

# Avanco Resources Ltd

## (AVB \$0.115) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	28 <sup>th</sup> April 2017	\$0.17/sh

### March 2017 Quarterly Results

#### 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. Some excellent exploration opportunities will be tested in 2017. The CentroGold strategy should become clearer once permitting and scoping study is completed. AVB's development and operating reputation positions it well for other potential acquisition opportunities in Brazil. We value Avanco at \$0.17/sh.

#### Key points

- Antas production of 3.5kt Cu and 2.8koz Au is in-line with guidance, despite being slightly lower than Dec Q (4.0kt Cu & 2.8koz Au).
- Costs up, C1 US\$1.52/lb, previously US\$1.22/lb. Due to local currency appreciation and planned downtime as previously guided.
- Shipments of 3.9kt Cu & 2.9koz Au generated US\$26m sales, a new record (v's US\$23m in Dec Q'16).
- EBITDA US\$6.4m, is on-track with our US\$14m forecast for June H'17. Cashflow was weaker due to timing differences between shipment to settlement (receipts US\$21m v's provisional sales US\$26m).
- Guidance for 2017 is Production of 13.5-14.0kt Cu and 9.8-10.5koz Au, at Cash Costs of US\$1.35-1.50/lb (C1) or US\$1.65-1.80/lb (AISC).
- Cash is US\$23m and Avanco holds nil debt.
- Mined grade is lower due and strip ratio higher, both temporarily, as Stage 2 cutback occurred. Grade and strip ratio will improve as mining deepens.
- Pedra Branca PFS into a 1.2mtpa standalone development producing initially 24ktpa Cu, and eventually up to 35ktpa Cu, is due for completion in May 2017. The project will undoubtedly immediately proceed to DFS given the higher copper price. The scope of the PFS no longer includes a short term, low capex, high grade option of trucking 200ktpa ore to nearby Antas.
- CentroGold project scoping study will also be completed in May 2017. A low capex development of \$50m-\$100m to produce <100kozpa Au is contemplated. CentroGold mineral resources were recently upgraded on the Cipoeiro Deposit (1.3moz Ind & Inf, grading 2.0g/t). The nearby Chega Tudo deposit is estimated to contain an additional 1.0moz (Inf).
- AVB continues to suggest that licencing issues that dogged the previous incarnation of the project under the previous owner can be overcome. Avanco's acquisition of the project is subject to it being satisfied that these risks can be ameliorated.

Avanco Resources Ltd	Year End 30 June	
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	2016f	2017f	2018f
Cu Prod'n (kt)	11.2	13.9	16.3
Au Prod'n (koz)	7.8	10.1	10.2
C1 Cash Costs (US\$/lb)	1.29	1.40	1.33

Assumptions	2016f	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	2016f	2017f	2018f
Revenue (US\$m)	59	84	103
EBITDA (US\$m)	17	27	43
NPAT (US\$m)	-3	11	24
Cashflow (US\$m)	-8	7	-74

CFPS (USc)	10	0	9
P/CFPS (x)	0.2	0.3	0.1

EPS (USc)	0	0	0
EPS growth (%)	na	0%	-487%
PER (x)	-47	-	21

EV:EBITDA (x)	6.1	0.0	6.8
EV:EBIT (x)	19.9	0.0	13.9

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	0%	0%	0%
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#### Share Price Chart



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## Avanco Resources Ltd

(AVB \$0.115) Buy

## Market Statistics Year End 30 June

<b>Share Price</b>	<b>\$0.115</b>	<b>A\$/sh</b>	<b>Directors</b>	
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
<b>Total Dil. FPOrd</b>	<b>2,649</b>	<b>m</b>	L Ferraz	NE Dir
Market Cap'n (dil)	\$285	m	<b>Shareholders</b>	
Enterprise Value	\$255	m	Appian	18.0%
Cash	\$31	m	Greenstone	16.7%
Debt	\$-	m	BlackRock	12.9%
			Glencore	8.3%

<b>Asset Valuation</b>	<b>A\$m</b>	<b>A\$/sh</b>
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>450</b>	<b>0.17</b>

F/Cast Production (A\$m)		2016a	JH17f	2017f	2018f	2019f
Antas Nth (100% AVB)						
Cu Prod'n	kt	11.2	6.9	13.9	16.3	14.4
Au Prod'n	koz	7.8	5.2	10.1	10.2	9.0
C1 Cash Costs	US\$/lb	1.29	1.40	1.40	1.33	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	6.9	13.9	16.3	38.7
Au Prod'n	koz	7.8	5.2	10.1	10.2	28.8
C1 Cash Costs	US\$/lb	1.29	1.40	1.40	1.33	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

<b>Ratio Analysis (A\$m)</b>	<b>2016a</b>	<b>JH17f</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>
Cashflow (US\$m)	12	12	25	38	113
Cashflow per Share (c/sh)	1	0	0.9	1.4	4.3
Cashflow Ratio (x)	10	0	9	6	2

Earnings (US\$m)	-3	5	11	24	99
Earnings per Share (c/sh)	0	0	0	1	4
EPS Growth (%)	na	0%	-487%	112%	320%
Earnings Ratio (x)	-47	0	21	10	2

Enterprise Value (A\$m)	136	132	246	344	257
EV : EBITDA (x)	6	0	7	6.1	1.5
EV : EBIT (x)	20	0	14	9.2	1.7

Net Debt : Net Debt+Equity (%)	0%	0%	0%	26%	0%
EBIT Margin (%)	9%	0%	16%	28%	46%
Return on Equity (%)	-3%	0%	11%	19%	45%
Return on Assets (%)	4%	0%	10%	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%

<b>Profit and Loss (A\$m)</b>	<b>2016a</b>	<b>JH17f</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>
Sales Revenue	59	41	84	103	263
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
<b>Total Revenue</b>	<b>59</b>	<b>41</b>	<b>84</b>	<b>103</b>	<b>263</b>
Opex	39	26	53	57	126
O/H	3	2	3	3	3
Provisions	-2	0	0	0	0
Other	3	0	0	0	0
EBITDA	17	13	27	43	134
D&A	11	7	14	14	14
<b>EBIT</b>	<b>5</b>	<b>6</b>	<b>13</b>	<b>29</b>	<b>120</b>
Finance costs	3	0	0	0	0
PBT	1	6	13	29	120
Tax	4	1	2	5	21
<b>NPAT</b>	<b>-3</b>	<b>5</b>	<b>11</b>	<b>24</b>	<b>99</b>

<b>Cash Flow (A\$m)</b>	<b>2016a</b>	<b>JH17f</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>
Net Profit	1	5	11	24	99
Working Capital	3	0	0	0	0
+ Dep/Amort	5	7	14	14	14
+ Tax Expense	4	1	2	5	21
- Tax Paid	0	1	2	5	21
<b>= Operating Cashflow</b>	<b>12</b>	<b>12</b>	<b>25</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>4</b>	<b>7</b>	<b>-74</b>	<b>66</b>
FX Adjustments	0	0	0	0	0
<b>CASH</b>	<b>23</b>	<b>27</b>	<b>30</b>	<b>-44</b>	<b>22</b>

<b>Balance Sheet (A\$m)</b>	<b>2016a</b>	<b>JH17f</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>
<b>Assets</b>					
Cash	23	27	30	-44	22
Current Receivables	8	8	8	8	8
Other Current Assets	9	9	9	9	9
<b>Total Current Assets</b>	<b>40</b>	<b>44</b>	<b>47</b>	<b>-28</b>	<b>38</b>
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>129</b>	<b>135</b>	<b>159</b>	<b>258</b>

<b>Liabilities</b>					
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>

<b>Net Assets</b>	<b>88</b>	<b>93</b>	<b>100</b>	<b>123</b>	<b>222</b>
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## Reserves and Resources

	tonnes mt	grade % Cu	metal contained g/t Au	kt Cu	koz Au
<b>Mineral Resources</b>					
Antas Nth	6.4	2.4	0.5	152	102
Antas Sth	10.1	0.8	0.2	85	65
Pedra Branca	17.7	2.4	0.7	427	357
CentroGold (Gurupi)	52.8	-	1.4	-	2,326
<b>Ore Reserves</b>					
Antas Nth	3.0	2.64	0.6	80	57

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