

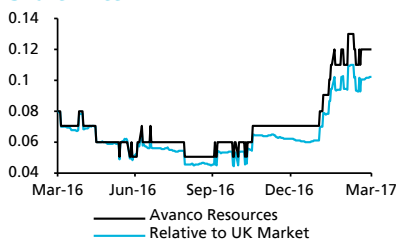
29 March 2017 06:00 BST

BUY

Current Share Price	AUD0.115
Target Price	AUC18
Market Capitalisation	AUD195.8m
Shares In Issue	2,457m
RIC/BLBG	AVBX.AX/AVB AU
Avg. Daily Volume (3M)	4,200,032
Net Cash/(Debt) (m) (12/16F)	AUD8.0m
Broker	Yes

Current share price(s) timed at 4:30pm on 27/03/17

Share Price



Performance (%)	1M	3M	12M
Absolute	5	74	47
Relative	4	68	25

Source: Datastream (relative to UK-DS Market index)

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Avanco Resources

Full Year Results

2016 a strong start to operating life at Antas

Avanco released 2016 results which were in line with our estimates. Whilst headline earnings missed due to higher depreciation, underlying operations at Antas are strong and reflect an on time and budget build and successful commissioning and and ramp up period. In our view, AVB deserves credit for operational delivery at Antas and is now positioned to benefit from its growth pipeline at Pedra Branca and regional opportunities in the prospective Carajas mining district of Brazil. We reiterate our BUY recommendation increase our target price to A\$0.18/sh.

- Financial results in line after higher depreciation:** Avanco reported a full year net loss of US\$2.6m vs NUME of positive US\$0.5m. The main driver of the difference versus our estimates was US\$3.3m of higher depreciation. AVB ended the year with US\$22.9m of cash on balance sheet and nil debt. AVB generated US\$12.3m of operating cash flow in 2016, which exceeded NUME of US\$10.8m. AVB invested US\$22.9m in 2016, in line with our estimates.
- US\$10.6m exploration and project development budget announced:** AVB announced board approval for a US\$10.6m exploration and project development budget. Antas has been allocated US\$4.6m including US\$1.0m of drilling and US\$3.6m of sustaining capital. Pedra Branca has been allocated US\$4.4m for the DFS and exploration and development to support Pedra Branca East. US\$0.9m has been allocated to advance the Centro Gold Project and US\$0.7m has been allocated to regional exploration and acquisition opportunities in Carajas.
- Guidance of 13.5-14kt Cu and 9.75-10.5koz Au for 2017:** Antas exceeded guidance in 2017 and produced at an annualised pace of 16kt Cu and 11koz Au in Q4 thanks to high throughput, recoveries and grade. Guidance for 2017 remains strong at 13.5-14kt Cu and 9.75-10.5koz Au and, given AVB's history of operational delivery, we see potential upside to this production level.
- Pedra Branca works focused on larger scale development:** AVB updated the market on guidance for its development plans at Pedra Branca. Whilst earlier plans focused on trial mining and trucking ore to Antas, the rise in the copper price and stronger financial position of AVB has brought forward the development strategy. US\$4.4m has been approved to update the scoping study to a PFS targeting 24ktpa of Cu production from PB East. Later studies will evaluate the development of PB West, which would target an additional ~10kt of production from PB West to target a long term total production level of ~35kt from PB.
- Reiterate BUY recommendation and raise our TP to A\$0.18/sh:** We have updated our model for guidance at Antas and now forecast production of 13.9kt Cu and 10.3koz Au in 2017. We no longer include trial mining at PB in our base case for next year. We have also rolled forward our model and we maintain our Buy recommendation and raise our TP to A\$0.18 based on 1x NAV10% for Antas and 0.75x for PB.

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Figure 1: Avanco Summary Financials

Avanco BUY A\$0.18	Ticker Share Price Implied Return	AVB A\$0.115 59%	Market Capitalisation Enterprise Value (EV) Net Debt (Cash)	A\$283m A\$252m -A\$30m	Financial Year End Reporting Currency Shares in Issue	June A\$ 2,457m
Valuation						
	Disc Rate	US\$m	US\$/sh	PNAV	A\$/sh	
Antas	10%	193	0.08	1.0x	A\$0.10	
Pedra Branca	10%	157	0.06	0.75x	A\$0.06	
Centrogold		26	0.01	0.75x	A\$0.01	
Cash		23	0.01	1.0x	A\$0.01	
Debt		-	-	1.0x	A\$0.00	
Equity raised		-	-	1.0x	A\$0.00	
Cash from options		11	0.00	1.0x	A\$0.01	
SG&A and central	10%	(26)	(0.01)	1.0x	-A\$0.01	
Valuation (fd)		383	0.16		A\$0.18	
Current NAV Multiple (Implied)					0.55x	
Valuation						
NAV valuation	Target multiple		0.75x - 1.0x		A\$0.18	
Other data						
Basic shares (m)	2,456.9			12M high:	A\$0.08	
Fully diluted shares (m)	2,596.9			12M low:	A\$0.05	
Sensitivity Analysis						
					NAVPS (A\$)	
Base case Cu price forecast					0.18	
Base case +10%					0.23	
Base case -10%					0.14	
Spot Cu price (US\$2.20/lb Cu, US\$1270/oz Au)					0.16	
News Catalyst (CY)						
Antas Commissioned Q1	Achieved					
Antas Commercial Production Q3	Achieved					
PB Scoping & Feasibility Work	Scoping	Feasibility				
PB Financing & Permitting						
PB Construction						
PB Commissioning						
Resource / Reserve						
	Tonnes	(%Cu)	Kt Cu	Koz Au	EV/lb CuEq	
Reserves (R&R)	3.0 Mt	2.64	80 kt	56.50	\$0.92	
Resources (M&I&I)	51.4 Mt	1.15	592 kt	1,749	\$0.09	
Production (100% basis)						
	2016A	2017E	2018E	2019E	2020E	
Copper Price (US\$/lb Cu)	2.32	2.70	2.70	3.00	3.00	
Production (kt Cu)	11.2	13.9	16.7	25.9	36.5	
C1 cash cost (ex royalties, \$/lb)*	1.10	0.99	0.83	0.79	0.89	
AISC (US\$/lb)	1.42	1.51	1.30	1.21	1.39	
*C1=site mining costs						
<div> <div> <div>Cu Production (t 100% basis)</div> <div> </div> </div> <div> <div>C1 Cash Cost / AISC (\$/lb)</div> <div> </div> </div> </div>						
Assumptions						
	2015	2016	2017F	2018F	2019F	
Copper Price (US\$/lb)	2.50	2.32	2.70	2.70	3.00	
Exchange Rate (A\$:US\$)	0.78	0.75	0.75	0.75	0.75	
Exchange Rate (BRL:US\$)	2.68	3.66	3.69	4.13	4.50	
Ratio analysis						
	2015	2016	2017F	2018F	2019F	
Average shares out (m)	-	2,457	2,457	2,457	2,457	
Adj. EPS (US\$/sh)	(0.00)	(0.00)	0.01	0.01	0.02	
EPS growth (%)	-	-	-	138%	183%	
PE (x)	-	-	12.3x	8.9x	4.8x	
CFPS before w/c (US\$/sh)	(0.00)	0.01	0.01	0.01	0.03	
P/CF (x)	-	21.8x	10.9x	7.9x	4.1x	
FCFPS (US\$/sh)	(0.02)	(0.01)	0.01	(0.05)	0.03	
P/FCFPS	-	-	6.6x	-	2.9x	
FCF yield (%)	-	(6%)	15%	(54%)	34%	
FCF margin (%)	-	(29%)	52%	(154%)	57%	
EV (US\$m)	-	189.0	156.2	273.3	206.8	
EV/EBITDA (x)	-	12.1x	4.0x	5.0x	2.0x	
EBITDA margin (%)	-	26%	48%	55%	61%	
ROA (%)	1.0%	(2%)	15%	13%	18%	
ROE (%)	1%	(3%)	21%	22%	29%	
ROCE (%)	(2%)	4%	22%	19%	27%	
Net Debt / EBITDA (x)	-	(1.5x)	(1.4x)	1.1x	(0.0x)	
Gearing (Debt/Equity) (x)	0.3x	0.4x	0.3x	0.7x	0.6x	
Interest Cover (x)	-	-	-	12.9x	8.9x	
Income statement (US\$m)						
	2015	2016	2017F	2018F	2019F	
Revenue	-	59.3	82.6	99.7	171.3	
Cost of sales	-	(34.1)	(30.2)	(30.8)	(44.9)	
D&A	-	(11.4)	(10.7)	(11.7)	(23.5)	
Gross profit	-	13.8	41.7	57.2	102.9	
Exploration	-	-	(1.5)	(1.5)	(1.5)	
Admin expense	(1.7)	(3.3)	(3.0)	(3.0)	(3.0)	
Net interest	0.2	(3.2)	0.2	(3.1)	(8.8)	
Other	(9.5)	(6.2)	-	(9.8)	(16.7)	
Tax	-	(3.7)	(5.8)	(8.0)	(14.6)	
Net income	(11.0)	(2.7)	31.7	31.9	58.3	
EBITDA	(2.5)	15.6	39.3	54.6	105.2	
Cash flow (US\$m)						
	2015	2016	2017F	2018F	2019F	
Net (loss) income :	1.1	(2.7)	23.0	31.9	58.3	
Non-cash adjustments	-	17.9	11.5	12.4	24.3	
Working capital movements	-	(4.9)	4.9	(4.9)	(6.1)	
Net interest & other	30.6	12.5	16.4	(34.1)	12.0	
Cash flow from operations	(1.8)	12.3	39.4	42.7	85.6	
PP&E	(25.0)	(19.7)	(6.5)	(156.5)	(10.0)	
Exploration	(14.6)	(3.2)	-	-	-	
Other	-	-	-	-	-	
Cash flow from investing	(39.6)	(22.9)	(6.5)	(156.5)	(10.0)	
Interest received / (paid)	-	-	-	3.3	9.2	
Share issue	49.6	-	-	-	-	
Debt drawn down	-	-	-	66.7	33.3	
Debt repaid	-	-	-	-	(16.7)	
Cash flow from financing	56.4	2.4	-	63.3	7.5	
Forex	1.5	(0.7)	-	-	-	
Net change in cash	15.0	(8.2)	32.9	(50.4)	83.1	
Cash at end of period	31.7	22.9	55.7	5.3	88.4	
Balance sheet (US\$m)						
	2015	2016	2017F	2018F	2019F	
Cash	31.7	22.9	55.7	5.3	88.4	
AR	0.8	7.8	5.2	6.0	8.6	
Inventories	-	9.0	7.8	10.8	15.2	
PPE	63.4	61.1	56.8	201.7	188.2	
Other	18.0	23.4	23.4	23.4	23.4	
Total assets	113.9	124.1	149.0	247.1	323.8	
AP	4.8	10.4	12.4	11.2	12.2	
Debt	-	-	-	66.7	83.3	
Deferred tax	-	0.5	0.5	0.5	0.5	
Other	19.8	24.8	23.8	23.8	23.8	
Total liabilities	24.6	35.7	36.8	102.3	119.9	
Shareholders equity	89.3	88.4	112.2	144.8	203.9	
Retained earnings	-	-	-	-	-	
Liabilities + equity	113.9	124.1	149.0	247.1	323.8	

Source: Company & Numis Securities Research

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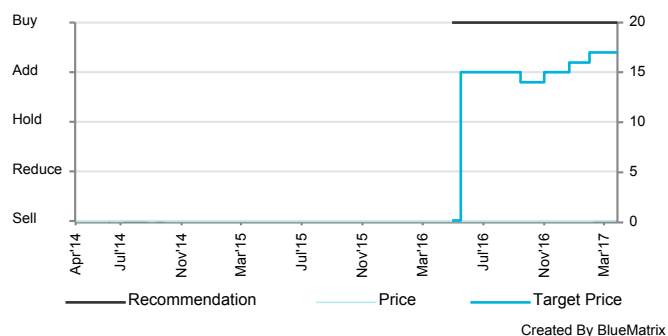
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Three Year - Recommendation, Target Price, Share History

Avanco Resources



Source: Numis Securities Research

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Buy	>= +20%
Add	>= +10% to +19.99%
Hold	0% to +/-9.99%
Reduce	<= -10% to -19.99%
Sell	<= -20%

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Hold	26.4%	3.4%	25.7%	7.2%
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