

Finders Resources Ltd

(FND \$0.23) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	17 th November 2017	\$0.40/sh

Production update

Investment case

A slight production hiccup caused by mechanical failure is immaterial in the longer term production outlook and our investment thesis. Full yr EBITDA of \$90-100m is still impressive and FND continues to trade at a large discount to our \$0.38/sh valuation. Whilst the timing of this downgrade is unfortunate as FND responds to a low ball cash bid by Eastern Fields, we believe a significant increase in the price will be required for this bid to be successful. We maintain our Buy.

Key points

- A premature bearing failure on the jaw crusher has reduced the availability of fresh ore to be stacked on the leach pads.
- This will reduce production in the Dec Q to between 4-5kt of Cu at a C1 cost of US\$1.40-1.80/lb generating EBITDA of US\$5-15m at current Cu prices.
- Production for the Mar'Q is expected to be back at around the June Q level of ~ 6.8kt of Cu.
- CY'17 production is now estimated at 22-23kt at a C1 cost of US\$1.15-1.25/lb generating EBITDA of US\$70-80m.
- This compares to our previous forecast of 25.5kt at C1 cost of US\$1.12/lb and AISC of US\$1.49/lb generating EBITDA of \$116m (US\$ 89m)
- The 3kt demonstration plant will also be shut down for refurbishment through Nov and Dec.
- There is no loss as such of Cu production, it is just a temporary reduction to the leaching cycle, caused by a mechanical failure and not something inherently wrong with the operations etc.

Analysis

This production downgrade has come at an unfortunate time for FND at it defends an opportunistic takeover bid by Eastern Fields at \$0.23/sh. However, whilst its slightly disappointing the long term fundamentals and valuation remain intact.

FND has proven it can produce at nameplate capacity at ASIC of US\$1.30-40/lb and generate very strong cashflow. Full yr EBITDA of \$90m - \$100m (FND \$68m - \$75m) is impressive against a current EV of \$240m.

We have reduced our CY'17 forecast production to 23.5kt at C1 cost of US\$1.16/lb and AISC of US\$1.55/lb. Our CY'17 EBITDA has fallen by 10% to \$104m from \$116m

Our valuation has fallen by a 1cps to \$0.38/sh. This still represents a 65% premium to the current cash bid of \$0.23/sh which in our view significantly undervalues FND.

FND has been quiet since the cash bid was announced on the 6th of October. The target statement is due shortly.

We continue to recommend FND as a Buy and believe the \$0.23/sh cash bid significantly undervalues FND. It is feasible that by Q3 CY'18 FND could be debt free and in a dividend paying situation. Exploration upside is significant and the recent high grade results from Lerokis point to additional high grade tonnes. Meron is an excellent target that hopefully will be drilled shortly.

We believe Eastern Fields will need to increase their bid significantly to be successful.

Finders Resources Ltd	Year End 31 December	
Share Price	0.23	A\$/sh
Price Target	0.40	A\$/sh
Valuation	0.38	A\$/sh
	(npv 10%)	

Shares on issue	774	m, diluted *
Market Capitalisation	178	A\$m
Enterprise Value	243	A\$m
Debt (attrib)	69	A\$m
Cash (est)	4	A\$m
Largest Shareholder		Taurus 13%

Production F/Cast	2016a	2017f	2018f
Cu prod (t)	12075	23596	28125
Cash Cost (US\$/lb)	1.27	1.16	1.03
AISC(US\$/lb)	4.90	1.55	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	196	217
EBITDA (A\$m)	3	104	122
NPAT (A\$m)	-37	38	54
Cashflow (A\$m)	-16	65	100

CFPS (Ac)	-12	7	11
P/CFPS (x)	na	3	2

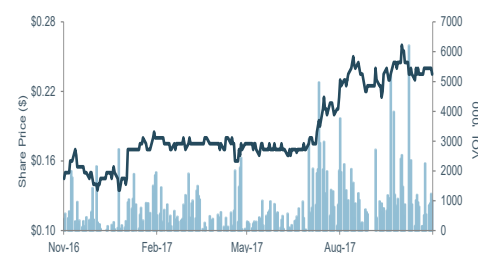
EPS (Ac)	-6	6	8
EPS growth (%)	na	na	40%
PER (x)	0.0	3.9	2.8

EV:EBITDA (x)	87.2	2.9	1.3
EV:EBIT (x)	na	5.0	2.1

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

ND:Net Debt+Equity (%)	0%	22%	na
Interest Cover (x)	0.0	7.7	143.1

Share Price Chart



Disclaimer

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Finders Resources Ltd during the last year. Euroz Securities has received a fee for these services.

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 \$0.23) Buy

EUROZ

Market Statistics		Year End 30 June	
Share Price	\$0.23	Directors	
Issued Capital		Gary Comb	Chairman
Fully Paid Ord	774.0	Barry Cahill	MD
Opts - \$0.35/sh exp. Jun'17	22.8	Gavin Caudle	NED
Opts- \$0.26/sh exp. Oct'17	31.3	Gordon Galt	NED
Employee/director shares	15.0		
Market Capitalisation (dil)	\$178	Shareholders	
Enterprise Value	\$243	Taurus Resources	13%
Debt	\$69	Provident	12%
Cash	\$4	Saratoga	9.7%
<i>Hedging 14.6kt @ US\$2.18/lb (est)</i>			

Asset Valuation		A\$m	A\$/sh
Wetar Island (74%)	npv 10%	379	0.49
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		294	0.38

F/Cast Production (A\$m)	2016a	Dec H'17	2017f	2018f	2019f
Cathode production	tonnes 12,075	11,250	23,596	28,125	28,125
Total	tonnes 12,075	11,250	23,596	28,125	28,125

Cash Cost	US\$/lb	1.27	1.07	1.16	1.03	1.03
C1 cash cost	US\$/lb	1.90	1.69	1.81	1.68	1.68
Total costs (incl. D&A)	US\$/lb	4.90	1.45	1.55	1.33	1.33
All-in sustaining cost	US\$/lb					

Assumptions	US\$/lb	2.21	2.90	2.76	3.00	3.13
Copper Price	A\$/US\$	0.74	0.78	0.77	0.78	0.78
FX Rate ass'd	A\$/t	6,566	8,194	7,937	8,477	8,830
Copper Price	A\$/t	6,460	7,508	7,586	7,851	8,709
Copper Price Ach'd	A\$/t					

Ratio Analysis (A\$m)	2016a	Dec H'17	2017f	2018f	2019f
CF (US\$m)	(97.4)	32.0	58.6	94.7	106.2
CF / Sh (Ac/sh)	(12)	4	7	11	13
CF Ratio (x)	na	-	3.3	2.1	1.8

Earnings (US\$m)	(36.7)	16.4	37.9	54.2	51.7
EPS (Ac/sh)	(5.85)	2.50	5.87	8.24	7.86
EPS Growth (%)	na	0%	na	40%	-5%
PER (x)	na	-	3.9	2.8	2.9

E'prise Val. (A\$m)	240	-	225	118	10
EV : EBITDA (x)	87.2	-	2.9	1.3	0.1
EV : EBIT (x)	na	-	5.0	2.1	0.1

Net Debt / ND+Eq (%)	50%	0%	22%	na	na
Interest Cover (x)	na	0	8	143	na
EBIT Margin (%)	na	0%	32%	35%	44%
ROE (%)	-26%	0%	25%	31%	26%
ROA (%)	-4%	0%	22%	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	96	207	238	248
Hedging Revenue	(2)	(10)	(12)	(23)	(4)
Interest Income	1	0	0	1	3
Other Income	-	-	-	-	-
Total Revenue	58	86	196	217	248
Operating Costs	39	38	84	88	88
Exploration	2	1	1	1	1
Corporate	14	4	7	6	6
Other	-	-	-	-	-
EBITDA	3	44	104	122	153
Dep/Amort	14	18	41	45	45
EBIT	(11)	26	63	77	107
Interest exp.	7	3	9	2	(2)
NPBT	(18)	23	54	75	109
Tax	(4)	-	-	-	27
Abnormals	16	-	13	-	-
NET PROFIT	(30)	23	41	75	82
Minorities	(7)	(6)	(3)	(21)	(30)
NET PROFIT (attributable)	(37)	16	38	54	52

Cash Flow (A\$m)	2016a	Dec H'17	2017f	2018f	2019f
Net Profit	(37)	16	38	54	52
+Dep/Amort	14	18	41	45	45
+WC/Writeoff/Other	10	-	(14)	-	-
+ Tax Expense	(4)	-	-	2	25
- Tax Paid	-	-	-	1	11
= Operating Cashflow	(16)	35	65	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)	7	7	52	87
FX Adjustments	-	-	-	-	-
CASH	5	12	12	64	150

Balance Sheet (A\$m)	2016a	Dec H'17	2017f	2018f	2019f
Assets					
Cash	5	12	12	64	150
Current Receivables	7	19	19	19	19
Other Current Assets	40	46	46	46	46
Non-Current Assets	256	211	211	181	151
Total Assets	308	288	288	310	366

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	167	167	243	321
-------------------	------------	------------	------------	------------	------------

Reserves and Resources

	Reserves		Resources			
	Tonnage mt	Grade %	Metal kt	Tonnage mt	Grade %	Metal 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)	1671	1607

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.