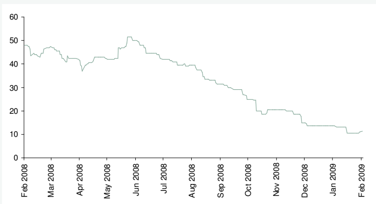
Finders Resources*

finnCap

19 February 2009

Code	FND LN / FND AU
Price	11p
Market Cap	£9.3 million
Year End	30 June
Net Debt	A$5 million
Shares in Issue	84.164 million
Next Results	March 2009

Share price Performance



Source: Datastream

Company Description

Copper producer

Institutional Contacts

Analyst:

Joe Lunn 020 3207 3238

jlunn@finncap.com

Corporate Broking:

Eddie Edmonstone	020 3207 3209
Tom Jenkins	020 3207 3263
Stephen Norcross	020 3207 3211
Joanna Weaving	020 3207 3248
David Lawman	020 3207 3210
Sales:	
Michael Bell	020 3207 3264
Chris Jeffrey	020 3207 3221
Elizabeth Johnson	020 3207 3294
Brian Patient	020 3207 3225
Peter Bartlett	020 3207 3219
Sales Traders:	
Mick McNamara	020 3207 3223
Mike Nally	020 3207 3224
Jeremy Smith	020 3207 3226
Ben Tonnison	020 3207 3227

First copper production

Since our last update in July, the demonstration plant for the Wetar copper heap leach project in Indonesia has been successfully commissioned and the first copper cathode produced. The Wetar asset has a quality, high grade resource with excellent infrastructure in a coastal location.

- **Demo plant expected to run at an operating surplus**. The minor electrical fault has been fixed and production of 5.7 tonnes of copper per day will be reached by the end of this month. At a leach recovery rate of 70% from 100K tonnes of ore stacked on the pad, the plant is expected to produce an operating surplus of between US$1-1.5m using a copper price of US$1.40/lb. The cash cost of running the demo plant is expected to be US$0.95/lb.
- **Procurement of second hand SX-EW plant will reduce capex.** We have reduced our capex estimate for the main project to US$50 million as a number of SX-EW plants from failed projects may shortly become available. The bankable status of the feasibility study will depend on cost and operating parameters of the SX-EW plant and whether actual leach rates confirm the 2008 recovery model. We are confident that the project will achieve bankable status by the end of H1 2009.
- **Short term working capital needs have been met.** The US$1.5 million convertible debt facility from US-based private equity house Resource Capital Funds was a result of due diligence that included a site visit. In our opinion, the three year maturity and convertible rate of AU$0.40 per share are relatively benign terms for existing shareholders. We think that the company is adequately funded until the feasibility study has been completed.
- **31 pence per share is fair value.** In light of the collapse in base metal prices during H2 2008, we have revisited our valuation using a copper price of US$1.50 per lb applied over the project's ten year life. Our valuation shows that the market is currently valuing the project using a long term copper price of US$1.20 per lb. Copper is currently trading at our long term estimate.

Forecasts (Australian $000s)

Y.E. 30 June	2008A	2009E	2010E	2011E
Data				
Revenue	- -	3,373	29,211	104,604
EBITDA	(6,996)	(4,035)	18,506	61,252
PBT	(6,675)	(4,110)	8,956	51,702
Tax	- -	- -	(1,612)	(9,250)
EPS (pence)	(3.9)	(2.0)	4.4	20.6
DPS	- -	- -	- -	- -
Ratios				
EV/revenue	25.8	17.2	2.0	0.6
EV/EBITDA	(7.7)	(14.4)	3.1	0.9
P/e	(3.1)	(5.5)	2.5	0.5
Yield	- -	- -	- -	- -
EPS growth	- -	- -	- -	368%

Exchange rate: AU$1 = £0.44

First copper production

The demo plant has now been commissioned and the first copper cathode produced. The demo project has cost US$8 million to build, an overrun of US$2 million, but is now set to produce an average five tonnes of copper cathode per day at a cash operating cost of US$0.95 per lb copper. This should result in a net surplus of US$1-1.5 million at a $1.40 per lb copper price.

The leach rate of the 100,000 tonnes of ore stacked upon the pad will be key to the bankability of the project. If the leach rate confirms the 2008 recovery model, we think that there is a good prospect of the project securing a senior debt facility. We have reduced our capex for the project from US$65 million to US$50 million as there are now a number of second hand SXEW plants which can be procured at a lower cost.

Photo showing layout of the Wetar demo project

Source: Finders Resources

The US$1.5 million convertible debt facility announced on 16 January has strengthened the balance sheet and should provide sufficient working capital for the company to survive if there is a delay in the main project. The loan also means that the environmental work necessary to secure the permit for the main project can now be completed. Despite the introduction of the new Indonesian mining code in December 2008, royalties payable to the government from the Wetar project will stay at 4 per cent because the mine will produce a finished product.

Valuation refresh

31 pence is fair value

We argue that the current London market valuation of Finders is based on a copper price of US$1.20 per lb. This was the LME closing copper price on Christmas Eve 2008; the lowest closing price since 30 June 2004.

Finders Resources share value based on EV sensitivities

		Copper price (US$/lb)									
		$1.20	$1.30	$1.40	$1.50	$1.60	$1.70	$1.80	$1.90	$2.00	$2.10
Discount rate (%)	7.5%	15p	23p	32p	41p	50p	59p	68p	77p	86p	94p
	10.0%	9p	16p	23p	31p	38p	46p	53p	61p	69p	76p
	12.5%	4p	9p	16p	22p	29p	35p	42p	48p	55p	61p

Source: Finncap estimates. Exchange rate: US$1.00 = 66 pence

As the Main Project at Wetar has yet to be sufficiently de-risked to secure debt finance, we have assigned a 25 per cent discount to NPV. We use a flat long term copper price of US$1.50 per lb (US$3,307 per tonne) making the valuation lower than in our initiation note, which used a long term price of ($2.26 per lb ($5,000 per tonne). **At 11 pence, the shares are currently trading at about one third of what we consider to be fair value.**

Discounted cash flow

Year end 30 June	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Production												
Copper cathode (t)	680	5,889	21,088	16,446	18,410	19,470	19,027	17,684	17,236	18,818	12,788	1,798
Copper price (US$/t)	3,307	3,307	3,307	3,307	3,307	3,307	3,307	3,307	3,307	3,307	3,307	3,307
Copper price (US$/lb)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Cash flow (US$m)												
Revenue	2.2	19.5	69.7	54.4	60.9	64.4	62.9	58.5	57.0	62.2	42.3	5.9
Total costs	(4.9)	(7.1)	(28.9)	(24.4)	(27.7)	(25.6)	(25.4)	(27.2)	(28.7)	(25.3)	(16.0)	(1.7)
Total cash cost ($/lb)	(3.29)	(0.55)	(0.62)	(0.67)	(0.68)	(0.60)	(0.61)	(0.70)	(0.76)	(0.61)	(0.57)	(0.44)
Change in working capital	0.1	(0.6)	(2.6)	0.7	(0.3)	(0.1)	0.1	0.2	0.1	(0.2)	0.9	1.6
Capex	(50.0)	--	--	--	--	--	--	(13.0)	--	--	--	--
Pre-tax cash flow	(0.4)	(9.7)	(54.7)	3.3	38.3	30.6	32.9	38.7	37.6	18.5	28.3	36.7
Cash taxes	--	--	--	--	(9.3)	(6.0)	(6.9)	(8.6)	(8.9)	(6.4)	(7.6)	(11.1)
Free cash flow	(0.4)	(9.7)	(54.7)	3.3	29.0	24.6	25.9	30.0	28.7	12.1	20.8	25.6
Valuation												
Discount rate	10%											
NPV (US$m)	56.6											
Less net debt	(5.0)											
Less NPV discount	25%											
Enterprise value	**38.7**											
Shares o/s (m)	84.164											
Value per share (US$)	0.46											
Value per share (pence)	**31**											

Source: Finncap estimates. Exchange rate: US$1.00 = 66 pence

Our argument is supported by the attractive project fundamentals including a waste to ore strip ratio of less than one, the high grade characteristics of the resource and the coastal location of the deposit – 5km by road to an existing port. Prospective shareholders may also be comforted to know that management owns 20 per cent of the listed entity.

Finders deserves more than an option price

In May 2008 we included the table below of Finder's AIM listed peer group that is either already in production or plans to be in production during calendar 2010. Since then, the global economic landscape, together with the fortunes of all these companies, has changed considerably.

Unit costs for AIM copper producers in 2010

Company	Flagship Mine	Country	Production cost (US$ / lb Cu)	Production cost (US$ / tonne Cu)
Weatherly Int.	Otjihase	Namibia	1.45	3,197
Finders Resources	Wetar	Indonesia	0.70	1,543
EMED Mining	Rio Tinto	Spain	1.44	3,175
African Copper	Mowana	Botswana	2.48	5,467
Rambler Mines	Ming	Canada	0.89	1,962
Discovery Metals	Boseto	Botswana	1.43	3,153

Source: Finncap estimates

The lower copper price has forced all of these companies to reconsider their production ambitions. All except Finders have stopped production, reduced production or rescheduled their pending production to focus on higher grade zones.

In our opinion, what differentiates Finders from the pack is the quality of its surface mineable resource in a coastal location with existing infrastructure and a positive legacy left by previous mining.

But the common thread running through all these companies is the need for additional finance to reach optimum production. In our opinion, the market is not giving any advanced credit for any of these companies negotiating the finance they need.

We acknowledge the uncertainty of Finders being able to finance the main project. However, the company plans to keep the demo plant running for the next three to five years which will allow it to tread water, if need be. Assuming the copper price does not fall below $1 per lb, another shortfall in working capital is unlikely.

We are currently assuming that Finders will be commissioning its main project during Q2 2010. But this may be rescheduled if the company is unable to secure funding by the end of H1 2009.

Financials

Income statement

The delays of the Wetar project mean that the company's maiden profit has now slipped a year. Our estimates are based on the project being in full production by (calendar) Q2 2010 as we have factored in an additional three month's slippage time.

Income statement – year end 30 June

Australian dollars (000s)	2007A	2008A	2009E	2010E	2011E
Revenue	**--**	**--**	**3,373**	**29,211**	**104,604**
Total costs	(2,947)	(5,093)	(7,408)	(10,705)	(43,352)
Exploration impairment	(5,287)	(1,903)	--	--	--
EBITDA	**(8,234)**	**(6,996)**	**(4,035)**	**18,506**	**61,252**
Depreciation	(17)	(56)	(500)	(10,000)	(10,000)
EBIT	**(8,251)**	**(7,052)**	**(4,535)**	**8,506**	**51,252**
Net interest	124	332	375	400	400
Other income	83	45	50	50	50
PBT	**(8,044)**	**(6,675)**	**(4,110)**	**8,956**	**51,702**
Tax	--	--	--	(1,612)	(9,250)
Net income	**(8,044)**	**(6,675)**	**(4,110)**	**7,344**	**42,452**
Attributable to					
Equity holders	(6,153)	(5,262)	(3,814)	6,815	39,395
Minority interest	1,891	1,414	(296)	529	3,057
EPS (cents per share)	(11.37)	(7.52)	(4.54)	8.11	46.87
EPS (pence per share)	(4.66)	(3.08)	(2.00)	3.57	20.62

Source: Finncap estimates
Exchange rate: US$1.00 = AU$1.50
Exchange rate: AU$1.00 = 44 pence

Finders' is earning its interest in Wetar through expenditure. Current expenditure on the demo project will see ownership comfortably exceed 90 per cent after the local accounts are audited in March. Once the capex for the main project has been spent, Finders will own more than 99 per cent of the holding company.

Cash flow

We have assumed that the company will be successful in securing a loan for the main project at the start of the 2010 fiscal year. Irrespective of whether this loan is secured, a US$5 million loan from Meridian Capital will mature on 31 December 2009. Meridian and its subsidiary, Tennant Metals, are shareholders in Finders and are thought to be interested in securing the remaining 90 per cent of the offtake agreement for the main project. We are comfortable that a mutually beneficial arrangement can be made, if need be.

Cash flow

Australian dollars (000s)	2007A	2008A	2009E	2010E	2011E
EBIT	(8,251)	(7,052)	(4,535)	8,506	51,252
Depreciation	17	56	500	10,000	10,000
Working capital	402	103	172	(459)	(3,024)
Net interest	207	377	375	400	400
Tax paid	--	--	--	(1,612)	(9,250)
Other non cash items	536	1,936	1,936	--	--
Net cash flows from operations	**(7,089)**	**(4,580)**	**(1,551)**	**16,834**	**49,377**
Purchase of plant and equipment	(125)	(3,861)	(5,500)	(54,560)	--
Development costs	--	(5,156)	(6,127)	(8,413)	--
Net cash flows from investments	**(125)**	**(9,016)**	**(11,627)**	**(62,973)**	**--**
Proceeds from issue of shares	6,984	10,132	5,563	--	--
Cost of raising funds	(474)	(242)	(250)	--	--
Borrowings	--	4,217	3,747	60,000	--
Loan repayment	--	--	--	(5,000)	(5,000)
Net cash flows from financing	**6,510**	**14,107**	**9,060**	**55,000**	**(5,000)**
Net increase (decrease) in cash	(704)	510	(4,119)	8,861	44,377
Cash, beginning of year	5,809	5,158	4,988	190	8,371
Net change in FX	52	(680)	(680)	(680)	(680)
Cash, end of year	**5,158**	**4,988**	**190**	**8,371**	**52,069**

Source: Finncap estimates
Exchange rate: US$1.00 = AU$1.50

Balance sheet

All expenditure relating to development of the demo project has been capitalised and this practise will continue for the main plant. Under the Australian financial system, Finders' shares do not have a par value. Issued capital consists of all the equity raised since listing on AIM in March 2006, less transaction costs.

Balance sheet

Australian dollars (000s)	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11
Non current assets					
Capitalised development costs	--	5,156	11,282	19,696	19,696
Property, plant and equipment	112	3,901	9,401	53,961	43,961
Other	2,301	1,186	1,186	1,186	1,186
Total non current assets	**2,413**	**10,243**	**21,870**	**74,843**	**64,843**
Current assets					
Cash at bank and in hand	5,158	4,988	190	8,371	52,069
Receivables	412	425	795	1,595	4,461
Inventory	--	--	232	744	1,694
Other	--	758	758	758	758
Total current assets	**5,570**	**6,171**	**1,975**	**11,468**	**58,982**
Liabilities					
Trade payables	493	2,199	2,973	3,825	4,617
Long term debt	--	4,217	7,963	62,963	57,963
Total liabilities	**493**	**6,415**	**10,936**	**66,788**	**62,580**
Net assets	**7,489**	**9,998**	**12,908**	**19,522**	**61,244**
Equity					
Issued capital	18,061	28,025	33,588	33,588	33,588
Reserves	2,671	1,892	3,348	2,619	1,889
Retained income (losses)	(13,243)	(19,918)	(24,028)	(16,685)	25,767
Parent Interest	7,489	9,998	12,908	19,522	61,244
Minority Interest	0.1	0.1	0.1	0.1	0.1
Total Equity	**7,489**	**9,998**	**12,908**	**19,522**	**61,244**

Source: Finncap estimates
Exchange rate: US$1.00 = AU$1.50

A marketing communication under FSA Rules, this document has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This research cannot be classified as objective under JMFinn Capital Markets Ltd research policy. Visit www.finncap.com

The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance >10% and a 'Sell' indicates expected underperformance of >10%.

4 Coleman Street
London EC2R 5TA
Tel 020 7600 1658
Fax 020 7600 1659
Email info@finncap.com
Web www.finncap.com

FinnCap is a trading name of JMFinn Capital Markets Limited, registered as a company in England with number 06198898. Authorised and regulated by the Financial Services Authority. Member of the London Stock Exchange