

21 March 2018

## Finders Resources (FND)

**SELL** Share Price: **A\$0.23**

### Time to Accept the Bid

Target Price: **A\$0.23**

Reluctantly, we downgrade our target price to **A\$0.23/sh** and recommend shareholders accept the **A\$0.23/sh** bid. Eastern Field Development Limited (EFDL) control 60.2% of the company as of 19-Mar, and now have a controlling interest. We continue to believe the **A\$0.23/sh** bid grossly undervalues the company, but the danger of being left as a minority shareholder with EFDL in control of distributions leads us to change our recommendation to **SELL**.

### Finders and the Wetar Copper Project

- The Wetar Copper Project is a 28ktpa Cu producer with cash costs of ~US\$1/lb, making Finders the 4<sup>th</sup> largest copper producer on the ASX after OZL, SFX and MLX. Since we initiated on the company in July-17, the stock is the second best performing copper producer on the ASX after SFR, and up 35%.
- The management team at Finders has performed well, constructing, commissioning and operating the project in a jurisdictionally and logistically challenging environment. It is unfortunate that Australian investors are unable to reap the literal dividends from the future cash flows of this project.

### The Shadow of Geopolitical Risk

- EFDL very effectively leveraged geopolitical risk in their takeover of Finders. Institutional investors, still wary of Indonesia following Churchill Mining PLC and Intrepid Mines Ltd, have been happy to take profits and sell into the bid than risk alternatives. We question whether this approach by EFDL will harm future investment by Australian investors into Indonesian mining assets.

### Change to Target Price

- We maintain our NPV of A\$0.36/sh (A\$277m) but lower our target price to A\$0.23/sh, by applying a 0.65 P/NPV.

### Company Data

Shares – ordinary (M)	778.3
Market capitalisation (\$M)	177
12 month low/high (\$)	0.16 / 0.27
Average monthly turnover (\$M)	29
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)	71.2	76.2	70.7	63.0
EPS (cps)	(1.7)	9.3	10.0	9.3	8.3
EPS growth (%)	56%	642%	7%	-7%	-11%
PER (x)	na	2.6	2.4	2.6	3.0
Cashflow (\$m)	(24.4)	70.5	106.2	93.9	104.5
CFPS (cps)	(3.2)	9.3	14.0	12.3	13.7
PCFPS (x)	(7.7)	2.6	1.8	2.0	1.8
Enterprise Value (\$m)	303.2	270.8	192.0	118.9	29.1
EV / EBITDA (x)	440.7	2.0	1.3	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)

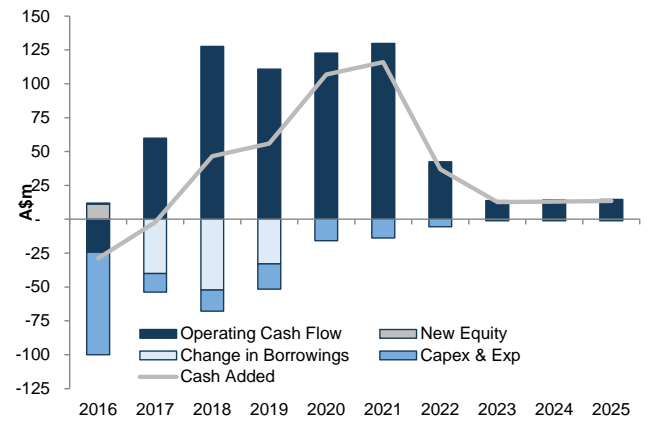
(FND) Share Price (\$) A\$0.23  
20-Mar-18

Year End December		2016A	2017F	2018F	2019F	2020F	2021F
<b>PROFIT &amp; LOSS</b>							
Revenue	A\$M	73.6	236.5	256.7	249.4	244.3	204.2
Operating Costs	A\$M	86.3	106.6	94.7	98.4	99.7	63.3
Exploration	A\$M	0.0	0.8	2.5	2.5	2.5	2.5
Other	A\$M	(13.3)	(13.0)	(3.7)	(3.9)	(4.0)	30.4
<b>EBITDA</b>	<b>A\$M</b>	<b>0.7</b>	<b>142.2</b>	<b>163.2</b>	<b>152.4</b>	<b>146.1</b>	<b>108.0</b>
Depreciation & Amort.	A\$M	13.8	40.8	44.9	49.2	54.6	49.3
<b>EBIT</b>	<b>A\$M</b>	<b>(13.1)</b>	<b>101.3</b>	<b>118.3</b>	<b>103.2</b>	<b>91.5</b>	<b>58.7</b>
Net Interest	A\$M	4.8	19.7	5.3	(1.6)	(4.0)	(7.4)
<b>Pre-Tax Profit</b>	<b>A\$M</b>	<b>(17.8)</b>	<b>81.7</b>	<b>113.0</b>	<b>104.9</b>	<b>95.5</b>	<b>66.1</b>
Tax	A\$M	(4.7)	3.9	28.2	26.2	23.9	16.5
<b>Net Profit</b>	<b>A\$M</b>	<b>(13.1)</b>	<b>77.8</b>	<b>84.7</b>	<b>78.6</b>	<b>71.6</b>	<b>49.5</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>86.9</b>	<b>84.7</b>	<b>78.6</b>	<b>71.6</b>	<b>49.5</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

		2016A	2017F	2018F	2019F	2020F	2021F
<b>Resource</b>							
Wetar (Dec-16)	Mt	7.3					
Copper grade	%	2.39%			2.41%		
Contained copper	t	174,180			168,180		

		2016A	2017F	2018F	2019F	2020F	2021F
<b>Wetar Production</b>							
Ore stacked	Mt	2.15	1.90	1.60	1.60	1.60	0.00
Grade - copper	%	2.20%	1.98%	2.55%	2.55%	2.55%	0.00%
Metal in ore stacked	Mt	47	39	41	41	41	0
Copper stripped	t	11.87	24.86	28.00	28.00	28.00	22.63
C1	US\$/lb	0.92	1.06	1.01	1.02	1.03	0.73

<b>CASHFLOW</b>							
Net Op Cash Flow	A\$M	(16.4)	69.4	133.0	135.5	142.6	139.0
Net Interest	A\$M	(8.0)	(9.5)	(5.3)	1.6	4.0	7.4
Tax Paid	A\$M	0.0	0.0	0.0	(26.2)	(23.9)	(16.5)
<b>Gross Op Cash Flow</b>	<b>A\$M</b>	<b>(24.4)</b>	<b>59.9</b>	<b>127.7</b>	<b>110.9</b>	<b>122.7</b>	<b>129.8</b>
Net Capex	A\$M	(75.7)	(12.2)	(10.6)	(13.5)	(10.8)	(8.8)
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>(13.7)</b>	<b>(15.6)</b>	<b>(18.5)</b>	<b>(15.8)</b>	<b>(13.8)</b>
Free cash flow	A\$M	(100.0)	46.2	112.1	92.4	106.8	116.1
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>(2.2)</b>	<b>46.6</b>	<b>56.0</b>	<b>106.8</b>	<b>116.1</b>



<b>BALANCE SHEET</b>							
Cash	A\$M	4.9	2.7	49.3	105.3	212.1	328.2
Other Current	A\$M	46.8	64.9	64.9	64.9	64.9	64.9
<b>Current Assets</b>	<b>A\$M</b>	<b>51.6</b>	<b>67.6</b>	<b>114.2</b>	<b>170.2</b>	<b>277.0</b>	<b>393.1</b>
Fixed Assets	A\$M	229.1	186.1	151.7	116.1	72.4	31.8
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>213.7</b>	<b>179.4</b>	<b>143.8</b>	<b>100.1</b>	<b>59.5</b>
<b>Total Assets</b>	<b>A\$M</b>	<b>308.0</b>	<b>281.3</b>	<b>293.6</b>	<b>314.0</b>	<b>377.1</b>	<b>452.6</b>
Borrowings	A\$M	42.7	52.3	33.0	0.0	0.0	0.0
Payables	A\$M	41.7	21.5	21.5	21.5	21.5	21.5
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>87.1</b>	<b>67.8</b>	<b>34.7</b>	<b>34.7</b>	<b>34.7</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>138.2</b>	<b>85.9</b>	<b>52.8</b>	<b>52.8</b>	<b>52.8</b>
<b>Total Equity</b>	<b>A\$M</b>	<b>114.1</b>	<b>143.1</b>	<b>207.8</b>	<b>261.1</b>	<b>324.3</b>	<b>399.7</b>

<b>REVENUE</b>							
Wetar	US\$M	44	164	175	175	181	151
<b>Total</b>	<b>US\$M</b>	<b>44</b>	<b>164</b>	<b>175</b>	<b>175</b>	<b>181</b>	<b>151</b>

<b>COSTS</b>							
Wetar	US\$M	19	88	72	73	74	47
<b>Total</b>	<b>US\$M</b>	<b>19</b>	<b>88</b>	<b>72</b>	<b>73</b>	<b>74</b>	<b>47</b>

<b>CAPEX</b>							
Wetar	US\$M	0.0	8.9	8.0	10.0	8.0	6.5
<b>Total</b>	<b>US\$M</b>	<b>0.0</b>	<b>8.9</b>	<b>8.0</b>	<b>10.0</b>	<b>8.0</b>	<b>6.5</b>

<b>RATIO ANALYSIS</b>							
EPS	¢	(1.7)	10.0	10.9	10.1	9.2	6.4
PER	x	na	2.3	2.1	2.3	2.5	3.6
EPS Growth	%	(55.5)	(692.4)	8.9	(7.2)	(9.0)	(30.8)
CFPS	¢	(3.1)	7.7	16.4	14.3	15.8	16.7
PCFR	x	na	3.0	1.4	1.6	1.4	1.4
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%	58%	-8%	-40%	-65%	-82%
Interest Cover	x	na	5.2	22.1	na	na	na
EBITDA Margin	%	0.9	60.1	63.6	61.1	59.8	52.9
EBIT Margin	%	(17.8)	42.8	46.1	41.4	37.5	28.7
Return On Assets	%	(4.2)	36.0	40.3	32.9	24.3	13.0
Eff Tax rate	%	25	25	25	25	25	25

<b>ASSUMPTIONS</b>							
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

<b>NPV (+1Yr)</b>			
Share			
Wetar (74.1%)	A\$M	270	\$ 0.35
Exploration	A\$M	50	\$ 0.06
Corporate costs	A\$M	(11)	\$ (0.01)
Net Cash (Debt)	A\$M	(33)	\$ (0.04)
<b>Total</b>	<b>A\$M</b>	<b>277</b>	<b>\$ 0.36</b>

<b>Target Price</b>			
P/NPV		0.65	
	A\$M	179	\$ 0.23

Source: Petra Capital

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