Finders Resources Ltd

Blackswan Equities

Mining permit remains elusive

Buy

Event

- FND released its Quarterly Activities Report.

Analysis

- **On the verge of construction at the Wetar copper project.** During Q1-CY11, FND's on-site activities were focussed on preparing for construction. The Whim Creek SX-EW plant is containerised and was transported to Port Hedland for shipment. Orders have been placed for other long lead items and all major contractor and equipment suppliers have been selected. FND currently holds $10.3m in cash and will mandate a lead arranger for debt financing in Q2-CY11.
- **Permitting remains the catalyst for development.** While final documentation for the mining permit has been completed, changes in the key government personnel handling the mining permit application have led to further reviews. FND has also applied for conversion forest areas to be released. We are hopeful that the Company will receive the necessary permits in Q2-CY11.
- **Positioned to become a meaningful pure-play copper producer.** Once in production, Wetar is forecast to produce 25ktpa over a nine year mine life which is supported by an Ore Reserve of 8.2Mt grading 2.5% copper. We forecast that the project will have a low cash cost of US$1.10/lb, due to its high copper grade and very low strip ratios. Final detailed cost estimates and an updated mine plan will be released as part of the BFS results in Q2-CY11.
- **Exploration efforts ramp up.** FND has reviewed two exploration targets which lie within 2km of existing Ore Reserves at Wetar. Firstly, Meron hosts copper bearing massive sulphide which was partially drilled during the gold mining operations. Secondly, airborne EM data has identified a number of conductors at the Karkopang prospect. FND has submitted documentation and is awaiting sign-off to commence exploration on the northern tenement blocks.
- **Permits to drive a re-rating.** From a valuation stand-point, we believe FND represents the most attractive investment amongst its ASX-listed copper peers. Over the next 12 months we expect FND's share price to converge towards its NPV as it achieves development milestones, the most important being the mining permit.

Earnings Impact

- **Near-term production to capture buoyant copper prices.** Wetar is set to ramp up to full-scale production by 2013. At a copper price of US$4.00/lb, Wetar has the potential to generate more than $150m in EBITDA per year.

Recommendation and Price Target

- **Retain our BUY and Price Target of $0.80/share, based on a P/NPV of 0.9x.**
- **A compelling investment case.** Wetar has a robust Ore Reserve, technically proven processing route and a strong Indonesian-based management team. While the permitting process in Indonesia does entail a high level of risk, we believe the stock's current discount to NPV offers an attractive investment in our preferred commodity of copper.

2 May 2011

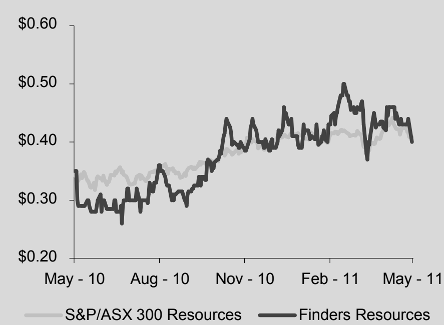
Company Information

Code	FND
Last Price	$0.43
12 Month Price Target	$0.80
Total Shareholder Return	86.0%
Valuation	$0.90
Shares on Issue	278.8m
Market Capitalisation	$119.9m
Free Float	100%
Monthly Turnover	$0.7m

Financial Summary

	CY10a	CY11e	CY12e	CY13e
Revenue ($m)	11.8	0.8	25.5	189.4
EBITDA ($m)	(7.3)	(5.9)	8.2	126.7
D&A ($m)	1.3	0.0	2.3	19.4
EBIT ($m)	**(8.5)**	**(5.9)**	**5.8**	**107.3**
Net Interest ($m)	0.1	(1.3)	2.3	4.9
Tax ($m)	0.0	(1.4)	1.1	30.7
Underlying NPAT ($m)	**(8.6)**	**(3.2)**	**2.5**	**71.7**
Abnormals	0.0	0.0	0.0	0.0
OEI ($m)	(0.9)	0.0	0.0	0.0
Reported NPAT ($m)	**(7.7)**	**(3.2)**	**2.5**	**71.7**
EPS (¢)	(2.8)	(0.7)	0.6	16.7
EPS growth (%)	n/a	n/a	n/a	n/a
CFPS (¢)	(5.1)	(4.9)	(28.5)	20.4
DPS (¢)	0.0	0.0	0.0	0.0
Cash ($m)	14.5	53.3	21.2	88.5
Net debt ($m)	(14.5)	(53.3)	68.8	(18.5)
Net debt / equity (%)	(35.3)	(53.9)	67.9	(10.7)
Interest cover (x)	n/a	n/a	2.5	n/a
ROE (%)	(18.9)	(3.2)	2.4	41.4
ROA (%)	(17.0)	(3.1)	1.3	28.9
NTA per share (¢)	14.7	23.0	23.6	40.3
PE (x)	**n/a**	**n/a**	**n/a**	**2.6**
EV/EBITDA (x)	**n/a**	**n/a**	**n/a**	**1.3**

Share Price Performance



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Finders Resources Ltd (FND)

Shares on Issue	278.8m
Market Capitalisation	$119.9m
Year End	31-December

Recommendation: BUY

Date	2 May 2011
Share Price	$0.43/share
12 Month Target Price	$0.80/share

Equity Valuation, Price Target, 12 Month Return

Equity Valuation	A$m	A$/share
Wetar Copper Project	232.7	0.82
Wetar Exploration	19.0	0.07
Ojolali Gold-Silver Project	16.9	0.06
Corporate	(26.7)	(0.09)
Hedging	0.0	0.00
Cash	10.3	0.04
Debt	0.0	0.00
Unpaid Capital	1.6	0.01
NPV	**$253.8m**	**$0.90/sh**
Real Discount Rate		*8.00%*

12 Month Price Target	
NPV (P/NPV: 0.9x)	**$0.80/sh**

12 Month Return	
Capital Return	86.0%
Dividend Yield	0.0%
12 Month Total Return	**86.0%**

Production & Commodity Prices (Nominal Terms)

Key Assumptions	CY10a	CY11e	CY12e	CY13e
Copper Price (US$/lb)	3.42	4.40	4.41	3.90
USD/AUD Rate (USc)	92.05	99.50	95.00	93.00

Wetar Production Summary (100%)	CY10a	CY11e	CY12e	CY13e
Copper Cathode (kt)	1.39	0.09	2.66	21.66
Site Cash Cost (US$/lb)	n/m	n/m	1.90	1.08
Total Cash Cost (US$/lb)	n/m	n/m	2.07	1.24

Financial Ratios

Earnings & Cash Flow Multiples	CY10a	CY11e	CY12e	CY13e
EPS	-2.8¢	-0.7¢	0.6¢	16.7¢
EPS Growth	n/a	n/a	n/a	n/a
P/E	n/a	n/a	n/a	2.6x
EV/EBIT	n/a	n/a	n/a	1.5x
EV/EBITDA	n/a	n/a	n/a	1.3x
GCFPS	-2.6¢	-1.3¢	1.0¢	21.1¢
P/GCF	n/a	n/a	n/a	2.0x
FCFPS	-5.1¢	-4.9¢	-28.5¢	20.4¢
P/FCF	n/a	n/a	n/a	2.1x

Balance Sheet	CY10a	CY11e	CY12e	CY13e
Gearing (Debt/Equity)	3.5%	1.5%	90.3%	41.3%
Gearing (Net Debt/Equity)	-35.3%	-53.9%	67.9%	-10.7%
EBIT Interest Cover	n/a	n/a	2.5x	n/a
ROE	-18.9%	-3.2%	2.4%	41.4%
ROA	-17.0%	-3.1%	1.3%	28.9%
NTA Per Share	14.7¢	23.0¢	23.6¢	40.3¢

Dividends	CY10a	CY11e	CY12e	CY13e
Dividend Per Share	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Dividend Franking	n/a	n/a	n/a	n/a
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

Income Statement

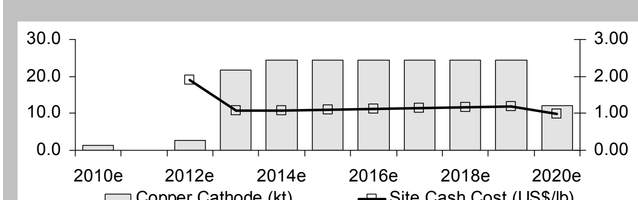
Full Year Summary (A$m)	CY10a	CY11e	CY12e	CY13e
Sales Revenue	11.8	0.8	25.5	189.4
EBITDA	**(7.3)**	**(5.9)**	**8.2**	**126.7**
Depreciation & Amortisation	1.3	0.0	2.3	19.4
EBIT	**(8.5)**	**(5.9)**	**5.8**	**107.3**
Net Interest Expense	0.1	(1.3)	2.3	4.9
Profit Before Tax	(8.6)	(4.6)	3.5	102.4
Income Tax Expense	0.0	(1.4)	1.1	30.7
Underlying NPAT	**(8.6)**	**(3.2)**	**2.5**	**71.7**
Abnormal Items	0.0	0.0	0.0	0.0
Minority Interests	(0.9)	0.0	0.0	0.0
Reported NPAT	**(7.7)**	**(3.2)**	**2.5**	**71.7**
Normalised Earnings	**(7.7)**	**(3.2)**	**2.5**	**71.7**

Cash Flow Statement

Full Year Summary (A$m)	CY10a	CY11e	CY12e	CY13e
EBITDA	(7.3)	(5.9)	8.2	126.7
Inc/(Dec) in Working Capital	(2.3)	(1.7)	0.0	0.0
Exploration & Other Items	2.5	2.1	(4.0)	(36.2)
Operating Cash Flow	**(7.1)**	**(5.5)**	**4.2**	**90.5**
Capital Expenditure	(6.2)	(15.7)	(126.3)	(3.2)
Other	(0.8)	0.0	0.0	0.0
Free Cash Flow	**(14.1)**	**(21.2)**	**(122.1)**	**87.3**
Equity Raised	19.7	60.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Inc/(Dec) in Borrowings	0.0	0.0	90.0	(20.0)
Financing Cash Flow	**19.7**	**60.0**	**90.0**	**(20.0)**
Effects of Exchange Rates	(0.0)	0.0	0.0	0.0
Movement in Net Cash	**5.6**	**38.8**	**(32.1)**	**67.3**
Cash at End Period	**14.5**	**53.3**	**21.2**	**88.5**
Net Cash/(Debt)	**14.5**	**53.3**	**(68.8)**	**18.5**

Balance Sheet

Full Year Summary (A$m)	CY10a	CY11e	CY12e	CY13e
Cash	14.5	53.3	21.2	88.5
Receivables	3.5	3.5	3.5	3.5
Inventory	1.0	1.0	1.0	1.0
Property, Plant & Equipment	14.8	30.7	154.6	138.5
Exploration Expenditure	0.0	0.5	1.1	1.7
Mine Development	11.2	11.2	11.2	11.2
Other	0.4	3.3	3.3	3.3
Total Assets	**45.5**	**103.6**	**196.1**	**247.7**
Payables	1.8	1.8	1.8	1.8
Debt	1.4	1.4	91.4	71.4
Provisions	0.9	1.2	1.2	1.2
Other	0.3	0.3	0.3	0.3
Total Liabilities	**4.5**	**4.8**	**94.8**	**74.8**
Net Assets	**41.0**	**98.8**	**101.3**	**173.0**
Shareholders' Equity	85.7	145.7	145.7	145.7
Reserves	(1.4)	(1.4)	(1.4)	(1.4)
Retained Profits	(42.2)	(45.5)	(43.0)	28.7
Minority Interests	(1.0)	0.0	0.0	0.0
Total Shareholders' Equity	**41.0**	**98.8**	**101.3**	**173.0**



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