

28 April 2017

**Avanco Resources Ltd (AVB)****BUY****Share Price: A\$0.11****A solid start to the year & likely to get better****Target Price: A\$0.16**

AVB has reported MarQ production & cost results in-line with the preliminary numbers released on 18<sup>th</sup> April. The overall operating performance at Antas continues to be solid, with lower ore tonnes & grade from the open pit compensated by the processing of high grade stockpiles. Mining focussed on Stage Two of the open pit, with additional pre-stripping (all expensed) and lower grades in-line with the mine plan. Higher grade stockpiles allowed copper output of 3.506kt to marginally exceeded Q1 guidance (3.0-3.5kt), with grade control drilling indicating better grades over coming quarters; CY17 guidance for 13.5-14kt Cu appears conservative (Petra: 14.2kt). MarQ C1 costs of US\$1.52/lb & AISC of US\$1.95/lb were higher than forecast, although a stronger Real drove much of the 27% QoQ increase. CY17 cost guidance has now been provided, with C1 costs of US\$1.35-1.50/lb & AISC of US\$1.65-1.80/lb (Petra: US\$1.33/lb C1 & US\$1.79/lb AISC). With Antas operating strongly, we await the updated PFS on Pedra Branca (May), permitting success at CentroGold, low cost M&A opportunities & exploration success to generate the next stage of growth for AVB. Maintain BUY, PT A\$0.16/sh (unchanged).

**High grade stockpiles provide production buffer**

- Mining focused on pre-stripping Stage Two, with lower ore tonnes (-44% QoQ) and grade (-25% QoQ) within the upper transition zone; stockpiles had been built to ensure stable mill throughput & grade in this period
- Processing only down 9% QoQ; milled grade 2.3% Cu
- 3.5kt Cu which is at the top of 3.0-3.5kt guidance, but 6% below our 3.7kt forecast & 13% lower QoQ
- C1 cash costs of US\$1.52/lb above our US\$1.19/lb and 25% higher QoQ; impacted by FX movement, elevated strip ratio (13.2:1), extended plant shutdown (all costs expensed) & drawdown of stocks
- MarQ revenue of \$26.1m & EBITDA of US\$6.4m

**CY17 cost guidance provided for the first time**

- C1 guidance of US\$1.35-1.50/lb (Petra: US\$1.33/lb)
- AISC guidance US\$1.65-1.80/lb (Petra: US\$1.79/lb)

**Updated Antas reserve in-line with depletion & Petra**

- Antas reserve (after depletion): 3.04Mt at 2.64% Cu & 0.58g/t Au (from 3.62Mt at 2.53% Cu & 0.55g/t Au)

**Price target A\$0.16/sh (1xP/NPV), unchanged**

- NPV of Antas & Pedra Branca only, \$40m (1c/sh) nominal exploration value including CentroGold

**Company Data**

Shares – ordinary (M)	2,457
Market capitalisation (\$M)	\$270m
12 month low/high (\$)	\$0.048 / \$0.135
Average monthly turnover (\$M)	\$4.2m
GICS Industry	Materials / Metals & Mining

**Financial Summary (fully diluted/normalised)**

Year end June	2016A	2017F	2018F	2019F	2020F
Revenue (\$M)	59	101	117	235	273
Costs (\$M)	44	73	81	137	160
EBITDA (\$M)	16	27	36	98	113
NPAT (\$M)	-3	10	16	53	61
EPS (¢ps)	0	0	0.5	1.8	2.1
PER (x)	na	25	15	5	4
Cashflow (\$M)	12	29	36	88	106
CFPS (¢ps)	0	1	1	3	4
PCFPS (x)	20	8	7	3	2
Enterprise Value (\$M)	179	157	200	171	95
EV / EBITDA (x)	11	6	5	2	1
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0

**AVB – performance over one year (A¢/sh)****Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document.

Brett McKay

+61 2 9239 9605

## Analysis

Avanco Resource (AVB) 27-Apr-17							Share Price	(\$)	A\$0.11	US\$0.08			
							Iss. Shares	(M)	2456.9	2456.9			
							Issued shares	(M)	500.0	500.0			
							Fully Diluted	(M)	2956.9	2956.9			
Year End December							Mkt Cap.	(\$M)	A\$270M	US\$202M			
PROFIT & LOSS													
Revenue	US\$M	2016A	2017F	2018F	2019F	2020F			Resource	Reserve			
Operating Costs	US\$M	42.5	64.8	73.4	129.9	142.9	Antas						
Exploration	US\$M	1.0	2.0	2.5	2.5	2.5	Tonnes	Mt	16.46	3.63			
Other	US\$M	0.1	6.7	5.0	5.0	15.0	Copper grade	%	1.43%	2.53%			
EBITDA	US\$M	15.7	27.5	36.4	97.5	112.5	Gold grade	g/t	0.32	0.55			
Depreciation & Amort.	US\$M	11.4	17.1	17.1	32.5	41.6	Contained copper	t	237,000	91,621			
EBIT	US\$M	4.2	10.4	19.3	65.1	70.9	Contained gold	oz	167,000	64,294			
Net Interest	US\$M	3.2	(1.1)	0.3	2.4	(1.5)							
Pre-Tax Profit	US\$M	1.0	11.4	19.0	62.6	72.4	Pedra Branca						
Tax	US\$M	3.7	1.7	2.9	9.6	11.0	Tonnes	Mt	10.48	10.8			
Net Profit	US\$M	(2.7)	9.7	16.1	53.1	61.4	Copper grade	%	2.80%	2.1%			
Abnormal	US\$M	0.0	0.0	0.0	0.0	0.0	Gold grade	g/t	0.6	0.49			
Reported Profit	US\$M	(2.7)	9.7	16.1	53.1	61.4	Contained copper	t	289,000	222,480			
Dividends Paid	US\$M	0.0	0.0	0.0	0.0	0.0	Contained gold	oz	221,000	170,142			
Adjustments	US\$M	0.0	0.0	0.0	0.0	0.0							
							Antas		2016A	2017F	2018F	2019F	2020F
CASHFLOW							Production						
Net Op Cash Flow	US\$M	11.9	29.5	38.9	100.0	115.0	Ore milled	Mt	0.51	0.66	0.60	0.60	0.60
Net Interest	US\$M	0.4	1.1	(0.3)	(2.4)	1.5	Grade - copper	%	2.29%	2.22%	2.10%	2.50%	2.50%
Tax Paid	US\$M	0.0	(1.7)	(2.9)	(9.6)	(11.0)	Grade - gold	g/t	0.58	0.57	0.55	0.49	0.50
Operating Cash Flow	US\$M	12.3	28.8	35.7	88.0	105.5	Grade - silver	g/t	0.00	0.00	0.00	0.00	0.00
							Recovery Copper	%	0.96	0.97	0.97	0.97	0.97
Net Capex	US\$M	(19.7)	(32.9)	(74.0)	(54.0)	(24.0)	Recovery Gold/Silver	%	86%	85%	85%	85%	85%
Exploration	US\$M	(3.2)	(4.0)	(5.0)	(5.0)	(5.0)	Copper in concentrate	t	11,188	14,198	12,247	14,580	14,580
Investing Cash Flow	US\$M	(22.9)	(36.9)	(79.0)	(59.0)	(29.0)	Gold in concentrate	oz	7,779	10,290	9,009	7,985	8,190
Free cash flow	US\$M	(10.6)	(8.1)	(43.3)	29.0	76.5	Silver in concentrate	oz	0	0	0	0	0
							C1 Costs	US\$/lb	1.17	1.33	1.31	1.08	0.94
Net Borrowings	US\$M	0.0	0.0	30.0	(30.0)	0.0	AISC	US\$/lb	1.58	1.79	1.92	1.68	1.59
Dividends	US\$M	0.0	0.0	0.0	0.0	0.0							
Equity Issues	US\$M	0.0	30.0	0.0	0.0	0.0	Pedra Branca						
Other	US\$M	1.7	0.0	0.0	0.0	0.0	Production						
Financing Cash Flow	US\$M	1.7	30.0	30.0	(30.0)	0.0	Ore milled	Mt		0.1	0.2	1.0	1.2
							Grade - Copper	%		2.20%	2.60%	2.30%	2.15%
Net IncreaseCash	US\$M	(8.8)	21.9	(13.3)	(1.0)	76.5	Grade - Gold	g/t		0.6	0.7	0.7	0.6
							Recoveries - Copper	%		0.9	0.9	0.9	0.9
							Recoveries - Gold	%		0.9	0.9	0.9	0.9
BALANCE SHEET							Copper in concentrate	t	1,137	5,939	20,885	24,252	
Cash	US\$M	22.9	44.7	31.5	30.5	107.0	Gold in concentrate	oz	882	4,905	17,361	18,581	
Other Current	US\$M	16.8	16.8	16.8	16.8	16.8	C1 Costs	US\$/lb	1.18	0.98	1.05	1.16	
Current Assets	US\$M	39.7	61.6	48.3	47.3	123.9	AISC	US\$/lb	1.79	1.57	1.52	2.01	
Fixed Assets	US\$M	61.1	94.0	168.0	222.0	246.0							
Exploration	US\$M	21.2	21.2	21.2	21.2	21.2							
Other	US\$M	2.2	2.2	2.2	2.2	2.2							
Non Current Assets	US\$M	84.5	117.4	191.4	245.4	269.4							
Total Assets	US\$M	124.1	178.9	239.7	292.7	393.2							
Borrowings	US\$M	0.0	0.0	0.0	0.0	0.0	Antas	US\$M	59	94	78	93	99
Payables	US\$M	10.4	10.4	10.4	10.4	10.4	Pedra Branca	US\$M	0	7	39	142	174
Other	US\$M	7.5	7.5	7.5	7.5	7.5	Total	US\$M	59	101	117	235	273
Current Liab	US\$M	17.9	17.9	17.9	17.9	17.9							
Borrowings	US\$M	0.0	0.0	30.0	0.0	0.0	Antas	US\$M	46	60	52	50	47
Provisions	US\$M	7.2	7.2	7.2	7.2	7.2	Pedra Branca	US\$M	0	5	22	80	96
Other	US\$M	10.7	10.7	10.7	10.7	10.7	Corporate	US\$M	3	5	5	5	5
Non Current Liab	US\$M	17.8	17.8	47.8	17.8	17.8	Total	US\$M	49	70	78	135	148
Total Liabilities	US\$M	35.7	35.7	65.7	35.7	35.7							
Total Equity	US\$M	88.4	143.2	173.9	257.0	357.5	CAPEX						
RATIO ANALYSIS													
EPS	¢	(0.1)	0.3	0.5	1.8	2.1	Antas	US\$M	18.2	2.9	4.0	4.0	4.0
PER	x	na	25.1	15.1	4.6	4.0	Pedra Branca	US\$M	4.4	30.0	70.0	50.0	20.0
EPS Growth	%	(305.3)	(463.8)	66.0	230.1	15.7	Total	US\$M	22.6	32.9	74.0	54.0	24.0
CFPS	¢	0.4	1.0	1.2	3.0	3.6							
PCFR	x	19.7	8.4	6.8	2.8	2.3							
DPS	¢	0.0	0.0	0.0	0.0	0.0							
Yield	%	0%	0%	0%	0%	0%							
Payout Ratio	%	0%	0%	0%	0%	0%							
Gearing ND/E	%	-26%	-31%	-1%	-12%	-30%							
Interest Cover	x	1.3	na	59.8	26.6	na							
EBITDA Margin	%	26.4	27.2	31.0	41.5	41.2							
EBIT Margin	%	7.1	10.3	16.4	27.7	26.0							
Return On Assets	%	3.4	5.8	8.1	22.2	18.0							
Eff Tax rate	%	25	25	25	25	25							

**Figure 1: Quarterly production & cost summary**

<b>Antas</b>		Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	QoQ	<b>Petra</b>	% var
Copper	kt	0.6	3.25	3.33	4.01	<b>3.51</b>	-13%	<b>3.74</b>	-6%
Gold	Oz	351	2,343	2,246	2,839	<b>2,783</b>	-2%	<b>2,414</b>	15%
C1	US\$/lb	1.22	1.03	1.25	1.22	<b>1.52</b>	25%	<b>1.19</b>	28%
AISC	US\$/lb	1.43	1.46	1.80	1.53	<b>1.95</b>	27%	<b>1.97</b>	-1%

Source: Company reports, Petra Capital

**Figure 2: Summary of changes**

		CY17e			CY18e			CY19e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	101	101	0%	117	118	0%	235	235	0%
EBITDA	US\$m	27	27	1%	36	37	-1%	98	98	0%
EBIT	US\$m	10	10	3%	19	20	-1%	65	65	0%
NPAT	US\$m	10	9	2%	16	16	-1%	53	53	0%
EPS	USc/sh	0.33	0.32	2%	0.54	0.55	-1%	1.80	1.80	0%
DPS	USc/sh	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
<b>NPV/sh</b>	<b>A\$/sh</b>	<b>0.16</b>	<b>0.16</b>	<b>0%</b>						
<b>Price target</b>	<b>A\$/sh</b>	<b>0.16</b>	<b>0.16</b>	<b>0%</b>						
<b>Antas</b>										
Copper	kt	14.2	14.2	0%	12.2	12.2	0%	14.6	14.6	0%
Gold	koz	10.3	10.4	-1%	9.0	9.1	-1%	8.0	8.1	-1%
C1 costs	US\$/lb	1.33	1.33	1%	1.31	1.30	1%	1.08	1.07	1%
AISC	US\$/lb	1.79	1.79	0%	1.92	1.92	0%	1.68	1.67	0%
<b>Pedra Branca</b>										
Copper		1.1	1.1	0%	5.9	5.9	0%	20.9	20.9	0%
Gold	koz	0.9	0.9	0%	4.90	4.90	0%	17.36	17.36	0%
C1 costs	US\$/lb	1.18	1.18	1%	0.98	0.97	1%	1.05	1.05	0%
AISC	US\$/lb	1.79	1.79	0%	1.57	1.57	0%	1.52	1.52	0%

Source: Company reports, Petra Capital



28 April 2017

**Petra Capital**  
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782  
ACN 110 952 782  
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Industrials):	Michael Henshaw	+61 (0)2 9239 9606	mhenshaw@petracapital.com.au
Research (Industrials):	George Kopsiaftis	+61 (0)2 9239 9618	gkopsiaftis@petracapital.com.au
Research (Industrials):	Nick Berry	+61 (0)2 9239 9634	nberry@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	Daniel Porter	+61 (0)2 9239 9625	dporter@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Shane Gavegan	+61 (0)2 9239 9616	sgavegan@petracapital.com.au
Sales:	Mark Innes	+61 (0)2 9239 9602	minnes@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Michael Vincent	+61 (0)2 9239 9620	mvincent@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Daniel Gardiner	+61 (0)2 9239 9608	dgardiner@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Corporate (ECM):	David Wallis	+61 (0)2 9239 9622	dwallis@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Amelia Holland	+61 (0)2 9239 9614	aholland@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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