

Avanco Resources Ltd

(AVB \$0.115) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	31 st 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



Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Avanco Resources Ltd

(AVB \$0.115) Buy

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 1,800km² 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.

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Avanco Resources Ltd

(AVB \$0.115) Buy

Market Statistics

Year End 31 December

Share Price	\$0.115	A\$/sh	Directors	
Issued Capital			C Jones	Chair
Fully Paid Ord	2,457	m	A Polgase	MD/CEO
Opt	-	m	S Mottram	Ex Dir
Opt, Dec'19, \$0.10/sh	42	m	L Azevedo	Ex Dir
Opt, Jun'18, \$0.10/sh	150	m	V Tidy	NE Dir
Total Dil. FPOrd	2,649	m	L Ferraz	NE Dir
Market Cap'n (dil)	\$285	m	Shareholders	
Enterprise Value	\$255	m	Appian	18.0%
Cash	\$31	m	Greenstone	16.7%
Debt	\$-	m	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
Total	451	0.17

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
Total Revenue	59	38	83	103	263
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
EBITDA	17	14	31	43	134
D&A	11	7	14	14	14
EBIT	5	7	17	29	120
Finance costs	3	0	0	0	0
PBT	1	7	17	29	120
Tax	4	1	3	5	21
NPAT	-3	6	14	24	99

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
= Operating Cashflow	12	13	28	38	113
-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
= Investing Cashflow	-23	-8	-18	-112	-47
+ 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
= Financing Cashflow	2	0	0	0	0
Period Surplus	-8	5	10	-74	66
FX Adjustments	0	0	0	0	0
CASH	23	27	33	-41	25

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
Total Assets	124	130	138	162	261
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
Total Liabilities	36	36	36	36	36
Net Assets	88	94	102	127	225

Reserves and Resources

		tonnes mt	grade % Cu	g/t Au	metal kt Cu	contained koz Au
Mineral Resources						
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

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Disclaimer

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) ("Euroz") only. Euroz is the holder of an Australian Financial Services Licence (AFSL 243302) issued by the Australian Securities and Investments Commission ("ASIC") and is a participant of the Australian Securities Exchange Group ("ASX Group").

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz.

Disclaimer & Disclosure

Euroz and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.

Contact Details

Euroz Securities Limited **+61 8 9488 1400**

International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481
Julian Lake - Associate Analyst	+61 8 9488 1470
Matthew Gavshon - Associate Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Brian Bates - Executive Director	+61 8 9346 0314
James Mackie - Executive Director	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Paul Berson - Associate Director	+61 8 9346 0314
Phil Grant - Associate Director	+61 8 9346 0306
Steve Grove - Associate Director	+61 8 9488 1410
Jamie Mann - Associate Director	+61 8 9346 0301
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ben Statham - Associate Director	+61 8 9488 1417
Ryan Stewart - Associate Director	+61 8 9488 1441
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Duncan Relf - Investment Adviser	+61 8 9346 0322
Michael Bartley - Investment Adviser	+61 8 9346 0352
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Richard Gardner - Investment Adviser	+61 8 9488 1444
Steve Wood - Investment Adviser	+61 8 9346 0305
Blair Spaulding - Associate Adviser	+61 8 9488 1418

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.