

# Firefinch Limited

## (FFX \$0.15) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury	8 <sup>th</sup> December 2020	\$0.30/sh

### Firefinch planning to fire up

#### Investment case

FFX recently completed the acquisition of an 80% interest in the Morila gold mine in Mali. FFX is planning to transition the 4.5mtpa plant from its current tailings ore feed to treat open pit ore from satellite pits and ultimately the Morila pit. The Company is also remodelling the Morila open pit resource which currently stands at 1.3moz @ 1.26 g/t Au, with the new resource to use 0.4g/t cut-off vs the existing 1.0g/t. On our numbers we believe FFX has the potential to become a -140koz pa producer once the mine/mill is fully ramped up (~4.5Mtpa, -1.1g/t, ~90% recovery) with ~110koz being attributable (80% ownership). We have transitioned our valuation model to a DCF NPV12 and have made numerous speculative assumptions in anticipation of the Company releasing further detail on its mine plan (Resource and Ore Resource, mining and refurbishment costs). We also note that our price target includes a value of 8cps (A\$60m) for the Goulamina Lithium asset, which is relatively cheap vs peers and we believe is easily defensible. We reiterate our Speculative Buy recommendation and maintain our Price Target and Valuation of 30cps (A\$235m).

#### Key points

- FFX poured its first gold in late Nov'20 and marked its entry as the newest ASX listed gold producer.
- The Company produced slightly higher than forecasted production in November with 4.13koz produced at a recovery of 51% with a reported AISC estimate of between US\$1,000-1,100/oz.
- FFX expects production to be in the order of 4-4.1koz in December with 10-10.5koz in the MarQ, with cash flow generated to be reinvested into Morila.
- We estimate FFX has ~\$30m in cash post transaction with no debt.
- The Company is currently progressing numerous work plans to restart full scale mining including:
  - Refurbishment of the processing plant to process hard rock ore.
  - Mine planning for satellite pits.
  - Tailings and water management (restart TSF as opposed to the current use of the Morila pit).
  - Exploration and infill drilling at Morila and Satellite pits.
- AC drilling has been completed over the remaining tailings resource with the Company noting modest extensions, we assume production from the tailings will be extended by 1-2months, previously forecasted to end in May.
- The Company has delayed the Morila Resource update into early CY21, with the basis for the new resource including 3D re-modelling at a lower cut-off grade (0.4g/t vs 1.0g/t) along with recently accessed drilling and grade control data. We are expecting a larger but slightly lower grade resource than the existing 1.3Moz at 1.26g/t.
- We expect FFX to announce a new mine plan, capital costs and production schedule in the MarQ. The aim is for production to transition from tailings to the satellite ore feed in the JunQ CY21.
- We also flag recent media reports of further strikes at Resolute's Syama gold mine in Mali and note that FFX previously reported that labour unrest has not impacted Morila.

Firefinch Limited	Year End 31 Dec	
Share Price	0.150	A\$/sh
Price Target	0.30	A\$/sh
Valuation	0.30	A\$/sh

Shares on issue	813	m, diluted *
Market Capitalisation	117	A\$m
Enterprise Value	87	A\$m
Debt	0	A\$m
Cash	30	A\$m
Largest Shareholder	Board and Mgt	2.4%

Production F/Cast	2020f	2021f	2022f
Prod'n (100%) (koz)	8	83	128
Cash Cost (A\$/oz)	1587	2498	1900
Total Cost (A\$/oz)	2803	1676	1647

Assumptions	2020f	2021f	2022f
Gold Price US\$/oz	1950	1750	1700
AUDUSD	0.71	0.72	0.72

Key Financials	2020f	2021f	2022f
Revenue (A\$m)	18	249	271
EBITDA (A\$m)	9	81	86
NPAT (A\$m)	6	51	54
Cashflow (A\$m)	5	58	62

CFPS (Ac)	0	3	4
P/CFPS (x)	na	5	4

EPS (Ac)	1	6	7
EPS growth (%)	-2	2	0
PER (x)	21	3	2

EV:EBITDA (x)	11.4	0.9	0.3
EV:EBIT (x)	11.6	1.0	0.3

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

ND:Net Debt+Equity (%)	1228%	-370%	-553%
Interest Cover (x)	na	na	na

#### Share Price Chart



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This analyst declares that he has a beneficial interest in Firefinch Ltd.

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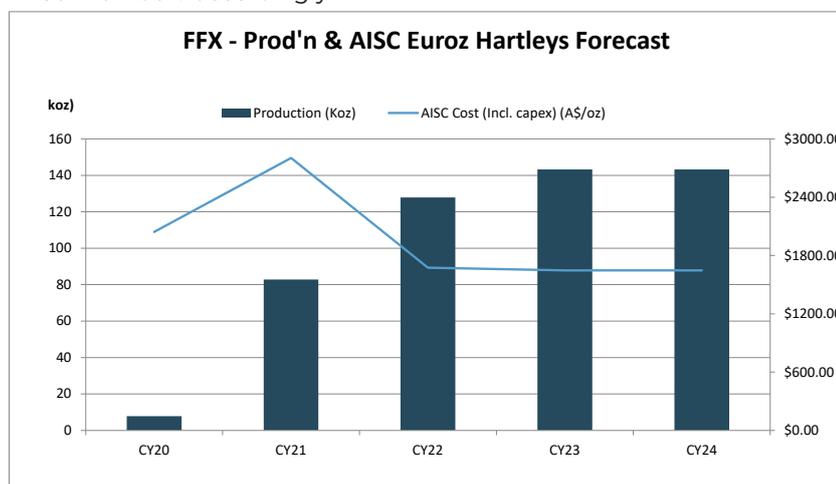
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# Firefinch Limited

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### Analysis

- We have transitioned our valuation model to a DCF NPV12 and have made numerous speculative assumptions in anticipation of the Company releasing further detail on its mine plan (Resource and Ore Resource, mining and refurbishment costs).
- We estimate that mill refurbishment will cost in the order of ~A\$30m with a further ~A\$15m for pre-strip/de-watering costs.
- We assume this will be funded out of existing cash (~A\$30) and operating cash flow. We also assume that FFX will be able to secure debt funding of ~A\$30m (assumed drawn down in MarQ CY21).
- Although we assume that the Company will not require further equity funding, we believe further equity dilution is a key risk and have attempted to account for this by risking our NPV12 by 80%.
- We assume that Satellite pits ore feed will be available for the mill in the JunQ CY21 once Tailings resource is depleted, although we note that the timing could be tight.
- Post the Satellite ore feed we assume ore from the Morila pit will be available in Q1 CY22. With the mine ramping up to fill the mill capacity of 4.5Mtpa by the end of CY22.
- On our numbers once the mill/mine ramps up to full capacity it should be capable of producing ~140kozpa (~4.5Mtpa, ~1.1g/t, ~90% recovery) with ~110koz being attributable (80% ownership) at an AISC of ~A\$1650/oz or ~US\$1,200/oz.
- We currently model a 6 year mine life of at Morila, although we have attributed A\$22m or 3cps in exploration value as we believe the Company will extend mine life through further exploration.
- As further detail is released by the Company we will look to update our numbers accordingly.



Valuation Total	Risking	A\$m	A\$/sh.
(+)Morila (risk adj 80%)	80%	148.9	\$0.19
(-) Corporate	100%	-26.6	-\$0.03
(+/-) Hedging	100%	0.0	\$-
(+) Exploration	100%	22.3	\$0.03
(+) Unpaid Capital	100%	0.0	\$-
(+) Goulamina Lithium	100%	60.0	\$0.08
(+) Cash	100%	30.0	\$0.04
(-) Debt	100%	0.0	\$-
<b>Total</b>		<b>234.6</b>	<b>\$0.300</b>

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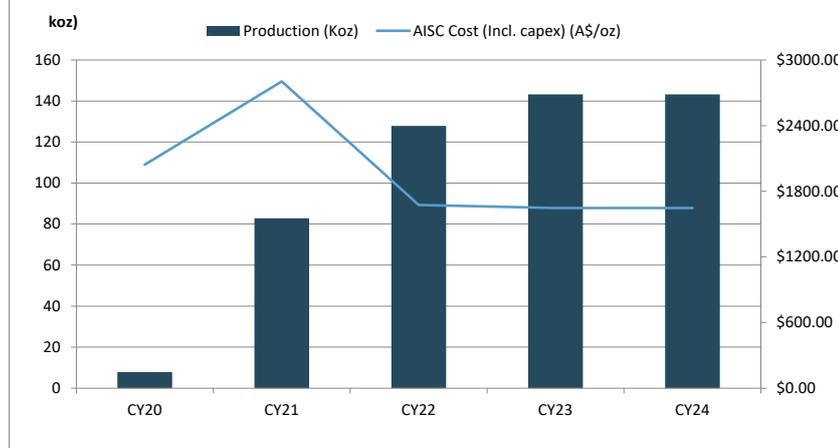
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## Key Variables

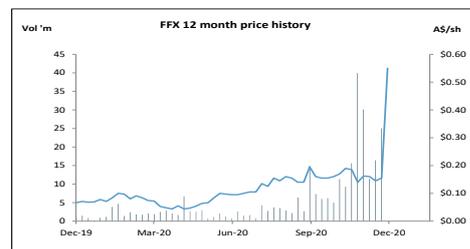
Val/ Sh	Gold \$									
\$0.30	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
AUDUSD	15%	\$0.070	\$0.109	\$0.147	\$0.186	\$0.224	\$0.263	\$0.301	\$0.340	\$0.378
	10%	\$0.086	\$0.126	\$0.167	\$0.207	\$0.247	\$0.287	\$0.328	\$0.368	\$0.408
	5%	\$0.104	\$0.146	\$0.188	\$0.230	\$0.272	\$0.315	\$0.357	\$0.399	\$0.441
	0%	\$0.123	\$0.167	\$0.211	\$0.256	\$0.300	\$0.344	\$0.389	\$0.433	\$0.477
	-5%	\$0.144	\$0.191	\$0.237	\$0.284	\$0.331	\$0.377	\$0.424	\$0.471	\$0.517
	-10%	\$0.168	\$0.217	\$0.266	\$0.316	\$0.365	\$0.414	\$0.463	\$0.512	\$0.562
-15%	\$0.194	\$0.247	\$0.299	\$0.351	\$0.403	\$0.455	\$0.507	\$0.559	\$0.611	

## FFX - Prod'n & AISC Euroz Hartleys Forecast



Euroz Forecast	FY'2020	FY'2021	FY'2022	FY'2023
Gold (US\$/lb)	\$1,950.00	\$1,850.00	\$1,750.00	\$1,700.00
AUDUSD	\$0.71	\$0.71	\$0.72	\$0.72

## Our Share Price Sensitivity



## Our Market Sensitivity

Price Target \$0.30/sh

Valuation \$0.30/sh

### Bull Scenario \$0.50/sh

FFX finds additional ore at a higher grade than the Morila pit allowing production to exceed our forecast long term production average of -140kozpa. The gold price tracks above our LT price assumption of of A\$2,650/oz. The Company is able to sell the Goulima for +A\$100m in cash to fast track development at Morila whilst strengthening the balance sheet.

### Base Scenario \$0.30/sh

The Company is able to restart open pit mining in-line with our estimates and ramp up production to -140kozpa (100% basis) by the end of CY22. FFX successfully executes to become a mid cap gold producer. The Company sells the Goulima project for A\$60m.

### Bear Scenario \$0.05/sh

Gold price falls. Refurbishment and mining costs exceed our estimates and further equity dilution is required. The Company is unable to monetise the Goulima lithium project.

## Company Summary

Firefinch Limited (FFX) recently completed the acquisition of an 80% interest in the Morila gold mine in Mali, with the Company planning to transition the 4.5mtpa plant from its current tailings ore feed to treat open pit ore from satellite and ultimately the Morila pit. The Company is currently remodelling the Morila open pit resource which currently stands at 1.3moz @ 1.26 g/t Au, with the new resource to use 0.4g/t cut-off vs the existing 1.0g/t. On our numbers we believe FFX has the potential to become a -140koz pa producer once the mine/mill is full ramped up. We also note that Company has a quality lithium asset in Goulamina also located in Mali.

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EUROZ HARTLEYS

Market Statistics				Year End 31 Dec			
<b>Share Price</b>	<b>0.150</b>	<b>A\$/sh</b>	<b>Directors</b>				
Issued Capital			A.Cowden	Exec. Chair			
Fully Paid Ord	781.9	m	M.Hepburn	NE Dir			
Options (var. prices)	31.1	m	B.Borg	NE Dir			
<b>Total Dil.</b>	<b>813.0</b>	<b>m</b>	B.Fraser	NE Dir			
			E.Hughes	CFO & Sec			
<b>Market Capitalisation</b>	<b>\$117</b>	<b>m</b>	<b>Shareholders</b>				
Enterprise Value	\$87	m	Board and Mgt			2.4%	
Cash (est. post trans.)	\$30	m					
Debt	\$-	m					
<b>Asset Valuation</b>							
			<b>A\$m</b>	<b>A\$/sh</b>			
(+)Morila (risk adj 80%)			149	0.19			
(-) Corporate			(27)	(0.03)			
(+/-) Hedging			-	-			
(+) Exploration			22	0.03			
(+) Unpaid Capital			-	-			
(+) Goulamina Lithium			60	0.08			
(+) Cash			30	0.04			
(-) Debt			-	-			
<b>Total</b>			<b>235</b>	<b>0.30</b>			
<b>F/Cast Production</b>							
	<b>(A\$m)</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>		
<b>Morila (100%)</b>							
Throughput	Mtpa	0.9	4.1	4.0	4.5		
Head grade	g/t	0.5	0.8	1.1	1.1		
Recovery	%	54%	77%	90%	90%		
<b>Gold Production</b>	<b>Koz</b>	<b>8</b>	<b>83</b>	<b>128</b>	<b>143</b>		
Cash Costs (C1)	A\$/oz	1,587	2,498	1,900	1,873		
AISC (incl capex)	A\$/oz	2,043	2,803	1,676	1,647		
AISC (incl capex)	US\$/oz	1,450	1,990	1,206	1,186		
<b>Assumptions</b>							
Spot Gold Price	US\$/oz	1,950	1,850	1,750	1,700		
FX Rate ass'd	A\$/US\$	0.71	0.71	0.72	0.72		
<b>Ratio Analysis (A\$m)</b>							
		<b>2020f</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>		
Cashflow		5	22	58	62		
Cashflow Per Share		-0	0	3	4		
Cashflow Ratio		na	34	5	4		
Earnings		6	17	51	54		
Earnings Per Share		1	2	6	7		
EPS Growth		-2	2	2	0		
P/e Ratio		21	8	3	2		
Enterprise Value		101	123	76	25		
EV/EBITDA		11	4	1	0		
EV/EBIT		12	5	1	0		
Net Debt/(Net Debt + Equity)		12	-0	-4	-6		
Interest Cover		na	na	na	na		
EBIT Margin		0	0	0	0		
Return on Equity		0	0	1	0		
Return on Assets		0	0	1	0		
Dividend per Share		0	0	0	0		
Dividend Payout Ratio		0	0	0	0		
Dividend Yield		0	0	0	0		
Dividend Franking		na	na	na	na		
<b>Profit and Loss (A\$m)</b>							
	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
(+) Gold revenue	18	173	249	271			
(+/-) Hedging Revenue	-	-	-	-			
(+) Interest Income	-	-	-	-			
(+) Other Revenue	-	-	-	-			
<b>Total Revenue</b>	<b>18</b>	<b>173</b>	<b>249</b>	<b>271</b>			
(-) Operating Costs	(9)	(141)	(167)	(185)			
(-) Dep/Armort	(0)	(5)	(7)	(9)			
(-) Writeoff (expl'n)	-	-	-	-			
(-) O/H + News Bus Dev.	-	-	-	-			
(-) Provisions	-	-	-	-			
EBITDA	9	32	81	86			
EBIT	9	27	74	77			
(-) Interest Expense	-	(2)	(2)	(0)			
NPBT	9	24	72	77			
(-) Tax	(3)	(7)	(22)	(23)			
(-) Minority Interest	-	-	-	-			
<b>Net Profit</b>	<b>6</b>	<b>17</b>	<b>51</b>	<b>54</b>			
(+/-) Net abnormal	-	-	-	-			
<b>Net profit After Abnormal</b>	<b>6</b>	<b>17</b>	<b>51</b>	<b>54</b>			
<b>Cash Flow (A\$m)</b>							
	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
Net Profit	6	17	51	54			
(+) WC adj.	(1)	-	-	-			
(+) Dep/Amort	0	5	7	9			
(+) Provisions & W/O	-	-	-	-			
(+) Tax Expense	3	7	22	23			
(-) Deferred Revenue	-	-	-	-			
(-) Tax Paid	(3)	(7)	(22)	(23)			
<b>Operating Cashflow</b>	<b>5</b>	<b>22</b>	<b>58</b>	<b>62</b>			
(-) Capex + Dev.	(3)	(36)	(3)	(3)			
(-) Exploration	(8)	(8)	(8)	(8)			
(-) Asset Purchased	(40)	-	-	-			
(+) Asset Sale	-	-	-	-			
(+/-) Other	-	-	-	-			
<b>Investing Cashflow</b>	<b>(51)</b>	<b>(44)</b>	<b>(11)</b>	<b>(11)</b>			
(+) Equity Issues (rts,plc,opts)	71	-	-	-			
(+) Loan Drawdown/receivable	-	30	-	-			
(+) Loans from(to) other entities	-	-	-	-			
(-) Loan Repayment	-	-	(20)	(10)			
(-) Dividends	-	-	-	-			
<b>Financing Cashflow</b>	<b>71</b>	<b>30</b>	<b>(20)</b>	<b>(10)</b>			
Net Cashflows	25	8	26	41			
(+/-) FX Adj.	0	-	-	-			
<b>EoP Cash Balance</b>	<b>29</b>	<b>37</b>	<b>64</b>	<b>105</b>			
<b>Balance Sheet (A\$m)</b>							
	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
<b>Assets</b>							
Cash	29	37	64	105			
Current Receivables	-	-	-	-			
Other Current Assets	-	-	-	-			
Non-Current Assets	-	31	27	21			
<b>Total Assets</b>	<b>29</b>	<b>68</b>	<b>90</b>	<b>126</b>			
<b>Balance Sheet</b>							
Borrowing(s)	-	30	10	-			
Current Accounts payable	2	2	2	2			
Other Liabilities	0	0	0	0			
<b>Total Liabilities</b>	<b>2</b>	<b>32</b>	<b>22</b>	<b>2</b>			
<b>Net Assets</b>	<b>27</b>	<b>35</b>	<b>68</b>	<b>124</b>			
<b>Reserves and Resources</b>							
	<b>Reserves</b>			<b>Resources</b>			
	<b>ore</b>	<b>grade</b>	<b>metal</b>	<b>ore</b>	<b>grade</b>	<b>metal</b>	
	mt	g/t	Koz	mt	g/t	Koz	
Morila				32.0	1.26	1,296	
Tailings				4.8	0.5	76	
Satellites				2.6	1.38	113	
<b>Total contained Gold</b>			<b>0</b>	<b>1.17</b>	<b>1,486</b>		
<b>EV/oz</b>			<b>0</b>			<b>64</b>	

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