

# Avanco Resources Ltd

## (AVB \$0.115) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	31 <sup>st</sup> March 2017	\$0.17/sh

### Financial Results CY'16

#### Investment case

Avanco is a high growth, debt free, emerging copper miner. It has established an excellent development and operating track record with the performance of the Antas Nth mine to date. The larger Pedra Branca project will be FID ready by end 2017. The clean balance sheet, management performance, dearth of competing copper mining opportunities globally and a firming copper market should see it attract the funding required. The exploration opportunities are very good and AVB's recent cashflow lift will see momentum build throughout 2017. The CentroGold strategy should become clearer once permitting and scoping study is completed. AVB's reputation positions it well for other acquisition opportunities within the Carajas. We value Avanco at \$0.17/sh.

#### Key points

##### Financial Results

- EBITDA of US\$16.7m on revenue of US\$59m for CY'16 was in-line with our expectation.
- This is a credible result in context of 2016 being a part year of operations, with commissioning in Q1, 1st production in March, profitability achieved in Q2, and commercial production deemed from 1st July 2017. Production in 2016 was 11.2kt Cu and 7.8koz Au in concentrate at a cash cost of US\$1.29/lb (C1).
- Production guidance for 2017 is 13.5kt-14.0kt Cu and 9.8-10.5koz Au. No updated cost guidance given. Prior guidance had been limited to Mar Q'17 at 3.0-3.5kt Cu with costs in-line with prior periods.
- NLAT of US\$2.7m was lower than our estimate of NPAT US\$1.0m, mainly attributable to higher than expected non-cash expenses D&A and accretion of royalty and rehab expenses.
- Nil dividend declared, as expected.
- Balance sheet comprises: Cash US\$23m, Debt Nil, Other net current working capital -US\$1m. The cash and debt balances had previously been disclosed in the quarterly production report. Cashflow from operations (US\$12m) & investment (-US\$23m) was broadly as expected.
- Avanco has committed to US\$10.6m investment in exploration and development in 2017, representing ~50% of free cashflow from Antas. Our forecasts see AVB's cash balance growing by US\$10m after this expenditure. The investment plan comprises:
  - **Antas** - US\$1.0m, 5,000m core drilling.

To be completed during March-July 2017, on brownfield extensional targets to grow resource and reserves.

Actual operating costs at Antas are now known to be lower than those predicted prior to development, combined with an enlarged resource model through drilling should enable a significantly larger ore reserve. This may enable incremental production expansion and/or extend life.

- **Antas** - US\$3.6m, sustaining capex (tailings, dust suppression, crushing);
- **Pedra Branca** - US\$4.4m - DFS on Pedra Branca East Project.

Avanco Resources Ltd	Year End 31 December	
Share Price	0.115	A\$/sh
Price Target	0.17	A\$/sh
Valuation	0.17	A\$/sh

Shares on issue	2649	m, diluted *
Market Capitalisation	285	A\$m
Enterprise Value	255	A\$m
Debt	0	A\$m
Cash	31	A\$m
Largest Shareholder		Appian 18%

Production F/Cast	2016a	2017f	2018f
Cu Prod'n (kt)	11.2	14.0	16.3
Au Prod'n (koz)	7.8	8.8	10.2
C1 Cash Costs (US\$/lb)	1.29	1.31	1.31

Assumptions	2016a	2017f	2018f
Copper (US\$/lb)	2.21	2.65	2.85
Gold (US\$/oz)	1249	1270	1350
FX Rate (A\$/US\$)	0.73	0.76	0.76

Key Financials	2016a	2017f	2018f
Revenue (US\$m)	59	83	103
EBITDA (US\$m)	17	31	43
NPAT (US\$m)	-3	14	24
Cashflow (US\$m)	-8	10	-74
CFPS (USc)	10	0	8
P/CFPS (x)	0.2	0.2	0.1
EPS (USc)	0	0	1
EPS growth (%)	na	0%	-588%
PER (x)	-47	-	17
EV:EBITDA (x)	6.1	0.0	5.9
EV:EBIT (x)	19.9	0.0	10.8
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	0%	0%	0%

#### Share Price Chart



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## Avanco Resources Ltd

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PFS on Pedra Branca East has been ongoing since Q3'16, and is due for completion end April'17.

Project scope has increased as a result of the improved copper price, now targeting a sustainable 24ktpa Cu from underground mining the full PBE orebody, rather than a high grade core. DFS completion Mar Q'18 is unchanged, however there will be no interim stage involving trucking ore to Antas (as was previously planned).

Work includes 5,000m infill drilling, exploration on the recently acquired (Codelco) contiguous Canaa West property, regulatory and environmental permitting.

Development of the PB West orebody will be studied subsequently, and may add an additional 10ktpa Cu production.

- **CentroGold** - \$0.9m, resolve legacy licencing issues more promptly, further JORC resource updates.

Scoping study completion due end April'17;

- **Other** - \$0.7m, regional exploration and project acquisition opportunity study activity.

Surface EM geophysical equipment (2 teams) to enable targeting and drilling of the 1,800km<sup>2</sup> tenements. AVB's is the 2nd largest tenement holding in the Carajas.

Avanco hopes to exploit its good track record and relationships built over 10 years locally in Carajas to potentially secure other copper acquisition opportunities.

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# Avanco Resources Ltd

(AVB \$0.115) Buy



## Market Statistics

		Year End 31 December			
<b>Share Price</b>	<b>\$0.115 A\$/sh</b>	<b>Directors</b>			
Issued Capital		C Jones		Chair	
Fully Paid Ord	2,457	A Polgase		MD/CEO	
Opt	-	S Mottram		Ex Dir	
Opt, Dec'19, \$0.10/sh	42	L Azevedo		Ex Dir	
Opt, Jun'18, \$0.10/sh	150	V Tidy		NE Dir	
<b>Total Dil. FPOrd</b>	<b>2,649</b>	L Ferraz		NE Dir	
Market Cap'n (dil)	\$285	<b>Shareholders</b>			
Enterprise Value	\$255	Appian		18.0%	
Cash	\$31	Greenstone		16.7%	
Debt	\$-	BlackRock		12.9%	
		Glencore		8.3%	

Asset Valuation	A\$m	A\$/sh
Antas Nth	242	0.09
Pedra Branca	155	0.06
Centro Gold	17	0.01
Other Expl'n	1	0.00
Corporate	(19)	(0.01)
Working Capital	5	0.00
Unpaid Capital	19	0.01
Debt	-	-
Cash	31	0.01
<b>Total</b>	<b>451</b>	<b>0.17</b>

## F/Cast Production (US\$m) 2016a JH'17f 2017f 2018f 2019f

Antas Nth (100% AVB)						
Cu Prod'n	kt	11.2	6.6	14.0	16.3	14.4
Au Prod'n	koz	7.8	4.1	8.8	10.2	9.0
C1 Cash Costs	US\$/lb	1.29	1.32	1.31	1.31	1.21

Pedra Branca (100% AVB)						
Cu Prod'n	kt	-	-	-	-	24.3
Au Prod'n	koz	-	-	-	-	19.8
C1 Cash Costs	US\$/lb	-	-	-	-	1.04

Group Prod'n (100% AVB)						
Cu Prod'n	kt	11.2	6.6	14.0	16.3	38.7
Au Prod'n	koz	7.8	4.1	8.8	10.2	28.8
C1 Cash Costs	US\$/lb	1.29	1.32	1.31	1.31	1.10

Assumptions						
Copper	US\$/lb	2.21	2.60	2.65	2.85	3.00
Gold	US\$/oz	1,249	1,240	1,270	1,350	1,350
FX Rate	A\$/US\$	0.73	0.75	0.76	0.76	0.77

## Ratio Analysis (US\$m) 2016a JH'17f 2017f 2018f 2019f

Cashflow (US\$m)	12	13	28	38	113
Cashflow per Share (c/sh)	1	0	1.1	1.4	4.3
Cashflow Ratio (x)	10	0	8	6	2

Earnings (US\$m)	-3	6	14	24	99
Earnings per Share (c/sh)	0	0	1	1	4
EPS Growth (%)	na	0%	-588%	72%	310%
Earnings Ratio (x)	-47	0	17	10	2

Enterprise Value (A\$m)	136	131	242	339	253
EV : EBITDA (x)	6	0	6	6.0	1.5
EV : EBIT (x)	20	0	11	8.8	1.6

Net Debt : Net Debt+Equity (%)	0%	0%	0%	24%	0%
EBIT Margin (%)	9%	0%	20%	28%	46%
Return on Equity (%)	-3%	0%	14%	19%	44%
Return on Assets (%)	4%	0%	12%	18%	46%

Dividend (c/sh)	0	0	0	0	0
Dividend payout ratio (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	0%	0%	0%	0%	0%
Dividend Franking (%)	0%	0%	0%	0%	0%

## Profit and Loss (US\$m) 2016a JH'17f 2017f 2018f 2019f

Sales Revenue	59	38	83	103	263
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
<b>Total Revenue</b>	<b>59</b>	<b>38</b>	<b>83</b>	<b>103</b>	<b>263</b>
Opex	39	23	49	57	126
O/H	3	2	3	3	3
Provisions	-2	0	0	0	0
Other	3	0	0	0	0
<b>EBITDA</b>	<b>17</b>	<b>14</b>	<b>31</b>	<b>43</b>	<b>134</b>
D&A	11	7	14	14	14
<b>EBIT</b>	<b>5</b>	<b>7</b>	<b>17</b>	<b>29</b>	<b>120</b>
Finance costs	3	0	0	0	0
PBT	1	7	17	29	120
Tax	4	1	3	5	21
<b>NPAT</b>	<b>-3</b>	<b>6</b>	<b>14</b>	<b>24</b>	<b>99</b>

## Cash Flow (US\$m) 2016a JH'17f 2017f 2018f 2019f

Net Profit	1	6	14	24	99
Working Capital	3	0	0	0	0
+ Dep/Amort	5	7	14	14	14
+ Tax Expense	4	1	3	5	21
- Tax Paid	0	1	3	5	21
<b>= Operating Cashflow</b>	<b>12</b>	<b>13</b>	<b>28</b>	<b>38</b>	<b>113</b>
-Capex + Development	2	5	11	112	47
-Exploration	1	3	7	0	0
-Assets Purchased	20	0	0	0	0
+Asset Sales	0	0	0	0	0
+Other	0	0	0	0	0
<b>= Investing Cashflow</b>	<b>-23</b>	<b>-8</b>	<b>-18</b>	<b>-112</b>	<b>-47</b>

+ Equity Issues (Rts,plc,opts)	0	0	0	0	0
+Loan Drawdown	0	0	0	0	0
+Other	4	0	0	0	0
-Loan Repayment	2	0	0	0	0
-Dividends	0	0	0	0	0
-Interest Payments	0	0	0	0	0
<b>= Financing Cashflow</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Period Surplus</b>	<b>-8</b>	<b>5</b>	<b>10</b>	<b>-74</b>	<b>66</b>
FX Adjustments	0	0	0	0	0

## CASH 2016a JH'17f 2017f 2018f 2019f

## Balance Sheet (US\$m) 2016a JH'17f 2017f 2018f 2019f

Assets					
Cash	23	27	33	-41	25
Current Receivables	8	8	8	8	8
Other Current Assets	9	9	9	9	9
Total Current Assets	40	44	50	-24	42
PP&E, MineProp, EE&D	61	62	65	163	196
Other	23	23	23	23	23
Total NC Assets	84	85	88	186	219
<b>Total Assets</b>	<b>124</b>	<b>130</b>	<b>138</b>	<b>162</b>	<b>261</b>

Liabilities					
Borrowings	0	0	0	0	0
Trade Payables	11	11	11	11	11
Provisions	7	7	7	7	7
Other Liabilities	17	17	17	17	17
<b>Total Liabilities</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>

## Net Assets 2016a JH'17f 2017f 2018f 2019f

## Reserves and Resources

Mineral Resources		tonnes		metal	contained	
		mt	% Cu		kt Cu	koz Au
Antas Nth	M+I+I	6.4	2.4	0.5	152	102
Antas Sth	M+I+I	10.1	0.8	0.2	85	65
Pedra Branca	M+I+I	17.7	2.4	0.7	427	357
Centro Gold (Gurupi)		52.8	-	1.4	-	2,326

Ore Reserves						
Antas Nth	P+P	3.6	2.53	0.6	92	64

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