

# Firefinch Limited

## (FFX \$1.18) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury/ Trent Barnett	1 <sup>st</sup> April 2022	\$1.70/sh ▲ from \$1.20/sh

### Running US\$5,000/t spodumene

#### Event

AKE.asx announced it is expecting June quarter spodumene prices of US\$5,000/t SC6%;

We run a scenario for FFX using spot prices;

#### Impact

FFX is developing the Goulamina lithium project (45% FFX, 45% Gangfeng, 10% Mali Govt) in Mali;

Capex is estimated at US\$255m (100%) for 506ktpa (Stage 1), of which over half of the capital has been arranged;

Using US\$5,000/t, we estimate Goulamina would net -A\$1.9b EBITDA pa to FFX;

We expect lithium prices to decline eventually, especially if DLE technology for brines is proven to be commercial;

In the nearer term though, companies that can be in production fastest, maybe able to capitalise on strong prices before an eventual decline;

As the table on page 2 explains, Goulamina is one of the most advanced spodumene developers;

#### Action

We maintain our Speculative Buy recommendation. We have increased our price target to A\$1.70/sh, which is a blend of our base valuation (A\$1.15/sh based on our long run Spodumene of price of US\$750/t) and our spot valuation (A\$8.00/sh based on assumed spot prices of US\$5,000/t);

FFX is expected to demerge the lithium assets into a new entity (Leo) by mid-year (details to be released shortly);

Operating in Mali has significant risks, in particular sovereign risk has been increasing as Government and international geopolitical interests in the country have been transitioning;

FFX's partner (Gangfeng) gives us some comfort that risks can be somewhat alleviated in the near term. Our medium term expectation is that the asset is consolidated by the partner and the simplified structure (splitting out the gold assets) makes this more likely, in our view;

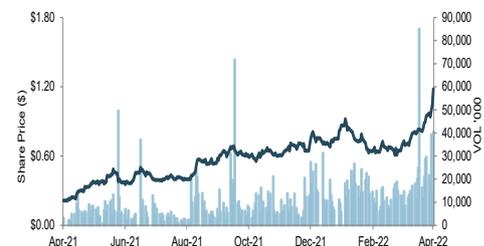
On page 4 we show a table of the lithium stocks we cover and the base valuation (declining lithium prices) and spot prices (spodumene US\$5k, LC/LiOH ~US\$75k). FFX is the only stock not trading at a significant premium to our base valuations. It also offers the most up upside leverage to spot valuation. Whilst a large discount for sovereign risk is expected, the relative value discrepancy appears too large;

Firefinch Limited	Year End 30 June	
Share Price	1.18	A\$/sh
Price Target	1.70	A\$/sh
Valuation	1.15	A\$/sh

Shares on issue	1192	m, diluted *
Market Capitalisation	1394	A\$m
Enterprise Value	1154	A\$m
Debt	0	A\$m
Cash *(incl. attr JV cash)	240	A\$m
Largest Shareholder	Van Eck	4.4%

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	21	97	217
EBITDA (A\$m)	-1	24	13
NPAT (A\$m)	1	12	-11
Cashflow (A\$m)	-6	19	3
CFPS (Ac)	0	1	-3
P/CFPS (x)	na	na	-45
EPS (Ac)	0	1	-1
EPS growth (%)	-1	8	-2
PER (x)	899	98	-131
EV:EBITDA (x)	-957.7	52.1	96.8
EV:EBIT (x)	10494.5	71.2-44301.2	
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	-8%	-102%	-62%
Interest Cover (x)	na	na	na

#### Share Price Chart



#### Disclaimer

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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# Firefinch Limited

(FFX \$1.18) Speculative Buy



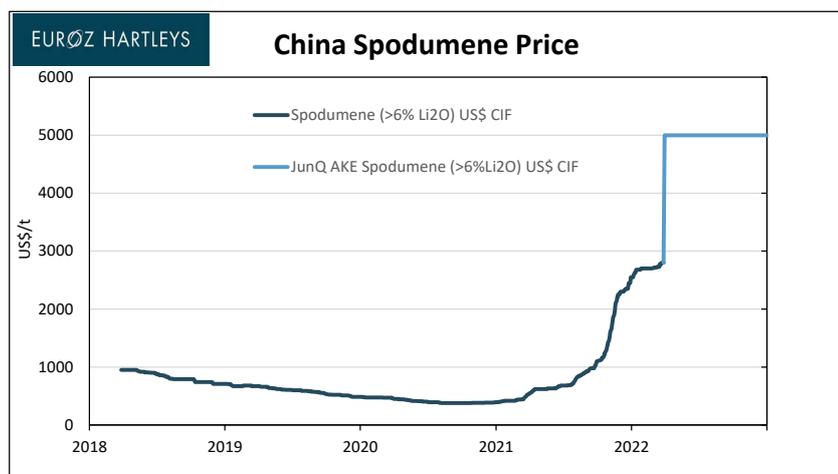
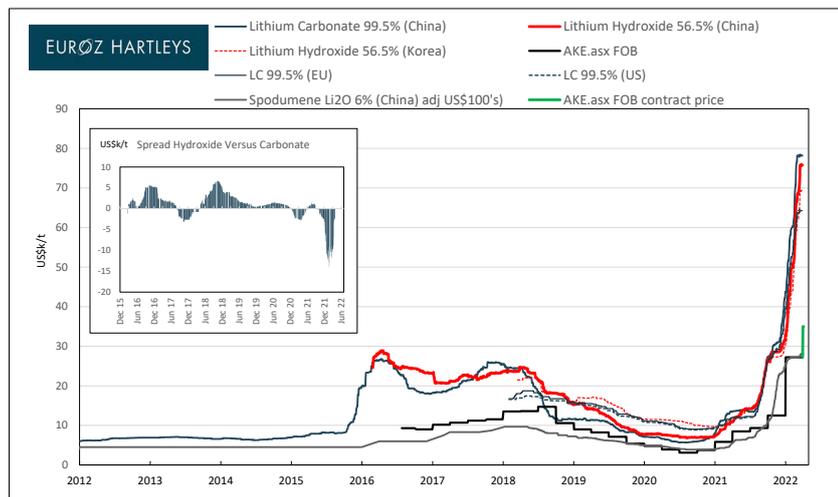
## Key Catalyst

Upcoming key catalysts include:

- Updated schedule for demerger of Leo Lithium, expected in the coming weeks.
  - We expect Leo Lithium to be listed on the ASX mid CY22
- Morila Resource update and Stage 1 mine plan, JunQ.
- Ongoing updates of the ramp up at the Morila gold mine.
- Morila and Goulamina drill results.

	S/price	PT (last published)	Base Val	Spot Val	% to base val.	% upside to spot val.
FFX	\$1.18	\$1.70	\$1.15	\$8	-3%	571%
LKE	\$2.31	\$1.35	\$0.76	\$11	-67%	394%
MIN	\$54.59	\$62	\$42.66	\$247	-22%	352%
PLS	\$3.43	\$3.34	\$1.10	\$13	-68%	274%
IGO	\$14.41	\$11	\$10.63	\$53	-26%	268%
NMT	\$1.95	\$2.06	\$1.32	\$6	-32%	199%

Spot Valuation assumes Spodumene US\$5k/t, LC/LiOH US\$75k/t



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## Firefinch Limited

### (FFX \$1.18) Speculative Buy

#### Analysis

Firefinch Limited (FFX) two Company making assets in Goulamina spodumene project and the Morila Gold mine both located in Mali.

The Company has commenced the cutback on its large (1.86moz at 1.50g/t) Morila gold project (80% FFX), located in Mali. The Company's current mine plan has production averaging ~160kozpa out to 2028 (+2 years outside of Reserves), at an AISC of ~A\$1,500/oz (US\$1,124/oz), which is in line with our assumptions.

Production for CY22 is expected to average ~100koz, and ramping up to +200koz in CY24, as the 4Mtpa mill is filled with Morila ore. FFX is well funded, with A\$152m in cash at the end of DecQ, sustaining operations at Morila along with the pre-strip of the Morila open pit.

The production plan includes the processing of 37.5Mt at 1.33g/t Au for total 1.45Moz, which is underpinned by a Probable Ore reserve of 23.8Mt at 1.40g/t.

FFX continues to advance its Goulamina lithium project (50%) with its JV partner Ganfeng, after approving FID during the DecQ and works progressing on early-stage engineering. The JV is aiming for first production in early CY24, and we still remain of the opinion that Goulamina is one of few undervalued spodumene deposits, especially when compared to its spodumene developer peers. We believe that this valuation gap with close with the Leo Lithium demerger around the end mid CY22.

Our valuation is largely carried by the 50% ownership of the Goulamina Lithium project compared to the Morila gold project, A\$732m vs A\$250m respectively.

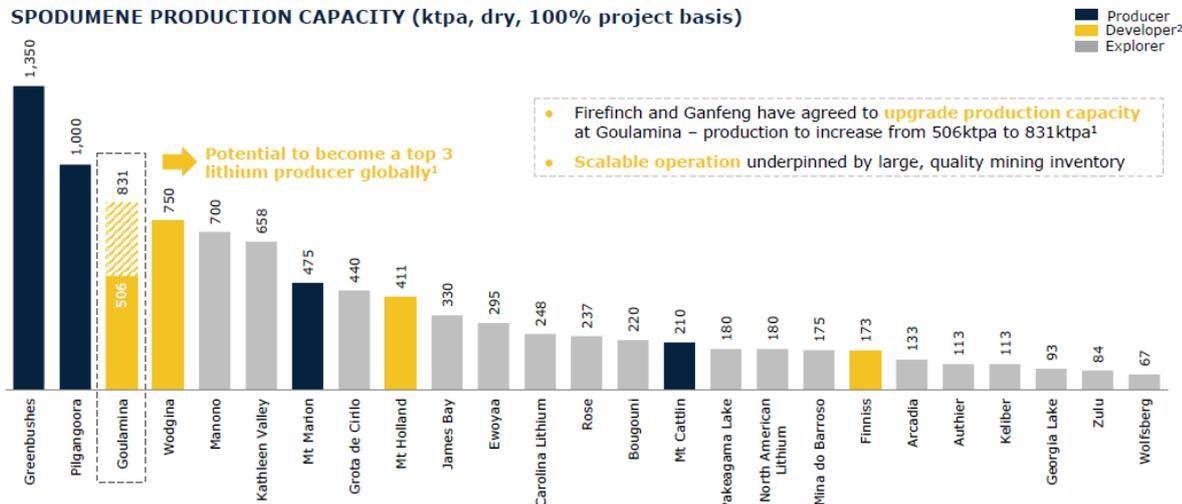
We maintain our Speculative Buy recommendation.

We have increased our Price Target to A\$1.70/sh from A\$1.20/sh. Operating in Mali has significant risks, in particular sovereign risk has been increasing as Government and international geopolitical interests in the country have been transitioning;

# 1 GLOBALLY SIGNIFICANT PRODUCER



SPODUMENE PRODUCTION CAPACITY (ktpa, dry, 100% project basis)



1. Based on Goulamina’s expanded production capacity of 831ktpa based on first 5 year steady state production from Stage 2 (4.0Mtpa). Refer to Appendix D for further information;  
 2. Final Investment Decision announced; Source: Public ASX Announcements.

	Firefinch	AVZ Minerals	Liontown	CXO Lithium
ASX Code	FFX	AVZ	LTR	CXO
Price	\$/sh 1.18	1.30	1.95	1.54
Mkt Cap	\$m 1394	4488	4263	2633
Cash	\$m 240	76	474	157
Enterprise Value	\$m 1154	4412	3789	2475
Project	Goulamina	Manono	Kathleen Valley	Fimiss
Location	Mali	DRC	WA	NT
% Ownership	45% (Gov 10-20%)	51% (post trans)	100%	100%
Status	Updated DFS complete	DFS complete	DFS complete	Construction, Prod DecQ CY22
Total Resource	109Mt at 1.45% Li2O	401Mt at 1.65% Li2O	156Mt at 1.4% Li2O	15Mt at 1.32% Li2O
Reserve	52Mt at 1.51% Li2O	132Mt at 1.63% Li2O	68.5Mt at 1.34% Li2O	7.4Mt at 1.3% Li2O
Mining method	Open pits	Open pits	Mostly U/G	OP / Underground
Capex	US\$255m	US\$546m	US\$345	US\$65m
Strip Ratio	3.3x	0.5x	6.8X + UG	22x
Throughput	2.3Mtpa	4.5Mtpa	2.5Mtpa	1.0Mtpa
Recoveries	80%	60%	78%	72%
Spod Conc.	506Ktpa (253ktpa)	700Ktpa	511Ktpa	173Ktpa
Product Spec.	6% Li2O	6% Li2O	6% Li2O	5.8% Li2O
Distance to port	-1000Km	-2,500-3200Km	-800Km	-88Km
Mine life	21Yrs	20Yrs	23Yrs	8Yrs
AISC (ex credits)	US\$365/t	US\$371/t	US\$452/t	US\$441/t

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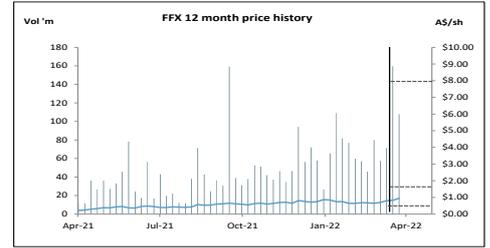


Key Variables

## PROJECT LOCATION



### Our Share Price Sensitivity



### Our Market Sensitivity

Price Target \$1.70/sh

Valuation \$1.15/sh

#### Bull Scenario \$8.00/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 spodumene price stays at US\$5,000/t for the long term.

#### Base Scenario \$1.70/sh

The Company is able to restart open pit mining in-line with our estimates and ramp up production to -150kozpa (100% basis) post CY22 out to CY30 at Morila. Spodumene prices remain elevated for the medium term. Goulamina throughput is expanded to 4Mtpa in 18months after first production and is funded from cashflow

#### Bear Scenario \$0.40/sh

Lithium price falls. Refurbishment and mining costs exceed our estimates and further equity dilution is required for both Morila and Goulamina.

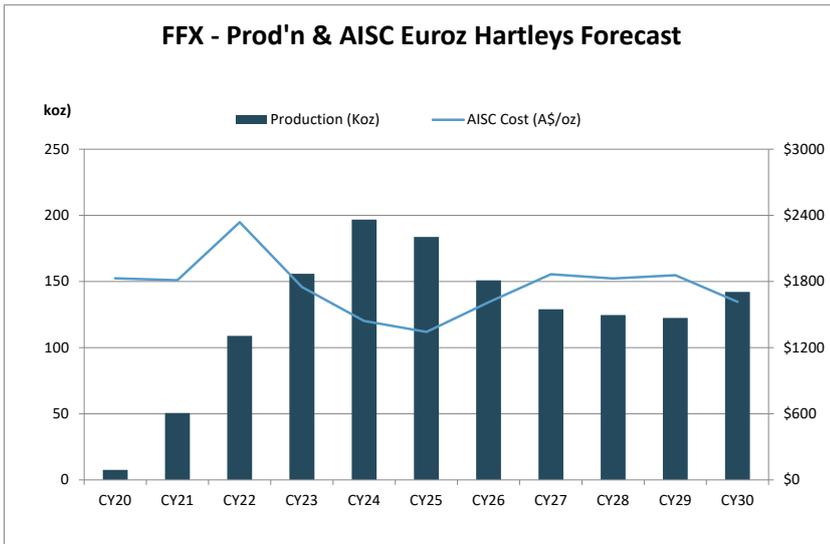
### Company Summary

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 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.

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



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# Firefinch Limited

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Market Statistics				Year End 30 June			
<b>Share Price</b>	<b>1.180 A\$/sh</b>			<b>Directors</b>			
Issued Capital				A.Cowden	Chair		
Fully Paid Ord	1,181	m		M. Anderson	MD		
Options (var. prices)	11	m		B.Gordon	NE Dir		
<b>Total Dil.</b>	<b>1,192</b>	<b>m</b>		M.Hepburn	NE Dir		
				B.Borg	NE Dir		
<b>Market Capitalisation</b>	<b>\$1,394</b>	<b>m</b>		B.Fraser	NE Dir		
Enterprise Value	\$1,154	m		E.Hughes	CFO & Sec		
Cash *(incl. attr JV cash)	\$240	m		<b>Shareholders</b>			
Debt	\$-	m		Van Eck	4.4%		
<b>Asset Valuation</b>				<b>A\$m</b>	<b>A\$/sh</b>		
(+) Morila (risk adj 90%)				250	0.21		
(-) Corporate				(28)	(0.02)		
(+/-) Hedging				-	-		
(+) Exploration				170	0.14		
(+) Goulamina (rsik adj 90%)				732	0.62		
(+) Cash *(incl. attr JV cash)				240	0.20		
(-) Debt (overdraft facility)				-	-		
<b>Total</b>				<b>1,363</b>	<b>1.15</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	4.2	3.7	3.8		
Head grade	g/t	0.45	0.58	1.08	1.50		
Recovery	%	52%	63%	85%	85%		
<b>Gold Production</b>	<b>Koz</b>	<b>8</b>	<b>51</b>	<b>109</b>	<b>156</b>		
Cash Costs (C1)	A\$/oz	1,670	1,696	2,218	1,493		
AISC	A\$/oz	1,828	1,812	2,338	1,750		
AISC	US\$/oz	1,263	1,361	1,695	1,286		
<b>Assumptions</b>							
Spot Gold Price	US\$/oz	1,770	1,799	1,825	1,775		
FX Rate ass'd	A\$/US\$	0.69	0.75	0.73	0.74		
<b>Ratio Analysis (A\$m)</b>		<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>		
Cashflow		-6	19	3	75		
Cashflow Per Share		-0	1	-3	3		
Cashflow Ratio		na	na	-45	35		
Earnings		1	12	-11	59		
Earnings Per Share		0	1	-1	5		
EPS Growth		-1	8	-2	-6		
P/e Ratio		899	98	-131	24		
Enterprise Value		931	1,251	1,296	1,233		
EV/EBITDA		-958	52	97	12		
EV/EBIT		10,495	71	-44,301	15		
Net Debt/(Net Debt + Equity)		-0	-1	-1	-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	97	217	301		
(+/-) Hedging Revenue		-	-	-	-		
(+) Interest Income		0	-	-	-		
(+) Other Revenue		0	-	-	-		
<b>Total Revenue</b>		<b>21</b>	<b>97</b>	<b>217</b>	<b>301</b>		
(-) Operating Costs		(19)	(73)	(204)	(201)		
(-) Dep/Armort		(0)	(6)	(13)	(17)		
(-) Writeoff (expl'n)		-	-	-	-		
(-) O/H + News Bus Dev.		(1)	-	-	-		
(-) Provisions		1	-	-	-		
EBITDA		(1)	24	13	100		
EBIT		0	18	(0)	84		
(-) Interest Expense		-	-	-	-		
NPBT		1	18	(0)	84		
(-) Tax		(0)	(5)	(11)	(25)		
(-) Minority Interest		-	-	-	-		
<b>Net Profit</b>		<b>1</b>	<b>12</b>	<b>(11)</b>	<b>59</b>		
(+/-) Net abnormal		(1)	-	-	-		
<b>Net profit After Abnormal</b>		<b>0</b>	<b>12</b>	<b>(11)</b>	<b>59</b>		
<b>Cash Flow (A\$m)</b>							
Net Profit		1	12	(11)	59		
(+) WC adj.		(6)	-	-	-		
(+) Dep/Amort		0	6	13	17		
(+) Provisions & W/O		(1)	-	-	-		
(+) Tax Expense		0	5	11	25		
(-) Deferred Revenue		-	-	-	-		
(-) Tax Paid		(0)	(5)	(11)	(25)		
<b>Operating Cashflow</b>		<b>(6)</b>	<b>19</b>	<b>3</b>	<b>75</b>		
(-) Capex + Dev.		-	(68)	(40)	(18)		
(-) Exploration		(3)	(8)	(8)	(8)		
(-) Asset Purchased		(46)	-	-	-		
(+) Asset Sale		0	-	-	-		
(+/-) Other		-	-	-	-		
<b>Investing Cashflow</b>		<b>(49)</b>	<b>(76)</b>	<b>(48)</b>	<b>(26)</b>		
(+) Equity Issues (rts,plc,opts)		69	196	-	-		
(+) Loan Drawdown/receivable		-	-	-	-		
(+) Loans from(to) other entities		-	-	-	-		
(-) Loan Repayment		-	-	-	-		
(-) Dividends		-	-	-	-		
<b>Financing Cashflow</b>		<b>69</b>	<b>196</b>	<b>-</b>	<b>-</b>		
Net Cashflows		14	139	(45)	50		
(+/-) FX Adj.		(1)	-	-	-		
EoP Cash Balance		17	156	111	161		
<b>Balance Sheet (A\$m)</b>							
<b>Assets</b>							
Cash		17	156	111	161		
Current Receivables		14	14	14	14		
Other Current Assets		37	37	37	37		
Non-Current Assets		71	132	159	160		
<b>Total Assets</b>		<b>139</b>	<b>340</b>	<b>321</b>	<b>372</b>		
<b>Balance Sheet</b>							
Borrowing(s)		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>30</b>	<b>30</b>		
<b>Net Assets</b>		<b>99</b>	<b>309</b>	<b>291</b>	<b>341</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>
		<b>mt</b>	<b>g/t</b>	<b>Koz</b>	<b>mt</b>	<b>g/t</b>	<b>Koz</b>
Morila		19.8	1.47	932	38.6	1.50	1,860
Satellites		3.8	1.13	137	2.6	1.38	113
Other					4.0	2.59	329
<b>Total contained Gold</b>		<b>23.8</b>	<b>1.40</b>	<b>1,069</b>	<b>50.6</b>	<b>1.52</b>	<b>2,474</b>
<b>EV/oz</b>				<b>1,080</b>			<b>466</b>

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