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## In this edition

Resources	Code	Price	Rec.	Event	Analyst	Page
Champion Iron	CIA	\$3.18	Buy	Sep Q/Sep H Report	Jon Bishop	2
Dacian Gold	DCN	\$0.37	Spec Buy	Sep Q'ly FY'21 Report	Jon Bishop	6
Fenix Resources	FEX	\$0.16	Spec Buy	On track for first production within months.	Trent Barnett	10
Lucapa Diamond Co	LOM	\$0.06		Ceasing Coverage	Andrew Clayton	14
Lynas Corporation	LYC	\$2.99	Buy	Geopolitical Tensions Escalate, Encouraging September Quarterly	Steven Clark	15
Northern Star Resources	NST	\$15.50		Ceasing Coverage	Andrew Clayton	20
Pantoro	PNR	\$0.205	Spec Buy	Sep Q: All eyes on Norseman	Michael Scantlebury	23
Red River Resources	RVR	\$0.21	Spec Buy	Strong SepQ, debt cleared	Mike Millikan	28
Resolute Mining	RSG	\$0.87	Spec Buy	Sep Q'ly FY'20 Report: A Rough Q in Mali	Jon Bishop	36
Sandfire Resources	SFR	\$4.25		Ceasing Coverage	Andrew Clayton	40
Saracen Mineral Holdings	SAR	\$6.05	Hold	Sept Q overshadowed by \$16bn merger with NST	Andrew Clayton	43
Strandline Resources	STA	\$0.20	Spec Buy	Imminent mineral sands project near Geraldton, WA	Trent Barnett	47
Talisman Mining	TLM	\$0.11		Ceasing Coverage	Andrew Clayton	57
West African Resources	WAF	\$1.05	Buy	Strong Sept Q	Andrew Clayton	58
<b>Industrials</b>						
Emeco Holdings	EHL	\$0.75	Buy	Trading too cheap	Trent Barnett	64
Finbar Group	FRI	\$0.71	Buy	2020 AGM	Gavin Allen	68
Macmahon Holdings	MAH	\$0.23	Buy	Wins another contract	Trent Barnett	70
Perenti Global	PRN	\$1.11	Buy	Big tender pipeline	Trent Barnett	73
Swick Mining Services	SWK	\$0.20	Buy	Orexplode Update	Harry Stevenson	77
<b>Quick Comments</b>						
Alkane Resources	ALK	\$1.28	Spec Buy	Final Assays Received for Infill Resource Drilling at Roswell	Steven Clark	81
Australis Oil&Gas	ATS	\$0.026	Buy	Sep Q'ly Report: Another Q of Free Cash Flow	Jon Bishop	83
Beach Energy	BPT	\$1.34	Buy	Sep Q FY'21 Report: Solid but Unspectacular	Jon Bishop	85
Cardinal Resources	CDV	\$1.015	No Rating	Shandong Gold clarifies its "best and final" statement	Mike Millikan	87
Dacian Gold	DCN	\$0.40	Spec Buy	Mt Marven Resource Growing	Jon Bishop	88
Dacian Gold	DCN	\$0.39	Spec Buy	Hedgebook Restructured	Jon Bishop	90
Galaxy Res.	GXY	\$1.30	Hold	Quarterly	Trent Barnett	91
Genex Power Ltd	GNX	\$0.185	Buy	Sep Q'ly FY'21	Jon Bishop	92
Gold Road Resources	GOR	\$1.43	Buy	September Quarterly report: In-line with downgraded guidance	Michael Scantlebury	94
Horizon Oil	HZN	\$0.056	Buy	Divestment of entire PNG portfolio	Jon Bishop	95
Jupiter Mines	JMS	\$0.275	Buy	DPS beats estimate (but that is normal)	Trent Barnett	96
Mincor Resources	MCR	\$0.92	Buy	Sep Q'ly FY'21	Jon Bishop	97
Pantoro	PNR	\$0.21	Spec Buy	September Quarterly report: All eyes on Norseman	Michael Scantlebury	99
Ramelius Resources	RMS	\$1.97	Buy	September Quarterly Report	Michael Scantlebury	100
Red 5 Ltd	RED	\$0.295	Spec Buy	September Quarterly Report	Michael Scantlebury	101
Red River Resources	RVR	\$0.20	Spec Buy	Hillgrove restart still on track for first gold CY20 end	Mike Millikan	102
Red River Resources	RVR	\$0.205	Spec Buy	Strong SepQ results, debt cleared	Mike Millikan	104
Regis Resources	RRL	\$4.65	Sell	Sept Q	Andrew Clayton	107
Resolute Mining	RSG	\$0.86	Spec Buy	Sep Q'ly FY'20 Report: A Weak Result	Jon Bishop	108
Stavely Minerals	SVY	\$0.73	Spec Buy	Outstanding new drill result from Cayley Lode	Mike Millikan	109
Tietto Minerals	TIE	\$0.53	Spec Buy	Abujar increases to 3Moz, higher grade core grows to 1.6Moz	Jon Bishop	111
Vmoto	VMT	\$0.53	Buy	Market Update	Harry Stevenson	113
XRF Scientific	XRF	\$0.32	Spec Buy	AGM Update	Seth Lizée	114

## In every edition

Commodity Outlook	115
ASX Gold Company Comparisons - Micro - Mid	116
ASX Base Metals Company Comparisons	117
ASX E&P Company Comparisons - Micro - Mid	118
Weekly Share Price Performance of Companies covered	119
Weekly Price and Liquidity Charts of Companies covered	120
Commodity Price Charts	121

The Weekly Informer is Euroz Hartleys Securities' weekly research clearing document. It includes research notes on stocks within the coverage universe published during the preceding week. The Weekly Informer is published mid-week

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# Finbar Group Ltd

## (FRI \$0.71) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Gavin Allen	22 <sup>nd</sup> October 2020	\$0.89/sh ▼ from \$0.91/sh

## 2020 AGM

### Investment case

Finbar held its 2020 AGM recently noting demonstrable increase in recent sales activity and in particular an encouraging return of investor sales. We see a 2021 year of reasonable profitability as completed stock, of which the FRI share is circa \$70m, contributes in addition to completion of the Riverena and Dianella projects. Timing on two large projects, the Civic Heart (selling well) and AT 238, will determine how 2022 and 2023 play out. In meantime NTA is \$0.89 per share, sales rates are increasing and while construction timetables will impact earnings timing, we see the stock trading back to NTA over the short term assuming current sales momentum continues. Buy

### Key points

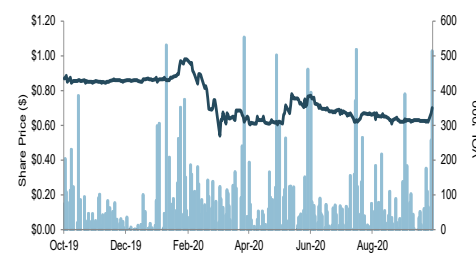
#### Highlights from AGM

- Demonstrable increase in sales over last five months, with October 2020 on track to be biggest sales month in many years.
- In addition to this, over the same period there has been a steady increase in Investor sales, which is a key change.
- This increased activity has been driven by a demonstrably tightening rental market in Western Australia.
- There is \$139m in completed stock (FRI share \$70m), and now \$95m in accrued presales, which has been steadily increasing over the last five months; with off the plan sales ultimately driving construction timetables.
- Consequently, were current momentum to continue, construction timetables may be brought forward in our opinion.
- In the meantime, owner occupier demand in the high end apartment market has been stronger throughout Perth, and this is supportive of the strong recent Civic Heart sales continuing (higher end product).
- While earnings timing is still a challenge (and our 2022 forecasts are currently little more than placeholder pending construction time table visibility), we are comfortable buying FRI under NTA and see the stock trading up in front of earnings with sales activity.

Finbar Group Ltd	Year End 30 June	
Share Price	0.71	A\$/sh
Price Target (NTA)	0.89	A\$/sh
Shares on issue	272.1 m,	diluted
Market Capitalisation	190.5	A\$m
Enterprise Value	223.9	A\$m
Debt FY20	64.0	A\$m
Cash FY20	30.6	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	154.3	115.5	37.0
EBITDA (A\$m)	10.0	9.6	-0.9
EBIT (A\$m)	9.9	9.5	-1.1
Reported NPAT (A\$m)	6.6	6.7	-0.7
Normalised NPAT (A\$m)	6.6	6.7	-0.7
Gross Cashflow (A\$m)	-0.9	6.3	-0.6
Capex (A\$m)	-0.3	-0.3	-0.3
Op. Free Cashflow (A\$m)	15.2	62.9	-39.4
Revenue Growth (%)	0%	-25%	-68%
EBITDA Growth (%)	-31%	-4%	-110%
Norm. NPAT Growth (%)	-41%	1%	-111%
Normalised EPS (Ac)	2.43	2.46	-0.27
Norm. EPS growth (%)	-0.41	0.01	-1.11
PER (x)	28.8	28.4	-258.2
EV:EBITDA (x)	22.4	23.3	-235.6
EV:EBIT (x)	22.7	23.6	-212.4
DPS (Ac)	3.00	2.00	2.00
Dividend Yield (%)	4.3%	2.9%	2.9%
Net Cash (A\$m)	-33.4	24.9	-19.1
Net Debt:Equity (%)	14%	-10%	8%
Interest Cover (x)	na	na	na

### Share Price Chart



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## Finbar Group Ltd

(FRI \$0.71) Buy

EUROZ HARTLEYS

Financial Statements	2019a	2020a	2021f	2022f	Performance Ratios	2019a	2020a	2021f	2022f
<b>Income Statement</b>					<b>Growth &amp; Margins</b>				
Sales	147.8	145.4	108.5	30.0	Revenue Growth	2%	0%	-25%	-68%
Other	6.9	8.9	7.0	7.0	EBITDA Growth	-15%	-31%	-4%	-110%
<b>Revenue</b>	<b>154.7</b>	<b>154.3</b>	<b>115.5</b>	<b>37.0</b>	EBIT Growth	-15%	-31%	-4%	-111%
COGS	-119.4	-131.5	-86.9	-24.0	Normalized Net Profit Growth	-19%	-41%	1%	-111%
Operating costs	-20.9	-19.0	-19.0	-14.0	EBITDA margin	9%	6%	8%	-3%
<b>EBITDA</b>	<b>14.5</b>	<b>10.0</b>	<b>9.6</b>	<b>-0.9</b>	EBIT margin	9%	6%	8%	-3%
Depreciation	-0.1	-0.1	-0.1	-0.1	Normalized net profit margin	7%	4%	6%	-2%
Other non cash	0.0	0.0	0.0	0.0	Effective tax rate	29%	37%	30%	30%
<b>EBIT</b>	<b>14.3</b>	<b>9.9</b>	<b>9.5</b>	<b>-1.1</b>	<b>Liquidity</b>				
Net Interest income/(expense)	1.1	0.6	0.1	0.0	Capex/depreciation (x)	2.2	3.0	3.0	2.9
Associates	0.5	0.0	0.0	0.0	Current ratio (x)	2.5	1.2	2.2	2.1
Other income/(expense)	0.0	0.0	0.0	0.0	Quick ratio (x)	1.6	1.7	5.6	9.8
Abnormal items (pretax)	0.0	0.0	0.0	0.0	Receivable days	45	26	25	51
<b>EBT</b>	<b>15.9</b>	<b>10.5</b>	<b>9.6</b>	<b>-1.1</b>	Payable days	125	67	85	102
Tax expense	-4.6	-3.9	-2.9	0.3	<b>Risk Measures</b>				
Discontinued operations	0.0	0.0	0.0	0.0	Dividend Cover (x)	0.8	1.0	1.4	-0.2
Minority interest	0.0	0.0	0.0	0.0	Payout ratio (%)	1.2	1.0	0.7	-6.3
<b>Reported Earnings</b>	<b>11.3</b>	<b>6.6</b>	<b>6.7</b>	<b>-0.7</b>	Net interest cover (x)	na	na	na	na
Adjustments (one off)	0.0	0.0	0.0	0.0	Net debt/equity (%)	14%	14%	-10%	8%
<b>Net Profit</b>	<b>11.3</b>	<b>6.6</b>	<b>6.7</b>	<b>-0.7</b>	<b>Returns</b>				
<b>Cash flow (A\$m)</b>					<b>Share Data/Valuation</b>				
<b>Pretax profit</b>	<b>15.9</b>	<b>10.5</b>	<b>9.6</b>	<b>-1.1</b>	ROIC	0.0	0.0	0.0	0.0
+ Depreciation & Amort	0.1	0.1	0.1	0.1	ROA	0.0	0.0	0.0	0.0
+ Provisions	0.0	0.0	-0.5	0.0	ROE	0.0	0.0	0.0	0.0
-Interest paid (net)	0.0	0.0	0.0	0.0	<b>Share Data</b>				
+ Revaluation	0.0	-6.8	0.0	0.0	Issued shares (m)	272.8	272.1	272.1	272.1
+ Share of associates AT	0.0	0.0	0.0	0.0	Weighted ave shares (m)	272.8	272.1	272.1	272.1
+ Other non cash expense	0.0	0.0	0.0	0.0	Fully diluted shares (m)	272.8	272.1	272.1	272.1
- Tax Paid	-4.8	-4.6	-2.9	0.3	Basic EPS (A\$)	4.1	2.4	2.5	-0.3
<b>Gross Cashflow</b>	<b>11.3</b>	<b>-0.9</b>	<b>6.3</b>	<b>-0.6</b>	YoY change (%)	-29%	-41%	1%	-111%
- Capital Expenditure	-0.3	-0.3	-0.3	-0.3	Fully diluted EPS (A\$)	4.1	2.4	2.5	-0.3
- Change in Working Capital	-32.6	16.4	56.9	-38.5	YoY change (%)	-29%	-41%	1%	-111%
<b>Operating Free Cashflow</b>	<b>-21.6</b>	<b>15.2</b>	<b>62.9</b>	<b>-39.4</b>	Fully diluted normalised EPS (A\$)	4.1	2.4	2.5	-0.3
- Dividends Paid	-14.3	-13.6	-4.6	-4.6	YoY change (%)	-0.3	-0.4	0.0	-1.1
+/- Revaluation	0.0	0.0	0.0	0.0	Dividend/share (A\$)	6.0	3.0	2.0	2.0
- Acquisitions (Disposals)	0.0	0.0	0.0	0.0	Franking (%)	100%	100%	100%	100%
- Dividends received	0.0	0.0	0.0	0.0	Gross cashflow/share (A\$)	4.1	-0.3	2.3	-0.2
+ Equity issued	0.0	0.0	0.0	0.0	NBV/share (A\$)	91.1	88.9	89.7	87.7
-Disposals	0.0	0.0	0.0	0.0	NTA/Share (A\$)	91.1	88.9	89.7	87.7
+/- Other	-0.2	-0.9	0.0	0.0	<b>Valuation</b>				
<b>Net Cashflow</b>	<b>-36.1</b>	<b>0.7</b>	<b>58.3</b>	<b>-44.0</b>	PER (Basic) (x)	16.9	28.8	28.4	-258.2
BoP Net Cash / (Debt)	2.0	-34.1	-33.4	24.9	PER (Fully diluted) (x)	16.9	28.8	28.4	-258.2
(+/-) Net Cashflow	-36.1	0.7	58.3	-44.0	PER (Fully diluted, normalized) (x)	16.9	28.8	28.4	-258.2
<b>EoP Net Cash / (Debt)</b>	<b>-34.1</b>	<b>-33.4</b>	<b>24.9</b>	<b>-19.1</b>	P/CFPS (x)	16.9	-219.2	30.2	-300.5
<b>Balance Sheet (\$m)</b>					Price/NBV (x)	0.8	0.8	0.8	0.8
Cash	45.5	30.6	105.4	61.4	Price/NTA (x)	0.8	0.8	0.8	0.8
Receivables	18.4	10.3	7.5	4.2	Dividend Yield (%)	8.6%	4.3%	2.9%	2.9%
Inventories	129.9	58.8	51.7	69.8	EV/EBITDA (x)	15.5	22.4	23.3	-235.6
Investments in Equ. Inv	3.1	0.0	0.0	0.0	EV/EBIT (x)	15.6	22.7	23.6	-212.4
Other	0.0	0.8	0.8	0.8	EV/Revenue (x)	1.4	1.5	1.9	6.1
<b>Total current assets</b>	<b>196.9</b>	<b>100.5</b>	<b>165.5</b>	<b>136.1</b>					
Receivables	16.1	26.9	19.6	10.8					
Inventories	62.8	95.8	51.7	69.8					
Property, plant and equipment	9.6	9.4	9.6	9.8					
Equity accounted Inv.	1.5	1.4	1.4	1.4					
Investment property	85.3	97.3	97.3	97.3					
Deferred tax assets	6.2	6.3	6.3	6.3					
Other	0.1	0.1	0.1	0.1					
<b>Total non current assets</b>	<b>181.6</b>	<b>237.3</b>	<b>186.1</b>	<b>195.6</b>					
<b>Total assets</b>	<b>378.5</b>	<b>337.8</b>	<b>351.6</b>	<b>331.7</b>					
Payables	40.8	24.3	20.3	6.7					
Interest bearing liabilities	34.7	55.5	55.5	55.5					
Current tax payable	3.0	1.1	1.1	1.1					
Provisions	0.5	0.5	0.0	0.0					
<b>Total current liabilities</b>	<b>79.0</b>	<b>81.4</b>	<b>76.9</b>	<b>63.3</b>					
Payables	3.3	1.8	1.5	0.5					
Interest bearing liabilities	44.9	8.5	25.0	25.0					
Non current tax liabilities	2.8	4.2	4.2	4.2					
Provisions	0.0	0.0	0.0	0.0					
<b>Total non current liabilities</b>	<b>51.0</b>	<b>14.5</b>	<b>30.7</b>	<b>29.7</b>					
<b>Total liabilities</b>	<b>130.0</b>	<b>95.9</b>	<b>107.6</b>	<b>93.0</b>					
<b>Net Assets</b>	<b>248.5</b>	<b>241.9</b>	<b>244.0</b>	<b>238.7</b>					
Contributed equity	194.5	194.5	194.5	194.5					
Reserves	0.0	0.4	0.4	0.4					
NCI	0.0	0.0	0.0	0.0					
Retained Earnings	54.0	47.0	49.1	43.7					
<b>Total equity</b>	<b>248.5</b>	<b>241.9</b>	<b>244.0</b>	<b>238.7</b>					

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# Weekly Informer

12<sup>th</sup> November 2020

EUROZ HARTLEYS

## In this edition

Resources	Code	Price	Rec.	Event	Analyst	Page
Alkane Resources	ALK	\$1.13	Spec Buy	Significant Expansion to Mineralisation at Boda	Steven Clark	2
Alpha HPA	A4N	\$0.32	Spec Buy	Initiation of Coverage	Steven Clark	7
Navarre Minerals	NML	\$0.26	Spec Buy	Drilling underway with new ground acquired	Michael Scantlebury	24
Ora Banda Mining	OBM	\$0.33	Buy	Davyhurst gold restart progressing well	Mike Millikan	30
Saracen Mineral Holdings	SAR	\$5.60		Ceasing Coverage - End of an era	Andrew Clayton	37
VRX Silica	VRX	\$0.20	Spec Buy	Silica sands...imminent start	Trent Barnett	43
<b>Industrials</b>						
Decmil Group	DCG	\$0.635	Spec Buy	Travelling well	Trent Barnett	52
VEEM	VEE	\$0.57	Buy	VEEM Signs Transformative Sales Agreement	GA/HS	56
Vmoto	VMT	\$0.41	Buy	Quarterly Update and Change in Chairman	Harry Stevenson	62
<b>Quick Comments</b>						
Beach Energy	BPT	\$1.41	Buy	Enterprise Gas Discovery Otway Basin	Jon Bishop	67
Empired	EPD	\$0.57	Buy	Western Power integrator contract	Gavin Allen	69
Finbar Group	FRI	\$0.73	Buy	Civic Heart earthworks commences	Gavin Allen	70
Firefinch	FFX	\$0.16	Spec Buy	Acquisition of Morila Gold Mine complete	Andrew Clayton	71
Mining Services				Improving gold momentum can help mining services re-rate	Various	72
Musgrave Minerals	MGV	\$0.47	Spec Buy	Break of Day Resource Upgrade	Jon Bishop	73
Ramelius Resources	RMS	\$2.32	Buy	Penny and Edna May study updates	Michael Scantlebury	75
Red River Resources	RVR	\$0.23	Spec Buy	Thalanga Far West exceptional high-grades mined in Oct'20	Mike Millikan	77
West African Resources	WAF	\$1.00	Spec Buy	US\$25m early debt repayment	Andrew Clayton	79

## In every edition

Commodity Outlook	80
ASX Gold Company Comparisons - Micro - Mid	81
ASX Base Metals Company Comparisons	82
ASX E&P Company Comparisons - Micro - Mid	83
Weekly Share Price Performance of Companies covered	84
Weekly Price and Liquidity Charts of Companies covered	85
Commodity Price Charts	86

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# Quick Comment

## Finbar Group Ltd (FRI \$0.73) Buy



Analyst	Date	Price Target
Gavin Allen	6 <sup>th</sup> November 2020	\$0.89/sh

### Civic Heart earthworks commences

#### Key Points

FRI has announced the commencement of earthworks on the Civic Heart project in relation to which we note:

- Finbar has recorded its largest monthly sales volume since July 2017.
- A tightening rental market has resulted in a cautious increase in investor demand and in conversion of tenants to owners.
- FRI has secured 60 sales at Civic Heart worth \$59m, a strong start.
- Earthworks at Civic Heart are to commence in January 2021.
- FRI speculate investors may return in greater number post the end of rental moratorium in March.
- Improved sales activity in general has been observed, as Western Australians return from interstate and overseas.
- Civic Heart, with end value of \$409m, is a landmark project, and bankable presale of this project would provide line of site to significantly improved earnings over the medium term and consequently a substantial catalyst.
- In the meantime FRI offers significant leverage, trading under NTA of \$0.89

#### Investment Thesis

On the ground activity for FRI has demonstrably improved, with October the best sales month since 2017. The improvements are consequence of a tightening rental market and seemingly improved sentiment more broadly, with sales rate now slightly beyond \$1m per day. If this continues FRI offers significant leverage as a sizable completed stock position clears and large projects like Civic Heart are presold and constructed. In the meantime the stock continues to trade under NTA of \$0.89.

#### Finbar Group Ltd (FRI)

Share Price	0.73	A\$/sh	Enterprise Value	168.2	A\$/m
Price Target	0.89	A\$/sh	Cash	30.6	A\$/m
Valuation	0.89	A\$/sh			
Shares on issue	272.1	m(dil)			
Market Capitalisation	198.6	A\$m			

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# Weekly Informer

10<sup>th</sup> December 2020

EUROZ HARTLEYS

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## In this edition

Resources	Code	Price	Rec.	Event	Analyst	Page
Centaurus Metals	CTM	\$0.62	Spec Buy	Exploration Success Continues at Jaguar Central	Jon Bishop	2
Element 25	E25	\$1.37	Spec Buy	Butcherbird PFS Update and Expansion Option Studies	Steven Clark	5
Fenix Resources	FEX	\$0.22	Spec Buy	Valuation increases on higher iron ore price assumptions	Trent Barnett	10
Firefinch	FFX	\$0.15	Spec Buy	Firefinch planning to fire up	Michael Scantlebury	14
Panoramic Resources	PAN	\$0.13	Spec Buy	Savannah de-risking for restart ahead schedule	Mike Millikan	18
<b>Industrials</b>						
Omni Bridgeway	OBL	\$4.22	Buy	Business Plan update	Gavin Allen	25
<b>Quick Comments</b>						
Calidus Resources	CAI	\$0.61	Spec Buy	Satellite Coronation Deposit Extends with drilling	Jon Bishop	32
Cooper Energy	COE	\$0.37	Buy	Orbost Phase 2 Reconfiguration Works Complete	Jon Bishop	34
Finbar Group	FRI	\$0.90	Buy	Consecutive Months Record Sales	Gavin Allen	36
Firefinch	FFX	\$0.15	Spec Buy	Project update	Michael Scantlebury	37
Genex Power	GNX	\$0.20	Buy	Jemalong 50MW Solar Operational	Jon Bishop	38
Musgrave Minerals	MGV	\$0.40	Spec Buy	Evolution JV Scout Drilling Returns High Grade Gold	Jon Bishop	40
Musgrave Minerals	MGV	\$0.42	Spec Buy	Regional Drilling Continues Support Model: 6m @ 11.5g/t	Jon Bishop	42
S2 Resources	S2R	\$0.25	Spec Buy	Fraser Range drilling first hole hits barren (iron) sulphides	Mike Millikan	44
Wide Open Agriculture	WOA	\$1.10	Buy	Successful Pilot-Scale Food-Grade Lupin Protein Trials Completed	Harry Stevenson	45

## In every edition

Commodity Outlook	46
ASX Gold Company Comparisons - Micro - Mid	47
ASX Base Metals Company Comparisons	48
ASX E&P Company Comparisons - Micro - Mid	49
Weekly Share Price Performance of Companies covered	50
Weekly Price and Liquidity Charts of Companies covered	51
Commodity Price Charts	52

The Weekly Informer is Euroz Hartleys Securities' weekly research clearing document. It includes research notes on stocks within the coverage universe published during the preceding week. The Weekly Informer is published mid-week

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# Quick Comment

## Finbar Group Ltd (FRI \$0.90) Buy



Analyst	Date	Price Target
Gavin Allen	4 <sup>th</sup> December 2020	\$0.89/sh (under review)

### Consecutive Months Record Sales

#### Key Points

FRI has provided an update reporting consecutive months of record sales

- Three consecutive months of record sales.
- Strong demand for apartments increasing each month since August.
- In October FRI recorded the largest monthly sales volume since July 2017; 45 apartments to the value of \$31.1m.
- In November this was exceeded with 58 sales for total value of \$31m.
- Record low vacancy rates in Perth, together with low interest rates and resident return has fuelled demand.
- The update talks to indications that demand looks to continue into calendar 2021.
- FRI has a significant completed stock position and consequently is able to take advantage of the robust conditions.
- Our PT, being NTA, was a simplistic target providing a very uncomplicated manner to consider the investment case in the context of a depressed share price.
- The earnings capability of the business in a good market drives valuation arguments that exceed NPAT by a considerable margin and our PT is consequently under review.

#### Investment Thesis

At \$0.90, and despite recent bounce, FRI is still trading at or around NTA. The stock can, in our opinion, trade on sales activity ahead of earnings. While timing is subject to construction timetables overall FRI has now entered a broad growth phase in our view, with significant projects soon to commence construction, including the flag ship Civic Heart. Price Target under review. Buy

#### Finbar Group Ltd (FRI)

Share Price	0.90	A\$/sh	Enterprise Value	278.8	A\$/m
Price Target (under review)	0.89	A\$/sh	Cash	30.1	A\$/m
Shares on issue	272.1	m(dil)	Debt	64	A\$/m
Market Capitalisation	244.9	A\$m			

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