Firefinch Limited

(FFX $0.57) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury	16th August 2021	$1.10/sh ▲ from $1.03/sh

Cheapest development ready lithium stock on the ASX? ...And Morila

Event

Firefinch Limited (FFX) continues to lag its lithium peers on the ASX in terms of valuation in our view.

- This is despite the Company securing a binding term sheet with Ganfeng to jointly develop the project with up to US$194m of funding to be provided.
- Full form legal agreements have been executed with Ganfeng, spin out to be called Leo Lithium.
- We also note the recent rise in the spodumene prices, up ~20% in the last month to ~US$850/t 6% Li_2O (see figure chart), FFX's DFS assumed US$666/t.
- We estimate that current spodumene producers equity prices are factoring in spodumene prices of >US$1,200/t 6% Li_2O.
- In other news: the Morila gold mine continues to ramp in-line with our expectations, producing 12.6koz in the JunQ and is on its way to ~160kozpa in CY23.

Impact

- We believe that the Goulamina lithium asset has been largely ignored by the market leaving it one of the / if not the cheapest development ready, conventional lithium projects on the ASX.
- The Company finished the JunQ with cash and bullion of ~A$62m.

Action

We maintain our Speculative Buy recommendation, with an increased Price Target of $1.10/sh or A$1.0b (previously $1.03/sh). The lift in Price Target is due to an increase in our spodumene price assumption to US$1,100/t (Our valuation continues to assume long term pricing of US$750/t).

Key Catalysts

- Satisfaction of the conditions precedent for the transaction (Government approvals and license transfer), when Ganfeng provide the initial US$39m into the JV (expected DecQ).
- Update on the proposed lithium demerger timeline, actual demerger expected to occur in early 1H CY22, first production CY23.
- Updated DFS and FID expected in Dec Q.
- Ongoing updates of the ramp up at the Morila gold mine.
- Regional/Morila drill results.
- Securing debt financing, Company is targeting US$50m.
- Gold and Lithium (spodumene) prices.

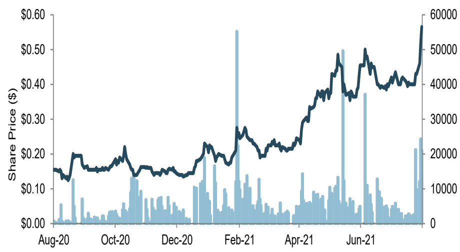
Firefinch Limited		Year End 30 June
Share Price	**0.57**	**A$/sh**
Price Target	**1.10**	**A$/sh**
Valuation	0.75	A$/sh
Shares on issue	947	m, diluted *
Market Capitalisation	519	A$m
Enterprise Value	463	A$m
Debt	6	A$m
Cash & Gold	62	A$m
Largest Shareholder Board and Mgt		2.5%

Production F/Cast	2020A	2021F	2022F
Attrib. Prod'n (kt)	8	54	122
Cash Cost (A$/oz)	1670	1519	1930
AISC (A$/oz)	1828	1636	2048

Assumptions	2020A	2021F	2022F
Gold Price US$/oz	1770	1828	1825
AUDUSD	0.69	0.76	0.74

Key Financials	2020A	2021F	2022F
Revenue (A$m)	21	106	240
EBITDA (A$m)	-1	35	40
NPAT (A$m)	1	21	16
Cashflow (A$m)	-6	26	25
CFPS (Ac)	0	1	-1
P/CFPS (x)	na	56	-39
EPS (Ac)	0	2	2
EPS growth (%)	-1	17	0
PER (x)	449	25	33
EV:EBITDA (x)	-474.1	14.3	12.9
EV:EBIT (x)	5194.7	16.2	16.7
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	-8%	-35%	-20%
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 Firefinch Limited during the last year. Euroz Hartleys has received a fee for these services.

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Analysis

Worth noting that on the implementation of the demerger (scheduled for 1H CY22), FFX shareholders are expected to receive a pro-rata entitlement of shares in Leo Lithium through an in-specie distribution in addition to an entitlement offer. FFX has stated its intention to retained up to a 20% stake in Leo Lithium.

Indicative Transaction Timetable

Ganfeng Transaction & FID	
Chinese regulatory approvals received	December Quarter, 2021
Ganfeng US$39 million first investment received	December Quarter, 2021
Goulamina Final Investment Decision	December Quarter, 2021
Ganfeng US$91 million second investment received	December Quarter, 2021
Ganfeng debt received (up to US$64 million)	March / early June Quarter, 2022

Source: FFX

Indicative Demerger Timetable

Demerger of Leo Lithium	
Australian Tax Office ruling on demerger tax relief	December 2021
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 Lithium	By end March Quarter, 2022

Source: FFX

The 10kt sale of spodumene by PLS at US$1,250/t, although not large in scheme of market, has added further momentum to already buoyant lithium equity market. We estimate that current spodumene producers are factoring in spodumene prices of >US$1,200/t 6% Li_2O.

Using a spodumene price of US$1,100/t 6% Li_2O (our price target assumption), we estimate that FFX should be able to generate ~A$140m pa in after-tax free cashflow for their 45% share of Goulamina. We have a NPV12 value of A$640m for Goulmaina (45% FFX share) in our Price Target, which again supports our argument that FFX is one of the cheapest conventional spodumene development stocks on the ASX.

Core Lithium (CXO) are currently in the process of fully funding their Finniss lithium project located in the NT. CXO will have a fully diluted enterprise value of A$465m (A$640mcap @ 38cps) and have recently updated their DFS which shows a project will average production of 173kt pa of spodumene (100% owned) over 8 years. This compares with Goulamina which plans to produce 218kt pa of spodumene (FFX 45% share) over a 23 year mine life.

If we simplistically assume that half of FFX's current market capitalisation is being attributed to their 45% owned Goulamina project, which equates to A$250m. Then we believe that this makes a compelling argument that FFX is one of the cheapest development ready, conventional lithium projects on the ASX.

We are cognisant of the fact that a valuation gap will always exist between West African assets and Australian, however in our view the superior quality of Goulamina asset (lower strip ratio, higher grade, larger resource and higher quality concentrate) it deserves a valuation premium to the Finniss project. Don't forget Morila ticking along in the background…

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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 will look to adjust our numbers once the updated DFS is released (Expected Dec Q).

PRICE TARGET ASSET VALUATION	A$m	A$/sh
(+) Morila (risk adj 90%)	261	0.29
(-) Corporate	(28)	(0.03)
(+/-) Heding	-	-
(+) Exploration	70	0.08
(+) Goulamina Lithium (US$1,100/t spod)	643	0.71
(+) Cash	62	0.07
(-) Debt (overdraft facility)	(6)	(0.01)
Total	**1,001**	**1.10**

ASSET VALUATION	A$m	A$/sh
(+) Morila (risk adj 90%)	261	0.29
(-) Corporate	(28)	(0.03)
(+/-) Heding	-	-
(+) Exploration	70	0.08
(+) Goulamina Lithium (US$750/t)	320	0.35
(+) Cash	62	0.07
(-) Debt (overdraft facility)	(6)	(0.01)
Total	**679**	**0.75**

		Firefinch	CXO Lithium
ASX Code		FFX	CXO
Price	$/sh	0.57	0.365
Mkt Cap	$m	519	615
Simplistic 50% of Mcap attributed (Morila 50%)	$m	260	NA
Cash (CXO post raise)	$m	62	178
Debt	$m	6	0
Enterprise Value	$m	463	437
Project		Goulamina	Finniss
Location		Mali	NT
% Ownership		45% (Gov 10-20%)	100%
Status		DFS complete	DFS complete
Total Resource		109Mt at 1.45% Li2O	15Mt at 1.32% Li2O
Reserve		52Mt at 1.51% Li2O	7.4Mt at 1.3% Li2O
Mining method		Open pits	OP / Underground
Capex		US$194m (US$97m)	US$65m
Strip Ratio		3.3x	22x
Throughput		2.3Mtpa	1.0Mtpa
Recoveries		77%	72%
Spod Conc.		436Ktpa (218ktpa)	173Ktpa
Product Spec.		6% Li2O	5.8% Li2O
Distance to port		~1000Km	~88Km
Mine life		23Yrs	8Yrs
AISC (ex credits)		US$313/t	US$441/t

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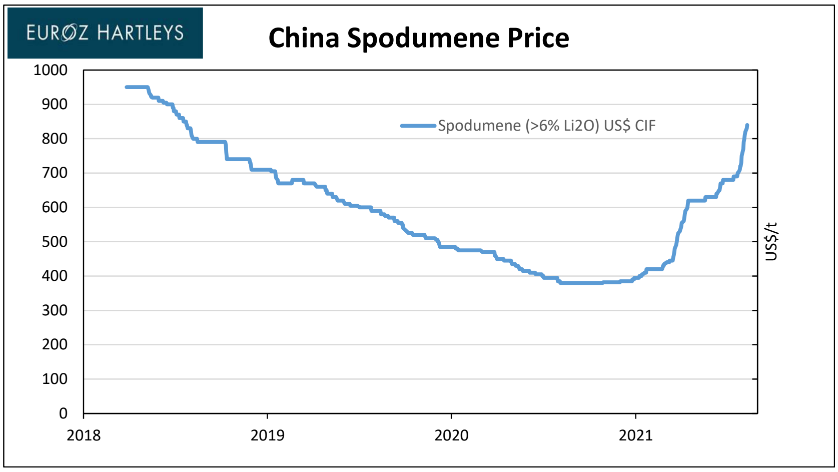
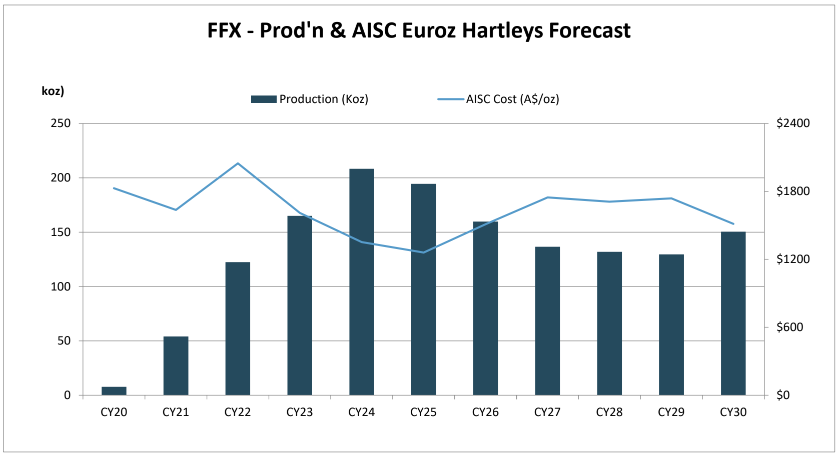


Morila

FFX increased its cash position by ~A$40m during the quarter to ~A$62m, this was after raising A$47m (before-costs).

- We are encouraged by the Company's ramp up at Morilla to date whilst refurbishing the processing plant along with the introduction of further satellite ore feed.
- Morila gold mine continues to ramp in-line with our expectations, producing 12.6koz in the JunQ, processing 1.1Mt at 0.57g/t with recoveries of 63%, improving in all areas relative to the MarQ.
- The Company has increased its production guidance for the upcoming SepQ has been increased to 13-15koz, as production ramps up from its from its satellite pits (higher grade and recovery).
- Satellite mining has commenced at the Viper deposit (ahead of schedule). As a reminder the Viper Ore Reserve stands at 1.3Mt at 1.46g/t for 43koz.
- We are especially looking forward to the exploration results from beneath the Morila pit (Morila NE) which are targeting extensions to high grade historical results.
- As a reminder our production profile for Morila assumes first ore from the Morila main pit in JunQ CY22 and to be fully ramped up on Morila ore at a rate of 4Mtpa by MarQ CY23, underpinning production averaging ~160kozpa out to CY28.



Source: Euroz Hartleys

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Commencement of Mining at Viper

Source: FFX

		Firefinch	AVZ Minerals	Liontown	Piedmont Lithium	CXO Lithium
ASX Code		**FFX**	**AVZ**	**LTR**	**PLL**	CXO
Price	$/sh	0.57	0.2425	0.97	0.87	0.365
Mkt Cap	$m	519	756	1846	1370	615
Simplistic 50% of Mcap attributed (Morila 50%)	$m	260	NA	NA	NA	NA
Cash (CXO post raise)	$m	62	6	15	215	178
Debt	$m	6	0	0	0	0
Enterprise Value	$m	463	750	1831	1155	437
Project		Goulamina	Manono	Kathleen Valley	Piedmont	Finniss
Location		Mali	DRC	WA	North Carloina, USA	NT
% Ownership		45% (Gov 10-20%)	60% (up to75%)	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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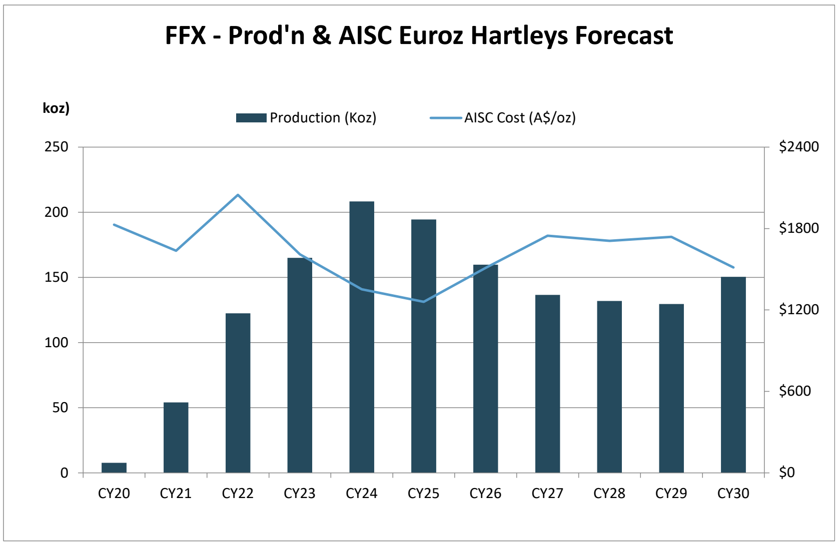
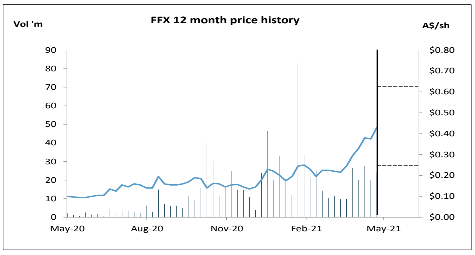
Key Variables

Val/ Sh					Gold $				
$0.75	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD 15%	$0.534	$0.575	$0.616	$0.658	$0.699	$0.740	$0.782	$0.823	$0.864
10%	$0.540	$0.584	$0.627	$0.670	$0.713	$0.756	$0.799	$0.842	$0.886
5%	$0.547	$0.593	$0.638	$0.683	$0.728	$0.774	$0.819	$0.864	$0.909
0%	$0.555	$0.603	$0.650	$0.698	$0.745	$0.793	$0.840	$0.888	$0.935
-5%	$0.564	$0.614	$0.664	$0.714	$0.764	$0.814	$0.864	$0.914	$0.964
-10%	$0.574	$0.626	$0.679	$0.732	$0.785	$0.837	$0.890	$0.943	$0.996
-15%	$0.584	$0.640	$0.696	$0.752	$0.808	$0.864	$0.919	$0.975	$1.031



Euroz Forecast	2020A	FY'2021	FY'2022	FY'2023
Gold (US$/lb)	$1,770.35	$1,827.81	$1,825.00	$1,750.00
AUDUSD	$0.69	$0.76	$0.74	$0.74

Our Share Price Sensitivity



Our Market Sensitivity

Price Target $1.10/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$600m in cash to fast track development at Morila whilst strengthening the balance sheet.

Base Scenario $1.10./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.

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	**0.570**	**A$/sh**	**Directors**	
Issued Capital			A.Cowden	Chair
Fully Paid Ord	910.9	m	M. Anderson	MD
Options (var. prices)	36.4	m	B.Gordon	NE Dir
Total Dil.	**947.3**	**m**	M.Hepburn	NE Dir
			B.Borg	NE Dir
Market Capitalisation	**$519**	**m**	B.Fraser	NE Dir
Enterprise Value	$463	m	E.Hughes	CFO & Sec
Cash & Gold	$62	m		
Debt	$6	m	**Shareholders**	
			Board and Mgt	2.5%

Asset Valuation	A$m	A$/sh
(+) Morila (risk adj 90%)	261	0.29
(-) Corporate	(28)	(0.03)
(+/-) Heding	-	-
(+) Exploration	70	0.08
(+) Goulamina Lithium	320	0.35
(+) Cash	62	0.07
(-) Debt (overdraft facility)	(6)	(0.01)
Total	**679**	**0.75**

F/Cast Production (A$m)		2020A	2021F	2022F	2023F
Morila (100%)					
Throughput	Mtpa	0.9	4.1	3.7	3.8
Head grade	g/t	0.45	0.63	1.14	1.50
Recovery	%	52%	63%	90%	90%
Gold Production	**Koz**	**8**	**54**	**122**	**165**
Cash Costs (C1)	A$/oz	1,670	1,519	1,930	1,383
AISC	A$/oz	1,828	1,636	2,048	1,610
AISC	US$/oz	1,263	1,235	1,515	1,192
Assumptions					
Spot Gold Price	US$/oz	1,770	1,828	1,825	1,750
FX Rate ass'd	A$/US$	0.69	0.76	0.74	0.74

Ratio Analysis (A$m)	2020A	2021F	2022F	2023F
Cashflow	-6	26	25	84
Cashflow Per Share	-0	1	-1	5
Cashflow Ratio	na	56	-39	12
Earnings	1	21	16	72
Earnings Per Share	0	2	2	8
EPS Growth	-1	17	-0	3
P/e Ratio	449	25	33	7
Enterprise Value	461	496	511	441
EV/EBITDA	-474	14	13	4
EV/EBIT	5,195	16	17	4
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)	2020A	2021F	2022F	2023F
(+) Gold revenue	20	106	240	312
(+/-) Hedging Revenue	-	-	-	-
(+) Interest Income	0	-	-	-
(+) Other Revenue	0	-	-	-
Total Revenue	**21**	**106**	**240**	**312**
(-) Operating Costs	(19)	(71)	(201)	(197)
(-) Dep/Amort	(0)	(4)	(9)	(12)
(-) Writeoff (expl'n)	-	-	-	-
(-) O/H + News Bus Dev.	(1)	-	-	-
(-) Provisions	1	-	-	-
EBITDA	(1)	35	40	115
EBIT	0	31	31	103
(-) Interest Expense	-	-	-	-
NPBT	1	31	31	103
(-) Tax	(0)	(9)	(14)	(31)
(-) Minority Interest	-	-	-	-
Net Profit	**1**	**21**	**16**	**72**
(+/-) Net abnormal	(1)	-	-	-
Net profit After Abnormal	**0**	**21**	**16**	**72**

Cash Flow (A$m)	2020A	2021F	2022F	2023F
Net Profit	1	21	16	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)**	**26**	**25**	**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	(15)	64
(+/-) FX Adj.	(1)	-	-	-
EoP Cash Balance	**17**	**44**	**29**	**93**

Balance Sheet (A$m)	2020A	2021F	2022F	2023F
Assets				
Cash	17	44	29	93
Current Receivables	14	14	14	14
Other Current Assets	37	37	37	37
Non-Current Assets	71	102	125	126
Total Assets	**139**	**197**	**206**	**270**
Balance Sheet				
Borrowing(s)	10	-	-	-
Current Accounts payable	10	10	10	10
Other Liabilites	21	21	21	21
Total Liabilties	**40**	**30**	**30**	**30**
Net Assets	**99**	**167**	**176**	**240**

Reserves and Resources

	Reserves			Resources		
	ore	**grade**	**metal**	**ore**	**grade**	**metal**
	mt	g/t	Koz	mt	g/t	Koz
Morila	19.8	1.47	932	38.6	1.50	1,860
Tailings				1.7	0.50	51
Satellites	3.8	1.13	137	2.6	1.38	113
Other				4.0	2.59	329
Total contained Gold	**23.8**	**1.40**	**1,069**	**50.5**	**1.50**	**2,433**
EV/oz			**433**			**190**

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