

Firefinch Limited

(FFX \$0.47) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury	17 th June 2021	\$1.03/sh ▲ from \$0.75/sh

Ganfeng to buy 50% of Goulamina Lithium Project

Event

Firefinch Limited (FFX) has executed a binding term sheet with Ganfeng Lithium Co. Ltd (Ganfeng) to sell down 50% of the project for US\$130m of funding into the JV. Ganfeng are also required to arrange debt of between US\$40-64m.

Impact

- This significantly de-risks the Goulamina Lithium project in our view, both from a funding and operational perspective. The US\$130m will be paid into the JV in two stages.
- This will leave the proposed 'LithiumCo' close to being fully funded, remember that the Oct 2020 DFS had a capex of US\$194m for Goulamina.

Action

We maintain our Speculative Buy recommendation. We have increased our Valuation (from 63cps) to 75cps which values Goulamina at -A\$320m.

Our Price target increases to \$1.03/sh (-A\$860m) from 75cps, which takes into account the premium de-risked lithium assets are receiving in the current market.

Key Catalysts

- Satisfaction of the conditions precedent for the transaction (Government approvals and license transfer)
- Update on the proposed lithium demerger process, actual demerger not expected to occur until the initial investment is made (December 2021).
- Further news flow from the Morila ramp up on hard rock ore and ongoing exploration results from Morila.

Firefinch Limited	Year End 30 June	
Share Price	0.475	A\$/sh
Price Target	1.03	A\$/sh
Valuation	0.75	A\$/sh

Shares on issue	824	m, diluted *
Market Capitalisation	373	A\$m
Enterprise Value	352	A\$m
Debt	7	A\$m
Cash	27	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	1517	1912
AISC (A\$/oz)	1634	2029	1602

Assumptions	2020A	2021F	2022F
Gold Price US\$/oz	1770	1835	1825
AUDUSD	0.69	0.76	0.75

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	21	105	239
EBITDA (A\$m)	-1	34	41
NPAT (A\$m)	1	19	15
Cashflow (A\$m)	-6	24	24

CFPS (Ac)	0	1	-2
P/CFPS (x)	na	43	-27

EPS (Ac)	0	2	2
EPS growth (%)	-1	18	0
PER (x)	377	20	26

EV:EBITDA (x)	-396.8	11.0	9.7
EV:EBIT (x)	4348.1	12.5	12.4

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

ND:Net Debt+Equity (%)	-8%	-14%	-1%
Interest Cover (x)	na	na	na

Share Price Chart



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Analysis

- The US\$130m will be paid into the JV in two stages.
 - Initial US\$39m (including US\$2.5m deposit already received) for 15%, expected to be received in the DecQ CY21.
 - The final investment of US\$91m will be paid subsequent to a positive FID and the provision of the Ganfeng debt, which will take Ganfeng's equity interest in the JV to 50%, this is expected to occur 6-months post-closing of the transaction.
- The difference between our Valuation of A\$0.75/sh and Price Target of A\$1.03/sh is down to the asset valuations for Goulamina.
- The different asset valuations are due to the spodumene prices assumed, our Valuation utilises the Euroz Hartleys commodity price assumption of US\$750/t (45% ownership, NPV12, US\$750/t spod post FY24) producing a Goulamina asset price of ~A\$320m.
- Our Price Target US\$1,000/t of 6% Li2O concentrate (post FY24), whilst our Price Target utilises US\$1,000/t. (45% ownership, NPV12, US\$1,000/t spod post FY24) producing a Goulamina asset price of ~A\$550m.
- We estimate that current spodumene producers equity prices imply spodumene price of around US\$1,000/t.
- Both our Valuation and Price Target assumes 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 to be in Company with the detailed engineering updates which is due to commence post-closing of the transaction.
- We note that the Mali Government is entitled to a 10% free carry interest in the mine and has the right to purchase a further 10% interest at fair market value. We assume that FFX 'LithiumCo' will own 45% of the Goulamina.
- Ganfeng are entitled to 50% of the offtake from Goulamina post FID and the final investment, they can earn the remaining 50%, subject to the provision of Ganfeng Debt and Goulamina reaching commercial production within four years of the Transaction completing.
 - We are encouraged that Ganfeng are incentivised to bring Goulamina into commercial production within 4 years.
 - We note that in a recent transaction, NMT sold its spodumene offtake right of 57Ktpa for A\$30m in cash to Ganfeng and Mineral Resources (MIN).
- FFX will be the operator and manager of the Goulamina asset.
- Firefinch and Ganfeng have agreed to vote in favour of the FID if the post-tax real internal rate of return for Goulamina is greater than 15%, providing significant contingency given the October DFS outline a post-tax IRR of 46.7%.
- Conditions precedent for the completion of the transaction include:
 - Chinese regulatory approvals;
 - Approval of the Transaction by the shareholders of Firefinch, if such approval is required;
 - Approval of the Transaction by the shareholders of Ganfeng; and
 - Applicable Malian government approvals and consents, including any relevant transfer of mining licenses.
- Ganfeng is a Chinese lithium chemical business which is listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange. Ganfeng has a market capitalisation of ~US\$25b and is one of the largest global lithium chemical suppliers. With downstream customers including BMW, LG Chem and Tesla.

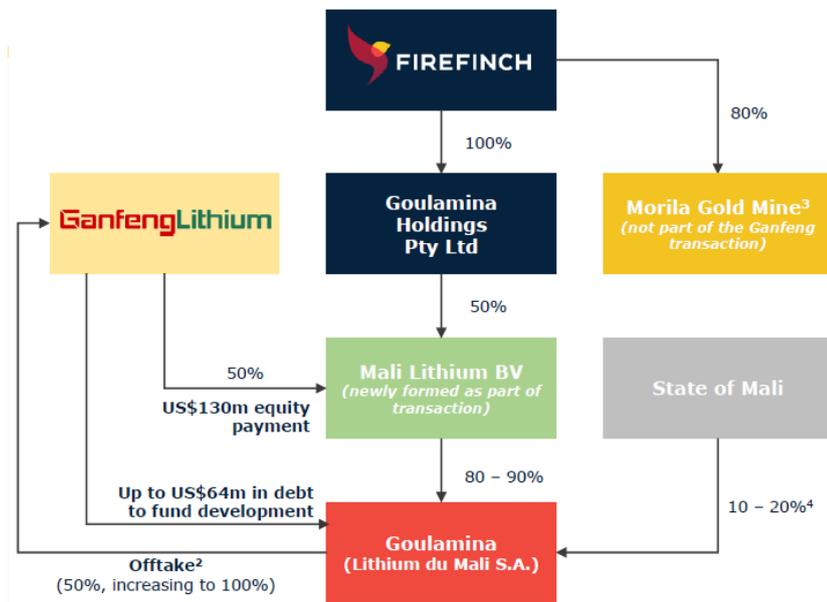
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- We note that FFX has previously proposed to demerge the Goulamina asset, the actual demerger is not expected to occur until the initial investment is made (December 2021). We note that Ganfeng supports the demerger process.
- Firefinch shareholders are expected to receive a pro-rata allocation of shares in 'LithiumCo' further details to be provided in due course.



Source: FFX

	Firefinch	AVZ Minerals	Liontown
ASX Code	FFX	AVZ	LTR
Mkt Cap	\$m 373	448	1201
Valuation / Price target	\$m 320 / 550		
Cash	\$m 27	6	15
Debt	\$m 7	0	0
Enterprise Value	\$m 356	442	1185
Project	Goulamina	Manono	Kathleen Valley
Location	Mali	DRC	WA
% Ownership	45% (Gov 10-20%)	60% (up to 75%)	100%
Status	DFS complete	DFS complete	DFS underway
Total Resource	109Mt at 1.45% Li ₂ O	401Mt at 1.65% Li ₂ O	156Mt at 1.4% Li ₂ O
Reserve	52Mt at 1.51% Li ₂ O	93Mt at 1.58% Li ₂ O	71Mt at 1.4% Li ₂ O
Mining method	Open pits	Open pits	Mostly U/G
Capex	US\$194m	US\$546m	US\$234
Strip Ratio	3.3x	0.5x	8.4X + UG
Throughput	2.3Mtpa	4.5Mtpa	2.0Mtpa
Recoveries	77%	60%	76%
Spod Conc.	436Ktpa	700Ktpa	350Ktpa
Product Spec.	6% Li ₂ O	6% Li ₂ O	6% Li ₂ O
Distance to port	-1000Km	-2,500-3200Km	-800Km
Mine life	23Yrs	20Yrs	40Yrs
AISC (ex credits)	US\$313/t	US\$371/t	US\$423/t

Source: Euroz Hartleys

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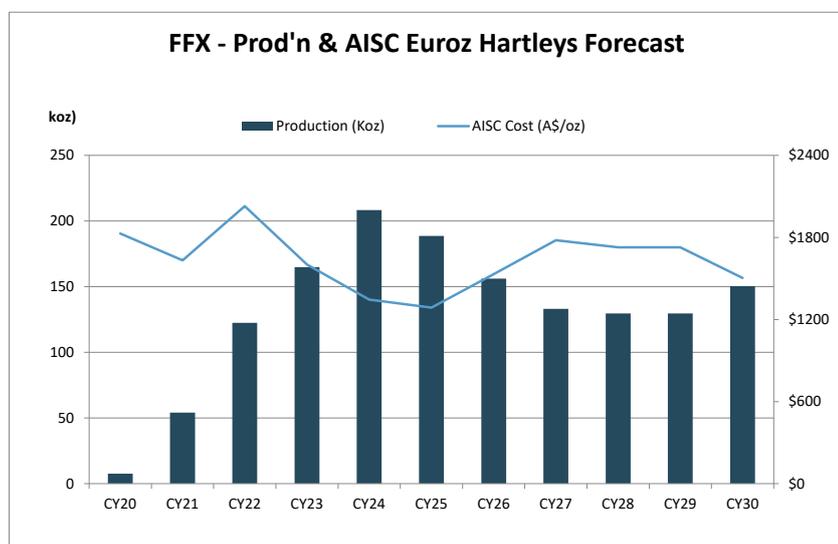
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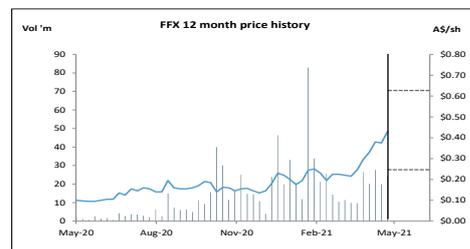
Key Variables

Val/ Sh		Gold \$								
\$0.75		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.515	\$0.561	\$0.607	\$0.654	\$0.700	\$0.746	\$0.793	\$0.839	\$0.886
	10%	\$0.522	\$0.571	\$0.619	\$0.668	\$0.716	\$0.765	\$0.813	\$0.861	\$0.910
	5%	\$0.530	\$0.581	\$0.632	\$0.683	\$0.734	\$0.784	\$0.835	\$0.886	\$0.937
	0%	\$0.540	\$0.593	\$0.646	\$0.699	\$0.753	\$0.806	\$0.859	\$0.913	\$0.966
	-5%	\$0.550	\$0.606	\$0.662	\$0.718	\$0.774	\$0.830	\$0.886	\$0.943	\$0.999
	-10%	\$0.561	\$0.620	\$0.679	\$0.738	\$0.798	\$0.857	\$0.916	\$0.976	\$1.035
	-15%	\$0.573	\$0.636	\$0.699	\$0.761	\$0.824	\$0.887	\$0.950	\$1.012	\$1.075

Euroz Forecast	2020A	FY'2021	FY'2022	FY'2023
Gold (US\$/lb)	\$1,770.35	\$1,835.00	\$1,825.00	\$1,750.00
AUDUSD	\$0.69	\$0.76	\$0.75	\$0.74



Our Share Price Sensitivity



Our Market Sensitivity

Price Target **\$1.03/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 **\$1.03/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\$1,000/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	0.475 A\$/sh	Directors				
Issued Capital		A.Cowden		Chair		
Fully Paid Ord	784.4 m	M. Anderson		MD		
Options (var. prices)	39.4 m	B.Gordon		NE Dir		
Total Dil.	823.8 m	M.Hepburn		NE Dir		
		B.Borg		NE Dir		
Market Capitalisation	\$373 m	B.Fraser		NE Dir		
Enterprise Value	\$352 m	E.Hughes		CFO & Sec		
Cash	\$27 m	Shareholders				
Debt	\$7 m	Board and Mgt 2.5%				
Asset Valuation		A\$m	A\$/sh			
(+) Morila (risk adj 90%)		242	0.29			
(-) Corporate		(28)	(0.03)			
(+/-) Hedging		-	-			
(+) Exploration		50	0.06			
(+) Unpaid Capital (new equity)		20	0.02			
(+) Goulamina Lithium		320	0.39			
(+) Cash		27	0.03			
(-) Debt (overdraft facility)		(7)	(0.01)			
Total		624	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	1,517	1,912	1,375	
AISC	A\$/oz	1,828	1,634	2,029	1,602	
AISC	US\$/oz	1,263	1,242	1,512	1,186	
Assumptions						
Spot Gold Price	US\$/oz	1,770	1,835	1,825	1,750	
FX Rate ass'd	A\$/US\$	0.69	0.76	0.75	0.74	
Ratio Analysis (A\$m)	2020A	2021F	2022F	2023F		
Cashflow	-6	24	24	84		
Cashflow Per Share	-0	1	-2	5		
Cashflow Ratio	na	44	-27	9		
Earnings	1	19	15	72		
Earnings Per Share	0	2	2	9		
EPS Growth	-1	18	-0	4		
P/e Ratio	379	20	26	5		
Enterprise Value	388	379	394	326		
EV/EBITDA	-399	11	10	3		
EV/EBIT	4,371	13	13	3		
Net Debt/(Net Debt + Equity)	-0	-0	-0	-0		
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	239	312		
(+/-) Hedging Revenue	-	-	-	-		
(+) Interest Income	0	-	-	-		
(+) Other Revenue	0	-	-	-		
Total Revenue	21	105	239	312		
(-) Operating Costs	(19)	(71)	(199)	(196)		
(-) Dep/Armort	(0)	(4)	(9)	(12)		
(-) Writeoff (expl'n)	-	-	-	-		
(-) O/H + News Bus Dev.	(1)	-	-	-		
(-) Provisions	1	-	-	-		
EBITDA	(1)	34	41	116		
EBIT	0	30	32	104		
(-) Interest Expense	-	(2)	(2)	(1)		
NPBT	1	28	29	103		
(-) Tax	(0)	(8)	(14)	(31)		
(-) Minority Interest	-	-	-	-		
Net Profit	1	19	15	72		
(+/-) Net abnormal	(1)	-	-	-		
Net profit After Abnormal	0	19	15	72		
Cash Flow (A\$m)						
Net Profit	1	19	15	72		
(+) WC adj.	(6)	-	-	-		
(+) Dep/Amort	0	4	9	12		
(+) Provisions & W/O	(1)	-	-	-		
(+) Tax Expense	0	8	14	31		
(-) Deferred Revenue	-	-	-	-		
(-) Tax Paid	(0)	(8)	(14)	(31)		
Operating Cashflow	(6)	24	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	20	-	-		
(+) Loan Drawdown/receivable	-	30	-	-		
(+) Loans from(to) other entities	-	-	-	-		
(-) Loan Repayment	-	-	(10)	(20)		
(-) Dividends	-	-	-	-		
Financing Cashflow	69	50	(10)	(20)		
Net Cashflows	14	30	(26)	44		
(+/-) FX Adj.	(1)	-	-	-		
EoP Cash Balance	17	47	21	65		
Balance Sheet (A\$m)						
Assets						
Cash	17	47	21	65		
Current Receivables	14	14	14	14		
Other Current Assets	37	37	37	37		
Non-Current Assets	71	102	125	126		
Total Assets	139	201	198	242		
Balance Sheet						
Borrowing(s)	10	30	20	-		
Current Accounts payable	10	10	10	10		
Other Liabilities	21	21	21	21		
Total Liabilities	40	60	60	40		
Net Assets	99	140	138	201		
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			331			146

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