

**Ticker:** FFX AU

**Net cash:** A\$54m

**Project:** Morila

**Market cap:** A\$366m

**Price:** A\$0.41/sh

**Country:** Mali

RECOMMENDATION (unc): BUY

TARGET (unc): A\$0.80/sh

RISK RATING: HIGH

*Firefinch's JQ21 activities came in with few surprises with production already reported. Encouragingly, site operates generated positive income of US\$3.4m. Open pit volumes were also encouraging at 375kt of ore, highlighting that operating conditions are unimpeded by political headlines in country, as we witnessed during our site visit during the quarter. Looking ahead, we expect a strong Q2 with SCPe production of 15.4koz, just ahead of 13-15koz guidance, noting that production already reached 5koz in June and with mining commencing at the higher grade northern satellites. We also expect further catalysts to come from exploration with three rigs on site and a fourth mobilizing shortly. **We have updated our estimates for the quarter but with only minor changes, and no changes to our forward assumptions today, we reiterate our BUY recommendation and A\$0.80/sh price target based on 0.9x NAV<sub>5%-1850+</sub>.***

## Morila posts modest 2Q21 operating profit as ramp up unimpeded by political headlines

**Operations:** Firefinch reported Q2 activities with production of 12.6koz previously reported. 1.1Mt at 0.57g/t was mined including 757kt at 0.53g/t of tailings and 375kt at 0.63g/t of Pit 5 ore. 1.074g/t was milled at 0.58g/t with 63.2% gold recovery (previously reported). No LTI were reported for the quarter. Production guidance for SQ21 is 13-15koz. Mining contractors Mota Engil and IMS will ramp up to the Viper deposit in early August.

**Financials:** Site operating income was positive US\$3.4m. Operating cash saw an A\$5.8m outflow primarily due to US\$4.4m of revenue/payment timing and A\$3.8m of G&A. Firefinch invested US\$4.2m in exploration and US\$1.3m in PPE during the quarter with A\$45m net proceeds from financing for a period ending cash balance of A\$54m with a further A\$8m of sales receivables and unsold dore at quarter end.

**Exploration:** 24,894m of drilling was completed during the quarter. Three rigs are on site and the company noted that follow up infill is planned for the coming quarter to follow up new discoveries such as K2 and K3 south, as well as opportunities to infill and convert areas within the pit shell at Pit 5 and the Super Pit.

## Why we like Firefinch

1. 160-200kozpa production profile to 2030 for lower capex than similar-sized projects
2. High-grade drilling potential could take production >200kozpa with further upside on 685km regional tenements
3. 20-year operating history at Morila with team, systems and infrastructure in place

## Catalysts

- 2022: SCPe 120kozpa run rate
- Mid-2022: Re-commencement of mining from the Morila Main Pit
- 2023: SCPe 160kozpa run rate

## Research

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<b>Ticker:</b> FFX AU	<b>Price / mkt cap:</b> A\$0.41/sh, A\$366m	<b>Market P/NAV:</b> 0.45x	<b>Assets:</b> Morila
<b>Analyst:</b> J Chan / B Gaspar	<b>Rec / PT:</b> BUY / A\$0.80	<b>1xNAV<sub>2020</sub> FD:</b> A\$0.90/sh	<b>Country:</b> Mali

  

Group-level SOTP valuation		2Q21	3Q21E		Resource / Reserve	Mt	000oz	EV/oz			
		A\$m	O/ship	NAVx	A\$/sh						
Morila NPV 3Q21E		677	80%	0.90x	0.65	Measured, ind. & inf.	51	2,433	101		
Central SG&A & fin costs 3Q21E		(100)	-	0.90x	(0.10)	SCPe Mine Inventory	42	1,819	135		
Ounces outside mine plan (\$25/oz)		21	100%	0.90x	0.02	<b>Commodity price</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
Cash and restr. cash 2Q21		54	-	0.90x	0.05	Gold price (US\$/oz)	1,631	1,804	1,828	1,850	1,850
Cash from options		3	-	0.90x	0.00	<b>Share data</b>					
Debt 2Q21		(10)	-	0.90x	(0.01)	Basic shares (m): 902.9	FD + options (m):	941.0	FD/FF	941.0	
Exploration		25	-	0.90x	0.02	<b>Ratio analysis</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
Goulamina		177	-	0.90x	0.17	FD shares out (m)	782	903	903	903	903
<b>1xNAV5% A\$1850/oz fully diluted, pre-funded</b>		<b>847</b>			<b>0.81</b>	EPS (A\$/sh)	0.00	(0.02)	(0.01)	0.05	0.10
Assumed equity component of project		-		0.90x	-	CFPS before w/c (A\$/sh)	(0.01)	0.02	0.02	0.06	0.15
<b>1xNAV5% A\$1850/oz fully funded</b>		<b>847</b>			<b>0.81</b>	FCFPS pre growth (A\$/sh)	(0.02)	0.02	0.01	0.05	0.14
<b>1x fully funded NAVPS sensitivity to gold price and discount / NAV multiple</b>											
1xNAV asset (US\$m)	\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz	FCF yield pre growth (A\$/sh)	(4%)	5%	2%	12%	34%
8% discount	312	471	587	703	858	FCF yield (%)	(2%)	(5%)	(16%)	12%	34%
7% discount	329	494	615	736	897	EBITDA margin (%)	1%	(0%)	12%	31%	43%
6% discount	347	519	645	771	938	FCF margin (%)	(46%)	(14%)	(20%)	10%	24%
5% discount	366	545	<b>677</b>	808	982	ROA (%)	0%	(7%)	(2%)	18%	28%
4% discount	387	573	711	847	1,030	ROE (%)	0%	(11%)	(4%)	25%	35%
Valuation (A\$/sh)	\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz	ROCE (%) <td>0%</td> <td>(7%)</td> <td>4%</td> <td>50%</td> <td>65%</td>	0%	(7%)	4%	50%	65%
0.50xNAV	0.36	0.46	0.53	0.60	0.69	PER (x)	1,432x	(24x)	(76x)	9x	4x
0.75xNAV	0.45	0.60	0.70	0.81	0.95	P/CF (x)	9x	(303x)	16x	4x	3x
0.90xNAV	0.51	0.68	<b>0.81</b>	0.94	1.10	EV/EBITDA (x)	1,136x	(1,541x)	11x	3x	1x
1.20xNAV	0.62	0.86	1.02	1.19	1.42	<b>Income statement</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
<b>Valuation over time</b>	<b>1Q21E</b>	<b>1Q22E</b>	<b>1Q23E</b>	<b>1Q24E</b>	<b>1Q25E</b>	Revenue (A\$m)	20	134	296	436	531
Mines NPV (A\$m)	627.1	692.0	779.1	720.0	599.1	COGS (A\$m)	(17)	(123)	(251)	(289)	(295)
Cntrl G&A & fin costs (A\$m)	(88.2)	(108.4)	(68.3)	(14.8)	0.9	<b>Gross profit (A\$m)</b>	<b>3</b>	<b>10</b>	<b>45</b>	<b>147</b>	<b>236</b>
Net cash at 1Q (A\$m)	33.8	(24.4)	20.9	146.8	225.3	Expenses (A\$m)	--	--	--	(4)	(3)
1xNAV (US\$m)	573	559	732	852	825	Impairment & other (A\$m)	--	--	--	--	--
P/NAV (x):	0.49x	0.50x	0.38x	0.33x	0.34x	Net finance costs (A\$m)	1	(1)	(3)	(6)	(4)
1xNAV share px FD (A\$/sh)	0.83	0.81	1.06	1.23	1.19	Tax (A\$m)	(0)	(1)	(6)	(32)	(56)
ROI to equity holder (% pa)	105%	41%	38%	32%	24%	Minority interest (A\$m)	(1)	(0)	(3)	(15)	(26)
1.2xNAV share px FD (A\$/sh)	0.99	0.97	1.27	1.48	1.43	<b>Net income attr. (A\$m)</b>	<b>3</b>	<b>9</b>	<b>34</b>	<b>91</b>	<b>147</b>
ROI to equity holder (% pa)	146%	55%	46%	38%	29%	EBITDA (A\$m)	0	(0)	35	137	226
<b>Morila 1xNAV sensitivity to grade and strip ratio</b>											
Morila NPV5% (US\$m)	SR: 6.0x	6.5x	7.0x	8.0x	9.0x	<b>Cash flow</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
Grade: 1.30g/t	411	389	367	323	278	Profit/(loss) after tax (A\$m)	0	(14)	(5)	43	90
Grade: 1.40g/t	498	476	453	409	365	Add non-cash items (A\$m)	35	13	28	41	50
Grade: 1.45g/t	541	519	<b>497</b>	453	408	Less wkg cap / other (A\$m)	(42)	23	(9)	(32)	(8)
Grade: 1.50g/t	584	562	540	496	452	<b>Cash flow ops (A\$m)</b>	<b>(6)</b>	<b>22</b>	<b>14</b>	<b>52</b>	<b>132</b>
Grade: 1.60g/t	671	649	627	582	538	PP&E (A\$m)	(0)	(41)	(72)	(7)	(7)
<b>Morila 1xNAV sensitivity to gold price and mining cost per tonne</b>											
Morila NPV5% (US\$m)	\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz	Other (A\$m)	(46)	--	--	--	--
Mining: US\$2.50/t	269	400	497	593	721	<b>Cash flow inv. (A\$m)</b>	<b>(49)</b>	<b>(41)</b>	<b>(72)</b>	<b>(7)</b>	<b>(7)</b>
Mining: US\$2.75/t	269	400	497	593	721	Debt draw (repayment) (A\$m)	--	10	20	(13)	(13)
Mining: US\$3.00/t	269	400	<b>497</b>	593	721	Equity issuance (A\$m)	69	45	--	--	--
Mining: US\$3.25/t	269	400	497	593	721	Other (A\$m)	--	--	--	--	--
Mining: US\$3.50/t	269	400	497	593	721	<b>Cash flow fin. (A\$m)</b>	<b>69</b>	<b>55</b>	<b>20</b>	<b>(13)</b>	<b>(13)</b>

  

Production (100%)	CY20E	CY21E	CY22E	CY23E	CY24E
Morila (000oz)	11	52	121	173	211
Morila cash cost (US\$/oz)	1,202	1,609	1,440	1,115	916
Morila AISC (US\$/oz)	1,401	1,785	1,583	1,254	1,050
Group (000oz)	11	52	121	173	211
Group cash cost (US\$/oz)	1,128	1,778	1,549	1,226	1,027
Group AISC (US\$/oz)	1,600	1,938	1,644	1,296	1,085

  

Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (A\$m)	17	54	15	47	160
Accounts receivable (A\$m)	14	14	15	36	44
Inventories (A\$m)	37	24	36	48	48
PPE & exploration (A\$m)	60	88	132	98	54
Other (A\$m)	11	11	11	11	11
<b>Total assets (A\$m)</b>	<b>139</b>	<b>191</b>	<b>209</b>	<b>239</b>	<b>317</b>
Debt (A\$m)	10	20	40	26	13
Other liabilities (A\$m)	30	41	44	45	46
Shareholders equity (A\$m)	134	179	179	179	179
Retained earnings (A\$m)	(37)	(50)	(55)	(12)	77
Minority int. & other (A\$m)	2	2	2	2	2
<b>Liabilities+equity (A\$m)</b>	<b>139</b>	<b>191</b>	<b>209</b>	<b>239</b>	<b>317</b>
Net cash (A\$m)	8	34	(24)	21	147
Net debt to NTM EBITDA (x)	35.1x	(1.0x)	0.2x	(0.1x)	(1.3x)

Source: SCP estimates

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Summary of recommendations as of July 2021	
BUY:	44
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

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