

Finders Resources Limited

Initiating coverage - Emerging SX/EW copper producer



Wilson HTM
INVESTMENT GROUP

6 September 2011

\$0.42

BUY

Keith Williams

03 9640 3802

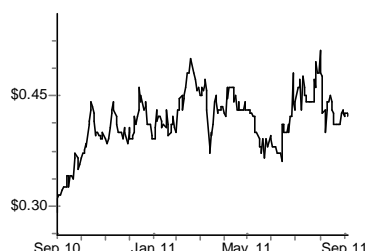
keith.williams@wilsonhtm.com.au

James Brennan-Chong

03 9640 3893

james.brennan-chong@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	FND
Market Cap (dil)	\$197 M
Issued Shares (dil)	468.1 M
Avg Mth T'over	3.17 M
12 Mth High – Low	\$0.51 - \$0.32

Key Data/Ratios – FY 2011

EBITDA / Sales	-1,109.4%
EBIT / Sales	-1,109.4%
Debt / Equity	1.5%
Interest Cover	-158.5 x
ROE	-12.9%
EPS Growth	43.1%
DCF	\$0.59
12 Mth Price Target	\$0.63

Recommendation

We initiate coverage on Finders Resources Ltd (ASX:FND) with a BUY recommendation, valuation and target price are \$0.59/sh and \$0.63/sh respectively. 12 month TSR is ~61%. FND is in pre-construction phase for the Wetar 25ktpa Cu heap leach and SX-EW project in East Indonesia. We see FND re-rating incrementally ahead of nameplate production in 2013, as key permitting, financing and construction items are completed. FND is joining a small group of pure ASX listed copper producers. Five 9's quality copper cathode production should attract considerable interest from end use buyers at a premium to LME pricing.

Key points

25ktpa of copper cathode at a premium to LME, 9 year mine life

- FND has a 95% interest in the Wetar copper project in Eastern Indonesia. The project is designed around a heap leach SX-EW operation capable of producing 25ktpa of high grade LME copper cathode.
- Production capacity will be developed in two stages effectively as brownfield expansions. Expansion of the existing 1.9ktpa Cu demonstration plant will increase production to 7.0ktpa Cu in CY2012 before production is further increased by adding the 18.0ktpa Cu Whim Creek Plant to total 25.0ktpa in late 2013. Cash costs are expected to initially be ~US\$1.50/lb through to 2013 before falling to ~US\$0.90/lb from 2013 as material movement decreases and production reaches nameplate capacity. LOM average cash cost is US\$1.09/lb (2011\$).
- Development capital including contingency is estimated at US\$155m.
- The Wetar deposit is a high grade copper sulphide deposit with a reserve of 8.12mt @ 2.5% Cu for 200kt contained copper. The reserve is contained in two pits, Kali Kuning and Lerokis, with the former to be mined first.

A unique deposit

- The mining and processing method utilises heap leaching of copper sulphides, which are later treated through an SX-EW plant to produce copper cathode of five 9's quality. The Wetar orebodies are comprised of both primary (dominant) and secondary copper sulphides. Heap leaching of primary copper sulphides is not conventional but at Wetar, it is facilitated by the particular attributes of the orebodies. FND operated a demonstration plant for two years from 2008 to 2010, leaching a 100kt bulk sample from the Kali Kuning deposit and producing 2.4kt copper cathode.
- Test phase demonstrated copper recovery of 80%+ for optimised heaps. Lerokis ore was not however part of the demonstration phase and assumed Lerokis recoveries are based on mineralogical proportions and recoveries seen from these minerals during the demonstration phase.

Mine life upside potential

- The primary bottle neck to a higher production rate is the power capacity of the SX-EW rectifier, which is designed to support a 25ktpa rate. Higher grades and recoveries could however result in a richer inventory ahead of the processing plant, increasing mine life potential.
- We model a 10 year mine life, slightly more than the recently completed BFS. Further mine life upside potential exists at the Meron deposit, located in close proximity to the planned processing site. Although there is no resource at Meron, preliminary work by FND and shallow drilling results by previous owner Billiton, suggest that Meron could be similar in mineralogy and size to the Lerokis orebody.

Year to Dec	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2010a	-7.9	-7.9	-3.4	49.3	-12.4	-2.6	-16.4	0.0	0.0	0
2011e	-9.0	-9.0	-1.9	43.1	-21.8	-2.0	-20.8	0.0	0.0	0
2012e	-0.2	-0.2	0.0	97.9	-	0.4	97.7	0.0	0.0	
2013e	30.6	30.6	6.5	16,325.0	6.5	10.5	4.0	0.0	0.0	



Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

Disclaimer

Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM Ltd and therefore may not be realised in the future.

The advice contained in this document is general advice. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should, before acting on the advice, consider the appropriateness of the advice, having regard to the client's objectives, financial situation and needs. Those acting upon such information without first consulting one of Wilson HTM Ltd investment advisors do so entirely at their own risk. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever. If the advice relates to the acquisition, or possible acquisition, of a particular financial product – the client should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

Disclosure of Interest. Finders Resources Limited

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Finders Resources Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Finders Resources Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

In producing research reports, members of Wilson HTM Ltd Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Wilson HTM Ltd considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

BRISBANE
Ph: 07 3212 1333
Fax: 07 3212 1399

SYDNEY
Ph: 02 8247 6600
Fax: 02 8247 6601

MELBOURNE
Ph: 03 9640 3888
Fax: 03 9640 3800

GOLD COAST
Ph: 07 5509 5500
Fax: 07 5509 5599

DALBY
Ph: 07 4660 8000
Fax: 07 4660 4169

HERVEY BAY
Ph: 07 4197 1600
Fax: 07 4197 1699

Our web site: www.wilsonhtm.com.au