

# Firefinch Ltd

## (FFX \$0.65) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury	29 <sup>th</sup> November 2021	\$1.20/sh

### SPP funding de-risks the Morila mine plan

#### Event

Firefinch (Ltd) recently completed a \$51.4m SPP at 58cps, with all applications being accepted. The Company was originally seeking \$25m.

- Chinese spot spodumene prices continue to rise, hitting ~US\$2,200/t of 6% Li<sub>2</sub>O conc.

#### Impact

The SPP funding in our view has significantly de-risked the development of the Morila Gold mine as they look to progress the project for a sustainable +100kozpa producer towards to the end of CY22.

- We are forecasting ~A\$70m in remaining capex (largely pre-strip/dewatering) to bring main Morila pit back online, which we assume will be funded from existing cash (~A\$90m post SPP) and potentially securing a debt facility of ~A\$30m.
- We have diluted for the newly issued shares and have rolled forward our DCF model.
- An increased in our assumed received spodumene price by US\$50/t to US\$1,150/t in our Price Target scenario, remember our Valuation still assumes long run pricing of US\$750/t.
- We believe that investors will start to position themselves for the Leo Lithium in-specie distribution in MarQ CY22.

#### Action

We maintain our **Speculative Buy** recommendation and \$1.20/sh (~A\$1.2b) Price Target.

#### Key Catalyst

Upcoming key catalysts include:

- Updated DFS (including Phase 2 expansion) and FID expected in DecQ.
  - With a further US\$91m invested into the JV by Ganfeng post a positive FID.
- Listing of Leo Lithium on the ASX, expected in March CY22.
- Ongoing updates of the ramp up at the Morila gold mine.
- Regional/Morila drill results.
- Securing debt financing, Company is targeting US\$50m, we assume A\$30m.

Firefinch Ltd	Year End 30 June	
Share Price	0.650	A\$/sh
Price Target	1.20	A\$/sh
Valuation	0.75	A\$/sh

Shares on issue	1040m, diluted *	
Market Capitalisation	667	A\$m
Enterprise Value	580	A\$m
Debt	4	A\$m
Cash & Gold (est. post SPP)	90	A\$m
Largest Shareholder	Van Eck	5.1%

Production F/Cast	2020A	2021F	2022F
Prod'n (kt)	8	54	122
Cash Cost (A\$/oz)	1670	1521	1930
AISC (A\$/oz)	1828	1637	2047

Assumptions	2020A	2021F	2022F
Gold Price US\$/oz	1770	1803	1800
AUDUSD	0.69	0.75	0.74

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	21	105	238
EBITDA (A\$m)	-1	34	38
NPAT (A\$m)	1	21	13
Cashflow (A\$m)	-6	25	22

CFPS (Ac)	0	1	-2
P/CFPS (x)	na	64	-40

EPS (Ac)	0	2	1
EPS growth (%)	-1	15	0
PER (x)	499	31	54

EV:EBITDA (x)	-528.3	17.2	16.1
EV:EBIT (x)	5788.7	19.6	21.1

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

ND:Net Debt+Equity (%)	-8%	-76%	-44%
Interest Cover (x)	na	na	na

#### Share Price Chart



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Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to FFX during the last year. Euroz Hartleys has received a fee for these services.

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## Analysis

Operations continue to ramp up at Morila, with production increasing from satellite open pits Viper and Viper ore is now feeding the plant. Mining at N'Tiola commencing in November.

The Company currently has 5 drill rigs operating in total, with a focus on Morila with 3 diamond and 1 RC.

The Main Morila pre-strip is due to commence in MarQ CY22, which is in-line with our expectations. We assume first ore from Morila in JunQ CY22 and to be fully ramped up on Morila ore at a rate of 4Mtpa by MarQ CY23. We model CY22 production of ~125koz in CY22.

We believe that there is a significant valuation gap between FFX and its spodumene developer peers, before taking into account the Morila Gold mine. We see this valuation gap closing as investors position themselves for the Leo Lithium demerger in the MarQ CY22.

	Firefinch	AVZ Minerals	Liontown	Piedmont Lithium	CXO Lithium	
<b>ASX Code</b>	<b>FFX</b>	<b>AVZ</b>	<b>LTR</b>	<b>PLL</b>	<b>CXO</b>	
Price	\$/sh	0.63	1.85	0.795	0.53	
Mkt Cap	\$m	2027	3526	1264	893	
Cash	\$m	91	40	111	137	
Enterprise Value	\$m	575	1987	3500	1153	756
Project	<b>Goulamina</b>	Manono	Kathleen Valley	Piedmont	Finniss	
Location	<b>Mali</b>	DRC	WA	North Carolina, USA	NT	
% Ownership	<b>45% (Gov 10-20%)</b>	51% (post trans)	100%	100%	100%	
Status	<b>DFS complete</b>	DFS complete	DFS complete	Integrated DFS underway	DFS complete	
Total Resource	<b>109Mt at 1.45% Li2O</b>	401Mt at 1.65% Li2O	156Mt at 1.4% Li2O	44Mt at 1.08% Li2O	15Mt at 1.32% Li2O	
Reserve	<b>52Mt at 1.51% Li2O</b>	132Mt at 1.63% Li2O	68.5Mt at 1.34% Li2O	NA	7.4Mt at 1.3% Li2O	
Mining method	<b>Open pits</b>	Open pits	Mostly U/G	Open pits	OP / Underground	
Capex	<b>US\$194m (US\$97m)</b>	US\$546m	US\$345	US\$168m	US\$65m	
Strip Ratio	<b>3.3x</b>	0.5x	6.8X + UG	10.4x	22x	
Throughput	<b>2.3Mtpa</b>	4.5Mtpa	2.5Mtpa	1.15Mtpa	1.0Mtpa	
Recoveries	<b>77%</b>	60%	78%	85%	72%	
Spod Conc.	<b>436Ktpa (218ktpa)</b>	700Ktpa	511Ktpa	160Ktpa	173Ktpa	
Product Spec.	<b>6% Li2O</b>	6% Li2O	6% Li2O	6% Li2O	5.8% Li2O	
Distance to port	<b>-1000Km</b>	-2,500-3200Km	-800Km	NA	-88Km	
Mine life	<b>23Yrs</b>	20Yrs	23Yrs	20Yrs	8Yrs	
AISC (ex credits)	<b>US\$313/t</b>	US\$371/t	US\$452/t	US\$310/t	US\$441/t	

Firefinch will retain up to 20% of the issued capital of Leo following the demerger.

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## Firefinch Ltd

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#### Leo Lithium indicative timetable

Indicative Demerger Timetable	
Lodge Demerger Short Form Prospectus & Notice of Meeting	Early January 2022
Shareholder vote on demerger	February 2022
Demerger implementation	February 2022
Lodge Entitlement Offer Long Form Prospectus	February 2022
ASX listing of Leo <sup>2</sup>	By end March Quarter 2022

Note: The dates set out above are indicative only and subject to change. Further detail will be provided in the Notice of Meeting to be sent to Firefinch shareholders in connection with shareholder approval for the demerger. Admission of Leo to the Official List of ASX is at the discretion of ASX.

Source: FFX

We assume that market will continue to remain short of spodumene supply in the coming years. The other key difference between our Valuation and Price Target is the spodumene price assumption of US\$750/t vs US\$1,150/t respectively. We will look to update our Valuation and Price Target with the release of the DFS in the DecQ.



- Key risks include:
  - General country risk with a recent security incident involving a supplier of a FFX contractor;
  - Tax dispute with the Mali Government with discussions ongoing;
  - General market risk;
  - Commodity price risk of both gold and spodumene prices.

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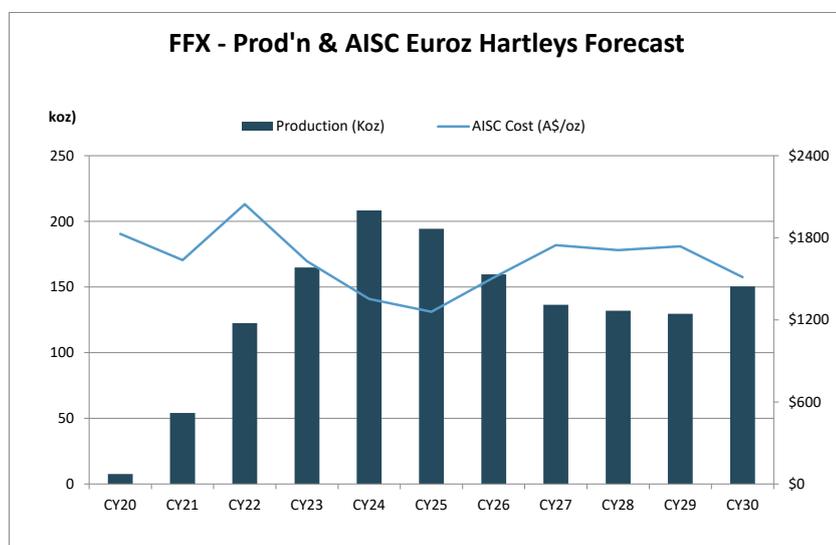
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## Key Variables

Val/ Sh	Gold \$									
	\$0.75	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.550	\$0.590	\$0.629	\$0.669	\$0.708	\$0.748	\$0.788	\$0.827	\$0.867
	10%	\$0.556	\$0.597	\$0.639	\$0.680	\$0.722	\$0.763	\$0.804	\$0.846	\$0.887
	5%	\$0.562	\$0.606	\$0.649	\$0.692	\$0.736	\$0.779	\$0.823	\$0.866	\$0.909
	0%	\$0.569	\$0.615	\$0.661	\$0.706	\$0.752	\$0.797	\$0.843	\$0.888	\$0.934
	-5%	\$0.577	\$0.625	\$0.673	\$0.721	\$0.769	\$0.817	\$0.865	\$0.913	\$0.961
	-10%	\$0.586	\$0.637	\$0.687	\$0.738	\$0.789	\$0.839	\$0.890	\$0.940	\$0.991
	-15%	\$0.596	\$0.649	\$0.703	\$0.757	\$0.810	\$0.864	\$0.917	\$0.971	\$1.025

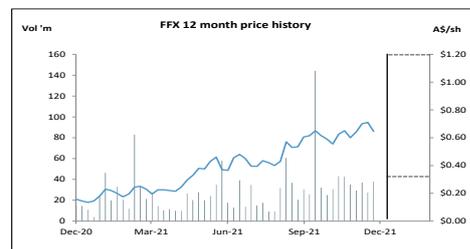
Euroz Forecast	2020A	FY'2021	FY'2022	FY'2023
Gold (US\$/lb)	\$1,770.35	\$1,802.81	\$1,800.00	\$1,750.00
AUDUSD	\$0.69	\$0.75	\$0.74	\$0.74



PRICE TARGET ASSET VALUATION	A\$m	A\$/sh
(+) Morila (risk adj 90%)	304	0.30
(-) Corporate	(28)	(0.03)
(+/-) Hedging	-	-
(+) Exploration	70	0.07
(+) Goulamina Lithium (US\$1,150/t spod)	798	0.78
(+) Cash	90	0.09
(-) Debt (overdraft facility)	(4)	(0.00)
<b>Total</b>	<b>1,230</b>	<b>1.20</b>

ASSET VALUATION	A\$m	A\$/sh
(+) Morila (risk adj 90%)	304	0.30
(-) Corporate	(28)	(0.03)
(+/-) Hedging	-	-
(+) Exploration	70	0.07
(+) Goulamina Lithium	339	0.33
(+) Cash	90	0.09
(-) Debt (overdraft facility)	(4)	(0.00)
<b>Total</b>	<b>771</b>	<b>0.75</b>

## Our Share Price Sensitivity



## Our Market Sensitivity

Price Target \$1.20/sh

Valuation \$0.75/sh

### Bull Scenario \$1.30/sh

FFX finds additional ore at a higher grade than the Morila pit allowing production to exceed our forecast long term production average of -160kozpa over 10 years. The gold price tracks above our LT price assumption. The Company is able to sell its remaining stake in the Goulamina lithium project for +A\$800m to fast track development at Morila whilst strengthening the balance sheet.

### Base Scenario \$1.20/sh

The Company is able to restart open pit mining in-line with our estimates and ramp up production to -160kozpa (100% basis) post CY22 out to CY30. Spodumene price rise to US\$1,100/t and are maintained at this level for the long term. Goulamina throughput is expanded to 4Mtpa in CY26.

### Bear Scenario \$0.30/sh

Gold price falls. Refurbishment and mining costs exceed our estimates and further equity dilution is required. The the Goulamina lithium project development stalls.

## Company Summary

Firefinch Limited (FFX) owns an 80% interest in the Morila gold mine in Mali, with the Company planning to transition the 4mtpa plant from its current tailings ore feed to treat open pit ore from satellite and ultimately the Morila pit. The Company continues to progress its Morila gold project, recently announcing its LOMP which highlighted -160kozpa out to 2028 (+2 years outside of Reserves), at an AISC of -A\$1,500/oz (US\$1,124/oz). We also note that Company recently signed a binding term sheet to sell down 50% of the Goulamina lithium asset for US\$130m of JV funding to Ganfeng, leaving the project close to fully funded.

## Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz Hartleys.

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Market Statistics				Year End 30 June			
<b>Share Price</b>	<b>0.650</b>	<b>A\$/sh</b>	<b>Directors</b>				
Issued Capital			A.Cowden	Chair			
Fully Paid Ord	1,027	m	M. Anderson	MD			
Options (var. prices)	13	m	B.Gordon	NE Dir			
<b>Total Dil.</b>	<b>1,040</b>	<b>m</b>	M.Hepburn	NE Dir			
			B.Borg	NE Dir			
Market Capitalisation	\$667	m	B.Fraser	NE Dir			
Enterprise Value	\$580	m	E.Hughes	CFO & Sec			
Cash & Gold (est. post SPP)	\$90	m	<b>Shareholders</b>				
Debt	\$4	m	Van Eck	5.1%			
<b>Asset Valuation</b>				<b>A\$m</b>	<b>A\$/sh</b>		
(+) Morila (risk adj 90%)			304	0.30			
(-) Corporate			(28)	(0.03)			
(+/-) Hedging			-	-			
(+) Exploration			70	0.07			
(+) Goulamina Lithium			339	0.33			
(+) Cash			91	0.09			
(-) Debt (overdraft facility)			(4)	(0.00)			
<b>Total</b>			<b>772</b>	<b>0.75</b>			
<b>F/Cast Production (A\$m)</b>				<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Morila (100%)</b>							
Throughput	Mtpa	0.9	4.1	3.7	3.8		
Head grade	g/t	0.45	0.63	1.14	1.50		
Recovery	%	52%	63%	90%	90%		
<b>Gold Production</b>	<b>Koz</b>	<b>8</b>	<b>54</b>	<b>122</b>	<b>165</b>		
Cash Costs (C1)	A\$/oz	1,670	1,521	1,930	1,383		
AISC	A\$/oz	1,828	1,637	2,047	1,629		
AISC	US\$/oz	1,263	1,228	1,514	1,206		
<b>Assumptions</b>							
Spot Gold Price	US\$/oz	1,770	1,803	1,800	1,750		
FX Rate ass'd	A\$/US\$	0.69	0.75	0.74	0.74		
<b>Ratio Analysis (A\$m)</b>				<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Cashflow		-6	25	22	82		
Cashflow Per Share		-0	1	-2	4		
Cashflow Ratio		na	64	-40	15		
Earnings		1	21	13	70		
Earnings Per Share		0	2	1	7		
EPS Growth		-1	15	-0	5		
P/e Ratio		499	31	54	10		
Enterprise Value		514	582	608	544		
EV/EBITDA		-528	17	16	5		
EV/EBIT		5,789	20	21	5		
Net Debt/(Net Debt + Equity)		-0	-1	-0	-1		
Interest Cover		na	na	na	na		
EBIT Margin		0	0	0	0		
Return on Equity		0	0	0	0		
Return on Assets		0	0	0	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>							
(+) Gold revenue		20	105	238	312		
(+/-) Hedging Revenue		-	-	-	-		
(+) Interest Income		0	-	-	-		
(+) Other Revenue		0	-	-	-		
<b>Total Revenue</b>		<b>21</b>	<b>105</b>	<b>238</b>	<b>312</b>		
(-) Operating Costs		(19)	(71)	(200)	(197)		
(-) Dep/Armort		(0)	(4)	(9)	(12)		
(-) Writeoff (expl'n)		-	-	-	-		
(-) O/H + News Bus Dev.		(1)	-	-	-		
(-) Provisions		1	-	-	-		
EBITDA		(1)	34	38	115		
EBIT		0	30	29	103		
(-) Interest Expense		-	-	(2)	(2)		
NPBT		1	30	26	101		
(-) Tax		(0)	(9)	(14)	(30)		
(-) Minority Interest		-	-	-	-		
<b>Net Profit</b>		<b>1</b>	<b>21</b>	<b>13</b>	<b>70</b>		
(+/-) Net abnormal		(1)	-	-	-		
<b>Net profit After Abnormal</b>		<b>0</b>	<b>21</b>	<b>13</b>	<b>70</b>		
<b>Cash Flow (A\$m)</b>							
Net Profit		1	21	13	70		
(+) WC adj.		(6)	-	-	-		
(+) Dep/Amort		0	4	9	12		
(+) Provisions & W/O		(1)	-	-	-		
(+) Tax Expense		0	9	14	30		
(-) Deferred Revenue		-	-	-	-		
(-) Tax Paid		(0)	(9)	(14)	(30)		
<b>Operating Cashflow</b>		<b>(6)</b>	<b>25</b>	<b>22</b>	<b>82</b>		
(-) Capex + Dev.		-	(36)	(40)	(18)		
(-) Exploration		(3)	(8)	(8)	(8)		
(-) Asset Purchased		(46)	-	-	-		
(+) Asset Sale		0	-	-	-		
(+/-) Other		-	-	-	-		
<b>Investing Cashflow</b>		<b>(49)</b>	<b>(44)</b>	<b>(48)</b>	<b>(26)</b>		
(+) Equity Issues (rts,plc,opts)		69	96	-	-		
(+) Loan Drawdown/receivable		-	-	30	-		
(+) Loans from(to) other entities		-	-	-	-		
(-) Loan Repayment		-	-	-	(20)		
(-) Dividends		-	-	-	-		
<b>Financing Cashflow</b>		<b>69</b>	<b>96</b>	<b>30</b>	<b>(20)</b>		
Net Cashflows		14	77	4	37		
(+/-) FX Adj.		(1)	-	-	-		
<b>EoP Cash Balance</b>		<b>17</b>	<b>94</b>	<b>98</b>	<b>135</b>		
<b>Balance Sheet (A\$m)</b>							
<b>Assets</b>							
Cash		17	94	98	135		
Current Receivables		14	14	14	14		
Other Current Assets		37	37	37	37		
Non-Current Assets		71	102	133	139		
<b>Total Assets</b>		<b>139</b>	<b>248</b>	<b>283</b>	<b>325</b>		
<b>Balance Sheet</b>							
Borrowing(s)		10	-	30	10		
Current Accounts payable		10	10	10	10		
Other Liabilities		21	21	21	21		
<b>Total Liabilities</b>		<b>40</b>	<b>30</b>	<b>60</b>	<b>50</b>		
<b>Net Assets</b>		<b>99</b>	<b>218</b>	<b>223</b>	<b>275</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
<b>Morila</b>		19.8	1.47	932	38.6	1.50	1,860
<b>Tailings</b>					1.7	0.50	51
<b>Satellites</b>		3.8	1.13	137	2.6	1.38	113
<b>Other</b>					4.0	2.59	329
<b>Total contained Gold</b>		<b>23.8</b>	<b>1.40</b>	<b>1,069</b>	<b>50.5</b>	<b>1.50</b>	<b>2,433</b>
<b>EV/oz</b>				<b>543</b>			<b>238</b>

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## Contact Details

**Euroz Hartleys Limited** +61 8 9488 1400

### Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Kyle De Souza - Resources Analyst	+61 8 9488 1427
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Research Analyst	+61 8 9488 1414

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