

Ticker: FFX AU	Net cash: A\$51m	Project: Morila
Market cap: A\$545m	Price: A\$0.60/sh	Country: Mali
RECOMMENDATION (unc): BUY	TARGET (up): A\$1.15/sh	RISK RATING: HIGH

Firefinch continues its run of excellent execution with the appointment of former Galaxy Resources MD Simon Hay as the incoming CEO of Leo Lithium (the Goulamina spinco). In just over a year since announcing the acquisition of Morila, Firefinch i) put out an updated 2.4Moz resource for Morila with a mine plan >160kozpa and initiated the restart of open pit mining, while ii) advancing Goulamina through DFS, a JV partnership with Ganfeng, and a plan to spin out the asset into an attractive ASX-listed standalone company. Noting significant improvement in reported spodumene concentrate prices, and the impending spin out of Leo Lithium, we have revised our Goulamina to a 3.5% of insitu value NAV, which assumes a received price of US\$800/t. **We maintain our BUY rating and lift our price target to A\$1.15/sh based on an unchanged target multiple of 0.9x NAV_{5%-1850}.** Stepping back, the stock is trading at just 0.47x our updated SCPE NAV, and we still see significant upside.

Appoint former Galaxy MD Simon Hay as Leo Lithium MD, we Lift PT to A\$1.15/sh

Leo Lithium MD appointment: Firefinch announced the appointment of Simon Hay as MD of Leo Lithium with effect on 10 January 2022. Mr Hay was previously CEO of Galaxy Resources until its A\$5bn merger with Orocobre in August 2021. During this period the company operated the Mt Cattlin hard rock spodumene mine in Western Australia and advanced the Sal da Vida brine project in Argentina from feasibility into construction.

Leo Dermerger / Listing timeline: Per previous disclosure, financial investment decision in Goulamina is targeted before year end following completion of JV regulatory approvals. The dermerger of Leo Lithium is targeted for calendar 1Q22.

Figure 1: Indicative transaction timelines for Goulamina spin out and Leo listing

Ganfeng Transaction & FID	Indicative Timeline	Dermerger of Leo Lithium	Indicative Timeline
Chinese regulatory approvals received	DQ21	Australian Tax Office ruling on dermerger tax relief	December 2021
Ganfeng US\$39 million first investment received	DQ21	Lodge Dermerger Short Form Prospectus & Notice of Meeting	Early January 2022
Goulamina Final Investment Decision	DQ21	Shareholder vote on dermerger	February 2022
Ganfeng US\$91 million second investment received	DQ21	Dermerger 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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Update PT on revised valuation for Goulamina

Our prior valuation was based on the Goulamina JV implied look through value. Since then, listed lithium peers have performed strongly and reported benchmark lithium carbonate and spodumene concentrate prices to just below US\$20k per tonne. Assuming a US\$20,000/t lithium carbonate price, we calculate a ~US\$800/t equivalent price for 6% spodumene concentrate. At this price, we calculate a developer peer average of ~7% EV to insitu value before project funding. We conservatively apply a 50% discount to this to reflect increased perceived geopolitical risk and control premium. We therefore revise our valuation for Goulamina to US\$733m (A\$1,012m). At 50% JV ownership, this gives a valuation of A\$506m or A\$0.53/sh. This lifts our price target from A\$0.80/sh to A\$1.15/sh on unchanged multiples of 0.9xNAV for Morila and Goulamina.

Figure 1: Selected hardrock lithium peers – developer average EV/insitu is ~7% at a US\$800/t spodumene concentrate price

Company	Project, Location	Ticker	Mcap (US\$m)	EV (US\$m)	EV/Resource (US\$/t)	EV/insitu (%)	Resource Mt	Grade % Li2O	Contained kt Li2O
Pilbara	Pilgangoora, Western Australia	ASX:PLS	4,209.3	4,258.0	20.2	9.07%	308.9	1.14%	3,521.5
Liontown	Kathleen Valley, Western Australia	ASX:LTR	1,986.1	1,974.3	15.6	7.03%	156.0	1.35%	2,106.0
Sigma	Grota do Cirilo, Minas Gerais, Brazil	TSXV:SGML	702.3	671.8	15.0	6.74%	52.4	1.43%	747.8
Critical Elements	Rose, Quebec, Canada	TSXV:CRE	198.1	191.0	10.7	4.83%	34.7	0.86%	296.7
Savannah	Mina do Barroso, Portugal	AIM:SAV	84.9	71.7	4.2	1.88%	27.0	1.06%	286.0
Core Lithium	Finiss, Northern Territory	ASX:CXO	437.2	409.6	35.3	15.88%	14.7	1.31%	193.5
Average (all peers)			7,618	7,576	64	7.95%	594	1.20%	7,152
Developers (all peers excl Pilbara)			3,409	3,318	55	6.86%	285	1.27%	3,630
Goulamina @ 3.5% insitu value (100% basis)				733		3.50%	109	1.45%	1,571.0

Source: S&P Capital IQ market data, Company disclosure for R&R, SCPE, price calculations at US\$800/t for 6% Li2O concentrate, no quality adjustments assumed

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

- 1Q22: Spin out and ASX listing of Leo Lithium
- 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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Equity Research

29 September 2021

Ticker: FFX AU	Price / mkt cap: A\$0.60/sh, A\$545m	Market P/NAV: 0.47x	Assets: Morila
Analyst: J Chan / B Gaspar	Rec / PT: BUY / A\$1.15	1xNAV₂₀₂₀ FD: A\$1.26/sh	Country: Mali

Group-level SOTP valuation					Resource / Reserve						
	2Q21	3Q21E			Mt	000oz	EV/oz				
	A\$m	O/ship	NAVx	A\$/sh							
Morila NPV 3Q21E	695	80%	0.90x	0.66	Measured, ind. & inf.	51	2,433	153			
Central SG&A & fin costs 3Q21E	(104)	-	0.90x	(0.10)	SCPe Mine Inventory	42	1,819	205			
Ounces outside mine plan (\$25/oz)	21	100%	0.90x	0.02	Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E	
Cash and restr. cash 2Q21	58	-	0.90x	0.06	Gold price (US\$/oz)	1,631	1,763	1,801	1,850	1,850	
Cash from options	3	-	0.90x	0.00	Share data						
Debt 2Q21	(8)	-	0.90x	(0.01)	Basic shares (m): 908.1		FD + options (m): 946.6		FD/FF	946.6	
Exploration	25	-	0.90x	0.02	Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E	
Goulamina (3.5% of insitu value at US\$800/t)	506	-	0.90x	0.48	FD shares out (m)	782	908	908	908	908	
1xNAV5% A\$1850/oz fully diluted, pre-funded	1,197			1.14	EPS (A\$/sh)	0.00	(0.02)	(0.01)	0.05	0.10	
Assumed equity component of project	-	-	0.90x	-	CFPS before w/c (A\$/sh)	(0.01)	0.02	0.01	0.06	0.15	
1xNAV5% A\$1850/oz fully funded	1,197			1.14	FCFPS pre growth (A\$/sh)	(0.02)	0.02	0.01	0.05	0.14	
1x fully funded NAV5% sensitivity to gold price and discount / NAV multiple					FCF/sh (A\$/sh)	(0.01)	(0.02)	(0.07)	0.05	0.14	
1xNAV asset (US\$m)	\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz	FCF yield pre growth (A\$/sh)	(3%)	3%	1%	8%	23%
8% discount	323	486	606	725	884	FCF yield (%)	(1%)	(4%)	(11%)	8%	23%
7% discount	340	509	634	757	922	EBITDA margin (%)	1%	(2%)	11%	31%	43%
6% discount	358	533	663	779	947	FCF margin (%)	(46%)	(15%)	(21%)	10%	24%
5% discount	373	552	684	815	990	ROA (%)	0%	(8%)	(4%)	18%	29%
4% discount	393	579	717	854	1,036	ROE (%)	0%	(12%)	(6%)	27%	36%
Valuation (A\$/sh)	\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz	ROCE (%)	0%	(9%)	2%	52%	67%
0.50xNAV	0.46	0.56	0.63	0.70	0.80	PER (x)	2,122x	(31x)	(73x)	13x	6x
0.70xNAV	0.64	0.78	0.88	0.98	1.12	P/CF (x)	13x	(173x)	26x	6x	4x
0.90xNAV	0.83	1.01	1.14	1.27	1.44	EV/EBITDA (x)	1,693x	(239x)	18x	4x	2x
1.20xNAV	1.11	1.34	1.52	1.69	1.91	Income statement	CY20E	CY21E	CY22E	CY23E	CY24E
Valuation over time	1Q21E	1Q22E	1Q23E	1Q24E	1Q25E	Revenue (A\$m)	20	133	294	442	538
Mines NPV (A\$m)	628.1	693.4	789.8	729.9	607.4	COGS (A\$m)	(17)	(125)	(252)	(293)	(299)
Cntrl G&A & fin costs (A\$m)	(88.4)	(109.7)	(67.8)	(13.2)	2.6	Gross profit (A\$m)	3	9	41	149	239
Net cash at 1Q (A\$m)	32.2	(29.4)	15.8	143.6	223.3	Expenses (A\$m)	--	--	--	(4)	(3)
1xNAV (US\$m)	572	554	738	860	833	Impairment & other (A\$m)	--	--	--	--	--
P/NAV (x)	0.72x	0.74x	0.56x	0.48x	0.49x	Net finance costs (A\$m)	1	(1)	(3)	(7)	(4)
1xNAV share px FD (A\$/sh)	0.83	0.81	1.08	1.25	1.22	Tax (A\$m)	(0)	(1)	(5)	(32)	(57)
ROI to equity holder (% pa)	39%	16%	22%	20%	15%	Minority interest (A\$m)	(1)	(0)	(2)	(15)	(26)
1.2xNAV share px FD (A\$/sh)	1.00	0.97	1.29	1.51	1.46	Net income attr. (A\$m)	3	7	31	92	149
ROI to equity holder (% pa)	67%	27%	29%	26%	19%	EBITDA (A\$m)	0	(2)	31	139	229
Morila 1xNAV sensitivity to grade and strip ratio					Cash flow	CY20E	CY21E	CY22E	CY23E	CY24E	
Morila NPV5% (US\$m)	SR: 6.0x	6.5x	7.0x	8.0x	9.0x	Profit/(loss) after tax (A\$m)	0	(16)	(8)	44	91
Grade: 1.30g/t	416	394	372	328	283	Add non-cash items (A\$m)	35	13	29	42	51
Grade: 1.40g/t	504	481	459	415	371	Less wkg cap / other (A\$m)	(42)	24	(10)	(33)	(8)
Grade: 1.45g/t	547	525	503	459	414	Cash flow ops (A\$m)	(6)	21	11	52	134
Grade: 1.50g/t	591	569	547	502	458	PP&E (A\$m)	(0)	(41)	(73)	(7)	(7)
Grade: 1.60g/t	678	656	634	590	545	Other (A\$m)	(46)	--	--	--	--
Morila 1xNAV sensitivity to gold price and mining cost per tonne					Cash flow inv. (A\$m)	(49)	(41)	(73)	(7)	(7)	
Morila NPV5% (US\$m)	\$1500oz	\$1700oz	\$1850oz	\$2000oz	\$2200oz	Debt draw (repayment) (A\$m)	--	10	20	(13)	(13)
Mining: US\$2.50/t	273	405	503	600	729	Equity issuance (A\$m)	69	45	--	--	--
Mining: US\$2.75/t	273	405	503	600	729	Other (A\$m)	--	--	--	--	--
Mining: US\$3.00/t	273	405	503	600	729	Cash flow fin. (A\$m)	69	55	20	(13)	(13)
Mining: US\$3.25/t	273	405	503	600	729	Net change post forex (A\$m)	14	35	(42)	32	115
Mining: US\$3.50/t	273	405	503	600	729	FCF (A\$m)	(9)	(20)	(62)	45	128
					Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E	
					Cash (A\$m)	17	52	10	42	157	
					Accounts receivable (A\$m)	14	14	15	36	44	
					Inventories (A\$m)	37	24	35	48	49	
					PPE & exploration (A\$m)	60	89	133	98	54	
					Other (A\$m)	11	11	11	11	11	
					Total assets (A\$m)	139	189	205	235	315	
					Debt (A\$m)	10	20	40	26	13	
					Other liabilities (A\$m)	30	41	44	45	46	
					Shareholders equity (A\$m)	134	179	179	179	179	
					Retained earnings (A\$m)	(37)	(53)	(60)	(16)	75	
					Minority int. & other (A\$m)	2	2	2	2	2	
					Liabilities+equity (A\$m)	139	189	205	235	315	
					Net cash (A\$m)	8	32	(29)	16	144	
					Net debt to NTM EBITDA (x)	3.5x	(1.0x)	0.2x	(0.1x)	(1.2x)	

Production (100%)					
	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	1,783	1,581	1,254	1,050
Group (000oz)	11	52	121	173	211
Group cash cost (US\$/oz)	1,128	1,778	1,547	1,226	1,027
Group AISC (US\$/oz)	1,600	1,935	1,642	1,296	1,084

Source: SCP estimates

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Summary of Recommendations as of September 2021	
BUY:	46
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	46

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