\$186</b>	<b>Shareholders</b>	
Enterprise Value	\$242	Taurus Resources	13%
Debt	\$57	Eastern Field Dev	25%
Cash	\$1		
Hedging 14.6kt @ US\$2.18/lb (est)			

## Asset Valuation

		A\$m	A\$/sh
Wetar Island (74%)	npv 10%	348	0.45
Exploration	nom	35	0.05
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		1	0.00
<b>Total @ 10% nom</b>		<b>294</b>	<b>0.38</b>

## F/Cast Production (A\$m)

		2016a	2016Dec	H'17	2017f	2018f	2019f
Cathode production	tonnes	12,075	10,800	23,146	26,438	28,125	
<b>Total</b>	<b>tonnes</b>	<b>12,075</b>	<b>10,800</b>	<b>23,146</b>	<b>26,438</b>	<b>28,125</b>	

## Cash Cost

	US\$/lb	1.27	1.18	1.18	1.05	1.03
C1 cash cost						
Total costs (incl. D&A)	US\$/lb	1.90	1.84	1.84	1.71	1.69
<b>All-in sustaining cost</b>	<b>US\$/lb</b>	<b>4.90</b>	<b>1.63</b>	<b>1.60</b>	<b>1.37</b>	<b>1.33</b>

## Assumptions

	US\$/lb	2.21	3.00	2.80	3.00	3.13
Copper Price						
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	7,634	7,677	7,811	8,709

## Ratio Analysis (A\$m)

		2016a	2016Dec	H'17	2017f	2018f	2019f
CF (US\$m)		(97.3)	14.4	40.9	85.5	105.0	
CF / Sh (Ac/sh)		(12)	2	5	10	12	
CF Ratio (x)		na	-	4.9	2.4	1.9	
Earnings (US\$m)		(36.8)	10.6	32.0	46.2	50.2	
EPS (Ac/sh)		(5.88)	1.60	4.95	7.01	7.63	
EPS Growth (%)		na	0%	na	42%	9%	
PER (x)		na	-	4.8	3.4	3.1	
E'prise Val. (A\$m)		240	-	254	158	51	
EV : EBITDA (x)		87.2	-	3.5	1.9	0.3	
EV : EBIT (x)		na	-	6.4	3.2	0.7	
Net Debt / ND+Eq (%)		50%	0%	32%	na	na	
Interest Cover (x)		na	0	5	28	na	
EBIT Margin (%)		na	0%	29%	34%	43%	
ROE (%)		-26%	0%	22%	30%	27%	
ROA (%)		-4%	0%	20%	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	2016Dec	H'17	2017f	2018f	2019f
Copper Cathode sales	58	90	202	224	248	
Hedging Revenue	(2)	(11)	(13)	(23)	(4)	
Interest Income	1	0	0	1	3	
Other Income	-	-	-	-	-	
<b>Total Revenue</b>	<b>58</b>	<b>79</b>	<b>189</b>	<b>202</b>	<b>247</b>	
Operating Costs	39	39	85	84	88	
Exploration	2	1	1	1	1	
Corporate	14	4	7	6	6	
Other	-	-	-	-	-	
<b>EBITDA</b>	<b>3</b>	<b>36</b>	<b>96</b>	<b>111</b>	<b>152</b>	
Dep/Amort	14	18	41	43	46	
<b>EBIT</b>	<b>(12)</b>	<b>18</b>	<b>55</b>	<b>68</b>	<b>106</b>	
Interest exp.	7	4	9	4	-	
NPBT	(18)	15	46	64	106	
Tax	(4)	-	-	-	27	
Abnormals	16	-	13	-	-	
<b>NET PROFIT</b>	<b>(30)</b>	<b>15</b>	<b>33</b>	<b>64</b>	<b>80</b>	
Minorities	(7)	(4)	(1)	(18)	(29)	
<b>NET PROFIT (attributable)</b>	<b>(37)</b>	<b>11</b>	<b>32</b>	<b>46</b>	<b>50</b>	

## Cash Flow (A\$m)

	2016a	2016Dec	H'17	2017f	2018f	2019f
Net Profit	(37)	11	32	46	50	
+Dep/Amort	14	18	41	43	46	
+WC/Writeoff/Other	10	(10)	(24)	-	-	
+ Tax Expense	(4)	-	-	4	27	
- Tax Paid	-	-	-	3	13	
<b>= Operating Cashflow</b>	<b>(16)</b>	<b>18</b>	<b>49</b>	<b>91</b>	<b>110</b>	
-Capex + Development	81	4	8	5	5	
-Exploration	1	2	3	4	4	
-Assets Purchased	-	-	-	-	-	
+Asset Sales	-	-	-	-	-	
+Other	-	-	-	-	-	
<b>= Investing Cashflow</b>	<b>(82)</b>	<b>(6)</b>	<b>(11)</b>	<b>(9)</b>	<b>(9)</b>	
+ Equity Issues (Rts,plc,opts)	11	-	-	-	-	
+Loan Drawdown/Receivable	73	-	-	-	-	
+Other (hedge close out)	-	-	-	-	-	
-Loan Repayment	75	14	40	34	16	
-Dividends	-	-	-	-	-	
<b>= Financing Cashflow</b>	<b>68</b>	<b>(14)</b>	<b>(40)</b>	<b>(34)</b>	<b>(16)</b>	
<b>Surplus/(Deficit)</b>	<b>(30)</b>	<b>(2)</b>	<b>(2)</b>	<b>47</b>	<b>85</b>	
FX Adjustments	-	-	-	-	-	
<b>CASH</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>50</b>	<b>135</b>	

## Balance Sheet (A\$m)

	2016a	2016Dec	H'17	2017f	2018f	2019f
<b>Assets</b>						
Cash	5	3	3	50	135	
Current Receivables	7	19	19	19	19	
Other Current Assets	40	46	46	46	46	
Non-Current Assets	256	213	213	184	154	
<b>Total Assets</b>	<b>308</b>	<b>281</b>	<b>281</b>	<b>299</b>	<b>354</b>	
<b>Liabilities</b>						
Borrowings	121	69	71	22	-	
Current Accounts Payable	42	32	32	32	32	
Other Liabilities	30	32	32	32	32	
<b>Total Liabilities</b>	<b>193</b>	<b>133</b>	<b>133</b>	<b>85</b>	<b>64</b>	
<b>Net Assets</b>	<b>115</b>	<b>148</b>	<b>148</b>	<b>214</b>	<b>290</b>	

## Reserves and Resources

	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
<b>Equity Share</b>			<b>145</b>			<b>151</b>
<b>Enterprise Value per Cu t (A\$/t)</b>			<b>1662</b>			<b>1599</b>

## Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

# Disclaimer

## Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) ("Euroz") only. Euroz is the holder of an Australian Financial Services Licence (AFSL 243302) issued by the Australian Securities and Investments Commission ("ASIC") and is a participant of the Australian Securities Exchange Group ("ASX Group").

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz.

## Disclaimer & Disclosure

Euroz and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.

## Contact Details

**Euroz Securities Limited** +61 8 9488 1400

### International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

### Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jerome Paz - Associate Research Analyst	+61 8 9488 1414

### Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Blair Spaulding - Institutional Adviser	+61 8 9488 1418
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

### Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Duncan Relf - Associate Director	+61 8 9346 0322
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Scott Fraser - Investment Adviser	+61 8 9488 1436
Steve Wood - Investment Adviser	+61 8 9346 0305

## Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.