

29 January 2018

## Finders Resources (FND)

**BUY**

**Share Price: A\$0.24**

### DQ'17 Results

**Target Price:**

**A\$0.36**

Finders DQ'17 production result of 4,100t at US\$1.45/lb was in-line with updated guidance (Nov-17) of 4,000-5,000t at a C1 cash cost of US\$1.40-1.80/lb. Production remains below nameplate capacity of 28ktpa (7ktpq) following the crud run event in Sep-17. Despite weaker financials of EBITDA US\$6.8m, down 68% QoQ, the company made scheduled US\$7.5m debt repayments and deposited US\$9m into the Debt Service Reserve Account (DSRA) in the quarter. Project net debt is now US\$51.5m, but expected to be in a net cash position at the end of CY'18 with an aggressive amortisation schedule. Our view remains unchanged that the Wetar Copper Project (WCP) has the potential to generate significant cash in the current copper price environment and we maintain our BUY rating and A\$0.36/sh target price.

#### Production Results

- Copper output of 4.1kt was below our 4.5kt forecast & down 33% QoQ as the operation recovers following the crud run event in Sep-17. C1 cash costs were up 39% QoQ reflecting the high fixed cost base.
- No guidance has been issued for CY'18, but it is our assumption that WCP ramps up steadily through MQ'18 for 5.8kt and remains at nameplate through the year.

#### Debt Reduction

- Finders net project debt of US\$51.5m is down US\$16.5m QoQ following a scheduled US\$7.5m debt repayment and US\$9m DSRA payment.
- Cash at 30-Sept-17 of A\$3.5m plus DQ'17 operating cash flow of ~A\$6.4m would have been insufficient for the ~A\$22m of debt repayments. It is our assumption that accounts payable increased ~A\$15m to ~A\$47m to fund the shortfall.

#### On Going Bid

- We continue to believe the Eastern Field Developments bid of 23¢/sh significantly undervalues Finders and our detailed view is [here](#).
- The bid has been extended to 28-Feb but in a rising copper price environment and the prospect of strong free cash flow from WCP, we do not expect the bid to succeed at 23¢/sh.

**Price target A\$0.36/sh 1xP/NPV**

#### Company Data

Shares – ordinary (M)	761.9
Market capitalisation (\$M)	183
12 month low/high (\$)	0.16 / 0.27
Average monthly turnover (\$M)	3.5
GICS Industry	Materials

#### Financial Summary (fully diluted/normalised)

Year end	June	2016A	2017F	2018F	2019F	2020F
Revenue (\$m)	73.6	223.6	228.4	224.1	218.2	
Costs (\$m)	72.9	91.0	77.1	81.8	82.9	
EBITDA (\$m)	0.7	132.6	151.3	142.3	135.2	
NPAT (\$m)	(13.1)	71.0	75.6	70.1	62.2	
EPS (cps)	(1.7)	9.3	9.9	9.2	8.2	
EPS growth (%)	56%	640%	7%	-7%	-11%	
PER (x)	na	2.6	2.4	2.6	2.9	
Cashflow (\$m)	(24.4)	70.5	106.2	94.1	104.7	
CFPS (cps)	(3.2)	9.3	14.0	12.4	13.8	
PCFPS (x)	(7.5)	2.6	1.7	1.9	1.7	
Enterprise Value (\$m)	299.4	267.0	188.2	114.8	24.8	
EV / EBITDA (x)	435.1	2.0	1.2	0.8	0.2	
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	
Dividend (cps)	0.0	0.0	0.0	0.0	0.0	
Yield (%)	0%	0%	0%	0%	0%	

#### FND – performance over one year



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## Analysis

### Finders Resources (Consolidated Entity)

(FND)							Share Price		(\$)		A\$0.24	
29-Jan-18							Options / Con. Notes		(M)		54.3	
							Iss. Shares		(M)		761.3	
							Mkt Cap.		(\$M)		A\$183M	
Year End December												
PROFIT & LOSS												
		2016A	2017F	2018F	2019F	2020F	2021F	Resource		Reserve		
Revenue	A\$M	73.6	223.6	228.4	224.1	218.2	169.3					
Operating Costs	A\$M	86.3	108.1	87.6	92.1	93.4	55.0					
Exploration	A\$M	0.0	0.8	2.5	2.5	2.5	2.5					
Other	A\$M	(13.3)	(17.9)	(13.0)	(12.7)	(12.9)	25.6					
<b>EBITDA</b>	<b>A\$M</b>	<b>0.7</b>	<b>132.6</b>	<b>151.3</b>	<b>142.3</b>	<b>135.2</b>	<b>86.2</b>					
Depreciation & Amort.	A\$M	13.8	40.4	44.9	49.8	54.9	45.8					
<b>EBIT</b>	<b>A\$M</b>	<b>(13.1)</b>	<b>92.2</b>	<b>106.4</b>	<b>92.5</b>	<b>80.3</b>	<b>40.4</b>					
Net Interest	A\$M	4.8	19.7	5.6	(0.9)	(2.7)	(5.7)					
<b>Pre-Tax Profit</b>	<b>A\$M</b>	<b>(17.8)</b>	<b>72.5</b>	<b>100.8</b>	<b>93.4</b>	<b>83.0</b>	<b>46.1</b>					
Tax	A\$M	(4.7)	1.6	25.2	23.4	20.7	11.5					
<b>Net Profit</b>	<b>A\$M</b>	<b>(13.1)</b>	<b>71.0</b>	<b>75.6</b>	<b>70.1</b>	<b>62.2</b>	<b>34.6</b>					
Abnormal	A\$M	0.0	9.1	0.0	0.0	0.0	0.0					
<b>Reported Profit</b>	<b>A\$M</b>	<b>(13.1)</b>	<b>80.0</b>	<b>75.6</b>	<b>70.1</b>	<b>62.2</b>	<b>34.6</b>					
Dividends Paid	A\$M	0.0	0.0	0.0	0.0	0.0	0.0					
Adjustments	A\$M	0.0	0.0	0.0	0.0	0.0	0.0					

CASHFLOW												
		2016A	2017F	2018F	2019F	2020F	2021F					
Net Op Cash Flow	A\$M	(16.4)	80.0	111.8	116.6	122.8	112.2					
Net Interest	A\$M	(8.0)	(9.5)	(5.6)	0.9	2.7	5.7					
Tax Paid	A\$M	0.0	0.0	0.0	(23.4)	(20.7)	(11.5)					
<b>Gross Op Cash Flow</b>	<b>A\$M</b>	<b>(24.4)</b>	<b>70.5</b>	<b>106.2</b>	<b>94.1</b>	<b>104.7</b>	<b>106.4</b>					
Net Capex	A\$M	(75.7)	(12.4)	(9.3)	(12.4)	(9.7)	(7.3)					
Exploration	A\$M	0.0	(1.5)	(5.0)	(5.0)	(5.0)	(5.0)					
<b>Investing Cash Flow</b>	<b>A\$M</b>	<b>(75.7)</b>	<b>(13.9)</b>	<b>(14.3)</b>	<b>(17.4)</b>	<b>(14.7)</b>	<b>(12.3)</b>					
Free cash flow	A\$M	(100.0)	56.6	92.0	76.7	90.1	94.1					
Net Borrowings	A\$M	0.7	(40.0)	(52.3)	(33.0)	0.0	0.0					
Dividends	A\$M	0.0	0.0	0.0	0.0	0.0	0.0					
Equity Issues	A\$M	11.3	0.0	0.0	0.0	0.0	0.0					
Other	A\$M	59.2	(8.4)	(13.2)	(3.4)	0.0	0.0					
<b>Financing Cash Flow</b>	<b>A\$M</b>	<b>71.2</b>	<b>(48.4)</b>	<b>(65.5)</b>	<b>(36.4)</b>	<b>0.0</b>	<b>0.0</b>					
<b>Net Increase/Cash</b>	<b>A\$M</b>	<b>(28.8)</b>	<b>8.2</b>	<b>26.5</b>	<b>40.3</b>	<b>90.1</b>	<b>94.1</b>					

BALANCE SHEET												
		2016A	2017F	2018F	2019F	2020F	2021F					
Cash	A\$M	4.9	1.1	27.6	67.9	157.9	252.1					
Other Current	A\$M	46.8	76.9	76.9	76.9	76.9	76.9					
<b>Current Assets</b>	<b>A\$M</b>	<b>51.6</b>	<b>77.9</b>	<b>104.5</b>	<b>144.7</b>	<b>234.8</b>	<b>329.0</b>					
Fixed Assets	A\$M	229.1	186.6	151.0	113.7	68.4	29.9					
Exploration	A\$M	0.0	0.0	0.0	0.0	0.0	0.0					
Other	A\$M	27.3	27.7	27.7	27.7	27.7	27.7					
<b>Non Current Assets</b>	<b>A\$M</b>	<b>256.4</b>	<b>214.3</b>	<b>178.7</b>	<b>141.3</b>	<b>96.1</b>	<b>57.5</b>					
<b>Total Assets</b>	<b>A\$M</b>	<b>308.0</b>	<b>292.2</b>	<b>283.1</b>	<b>286.1</b>	<b>330.9</b>	<b>386.5</b>					
Borrowings	A\$M	42.7	52.3	33.0	0.0	0.0	0.0					
Payables	A\$M	41.7	46.5	46.5	46.5	46.5	46.5					
Other	A\$M	9.1	13.2	13.2	13.2	13.2	13.2					
<b>Current Liab</b>	<b>A\$M</b>	<b>93.5</b>	<b>112.1</b>	<b>92.8</b>	<b>59.7</b>	<b>59.7</b>	<b>59.7</b>					
Borrowings	A\$M	78.9	33.0	0.0	0.0	0.0	0.0					
Provisions	A\$M	13.0	10.6	10.6	10.6	10.6	10.6					
Other	A\$M	8.5	7.5	7.5	7.5	7.5	7.5					
Non Current Liab	A\$M	100.5	51.1	18.1	18.1	18.1	18.1					
<b>Total Liabilities</b>	<b>A\$M</b>	<b>194.0</b>	<b>163.2</b>	<b>110.9</b>	<b>77.8</b>	<b>77.8</b>	<b>77.8</b>					
<b>Total Equity</b>	<b>A\$M</b>	<b>114.1</b>	<b>129.1</b>	<b>172.3</b>	<b>208.2</b>	<b>253.0</b>	<b>308.7</b>					

RATIO ANALYSIS												
		A\$	A\$	A\$	A\$	A\$	A\$					
EPS	¢	(1.7)	9.3	9.9	9.2	8.2	4.5					
PER	x	na	2.6	2.4	2.6	2.9	5.3					
EPS Growth	%	(55.5)	(640.2)	6.6	(7.4)	(11.1)	(44.5)					
CFPS	¢	(3.2)	9.3	14.0	12.4	13.8	14.0					
PCFR	x	na	2.6	1.7	1.9	1.7	1.7					
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0					
Yield	%	0%	0%	0%	0%	0%	0%					
Payout Ratio	%	0%	0%	0%	0%	0%	0%					
Gearing ND/E	%	166%	65%	3%	-33%	-62%	-82%					
Interest Cover	x	na	4.7	19.1	na	na	na					
EBITDA Margin	%	0.9	59.3	66.2	63.5	62.0	50.9					
EBIT Margin	%	(17.8)	41.2	46.6	41.3	36.8	23.9					
Return On Assets	%	(4.2)	31.5	37.6	32.4	24.3	10.4					
Eff Tax rate	%	25	25	25	25	25	25					

REVENUE												
		2016A	2017F	2018F	2019F	2020F	2021F					
Wetar	US\$M	44	154	153	156	161	125					
<b>Total</b>	<b>US\$M</b>	<b>44</b>	<b>154</b>	<b>153</b>	<b>156</b>	<b>161</b>	<b>125</b>					

COSTS												
		2016A	2017F	2018F	2019F	2020F	2021F					
Wetar	US\$M	19	89	67	68	69	41					
<b>Total</b>	<b>US\$M</b>	<b>19</b>	<b>89</b>	<b>67</b>	<b>68</b>	<b>69</b>	<b>41</b>					

CAPEX												
		2016A	2017F	2018F	2019F	2020F	2021F					
Wetar	US\$M	0.0	9.0	7.0	9.2	7.2	5.4					
<b>Total</b>	<b>US\$M</b>	<b>0.0</b>	<b>9.0</b>	<b>7.0</b>	<b>9.2</b>	<b>7.2</b>	<b>5.4</b>					

ASSUMPTIONS												
		2016A	2017F	2018F	2019F	2020F	2021F					
Exchange Rate	A\$/US\$	0.74	0.77	0.76	0.74	0.74	0.74					
Copper price	US\$/lb	2.21	2.74	2.80	2.80	2.90	2.90					
Copper price	US\$/t	4868	6032	6173	6173	6393	6393					

NPV (+1Yr)												
		2016A	2017F	2018F	2019F	2020F	2021F					
Wetar	(74.1%)											
Exploration												
Corporate costs												
Net Cash (Debt)	(74.1%)											
<b>Total</b>												

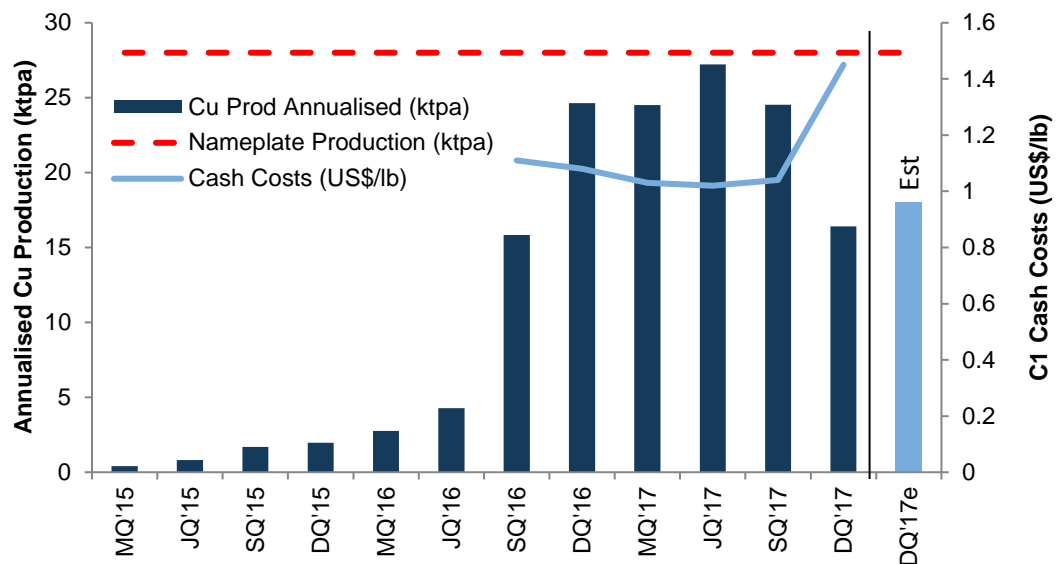
## Quarterly Results

**Figure 1: Quarterly Production Result**

	MQ'17	JQ'17	SQ'17	DQ'17	DQ'17e	Change (%)	QoQ (%)
Ore Stacked (kt)	430	554	514	368	400	-8%	-28%
Grade (% Cu)	1.5%	1.7%	2.3%	2.7%	2.5%	4%	15%
Cu Stacked (kt)	6.30	10.45	11.91	9.78	10.19	-4%	-18%
Copper Stripped (kt)	6.13	6.80	6.13	4.10	4.50	-9%	-33%
<b>Cu Prod Annualised (ktpa)</b>	<b>24.50</b>	<b>27.22</b>	<b>24.52</b>	<b>16.40</b>	<b>18.00</b>	<b>-9%</b>	<b>-33%</b>
Copper Sold (kt)	7.15	7.42	6.89	3.89	4.50	-14%	-44%
Cash Costs (US\$/lb)	1.03	1.02	1.04	1.45	1.50	-3%	39%

Source: Company Reports, Petra Capital

**Figure 2: Annualised production rate by quarter**



Source: Company Reports, Petra Capital

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