Canaccord Genuity Capital Markets

Flash Update

28 March 2022

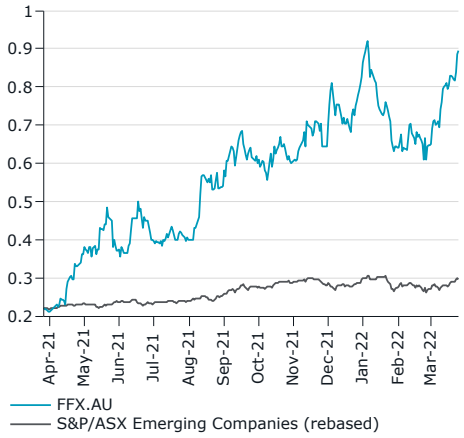
Firefinch Limited

Precious Metals - Producer

Rating	Price Target
SPECULATIVE BUY	**A$1.90**
FFX-ASX	Price **A$0.94**

Market Data

52-Week Range (A$) :	0.21 - 0.97
Avg Daily Vol (000s) :	10,328.69
Shares Out. (M) :	1,178.1
Market Cap (A$M) :	1,113.3
Dividend /Shr (A$) :	0.00
Dividend Yield (%) :	0.0



Source: FactSet

Priced as of close of business 25 March 2022

Firefinch Limited (FFX) is an ASX-listed company focused on full restart of the Morila Gold Project and developing the Goulamina Lithium Project, both in Mali, West Africa. The company expects to demerge the Goulamina Lithium Project in early-2022 via an in-specie distribution with FFX retaining a 20% stake in the demerged entity, Leo Lithium.

Canaccord Genuity received a fee for its role as Co-Manager to Firefinch's $46.9m equity raise at $0.40 on 24 June 2021.

Canaccord Genuity received a fee for its role as Joint Lead Manager to Firefinch's $100m equity raise at $0.67 on 9 December 2021.

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Goulamina JV formalised; Leo Lithium demerger likely in JunQ'22

Ministerial sign off complete: FFX has announced ministerial sign off on the transfer of the Exploitation Licence for the Goulamina Lithium project to the Ganfeng/FFX JV. All conditions precedent for Ganfeng's investment and project funding totalling US $170-193m into the Goulamina project have now been met, with respective JV interests now at 50%. Importantly, this now means that funding committed by Ganfeng for development costs (US$130m equity, US$40/63m debt) will now be released, allowing for construction to commence in earnest (tendering for long lead items underway).

We note that Ganfeng's US$193m investment falls short of project capex requirements based on the updated DFS (CGe US$62m shortfall excl. working cap, US$31m attributable to FFX/Leo Lithium); however, we continue to expect the JV partners to work towards covering the shortfall (i.e. combination of FFX's suggested pro-rata entitlement issue and/or an extension of the Ganfeng loan facility).

Leo Lithium demerger update: The licence transfer now also clears the way for the planned demerger of FFX's interests in the JV into Leo Lithium. FFX has flagged that it will release a definitive timeline for the demerger (which is subject to shareholder approval), which we expect could see the demerger completed in JunQ'22.

Goulamina to be one of the world's largest spodumene operations: FFX released the outcomes of an updated DFS in Dec'21 (see Goulamina DFS recap), which outlined plans for increased SC6 production from 430ktpa in the 2020 DFS to >800ktpa (over years 1-5) through an increase in plant throughput to 4Mtpa 18 months after commissioning (currently scheduled for late 2023/early 2024). At that rate, Goulamina would be among the world's largest spodumene operations. Key study outcomes included Stage 1 capex of US$255m (plus US$70m for expansion), LOM average annual production of 726ktpa, and cash operating costs of US$312/t.

Sensitivity analysis suggests significant value potential: Our development scenario aligns with that outlined in the updated DFS, noting a slightly more conservative project capex, mine life, recoveries and cash operating costs. Our current LT SC6 pricing of US$1,000/t delivers a project post tax NPV10% (100% basis) of US $2.3bn, IRR of 83%, and capex payback of <3 years. At US$1,200/t this increases by 41% NPV10% of US$3.2bn, and at US$2,500/t, our NPV increases to ~US$8bn.

Valuation and recommendation

Our project model assumptions for Goulamina remain unchanged as does our target price of $1.90/share ($NPV_{5\%}$ for Morila, risked $NPV_{10\%}$ for 45% assumed equity in Goulamina post GFCI). At US$1,200/t SC6, our target would increase to $2.40/share, and at US$2,500/t this increases to $4.50/share.

We continue to see FFX as one of the most mispriced stocks under our lithium coverage (noting our value estimate for FFX's gold assets), and see the planned demerger as a potential share price catalyst. We maintain our high conviction on FFX, and reiterate our SPECULATIVE BUY rating.

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Investment Recommendation

Date and time of first dissemination: March 27, 2022, 21:15 ET

Date and time of production: March 27, 2022, 21:15 ET

Target Price / Valuation Methodology:

Firefinch Limited - FFX

Our valuation/target price is based on a 1x forward curve NPV5% for our modelled production case for Morila, and risked (90%) NPV10% (45% attributable to FFX) for our Goulamina development scenario.

Risks to achieving Target Price / Valuation:

Firefinch Limited - FFX

Orebody risks

The majority of the resources and reserves across the Morila Project are contained within the Morila Pit, which is currently full of water. While dewatering is required, there is no certainty as to the geotechnical stability of the pit walls. Pit wall failures may have occurred beneath the waterline presenting orebody risk through dilution.

Geopolitical risks

FFX's assets are located in Mali, which is considered an emerging market. As such, FFX carries a higher degree of economic, political, social, legal and legislative risk.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral Resources nor that the company will be able to convert the current mineral resource into minable Reserves.

Operating risks

If and when in full production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations, which can also materially impact forecast production from original expectations.

Commodity price and currency fluctuations

As with any mining company, FFX is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 03/27/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	655	69.68%	41.22%
Hold	123	13.09%	21.95%
Sell	10	1.06%	20.00%
Speculative Buy	147	15.64%	53.06%
	940*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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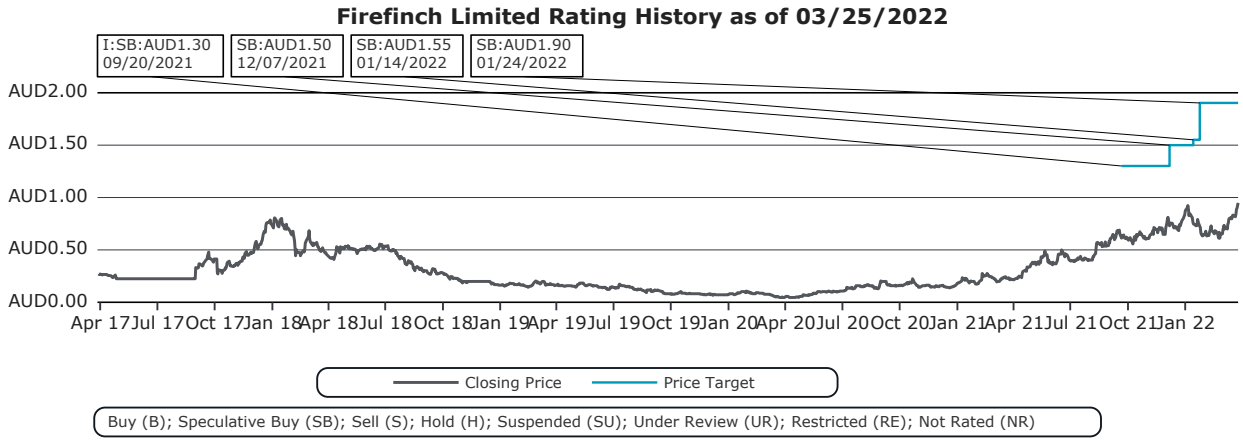

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