

Finders Resources Ltd

(FND \$0.23) Buy



Analyst	Date	Price Target
Andrew Clayton	13 th December 2017	\$0.40/sh

Takeover Update

Investment case

A total of 37.58% of FND shareholders have indicated they will not accept the \$0.23/sh cash bid. Eastern Field Developments has extended the bid and dropped the minimum acceptance conditions which is not a great surprise as we believe they are keen to get as much cheap stock as possible. The bid appears to have gained little traction with acceptances of <1% and an independent experts valuation of between \$0.31 - \$0.35/sh. This is similar to our \$0.38/sh valuation. We continue to believe that a higher bid will be required to be successful and maintain our Buy recommendation.

Key points

- Eastern Field Developments has extended its takeover offer for FND to the 19/1/18. In addition it has dropped the minimum acceptance condition of >50% relevant interest.
- FND shareholders, who hold in aggregate a total of 37.58% of the total issued capital in FND have notified FND that they do not intend to accept the Offer price of \$0.23/sh.
- Since the Offer opened on the 20th of November, the Consortium has received less than 1% of acceptances as no change in substantial has been lodged.
- The issues affecting production in the Dec'Q have been well documented with production forecast to be between 4kt - 5kt versus nameplate of 7kt. FND expect the Mar Q to be back at June Q CY'17 rate of ~6.5kt of Cu.
- Full year CY'17 EBITDA forecast to be US\$70-80m, thus far EBITDA for first nine months is US\$65.4m.
- Independent valuation of \$0.31 - \$0.35/sh in line with our \$0.38/sh valuation with the main difference the lower assumed Cu price, higher discount rate and lower exploration value.
- We note under the risks section in the Target Statement that FND is currently in discussion with its Senior Lenders regarding a potential revised payment schedule for the Debt Service Reserve Account ('DSRA').
- Under the Wetar Facility Agreement, FND is required to deposit funds into a separate DSRA on or before 31st Dec'17 based on the future six month interest and principal payments due on the facility.
- Due to the crud run event and the lower production and hence cashflow in Dec Q, FND is looking for a revised schedule. The Senior Lenders have previously agreed to a revised payment schedule for the funding of the DSRA (from 30th June to 30th of Dec'17)
- FND is confident it will be able to agree to a revised payment schedule for the DSRA.

Analysis

The extension of the takeover offer and dropping of minimum acceptance condition is not a great surprise to us. We believe Eastern Field Developments is keen to get as much cheap stock as possible.

The production issues, which they continue to highlight, should be put in the context of the operations that have achieved >95% of nameplate capacity and generated EBITDA of US\$65m in nine months to Sept'17. Whether Wetar produces 6.5kt or 7kt the fact is if it produces >6kt per Q the project will generate EBITDA of >US\$20m per Q.

Finders Resources Ltd	Year End 30 June	
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 11%	

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

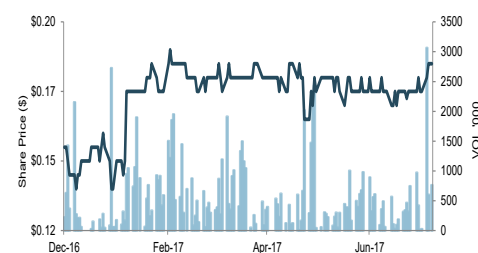
EPS (Ac)	-6	6	8
EPS growth (%)	na	na	40%
PER (x)	0.0	4.1	2.9

EV:EBITDA (x)	87.2	3.0	1.4
EV:EBIT (x)	na	5.2	2.3

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

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 \$0.23) Buy

The logo for Euroz, featuring the word "EUROZ" in a white, sans-serif font with a stylized circular symbol between the 'O' and 'Z', set against a dark teal rectangular background.

Based on our forecast we believe that Wetar could be debt free by the end of Sept'Q CY'18.

The fact that 37.8% of shareholders have stated they will not accept the \$0.23/sh cash bid is further evidence the bid significantly undervalues FND.

Wetar is a quality asset that has been significantly de risked and despite some short term production hiccups, operating margins of >50% are not usually found in small companies.

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

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Finders Resources Ltd

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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	
		Gavin Caudle	NED	
		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	2016Dec	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						
Total costs (incl. D&A)	US\$/lb	1.90	1.69	1.81	1.68	1.68
All-in sustaining cost	US\$/lb	4.90	1.45	1.55	1.33	1.33

Assumptions

	US\$/lb	2.21	2.90	2.76	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	8,194	7,937	8,477	8,830
Copper Price Ach'd	A\$/t	6,460	7,508	7,586	7,851	8,709

Ratio Analysis (A\$m)

	2016a	2016Dec	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	-	3.5	2.1	1.9	

	2016a	2016Dec	H'17	2017f	2018f	2019f
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	-	4.1	2.9	3.1	

	2016a	2016Dec	H'17	2017f	2018f	2019f
E'prise Val. (A\$m)	240	-	233	126	18	
EV : EBITDA (x)	87.2	-	3.0	1.4	0.1	
EV : EBIT (x)	na	-	5.2	2.3	0.2	

	2016a	2016Dec	H'17	2017f	2018f	2019f
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%	

	2016a	2016Dec	H'17	2017f	2018f	2019f
Div. (Ac/sh)	-	-	-	-	-	-
Div. payout ratio	0%	0%	0%	0%	0%	0%
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Div. Franking	100%	0%	100%	100%	100%	100%

Profit and Loss (A\$m)

	2016a	2016Dec	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	2016Dec	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	2016Dec	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	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)			1671			1607

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