

Finders Resources Ltd

(FND \$0.23) Buy

EUROZ

| Analyst | Date | Price Target |
|----------------|-------------------------------|--------------|
| Andrew Clayton | 7 th December 2017 | \$0.40/sh |

Target statement – reject bid

Investment case

The Target Statement rejects the unsolicited \$0.23/sh cash bid from Eastern Field Developments. An Independent Experts valuation of between \$0.31 - \$0.35/sh is in line with \$0.38/sh valuation. Whilst the short term production hiccups are unfortunate, it doesn't detract from the longer term value proposition. Operating margins of >50% are rare in a small companies and we continue to believe Eastern Field Developments will need to significantly increase the price to be successful. We maintain our Buy.

Key points

- FND has released its Target Statement and recommends shareholders Reject the \$0.23/sh cash bid from Eastern Field Developments.
- The Offer price has no premium for control with FND trading at \$0.23/sh the day before the bid was launched and a 1% and 0.6% discount to the 5 and 30 day VWAP of \$0.232/sh and \$0.231/sh.
- The Independent Experts ('IE') report concluded the Offer is neither fair nor reasonable and valued FND in the range of \$0.31 - \$0.35/sh.

| | Section | Unit | Low | High |
|--|---------|-------------------|--------------|--------------|
| Wetar Project | 6.4.2 | \$ million | 280.0 | 305.0 |
| Exploration Upside | 6.4.3 | \$ million | 11.8 | 20.5 |
| Enterprise value | | \$ million | 291.8 | 325.5 |
| Surplus assets | 6.4.4 | \$ million | (0.7) | (0.7) |
| Net debt | 6.4.5 | \$ million | 52.7 | 52.7 |
| Equity value (control basis) | | \$ million | 238.4 | 272.1 |
| Number of shares outstanding | 6.4.6 | million | 781.1 | 781.1 |
| Value per Finders Resources share | | \$ | 0.31 | 0.35 |

Source: Deloitte Corporate Finance analysis
 Note:
 1. The table above is subject to rounding

Source: Finders Resources Ltd

- This compares to our valuation of \$294m or \$0.38/sh. The key difference to the IE valuation is their lower Cu price assumption of US\$2.80/lb versus our forecast of US\$3.25/lb LT and the higher discount rate of between 11.5% and 12% versus our 10%.
- In addition we had a slightly higher exploration value of \$28m versus a range of \$11.8m - \$20.5m in the IE.
- The key arguments from the IE report as to why the offer is unreasonable include;
 - No control premium being offered,
 - Wetar is now fully permitted, has successfully ramped up and generating strong operating cashflow. We forecast EBITDA to increase from ~ A\$104m in CY'17 to \$153m in CY'19.
 - Timing is opportunistic with recent events - crud run event and bearing failure are both temporary interruptions to the production that will not result in any overall loss of production.
 - If the offer is unsuccessful the share price is unlikely to fall from pre-offer levels as it was trading at this level before the bid was announced.

| 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 |

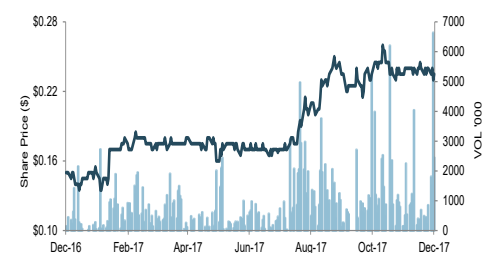
| | | | |
|----------------|-----|-----|-----|
| EPS (Ac) | -6 | 6 | 8 |
| EPS growth (%) | na | na | 40% |
| PER (x) | 0.0 | 4.1 | 2.9 |

| | | | |
|---------------|------|-----|-----|
| 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



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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.

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Finders Resources Ltd

(FND \$0.23) Buy

- Since the bid was announced the A\$ Cu price has increased by ~ 7% and FND has upgraded Lerokis Ore reserves by 29%. In addition test work on the Lerokis ore shows potential to significantly increase recoveries from ~ 66% (BFS) to 88%.
- Taurus Funds Mgt, FND's largest shareholder with 11.3% outside the Bidding Consortium, announced it does not intend to accept the offer.
- Since the Offer opened on the 20th of November, the Consortium has received less the 1% of acceptances as no change in substantial has been lodged. The bid is scheduled to close on the 20th of December, unless extended or withdrawn.

Analysis

The independent experts report confirms our analysis that Wetar is worth significantly more than \$0.23/sh.

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 increase in Lerokis reserves is positive. Meron is an excellent target that hopefully will be drilled shortly.

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 increase their bid significantly to be successful.

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Finders Resources Ltd

(FND \$0.23) Buy



| 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 | 2016a | 2016Dec | H'17 | 2017f | 2018f | 2019f |
|-------------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------|-------|
| C1 cash cost | US\$/lb | 1.27 | 1.07 | 1.16 | 1.03 | 1.03 | | |
| 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 | 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 | 7,508 | 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 | |
| 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 | |

| | | | | | | | |
|----------------------|--|------|----|-----|-----|-----|--|
| 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 | |
| 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 | 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 | | 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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