

Finders Resources (FND). Closer to final approval with Environmental Permit in place. Buy. PT \$0.70 (Price: \$0.29; Diluted Market Cap \$59.7m).

On 9 April 2010 FND announced that the Environmental Impact Assessment has been approved clearing the way for final project approval for the 23ktpa Wetar copper project in Indonesia.

FND also reported 453t of copper cathode production for the March quarter 2010 from its Demonstration Plant at Wetar, which was slightly in excess of nameplate capacity.

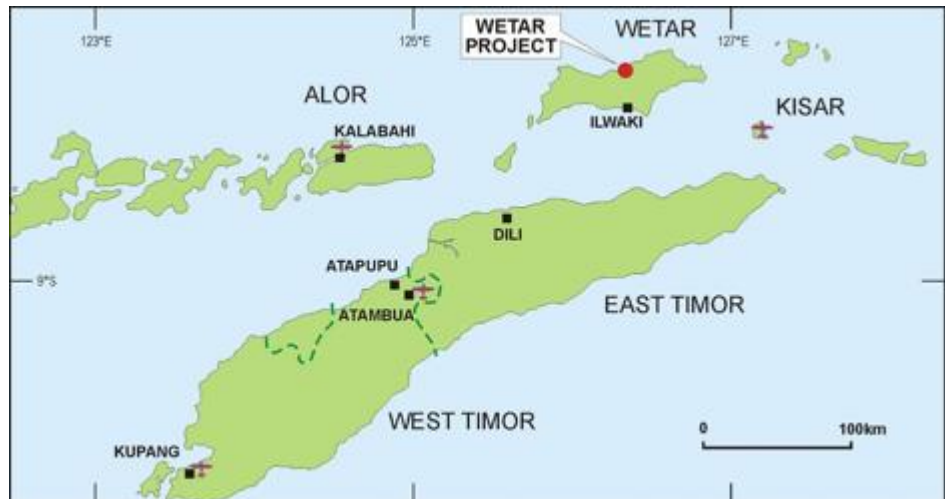
FND plans to ramp up to 23ktpa Cu production in a 2 stage process:

- **Stage 1 involves** expanding the Demonstration Plant from 1.8ktpa to 7ktpa. While the DFS anticipated Stage 1 production of 5ktpa for a capital cost of US\$12m, the higher production rate will likely increase Stage 1 capital requirements. **Detailed engineering for Stage 1 is expected to be completed by June 2010 with construction commencing shortly afterwards** subject to final permitting and funding. Construction of Stage 1 is expected to take ~6 months.
- **Stage 2 involves** ramping up to 23ktpa for a capital cost estimated in the DFS of US\$91m. The DFS also allowed for US\$15m in working capital. Detailed design for Stage 2 is expected to be completed in CY10 with production from Stage 2 scheduled to be reached within 12 months of Stage 1 completion. Total Stage 1 and 2 capital estimates in the DFS are US\$118m.

Background and location

FND's 94% owned Wetar project is located on Wetar Island north of East Timor. The deposit contains **Proven and Probable Ore Reserves of 8.18mt @2.5% Cu for 205kt of Cu** with a strip ratio of 1:1.

FND's Wetar project location



Source: Company

Further upside on Wetar Island include the Meron deposit (2km from the current project and not included in the DFS) of ~1mt @ 2.3% (Non JORC) and some interesting exploration results at the Batu Duri prospect which includes a 10m intersection of 4.5% copper. FND's Ojalali project in Southern Sumatra, while relatively early days, offers investors considerable upside. The Jambi resource currently stands at 138koz (99koz – FND share).

Mining and Processing at Wetar

The Wetar copper deposit comprises two high grade (2.5% Cu) deposits, Kali Kuning and Lerokis, which are located 3km from the coast (and within 5km of each other) and are suitable to open cut mining with a strip ratio of 1:1. Mining and crushing the ore will be by conventional methods.

The dominant minerals are chalcocite and covellite, which are both amenable to bacteria assisted leaching, and chalcopyrite which leaches faster at higher temperatures. Other copper containing minerals present in the ore are enargite and bornite. It is the arsenic in the enargite we understand that largely precludes conventional flotation but poses no issues in an SX-EW operation as it does not leach into solution.

After recoveries up to 80% were proven achievable in lab conditions (Wetar DFS assumes 71% as lab recoveries are invariably higher than actual recoveries), FND obtained a permit for a demonstration plant with heaps in similar height to those that are envisaged at full production. Heap leach recovery times and processes is where most of the technical learning has occurred. The table below has been taken from FND's March 2010 quarterly and shows the latest heap recovery performance. We understand some of the key interrelated variables around recoveries are heap height, crushed ore sizing and irrigation.

FND – Recent Heap Leach recovery performance

Table 2: Operating Parameters			
Leach Performance*	Heap 2	Heap 3	Heap 4
Grade (Cu %)	3.6	4.9	5.0
Recovered Copper (total) – Tonnes	453	612	482
Approx. % Copper Recovery to date	55%	65%	29%
Approx. Number of weeks under Irrigation	59	53	34
Electrowinning	Q1 2010	Q4 2009	
Copper Produced – Tonnes	453	254	
Copper Sold – Tonnes	361	240	

*As of 17 Apr 2010. All subject to final mass balances and weight reconciliations

Source: Company

While, there is a currently a significant leach time to achieve 70% recoveries, constant optimising of the process is making improvements in recovery times and the company has allowed \$15m in working capital to allow for revenue delays. Consistent budgeted production is managed by sequencing the leaching of different leach pads so that delivery of sufficient copper in solution is delivered to the process plant.

Besides optimising the heap performance, the balance of the SX-EW process is conventional technology. We note ~25% of the worlds copper production is derived from SX-EW operations.

The project does, and will, produce LME Grade A copper cathode with very low impurities. Impurity levels of ~10ppm and less have been achieved against an LME specification of 65ppm maximum impurities. A key advantage of producing copper metal is the project is not subject to changing treatment and refining charges that are generally out of concentrate producers' control and can impact total costs and overall economics significantly. Another key advantage of producing metal is the lower transport costs per unit of metal value compared to a concentrate.

Importantly, **the project is largely de-risked from a technical point of view** due to the extensive Demonstration Plant that produced copper metal at an annualised rate of 1.8kt in the March quarter.

Financials and valuation

Our modelling assumptions for our base case NPV valuation are:

- The Wetar project ramps up to 23ktpa Cu by CY12 with cash costs of US\$1.25/lb reducing to US\$1.00/lb in 2013 for the remaining 7 years of mine life (in line with the DFS estimates of an average of US\$1.00/lb).
- We have maintained a US\$118m capital cost for the project despite the company flagging possible capex savings in its latest presentation.
- We assume US\$2.50/lb Cu and an AUD/USD exchange rate of 0.90 long term.
- We assume \$60m in equity and \$80m in debt is raised to fund development.

Our DCF based analysis indicates FND is trading at a P/NPV of ~0.34x.

FND – NPV analysis

	NPV now		NPV in 1 one year	
	A\$m	\$/share	A\$m	\$/share
Wetar copper project	177.5	0.75	255.3	0.86
Ojalali gold project	10.0	0.04	10.0	0.03
Other exploration	10.0	0.04	10.0	0.03
Corporate	-20.2	-0.09	-20.2	-0.07
Net cash / (debt)	3.9	0.02	0.7	0.00
Total	181.3	0.77	255.8	0.86

Source: FSB research

FND – NPV sensitivity analysis to copper prices

Copper price	US\$/lb	1.50	2.00	2.50	3.00	3.50
Wetar project NPV now	\$/share	-0.02	0.37	0.75	1.14	1.52
Wetar project NPV 1-year forward		0.19	0.53	0.86	1.20	1.54

Source: FSB research

Other key results from our modelling, including an allowance for corporate and exploration costs, are summarised in the table below.

FND – Production and operating assumptions and key financials (A\$m)

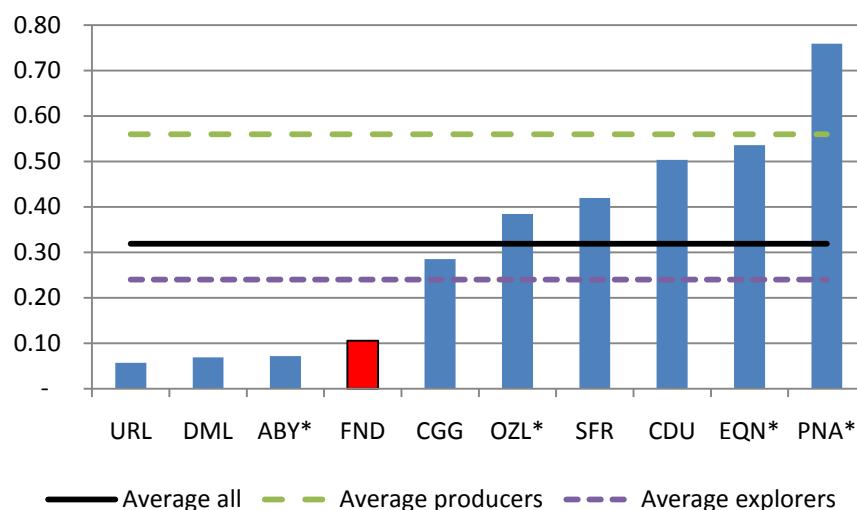
Year ending Dec 31		2010	2011	2012	2013	2014	2015
Copper cathode production*	kt	1.6	6.4	21.6	21.6	21.6	21.6
	Mlb	3.5	14.1	47.6	47.6	47.6	47.6
Copper price	US\$/lb	3.4	2.75	2.50	2.50	2.50	2.50
Operating cash cost	US\$/lb	2.75	2.00	1.25	1.00	1.00	1.00
Exchange rate	AUD/USD	0.90	0.90	0.90	0.90	0.90	0.90
Sales revenue		13.3	43.0	132.3	132.3	132.3	132.3
EBITDA		-3.2	7.2	64.8	76.7	76.7	76.7
DA		0.0	-6.7	-21.0	-21.0	-21.0	-21.0
EBIT		-3.2	0.5	43.7	55.7	55.7	55.7
Interest		-0.2	-4.2	-4.1	-2.7	-1.4	0.0
EBT		-3.3	-3.7	39.7	52.9	54.3	55.6
Tax		1.0	1.1	-11.9	-15.9	-16.3	-16.7
NPAT		-2.3	-2.6	27.8	37.0	38.0	38.9
Operating cashflow		-3.3	3.0	50.9	58.1	59.0	60.0
Free cashflow		-16.7	-114.8	47.0	54.1	55.1	56.0
EV/EBITDA	x	nm	21.0	1.6	0.6	-0.1	-0.8
PER	x	nm	nm	3.1	2.3	2.2	2.2

Source: FSB Research. *FND share only (94%)

Peer comparisons

Broad peer comparisons are summarised in the table below. Producers with scale and lower operating costs (such as OZL with cash costs of ~US\$0.85/lb Cu) attract much larger premiums than the smaller stocks. In our view, OZL trades at a discount to its operating peers because underground resources are yet to be proven economically viable. While PNA is expecting higher cash costs in 2010 (~US\$1.00/lb) than OZL, it trades at a premium to both OZL and EQN which, in our view reflects an anticipated significant resource upgrade at Phu Kham expected this year.

Peer comparison – EV\$/lb Cu resources



Source: Company reports, Iress, FSB research. * Denotes producer. Prices as at 17 May 2010.

It is interesting to compare the DFS of Discovery Metals' (DML) Botswana based Boseto Copper project with that of FND's Wetar project given both projects have similar capex, opex, production rates and are at a similar stage in their respective project lives.

FND's Wetar project compared to DML's Boseto project

Company Project		FND Wetar	DML Boseto
Location		Indonesia	Botswana
Capex	US\$m	118	150
Operating cost	US\$/lb	1.00	1.04
Mine type		Open cut	Open cut
Cu mined grade	%	2.5	1.5
LOM Strip ratio		1:1	10:1
Annual Cu prod. (equity share)	kt	21.6	25.6
First production		Ramping up	Late 2011
Mine life	years	8.7	10
EBITDA estimate @ US\$2.50 Cu	US\$m	~75m	~82m
Diluted shares on issue	m	205.8	311.2
Share price	\$	0.30	0.76
Market Capitalisation	\$m	61.7	236.5
Net cash at 31 March 2010	\$m	3.0	34.3
Enterprise value		58.7	202.2
Contained copper reserves	kt	192.2	-
Contained copper resources	kt	207	1,439
EV/lb reserve	\$/lb	0.14	n/a
EV/lb resource	\$/lb	0.13	0.06

Source: Company, Iress, FSB research

While DML's Boseto project has a much larger resource base, it extends to depths of a couple of hundred metres and given the narrow plunging nature of the orebody the BFS

base case was based on 10 years of production from an open pit mine with the key limiting factor, we understand, being the increasing strip ratio at depth. While in our view, underground mining at Boseto is potentially feasible, it is yet to be demonstrated.

Conclusion and Recommendation

We draw comfort from the FND board's significant Indonesian experience. The Managing Director, Mr. Chris Farmer, has 19 years experience on Indonesian mining projects and resides in Jakarta. Mr Robert Thomson, Executive Director – Development, is a mining engineer with more than 30 years experience including roles as GM Development, Chatree Gold Mine and Project Director, Sepon Gold Mines in Laos.

FND has a quality share register with five substantial's including Resource Capital Fund 9.9% (12.8% fully diluted); Acorn Capital Ltd 10.5%; Straits Resources Ltd 10.0%; Taurus Resources Ltd 9.4%; and Lujeta Pty Ltd 7.7%.

We see the full permitting of Stage 1 and 2 of the operation, which we suspect is imminent, as a major catalyst for the stock. We believe other short term catalysts will be further news regarding progress on optimising the Wetar DFS and exploration results.

As at 31 March 2010, FND had US\$1.5m in convertible notes (2012 conversion, \$0.36 par value, 12%) and A\$5.3m in cash. We have derived **our price target of \$0.70/share by applying a ~20% discount to our one year forward valuation of \$0.86/share, to reflect permitting and project execution risk.**

Recommendation. Buy FND, (Price: \$0.29; PT \$0.70/share, Diluted Mkt Cap. \$59.7m)

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