

Firefinch Limited

(FFX \$0.645) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury	21 st October 2021	\$1.20/sh ▲ from \$1.10/sh

JV approvals received, Goulamina Phase 2 expansion considered in upcoming DFS

Event

Firefinch (Ltd) have announced that they have received all approvals for the formation of the JV with Ganfeng for its Goulamina lithium project.

- The upcoming Goulamina DFS will now consider a phase 2 expansion case of 4Mtpa vs 2.3Mtpa (phase 1).
- The JV plans to commence a 50Km drill program over the next 2 years, aimed largely at maintaining the 23 year mine life at the higher throughput.

Impact

- Now that all JV approvals have been received for the Goulamina JV we expect the first tranche of US\$39m from Ganfeng to be deposited into the JV accounts shortly.
- The phase 2 expansion case has the potential in our view to lift spodumene concentrate (S.C) production from the LOM average of 436ktpa to be in the order of ~700ktpa, making it one of the largest hard rock lithium mines in the world.

Action

We maintain our Speculative Buy recommendation, increased Price Target of A\$1.20/sh (A\$1.12b) from A\$1.10/sh. Due to our assumption they will increase throughput in CY26 to 4Mtpa, funded from cashflow.

Key Catalysts

- SepQ quarterly report.
- Updated DFS (including Phase 2 expansion) and FID expected in DecQ.
- With a further US\$91m invested into the JV 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.

Firefinch Limited	Year End 30 June	
Share Price	0.645	A\$/sh
Price Target	1.20	A\$/sh
Valuation	0.75	A\$/sh

Shares on issue	952	m, diluted *
Market Capitalisation	600	A\$m
Enterprise Value	544	A\$m
Debt	6	A\$m
Cash & Gold	62	A\$m
Largest Shareholder Board and Mgt		2.4%

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

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

Key Financials	2020A	2021A	2022F
Revenue (A\$m)	21	105	238
EBITDA (A\$m)	-1	34	38
NPAT (A\$m)	1	21	15
Cashflow (A\$m)	-6	25	24

CFPS (Ac)	0	1	-2
P/CFPS (x)	na	63	-39

EPS (Ac)	0	2	2
EPS growth (%)	-1	16	0
PER (x)	497	30	42

EV:EBITDA (x)	-526.5	16.9	15.5
EV:EBIT (x)	5768.9	19.3	20.4

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

ND:Net Debt+Equity (%)	-8%	-35%	-18%
Interest Cover (x)	na	na	na

Share Price Chart



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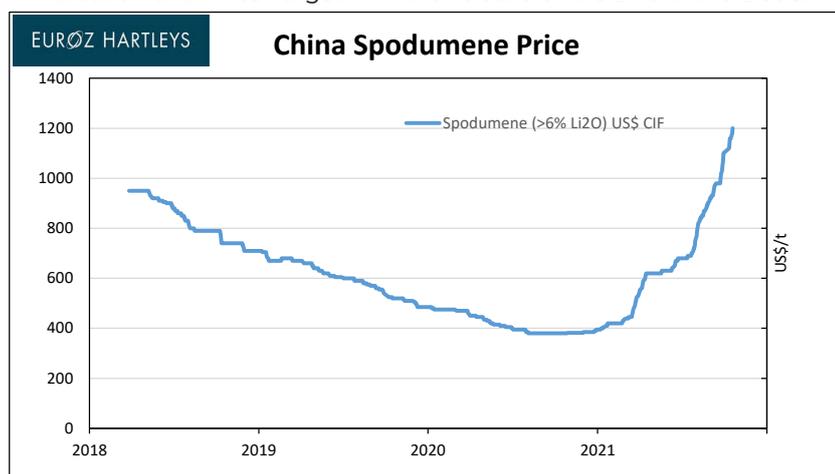
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Firefinch Limited

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Analysis

- Our Price Target now assumes an increase to 4Mtpa from 2.3Mtpa in CY26 for additional capex of US\$65m to be funded out of cashflow from operations.
- We believe that the Company should be able to beat our expansion capex estimate given many redundancies built into phase 1 of the plant design. With the capex largely required for extra floatation capacity.
- FFX did flag that capital and operating cost estimates will likely increase, due to cost pressure across the industry which is no surprise.
- As a reminder both our Valuation and Price Target assumes Goulamina capex of ~US\$220m (Company DFS US\$194m) and AISC in line with the Company's DFS of ~US\$310/t.
- 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\$1,100/t respectively. We will look to update our Valuation and Price Target with the release of the DFS in the DecQ.



PRICE TARGET ASSET VALUATION	A\$m	A\$/sh
(FFX \$0.645) Speculative Buy	273	0.29
(-) Corporate	(28)	(0.03)
(+/-) Hedging	-	-
(+) Exploration	70	0.08
(+) Goulamina Lithium (US\$1,100/t spod)	748	0.81
(+) Cash	62	0.07
(-) Debt (overdraft facility)	(6)	(0.01)
Total	1129	1.20

ASSET VALUATION	A\$m	A\$/sh
(+) Morila (risk adj 90%)	273	0.29
(-) Corporate	(28)	(0.03)
(+/-) Hedging	-	-
(+) Exploration	70	0.08
(+) Goulamina Lithium	329	0.35
(+) Cash	62	0.07
(-) Debt (overdraft facility)	(6)	(0.01)
Total	700	0.75

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- The JV plans to commence a 50Km drill program over the next 2 years, aimed at sustaining increased throughputs over the 23 year project life.
- We note that there is 43.9Mt at 1.38% in inferred resource which the JV plans to convert to indicated. The JV also has a 55-85Mt at 1.2-1.35% Li2O Exploration target across its Goulamina project.
- We are confident they will be able to achieve this, given the vast exploration upside at Goulamina, demonstrated with previous drill programs.

JV drill program

Program name	Priority	No of holes	RC metres	DD metres	USD (millions)
Sterilisation	1	91	10,920	-	1.49
Convert Inferred to Indicated	2	125	20,250	7,389	4.09
Extend Resources	3	26	4,980	-	0.59
Deep drilling	4	6	1,200	2,868	0.82
Total		248	37,349	10,257	6.71

Source: FFX

- The demerger of Leo Lithium is on track, with the ASX listing of Leo expected in March.
- We note the impressive recent appointment Simon Hay as Managing Director to Leo Lithium, who formerly worked at Galaxy Resources.

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 ¹	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

- 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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	Firefinch	AVZ Minerals	Liontown	Piedmont Lithium	CXO Lithium	
ASX Code	FFX	AVZ	LTR	PLL	CXO	
Price	\$/sh	0.645	0.34	1.60	0.845	0.605
Mkt Cap	\$m	600	1094	3058	1331	1019
Simplistic 50% of Mcap attributed (Morila 50%)	\$m	300	NA	NA	NA	NA
Cash	\$m	62	40	27	215	178
Debt	\$m	6	0	0	0	0
Enterprise Value	\$m	544	1054	3031	1116	841
Project	Goulamina	Manono	Kathleen Valley	Piedmont	Finniss	
Location	Mali	DRC	WA	North Carolina, USA	NT	
% Ownership	45% (Gov 10-20%)	51% (post trans)	100%	100%	100%	
Status	DFS complete	DFS complete	DFS underway	Integrated DFS underway	DFS complete	
Total Resource	109Mt at 1.45% Li2O	401Mt at 1.65% Li2O	156Mt at 1.4% Li2O	39Mt at 1.09% Li2O	15Mt at 1.32% Li2O	
Reserve	52Mt at 1.51% Li2O	132Mt at 1.63% Li2O	71Mt at 1.4% Li2O	NA	7.4Mt at 1.3% Li2O	
Mining method	Open pits	Open pits	Mostly U/G	Open pits	OP / Underground	
Capex	US\$194m (US\$97m)	US\$546m	US\$234	US\$168m	US\$65m	
Strip Ratio	3.3x	0.5x	8.4X + UG	10.4x	22x	
Throughput	2.3Mtpa	4.5Mtpa	2.0Mtpa	1.15Mtpa	1.0Mtpa	
Recoveries	77%	60%	76%	85%	72%	
Spod Conc.	436Ktpa (218ktpa)	700Ktpa	350Ktpa	160Ktpa	173Ktpa	
Product Spec.	6% Li2O	6% Li2O	6% Li2O	6% Li2O	5.8% Li2O	
Distance to port	-1000Km	-2,500-3200Km	-800Km	NA	-88Km	
Mine life	23Yrs	20Yrs	40Yrs	20Yrs	8Yrs	
AISC (ex credits)	US\$313/t	US\$371/t	US\$423/t	US\$310/t	US\$441/t	

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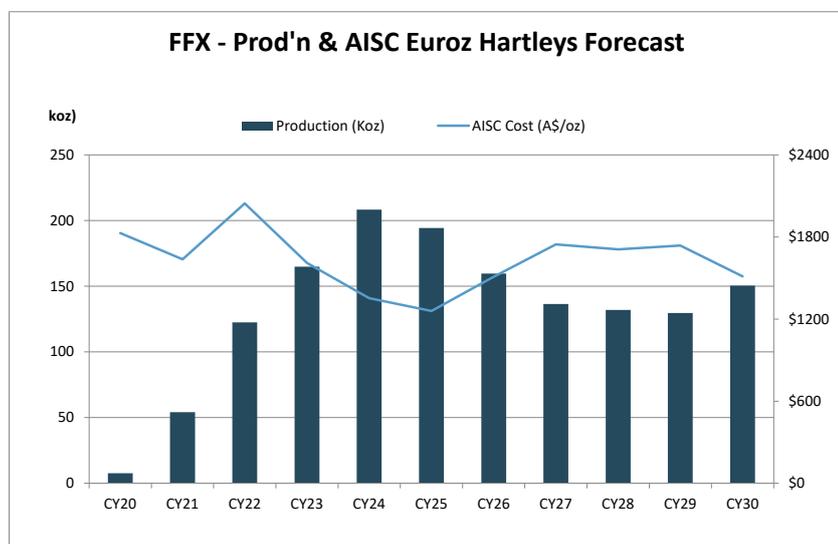
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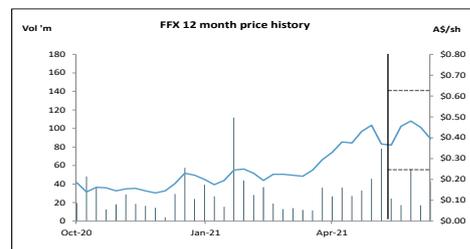
Key Variables

Val/ Sh		Gold \$								
\$0.75		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.545	\$0.586	\$0.626	\$0.666	\$0.707	\$0.747	\$0.787	\$0.828	\$0.868
	10%	\$0.552	\$0.594	\$0.636	\$0.678	\$0.720	\$0.763	\$0.805	\$0.847	\$0.889
	5%	\$0.559	\$0.603	\$0.647	\$0.691	\$0.735	\$0.780	\$0.824	\$0.868	\$0.912
	0%	\$0.566	\$0.613	\$0.659	\$0.705	\$0.752	\$0.798	\$0.845	\$0.891	\$0.937
	-5%	\$0.575	\$0.624	\$0.672	\$0.721	\$0.770	\$0.819	\$0.868	\$0.917	\$0.965
	-10%	\$0.584	\$0.636	\$0.687	\$0.739	\$0.790	\$0.842	\$0.893	\$0.945	\$0.996
-15%	\$0.594	\$0.649	\$0.704	\$0.758	\$0.813	\$0.867	\$0.922	\$0.977	\$1.031	

EH 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



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 Goulima lithium project for +A\$750m in cash 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 Goulima 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			
Share Price	0.645	A\$/sh	Directors				
Issued Capital			A.Cowden			Chair	
Fully Paid Ord	930.8	m	M. Anderson			MD	
Options (var. prices)	20.9	m	B.Gordon			NE Dir	
Total Dil.	951.7	m	M.Hepburn			NE Dir	
			B.Borg			NE Dir	
Market Capitalisation	\$600	m	B.Fraser			NE Dir	
Enterprise Value	\$544	m	E.Hughes			CFO & Sec	
Cash & Gold	\$62	m	Shareholders				
Debt	\$6	m	Board and Mgt			2.4%	
Asset Valuation			A\$m	A\$/sh			
(+) Morila (risk adj 90%)			273			0.29	
(-) Corporate			(28)			(0.03)	
(+/-) Hedging			-			-	
(+) Exploration			70			0.08	
(+) Goulamina Lithium			329			0.35	
(+) Cash			62			0.07	
(-) Debt (overdraft facility)			(6)			(0.01)	
Total			700			0.75	
F/Cast Production (A\$m)		2020A	2021A	2022F	2023F		
Morila (100%)							
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%		
Gold Production	Koz	8	54	122	165		
Cash Costs (C1)	A\$/oz	1,670	1,521	1,930	1,383		
AISC	A\$/oz	1,828	1,637	2,047	1,610		
AISC	US\$/oz	1,263	1,228	1,514	1,192		
Assumptions							
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		
Ratio Analysis (A\$m)		2020A	2021A	2022F	2023F		
Cashflow		-6	25	24	84		
Cashflow Per Share		-0	1	-2	5		
Cashflow Ratio		na	63	-39	14		
Earnings		1	21	15	72		
Earnings Per Share		0	2	2	8		
EPS Growth		-1	16	-0	4		
P/e Ratio		497	30	42	8		
Enterprise Value		512	571	587	514		
EV/EBITDA		-526	17	16	4		
EV/EBIT		5,769	19	20	5		
Net Debt/(Net Debt + Equity)		-0	-0	-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		
Profit and Loss (A\$m)							
(+) Gold revenue		20	105	238	312		
(+/-) Hedging Revenue		-	-	-	-		
(+) Interest Income		0	-	-	-		
(+) Other Revenue		0	-	-	-		
Total Revenue		21	105	238	312		
(-) Operating Costs		(19)	(71)	(200)	(197)		
(-) Dep/Amort		(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		-	-	-	-		
NPBT		1	30	29	103		
(-) Tax		(0)	(9)	(14)	(31)		
(-) Minority Interest		-	-	-	-		
Net Profit		1	21	15	72		
(+/-) Net abnormal		(1)	-	-	-		
Net profit After Abnormal		0	21	15	72		
Cash Flow (A\$m)							
Net Profit		1	21	15	72		
(+) WC adj.		(6)	-	-	-		
(+) Dep/Amort		0	4	9	12		
(+) Provisions & W/O		(1)	-	-	-		
(+) Tax Expense		0	9	14	31		
(-) Deferred Revenue		-	-	-	-		
(-) Tax Paid		(0)	(9)	(14)	(31)		
Operating Cashflow		(6)	25	24	84		
(-) Capex + Dev.		-	(36)	(32)	(12)		
(-) Exploration		(3)	(8)	(8)	(8)		
(-) Asset Purchased		(46)	-	-	-		
(+) Asset Sale		0	-	-	-		
(+/-) Other		-	-	-	-		
Investing Cashflow		(49)	(44)	(40)	(20)		
(+) Equity Issues (rts,plc,opts)		69	45	-	-		
(+) Loan Drawdown/receivable		-	-	-	-		
(+) Loans from(to) other entities		-	-	-	-		
(-) Loan Repayment		-	-	-	-		
(-) Dividends		-	-	-	-		
Financing Cashflow		69	45	-	-		
Net Cashflows		14	26	(16)	64		
(+/-) FX Adj.		(1)	-	-	-		
EoP Cash Balance		17	43	27	90		
Balance Sheet (A\$m)							
Assets							
Cash		17	43	27	90		
Current Receivables		14	14	14	14		
Other Current Assets		37	37	37	37		
Non-Current Assets		71	102	125	126		
Total Assets		139	197	203	267		
Balance Sheet							
Borrowing(s)		10	-	-	-		
Current Accounts payable		10	10	10	10		
Other Liabilities		21	21	21	21		
Total Liabilities		40	30	30	30		
Net Assets		99	167	173	237		
Reserves and Resources							
		Reserves			Resources		
		ore grade	metal	ore	grade	metal	
		mt	g/t	mt	g/t	Koz	
Morila		19.8	1.47	932	38.6	1.50	
Tailings					1.7	0.50	
Satellites		3.8	1.13	137	2.6	1.38	
Other					4.0	2.59	
Total contained Gold		23.8	1.40	1,069	50.5	1.50	
EV/oz				509		224	

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