

**Ticker:** FFX AU

**Market cap:** A\$497m

**Net cash:** A\$54m

**Price:** A\$0.55/sh

**Project:** Morila

**Country:** Mali

**RECOMMENDATION (unc):** BUY

**TARGET (unc):** A\$0.80/sh

**RISK RATING:** HIGH

We think Firefinch's update on the Goulamina JV transaction with Ganfeng and the subsequent spinout of Goulamina into ASX-listed Leo Lithium is a positive one. Execution of legal agreements has progressed quickly and clear indicative timelines were provided regarding transaction execution. Moreover, we are impressed to see both parties formally state intention to progress to FID by year end. Proceeds from Ganfeng's US\$130m JV equity commitments and US\$64m debt provision match the US\$194m capex estimated in the 2020 feasibility study. As a result, Leo Lithium should begin its listed life with an attractive project, experienced and financially committed JV partner, detailed engineering design in place, and substantially funded status. **We maintain our Goulamina valuation of US\$130m based on the transaction look-through value, and maintain our BUY rating and A\$0.80/sh price target based on 0.9x NAV<sub>5%-1850</sub>.** Firefinch has rapidly progressed through milestones while achieving its guided timelines at Morila and Goulamina; we believe this is a positive indicator for a new operator.

## Goulamina JV agreement with Ganfeng executed, asset to be ASX-listed as Leo Lithium

**Transaction Update:** Firefinch announced that it and Ganfeng Lithium have executed 'a suite of legal agreements' regarding the Goulamina JV Transaction; these include the Subscription Agreement, Shareholder's Agreement, Offtake Agreement and Management Agreement. Formal documentation has been completed and completion of conditions precedent is underway. Firefinch and Ganfeng agreed to seek a financial investment decision regarding Goulamina by the end of December 2021. Chinese regulatory approvals are expected to require up to three months, and Ganfeng has commenced the approval process. Firefinch noted positive engagement with the Malian Government and that formal confirmation of Government support is expected shortly.

**Figure 1: Indicative transaction timelines**

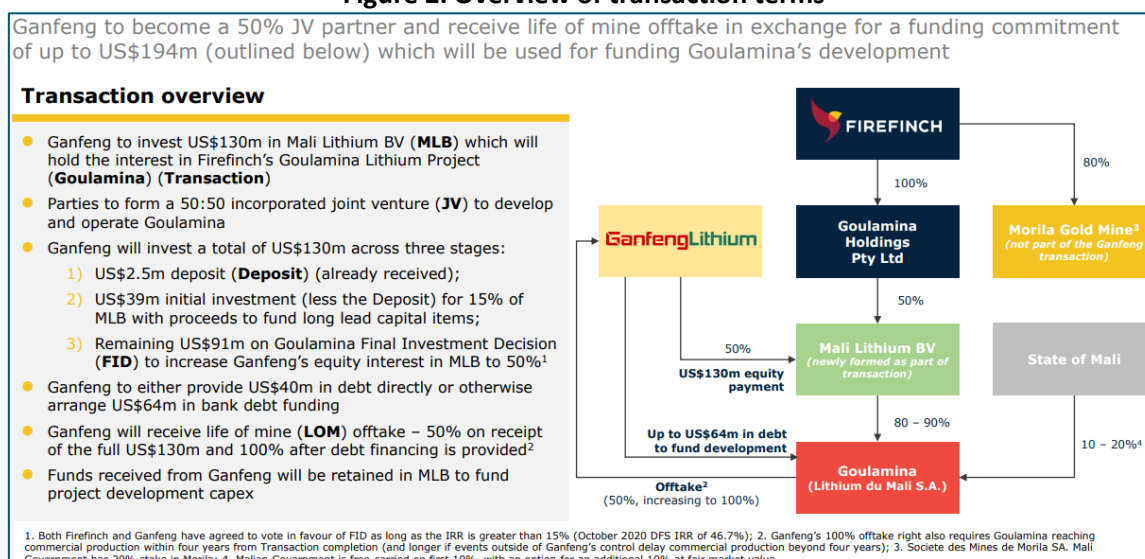
Ganfeng Transaction & FID	Indicative Timeline	Demerger of Leo Lithium	Indicative Timeline
Chinese regulatory approvals received	DQ21	Australian Tax Office ruling on demerger tax relief	December 2021
Ganfeng US\$39 million first investment received	DQ21	Lodge Demerger Short Form Prospectus & Notice of Meeting	Early January 2022
Goulamina Final Investment Decision	DQ21	Shareholder vote on demerger	February 2022
Ganfeng US\$91 million second investment received	DQ21	Demerger implementation	February 2022
Ganfeng debt received (up to US\$64 million)	MQ22 / early JQ22	Lodge Entitlement Offer Long Form Prospectus	February 2022
		ASX listing of Leo Lithium	By end MQ22

Source: Firefinch

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**Goulamina Demerger:** Firefinch intends to demerge the lithium assets in an in specie distribution to Firefinch shareholders, seeking shareholder approval in February 2022 and complete demerger and ASX listing of the spinco, to be named Leo Lithium, in calendar 1Q21 or early 2Q22. Firefinch noted its intention to maintain ownership of up to 20% of Leo Lithium.

**Figure 2: Overview of transaction terms**



Source: Firefinch

## Why we like Firefinch

1. 160-200kozpa production profile to 2030 for lower capex than similar-sized projects
2. High-grade drilling potential could take production >200kozpa
3. Exploration upside on 685km regional tenements
4. 20-year operating history at Morila with team, systems and infrastructure in place

## Catalysts

- 2022: SCPe 120kozpa run rate
- Mid-2022: Re-commencement of mining from the Morila Main Pit
- 2023: SCPe 160kozpa run rate

## Research

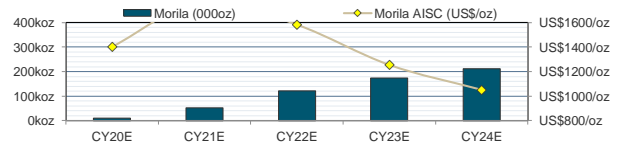
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Ticker:	FFX AU	Price / mkt cap:				A\$0.55/sh, A\$497m		Market P/NAV:		0.61x		Assets:		Morila		
Analyst:	J Chan / B Gaspar	Rec / PT:				BUY / A\$0.80		1xNAV <sub>2020</sub> FD:		A\$0.90/sh		Country:		Mali		
Group-level SOTP valuation		2Q21	3Q21E					Resource / Reserve		Mt	000oz	EV/oz				
		A\$m	O/ship	NAVx	A\$/sh			Measured, ind. & inf.		51	2,433	143				
Morila NPV 3Q21E		676	80%	0.90x	0.65			SCPe Mine Inventory		42	1,819	191				
Central SG&A & fin costs 3Q21E		(101)	-	0.90x	(0.10)			Commodity price		CY20E	CY21E	CY22E	CY23E	CY24E		
Ounces outside mine plan (\$25/oz)		21	100%	0.90x	0.02			Gold price (US\$/oz)		1,631	1,788	1,818	1,850	1,850		
Cash and restr. cash 2Q21		54	-	0.90x	0.05			Share data								
Cash from options		3	-	0.90x	0.00			Basic shares (m): 902.9		FD + options (m):		941.0	FD/FF	941.0		
Debt 2Q21		(10)	-	0.90x	(0.01)			Ratio analysis		CY20E	CY21E	CY22E	CY23E	CY24E		
Exploration		25	-	0.90x	0.02			FD shares out (m)		782	903	903	903	903		
Goulamina		176	-	0.90x	0.17			EPS (A\$/sh)		0.00	(0.02)	(0.01)	0.05	0.10		
1xNAV5% A\$1850/oz fully diluted, pre-funded		844			0.81			CFPS before w/c (A\$/sh)		(0.01)	0.02	0.01	0.06	0.15		
Assumed equity component of project		-		0.90x	-			FCFps pre growth (A\$/sh)		(0.02)	0.02	0.01	0.05	0.14		
1xNAV5% A\$1850/oz fully funded		844			0.81			FCF/sh (A\$/sh)		(0.01)	(0.02)	(0.07)	0.05	0.14		
1x fully funded NAVPS sensitivity to gold price and discount / NAV multiple																
1xNAV asset (US\$m)		\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz										
8% discount		315	474	591	708	862										
7% discount		332	497	619	740	901										
6% discount		350	522	648	775	942										
5% discount		369	548	680	811	986										
4% discount		390	576	714	851	1,033										
Valuation (A\$/sh)		\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz										
0.50xNAV		0.36	0.46	0.53	0.60	0.69										
0.75xNAV		0.45	0.60	0.71	0.81	0.95										
0.90xNAV		0.51	0.69	0.81	0.94	1.11										
1.20xNAV		0.63	0.86	1.03	1.20	1.42										
Valuation over time		1Q21E	1Q22E	1Q23E	1Q24E	1Q25E										
Mines NPV (A\$m)		623.4	689.6	775.4	716.6	596.3										
Cntrl G&A & fin costs (A\$m)		(88.1)	(108.6)	(67.8)	(14.6)	1.0										
Net cash at 1Q (A\$m)		33.6	(25.7)	19.3	144.5	222.6										
1xNAV (US\$m)		569	555	727	847	820										
P/NAV (x):		0.67x	0.69x	0.53x	0.45x	0.47x										
1xNAV share px FD (A\$/sh)		0.82	0.80	1.05	1.22	1.18										
ROI to equity holder (% pa)		49%	21%	24%	22%	17%										
1.2xNAV share px FD (A\$/sh)		0.98	0.96	1.26	1.46	1.42										
ROI to equity holder (% pa)		79%	32%	32%	28%	21%										
Morila 1xNAV sensitivity to grade and strip ratio																
Morila NPV5% (US\$m)		SR: 6.0x	6.5x	7.0x	8.0x	9.0x										
Grade: 1.30g/t		413	391	369	325	281										
Grade: 1.40g/t		500	478	456	412	367										
Grade: 1.45g/t		544	521	499	455	411										
Grade: 1.50g/t		587	565	543	498	454										
Grade: 1.60g/t		674	652	629	585	541										
Morila 1xNAV sensitivity to gold price and mining cost per tonne																
Morila NPV5% (US\$m)		\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz										
Mining: US\$2.50/t		271	402	499	596	724										
Mining: US\$2.75/t		271	402	499	596	724										
Mining: US\$3.00/t		271	402	499	596	724										
Mining: US\$3.25/t		271	402	499	596	724										
Mining: US\$3.50/t		271	402	499	596	724										
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<b>Production (100%)</b>		CY20E	CY21E	CY22E	CY23E	CY24E
Morila (000oz)		11	52	121	173	211
Morila cash cost (US\$/oz)		1,202	1,609	1,440	1,115	916
Morila AISC (US\$/oz)		1,401	1,784	1,582	1,254	1,050
Group (000oz)		11	52	121	173	211
Group cash cost (US\$/oz)		1,128	1,777	1,549	1,226	1,027
Group AISC (US\$/oz)		1,600	1,938	1,644	1,297	1,085

<b>Resource / Reserve</b>		Mt	000oz	EV/oz	
Measured, ind. & inf.		51	2,433	143	
SCPe Mine Inventory		42	1,819	191	
<b>Commodity price</b>		CY20E	CY21E	CY22E	CY23E
Gold price (US\$/oz)		1,631	1,788	1,818	1,850
<b>Share data</b>					
Basic shares (m): 902.9			FD + options (m):	941.0	FD/FF
FD shares out (m)		782	903	903	903
<b>Ratio analysis</b>		CY20E	CY21E	CY22E	CY23E
EPS (A\$/sh)		0.00	(0.02)	(0.01)	0.05
CFPS before w/c (A\$/sh)		(0.01)	0.02	0.01	0.06
FCF yield (%)		(2%)	(4%)	(12%)	9%
EBITDA margin (%)		1%	(1%)	11%	31%
FCF margin (%)		(46%)	(14%)	(20%)	10%
ROA (%)		0%	(8%)	(3%)	18%
ROE (%)		0%	(11%)	(5%)	26%
ROCE (%)		0%	(8%)	3%	50%
PER (x)		1,945x	(31x)	(85x)	12x
P/CF (x)		12x	(253x)	22x	6x
EV/EBITDA (x)		1,550x	(476x)	16x	4x
<b>Income statement</b>		CY20E	CY21E	CY22E	CY23E
Revenue (A\$m)		20	133	294	434
COGS (A\$m)		(17)	(123)	(251)	(288)
<b>Gross profit (A\$m)</b>		<b>3</b>	<b>10</b>	<b>44</b>	<b>146</b>
Expenses (A\$m)		--	--	--	(4)
Impairment & other (A\$m)		--	--	--	--
Net finance costs (A\$m)		1	(1)	(3)	(6)
Tax (A\$m)		(0)	(1)	(6)	(32)
Minority interest (A\$m)		(1)	(0)	(3)	(15)
<b>Net income attr. (A\$m)</b>		<b>3</b>	<b>8</b>	<b>32</b>	<b>90</b>
EBITDA (A\$m)		0	(1)	34	136
<b>Cash flow</b>		CY20E	CY21E	CY22E	CY23E
Profit/(loss) after tax (A\$m)		0	(15)	(6)	43
Add non-cash items (A\$m)		35	13	28	41
Less wkg cap / other (A\$m)		(42)	24	(10)	(32)
<b>Cash flow ops (A\$m)</b>		<b>(6)</b>	<b>22</b>	<b>13</b>	<b>52</b>
PP&E (A\$m)		(0)	(40)	(72)	(7)
Other (A\$m)		(46)	--	--	--
<b>Cash flow inv. (A\$m)</b>		<b>(49)</b>	<b>(40)</b>	<b>(72)</b>	<b>(7)</b>
Debt draw (repayment) (A\$m)		--	10	20	(13)
Equity issuance (A\$m)		69	45	--	--
Other (A\$m)		--	--	--	--
<b>Cash flow fin. (A\$m)</b>		<b>69</b>	<b>55</b>	<b>20</b>	<b>(13)</b>
Net change post forex (A\$m)		14	36	(39)	32
FCF (A\$m)		(9)	(18)	(59)	45
<b>Balance sheet</b>		CY20E	CY21E	CY22E	CY23E
Cash (A\$m)		17	53	14	46
Accounts receivable (A\$m)		14	14	15	36
Inventories (A\$m)		37	24	36	47
PPE & exploration (A\$m)		60	88	132	97
Other (A\$m)		11	11	11	11
<b>Total assets (A\$m)</b>		<b>139</b>	<b>190</b>	<b>207</b>	<b>237</b>
Debt (A\$m)		10	20	40	26
Other liabilities (A\$m)		30	41	44	45
Shareholders equity (A\$m)		134	179	179	179
Retained earnings (A\$m)		(37)	(51)	(57)	(14)
Minority int. & other (A\$m)		2	2	2	2
<b>Liabilities+equity (A\$m)</b>		<b>139</b>	<b>190</b>	<b>207</b>	<b>237</b>
Net cash (A\$m)		8	34	(26)	19
Net debt to NTM EBITDA (x)		7.8x	(1.0x)	0.2x	(0.1x)

Source: SCP estimates

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2	The analyst or any associate of the analyst responsible for the report or recommendation or any individual directly involved in the preparation of the report holds or is short any of the issuer's securities directly or through derivatives	NO
3	An SCP partner, director, officer or analyst involved in the preparation of a report on the issuer, has during the preceding 12 months provided services to the issuer for remuneration other than normal course investment advisory or trading execution services	NO
4	SCP has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the research report or recommendation	YES
5	Name of any director, officer, employee or agent of SCP who is an officer, director or employee of the issuer, or who serves in an advisory capacity to the issuer	NO
6	SCP is making a market in an equity or equity related security of the issuer	NO
7	The analyst preparing this report received compensation based upon SCP's investment banking revenue for the issuer	NO
8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	YES
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

**Sprott Capital Partners Equity Research Ratings:**

Summary of Recommendations as of August 2021	
BUY:	45
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	45

<sup>1</sup> As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month