

## Australian Equity Research

7 September 2017

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## BUY

**PRICE TARGET** A\$0.16  
**Price (7-Sep)** A\$0.10  
**Ticker** AVB-ASX

52-Week Range (A\$): 0.05 - 0.14  
 Avg Daily Vol (M) : 1.7  
 Market Cap (A\$M): 241  
 Shares Out. (M) : 2,456.9  
 Dividend /Shr (A\$): 0.00  
 Dividend Yield (%) : 0.0  
 Enterprise Value (A\$M): 206  
 Major Shareholders: Appian  
 Greenstone  
 BlackRock  
 Glencore

FYE Dec	2016A	2017E	2018E	2019E
Copper production (000t)	11	15	13	15
EBITDA (US\$M)	15.7	18.9	16.1	28.0
Net Income (US\$M)	(2.7)	4.8	2.8	9.8
EV/EBITDA (x)	13.9	10.9	12.6	7.4



Priced as of close of business 7 September 2017

## Initiation of Coverage

## Standing on the shoulders of giants

We initiate coverage on Avanco Resources (AVB), a Brazil focused copper-gold producer with a BUY recommendation and A\$0.16 price target. Key attractions of the company include a FCF positive copper asset, solid balance sheet, potential to grow its production profile to ~50ktpa Cu and a highly prospective tenement package. In addition, the company is run by a Brazil-based management team with a track record for discovery, development, production and concluding deals with majors.

With limited choices available in established ASX copper names, we see AVB offering a viable alternative given its technical capabilities, quality assets and growth aspirations.

**Attractive growth.** We view the company as an attractive growth stock exposed to copper and gold. AVB boasts a tangible pipeline of development projects that we consider economic at spot prices. Successful delivery of its second asset, Pedra Branca, is expected to see the company achieving a production profile of ~40-50ktpa Cu, which would rival existing mid-tier ASX producers. In addition, the company has consolidated the second largest footprint in the world class Carajás mineral district through concluding deals with majors.

**Antas Mine.** Antas was discovered, evaluated, constructed and being operated by AVB. The project was delivered on time and budget in early 2016. Following a quick ramp up period, the open pit mine declared commercial production in July 2016 and is cash flow positive. In CY17, AVB's guidance is 13.5-14.0kt Cu @ C1 US\$1.35-1.50/lb, AISC US \$1.65-1.80/lb payable copper. We have modeled a ~five-year open pit mine life and see an underground development being a natural evolution for the asset, given high grades and favourable geometry.

**Pedra Branca.** Pedra Branca (PB) is an ex-Xstrata asset acquired by AVB in 2012. PB is located ~50km to Antas and is similar in mineralisation style to Antas. AVB completed a Pre-Feasibility Study (PFS) on the project in May 2017, demonstrating potential for its development. A Definitive Feasibility Study (DFS) has commenced and results are expected mid-CY18. PB is a larger project and could deliver up to ~35ktpa Cu. Our modelling currently factors in ~25ktpa Cu production from PB East only, which leaves further upside on the asset.

**CentroGold.** We see significant potential in the underlying asset given its existing sizable inventory (previously 3.14Moz Resource under NI 43-101) and proximity to infrastructure. We anticipate AVB to progressively de-risk and unlock the value of the project, including consolidating ownership and advancing permitting required on the project that has been a major hurdle to the previous owner. In our view, AVB is likely to focus on the higher margin mineralisation initially. For instance, the company could commence development of the Blanket Zone, which has favourable grade / geometry to support a high margin, low risk starter pit under a production scenario.

**Valuation.** Our price target of A\$0.16 is based on 1x NPV <sub>8%</sub>/NPV <sub>10%</sub> for the operating assets and development assets net of corporate and other adjustments.

## FINANCIAL SUMMARY

## Avanco Resources

ASX:AVB

Analyst : Patrick Chang  
Date: 7/09/2017  
Year End: December

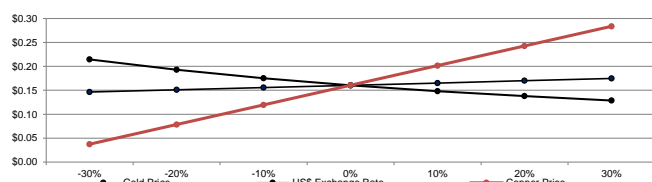
Rating: Buy  
Target Price: \$0.16

Market Information		
Share Price	A\$	0.10
Market Capitalisation	A\$m	245.7
12 Month Hi		0.14
12 Month Lo	A\$	0.05
Issued Capital	m	2456.9
Options	m	0.00
Fully Diluted	m	2456.9

Valuation	A\$m	Risk Adj.	A\$/share
Antas NPV @ 8%	134.4	0.05	
Pedra Branca NPV @ 10%	127.9	0.04	
Centro Gold	36.0	0.01	
Exploration and Project	108.5	0.04	
Cash (est)	33.6	0.01	
Project Funding	38.6	0.01	
Less: Debt	-	-	
Less: Corporate & O'heads	(23.0)	(0.01)	
<b>TOTAL NAV/ Price Target</b>	<b>456.0</b>		<b>0.16</b>
Price:NAV			0.63x
NAV at Spot US\$3.11/lb Cu, AUDUSD \$0.80			0.17

Assumptions	2016a	2017e	2018e	2019e
Copper Price (US\$/lb)	2.20	2.64	2.74	2.85
Gold Price (US\$/oz)	1,248	1,235	1,246	1,269
AUD:USD	0.75	0.77	0.78	0.78

## Valuation Sensitivity



Production Metrics	2016a	2017e	2018e	2019e
<b>Antas</b>				
Copper in concentrate (kt)	11.2	14.7	12.9	14.5
Gold in concentrate (koz)	7.8	11.1	10.8	10.8
All-in sustaining cost (US\$/lb)	1.4	1.8	2.0	1.8

Copper Resource	Mt	Grade (Cu)	Grade (Au g/t)	kt	koz
Antas North	5.5	2.4%	0.5	133	84
Antas South	10.1	0.8%	0.2	85	65
Pedra Branca	17.7	2.4%	0.7	427	357
<b>Total</b>	<b>33.2</b>	<b>1.9%</b>	<b>0.5</b>	<b>645</b>	<b>506</b>

Gold Resource	Mt	Grade (Au g/t)	koz
Centrogold	20	2.0	1,286
<b>Total</b>	<b>20</b>	<b>2.0</b>	<b>1,286</b>

Reserves	Mt	Grade (Cu)	Grade (Au g/t)	kt	koz
Antas North	3.0	2.6%	0.6	80	57
<b>Total</b>	<b>3.0</b>	<b>2.6%</b>	<b>0.6</b>	<b>80</b>	<b>57</b>

## Directors &amp; Management

Name	Position
Vern Tidy	NE Director, Interim Chairman
Tony Polglase	Managing Director
Simon Mottram	Executive Director
Luis Azevedo	Executive Director
Luis Ferrz	NE Director
Paul Chapman	NE Director

Substantial Shareholders	Shares (m)	%
Applan	453.3	18.5%
Greenstone	409.9	16.7%
BlackRock	317.5	12.9%
Glenore	203.1	8.3%

## Company Description

AVB is a Brazil based copper-gold producer which produces circa 15kt Cu and 11koz Au in concentrate from its 100% owned Antas Mine in the Carajás mineral province. AVB is also developing the larger Pedra Branca copper-gold project which is ~40km SW of Antas North. The company has one of the largest land holdings in the highly endowed region.

Profit & Loss (US\$m)	2016a	2017e	2018e	2019e
<b>Revenue</b>	<b>49.6</b>	<b>85.7</b>	<b>81.1</b>	<b>93.5</b>
Other Income	0.0	0.0	0.0	0.0
Operating Costs	-28.5	-51.4	-49.2	-49.0
Royalties	-4.3	-7.4	-7.6	-8.4
Corporate & O'heads	-3.3	-4.1	-4.0	-4.1
Exploration (Expensed)	-1.0	-4.0	-4.0	-4.1
Other costs	3.3	0.0	0.0	0.0
<b>EBITDA</b>	<b>15.7</b>	<b>18.9</b>	<b>16.1</b>	<b>28.0</b>
Dep'n	-11.4	-14.6	-12.8	-14.4
<b>EBIT</b>	<b>4.2</b>	<b>4.3</b>	<b>3.4</b>	<b>13.6</b>
Net Interest	-3.2	0.4	0.5	0.5
Tax	-3.7	-2.0	-1.2	-4.2
<b>NPAT</b>	<b>-2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>9.8</b>
Abnormals	0.0	2.1	0.0	0.0
<b>NPAT (reported)</b>	<b>-2.7</b>	<b>4.8</b>	<b>2.8</b>	<b>9.8</b>

Cash Flow (US\$m)	2016a	2017e	2018e	2019e
Cash Receipts	51.9	85.1	81.1	93.5
Cash paid	-39.9	-62.6	-60.9	-61.5
Tax Paid	0.0	-2.0	-1.2	-4.2
Net Interest	0.4	0.4	0.5	0.5
<b>Operating Cash Flow</b>	<b>12.3</b>	<b>20.8</b>	<b>19.5</b>	<b>28.3</b>
Exploration and Eval.	-3.2	-4.0	-4.0	-4.0
Capex and deferred mining	-19.7	-5.2	-12.9	-74.8
Other	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-22.9</b>	<b>-9.1</b>	<b>-16.9</b>	<b>-78.8</b>
Debt Draw/(Pmt)	0.0	0.0	0.0	16.7
Share capital	0.0	0.0	0.0	30.0
Dividends	0.0	0.0	0.0	0.0
Others	2.4	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>2.4</b>	<b>0.0</b>	<b>0.0</b>	<b>46.7</b>
Opening Cash	31.7	22.9	34.6	37.2
Cash Increase/(Decrease)	-8.2	11.7	2.7	-3.8
FX Impact	-0.7	0.0	0.0	0.0
<b>Closing Cash</b>	<b>22.9</b>	<b>34.6</b>	<b>37.2</b>	<b>33.5</b>

Balance Sheet (US\$m)	2016a	2017e	2018e	2019e
Cash + S/Term Deposits	22.9	34.6	37.2	33.5
Other current assets	16.8	15.4	18.7	63.5
<b>Current Assets</b>	<b>39.7</b>	<b>50.0</b>	<b>56.0</b>	<b>97.0</b>
Property, Plant & Equip.	61.1	53.7	53.9	114.2
Exploration & Develop.	21.2	21.2	21.2	21.2
Other Non-current Assets	2.2	5.9	9.1	46.0
Payables	11.3	8.7	9.1	10.3
Short Term debt	4.9	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0
Other Liabilities	19.5	29.0	35.2	132.3
<b>Net Assets</b>	<b>88.4</b>	<b>93.2</b>	<b>96.0</b>	<b>135.8</b>
Shareholders Funds	132.3	132.3	132.3	162.3
Reserves	-29.2	-29.2	-29.2	-29.2
Retained Earnings	-14.6	-9.8	-7.1	2.8
<b>Total Equity</b>	<b>88.4</b>	<b>93.2</b>	<b>96.0</b>	<b>135.8</b>

Ratios & Multiples	2016a	2017e	2018e	2019e
EBITDA Margin	32%	22%	20%	30%
EV/EBITDA	14.2x	11.2x	12.9x	7.6x
Free Cashflow/Share	0.00	0.00	0.00	-0.02
P/FCF	-23.3x	21.0x	91.8x	-4.9x
EPS	0.00	0.00	0.00	0.00
EPS Growth	nm	nm	nm	258%
PER	-92.3x	51.4x	89.3x	25.0x
Dividend Per Share	0.00	0.00	0.00	0.00
Dividend Yield	0%	0%	0%	0%
ROE	-3%	5%	3%	7%
ROIC	-2%	2%	2%	6%
Debt/Equity	0.1x	0.0x	0.0x	0.0x
Net Interest Cover	nm	nm	nm	nm
Book Value/share	0.04	0.04	0.04	0.06
Price/Book Value	2.8x	2.6x	2.6x	1.8x

Source: AVB &amp; Canaccord Genuity estimates

## Valuation

Our price target is based on 1x forward curve NPV<sub>8%</sub> and NPV<sub>10%</sub> for the operating and development assets respectively, net of corporate and other adjustments.

All earnings and cashflow forecasts are based on commodity and FX assumptions outlined in Figure 2.

**Figure 1: CG Net-Asset-Valuation for AVB**

Valuation		A\$m	Risk Adj.	A\$/share
Antas	NPV @ 8%	134.4		0.05
Pedra Branca	NPV @ 10%	127.9		0.04
Centro Gold		36.0		0.01
Exploration and Project		108.5		0.04
Cash (est)		33.6		0.01
Project Funding		38.6		0.01
Less: Debt		-		-
Less: Corporate & O'heads		(23.0)		(0.01)
<b>TOTAL NAV/ Price Target</b>		<b>456.0</b>		<b>0.16</b>
Price:NAV				0.63x
NAV at Spot US\$3.11/lb Cu, AUDUSD \$0.80				0.17

Source: Canaccord Genuity estimates

**Figure 2: Metal price and US\$/AUD\$ assumptions**

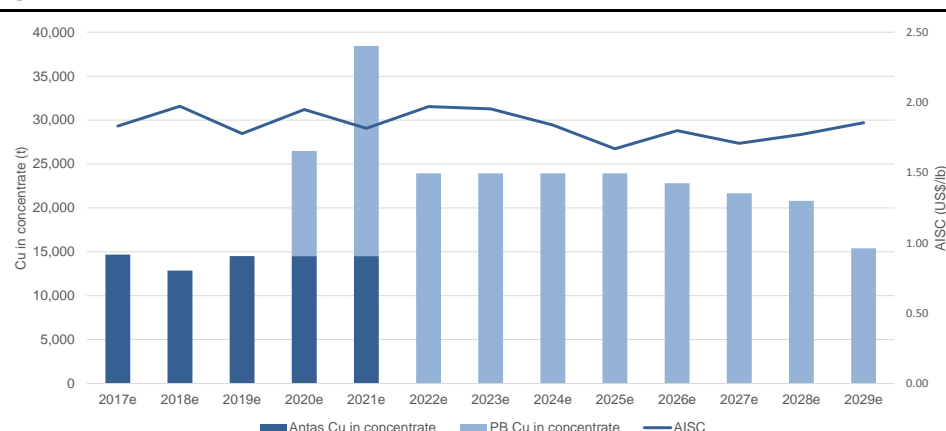
Assumptions	2017e	2018e	2019e	2020e	Long term
Copper Price (US\$/lb)	2.64	2.75	2.85	3.00	3.00
Gold Price (US\$/oz)	1,235	1,246	1,269	1,293	1,365
AUD:USD	0.77	0.78	0.78	0.77	0.76

Source: Canaccord Genuity estimates

## Group production

Figure 3 summarises our forecast production and AISC profile. We have not factored in an underground at Antas nor an upside case incorporating PB West (see Page 16). The fluctuations in AISC in later years are largely due to the timing of sustaining capex at PB.

**Figure 3: Group production and AISC profile (US\$/oz)**



Source: Canaccord Genuity estimates

Both Antas and PB are modelled based on the current Reserve / inventory assumptions with negligible extensions factored in. Our modelling factors in the BlackRock royalty (see page 6).

### **Pedra Branca**

Our valuation on the PB Cu-Au development project is A\$127.9m. The project is located ~50km to the Antas Mine. Our key assumptions on the project include:

- Pre-production capex of US\$158m
- Steady state production of 24kt Cu in concentrate pa
- First production in June CY20
- Mine life of ~10 years
- AISC ~US\$1.80/lb
- Project largely funded with existing and projected cash (US\$78m) and debt (US\$50m)
- An equity component of US\$30m is assumed in 2019

We note an upside case for the project to incorporate PB West could result in an additional ~10ktpa Cu production, however we have not incorporated that into our modelling at this stage.

### **CentroGold**

We have included a nominal A\$36m for the 1.3Moz project in our valuation. This modest valuation reflects AVB's current ownership and the project's historic licensing issues.

The project's key attributes and AVB's approach is likely to result in a positive outcome under a development scenario post resolving these issues, in our view.

Development timing on the project is uncertain, given AVB's near to medium focus is likely to be bringing the PB Underground project online.

### **Exploration and Project upside**

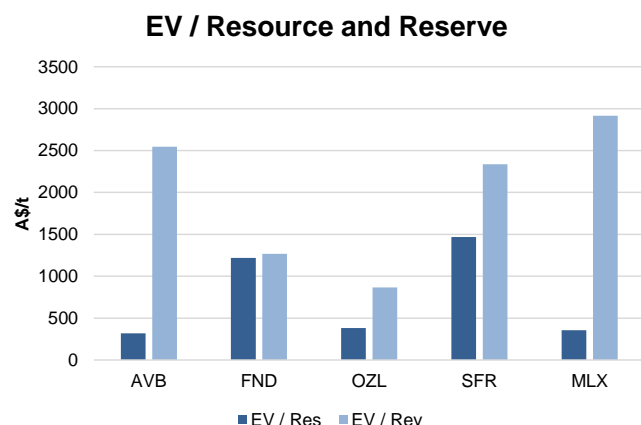
We have factored ~A\$109m in exploration and project upside at AVB's projects, equivalent to ~1x FCF in CY21 following our assumed development of PB. This amount reflects expected future exploration success at both Antas and PB, the company's regional tenements, upside at CentroGold, as well as potential accretive M&A.

## Peer Comparison

AVB is one of the cheapest on an EV / Resource basis. We expect the company's metric on EV / Reserve to materially improve and fall below copper producer average upon the delineation of a maiden Reserve at Pedra Branca.

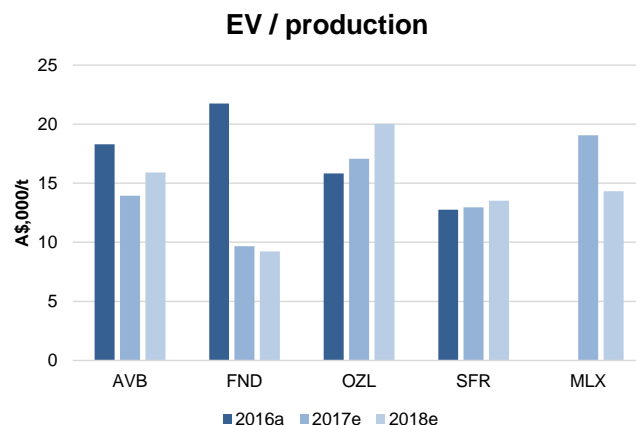
On EV / Production, the company trades in-line with its peers, despite not having the benefit of PB in production.

**Figure 4: EV / Resource, EV / Reserve**



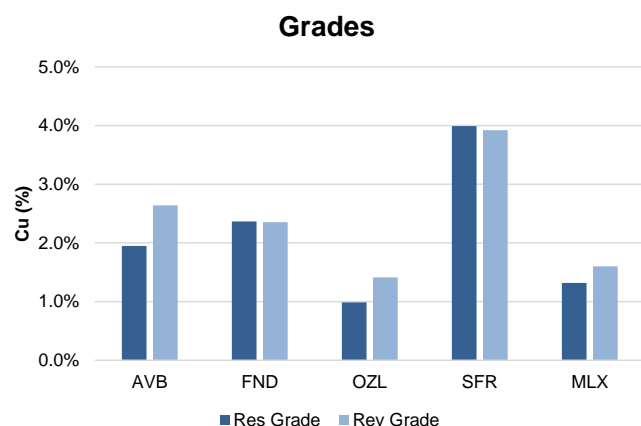
Source: Company Reports, Canaccord Genuity estimates

**Figure 5: EV / Production**



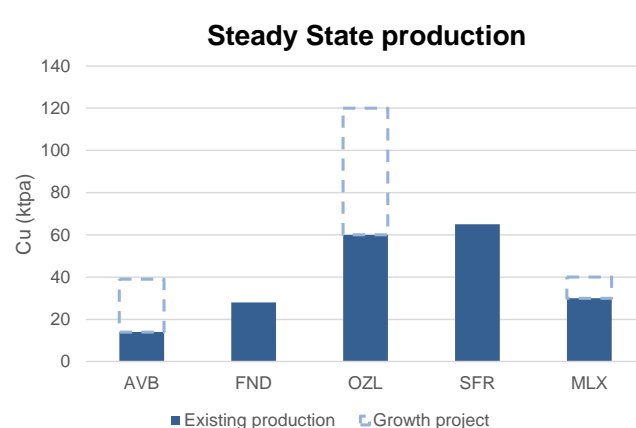
Source: Company Reports, Canaccord Genuity estimates

**Figure 6: Copper Grades**



Source: Company Reports, Canaccord Genuity estimates

**Figure 7: Steady State production**



Source: Company Reports, Canaccord Genuity estimates, MLX EV includes the base metal division

AVB's Resource grade is comparable to existing copper producers, while it has the highest open pit Reserve grade amongst stocks covered.

Whilst its current production scale is modest, upon successful delivery of PB, the company has the potential to deliver a production profile that can rival existing mid-tier producers including SFR and MLX.

## Corporate & Finance

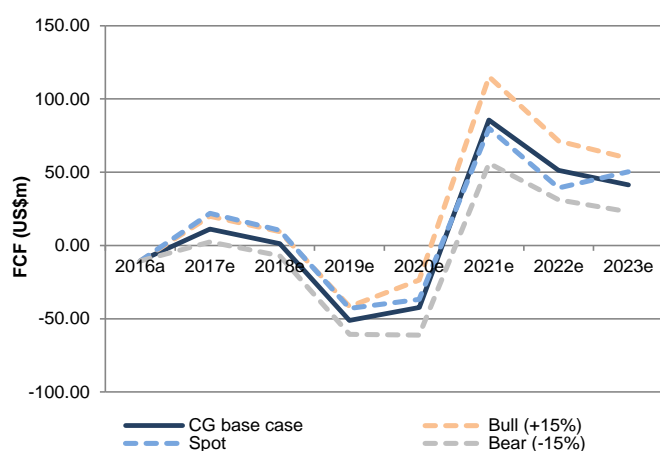
### Balance sheet

AVB had a cash balance of US\$26.3m as at 30th June 2017 and the company remains debt free. The company has been FCF positive in recent Qs and we expect the FCF generation to continue from Antas, particularly in light of the improving Cu prices.

Net cash / (debt) and FCF sensitivities are presented in Figures 8 and 9. Net cash / (debt) figures include an equity funding component for PB (Page 4). The reduced FCF in CY19, CY20 and to a degree in CY18 reflect pre-production capex relating to PB.

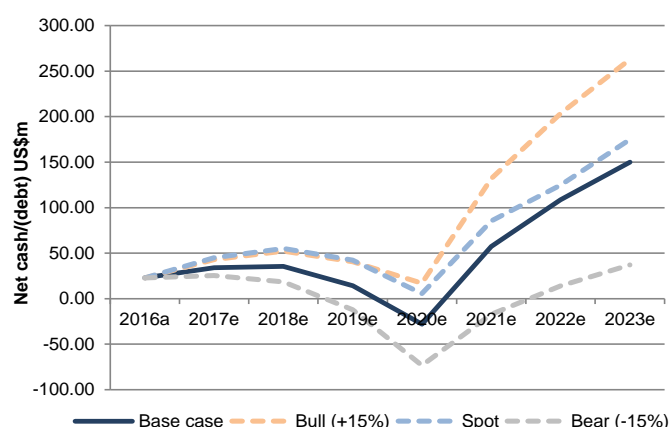
The effect of copper price movements on FCF and the balance sheet is modest given the expected margins. Even under a bear scenario (-15% Cu price from CGe), the company is expected to be net cash in 2022 after completing PB Underground.

Figure 8: FCF sensitivity



Source: Canaccord Genuity estimates

Figure 9: Net cash / (debt) sensitivity



Source: Canaccord Genuity estimates

### Dividend history and policy

The company does not pay a dividend at present. We expect the company to prioritise on its growth projects in the near term.

### Hedging and third party royalties

AVB has sold forward 2.5kt Cu at US\$2.62/lb as at 30th June 2017. BlackRock owns a 2% Cu, 25% Au royalty on AVB's Antas and PB projects. The royalty resulted as part of the project funding for Antas. There is a 1% third party royalty at PB.

### Capital structure and register

The company's register features both institutional and corporate holders. Substantial shareholders include:

- Appian (18.5%)
- Greenstone (16.7%)
- BlackRock (12.9%)
- Glencore (LSE-GLEN : 366p | Buy, Tim Huff, CG Ltd (UK)) (8.3%)

## Company Background

AVB is an Australian based gold mining, development and exploration company with all key assets in Brazil. The company was listed in 2007 on the back of its Rio Verde (which later comprise the Antas North and South deposits) and Serra Verde projects, located in the Carajás Mineral Province.

**Figure 10: Location of Carajás**



Source: Company Reports

Since listing, the company's key achievements include:

- Successfully exploration and evaluation of the Antas North and South deposits
- Developing and funding the Antas North mine
- Delivering the Antas North mine ahead of budget, on time and above initial production forecast
- Achieving positive FCF despite adverse USDBRL movements
- Concluding deals with majors, including Glencore/Xstrata (PB) and Codelco (Canaã West)
- Successfully demonstrating the potential of the larger PB Project through a PFS (pre-feasibility study)

### A decade on the ground

The company is headquartered in Perth, Western Australia. However, the majority of the Board and management is based in Brazil and fluent in Portuguese. The company's tenement position of ~1,800km<sup>2</sup> in the Carajás region and its strategy of consolidating assets within the region are likely to see its exploration and development pipeline further strengthened in due course.



**FY17 production**

FY17 production from Antas is estimated at ~13.5-14.0kt Cu @ AISC US\$1.65-1.80/lb by AVB. The production figure compares favourably against the company's original target of 12ktpa. Costs were marginally higher, impacted by adverse FX movements.

**Group Resource / Reserve**

AVB boasts a total Resource position (100% basis) of 645kt Cu, 1.8Moz Au and a Reserve position of 80kt Cu.

**Figure 11: Group Resource / Reserve position**

Copper Resource	Mt	Grade (Cu)	Grade (Au g/t)	kt	koz
Antas North	5.5	2.4%	0.5	133	84
Antas South	10.1	0.8%	0.2	85	65
Pedra Branca	17.7	2.4%	0.7	427	357
<b>Total</b>	<b>33.2</b>	<b>1.9%</b>	<b>0.5</b>	<b>645</b>	<b>506</b>

Gold Resource	Mt	Grade (Au g/t)	koz
Centrogold	20	2.0	1,286
<b>Total</b>	<b>20</b>	<b>2.0</b>	<b>1,286</b>

Reserves	Mt	Grade (Cu)	Grade (Au g/t)	kt	koz
Antas North	3.0	2.6%	0.6	80	57
<b>Total</b>	<b>3.0</b>	<b>2.6%</b>	<b>0.6</b>	<b>80</b>	<b>57</b>

Source: Company Reports

**Key development / exploration assets****Pedra Branca**

Pedra Branca (PB) is the most advanced project in the portfolio. Given the proximity and similarities with the Antas North mine, we believe the asset offers the most tangible upside. The company recently completed a Pre-Feasibility Study (PFS) and a Definitive Feasibility-Study (DFS) is underway and expected mid-CY18. The project has the potential to deliver an additional ~35ktpa Cu in stages (~25ktpa Cu modelled).

**Carajás tenement holding**

AVB controls a ~1,800km<sup>2</sup> tenement holding in the highly endowed Carajás region, which contains one of the world's largest concentrations of large tonnage IOCG deposits, including Igarapé Bahia, Salobo and Sossego, which are all owned by Vale. The company's notable track record at tenement consolidation, including concluding deals with majors including Vale, Xstrata/Glencore and Codelco is likely to translate to further M&A opportunities, in our view.

**CentroGold**

The CentroGold project has the potential to be developed into a scalable, low cost, independent gold producing asset. The project could produce >100kozpa and AVB is likely to focus on the higher margin deposits and deliver a project that is smaller in scale than envisaged by the previous owner. However, timing on the project is uncertain, given that AVB's near to medium focus is likely to be bringing the larger PB project online and permitting required at the project.



**License to deal**

Despite being an ASX junior operating in the Carajás, a region dominated by majors, we highlight the company's enviable track record to conclude deals with majors.

These include:

- August 2010 – Option agreement with Vale for Vale to purchase AVB's Tridade North Project
- April 2012 – AVB purchased the Pedra Branca from Xstrata/Glencore
- November 2016 – AVB entered into a JV with Codelco to explore the Canaã West project, located along strike to PB

We believe this track record highlights AVB's ability to seek out investment opportunities, particularly projects that do not meet investment hurdles for larger producers.

The ability to deal and operate in Brazil also brings other opportunities. One example is the recent, potentially highly accretive acquisition of CentroGold from Jaguar Mining (TSX-JAG | Not Rated).

## Antas (100%)

### Background

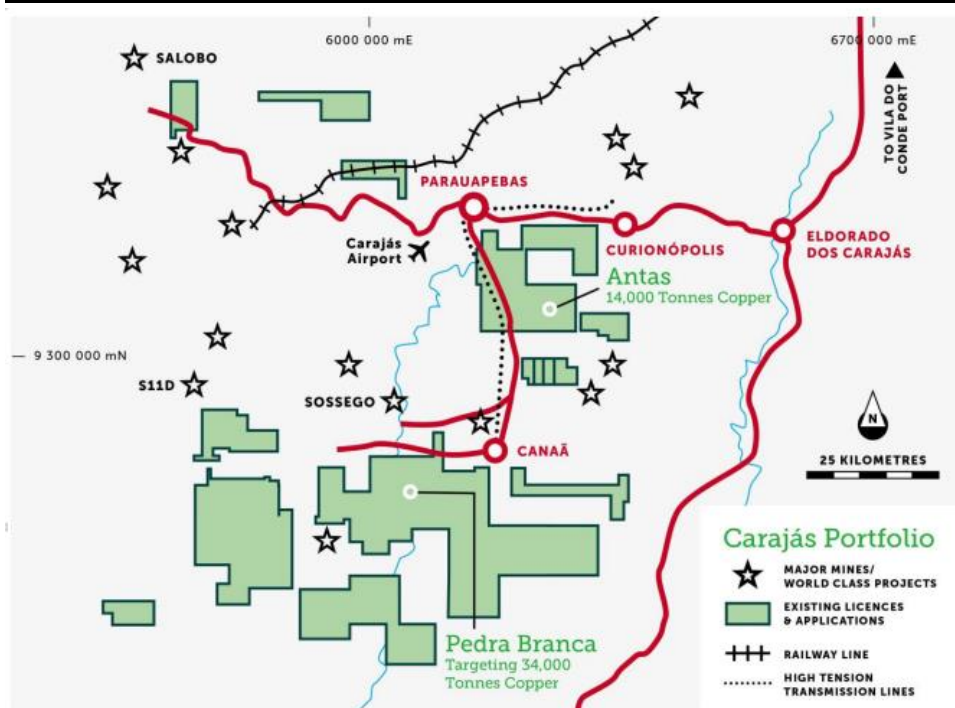
AVB floated on the back of its Rio Verde and Serra Verde Projects in 2007, comprising a prospective tenement package in the Carajás region in Brazil.

The company then commenced exploration and soon discovered oxide mineralisation at Antas South. Subsequently AVB assessed the economic potential of the deposit.

AVB discovered high grade primary mineralisation at Antas North in 2011 and subsequently proved up an open-pittable deposit. The prospect was initially explored by Barrick which identified a Cu-Au in soil anomaly and completed a small amount of drilling.

The Antas North mining license (PL470/2014) was granted in 2014. Development of the project was completed in 2016 on time and budget. The mine declared commercial production in July 2016.

**Figure 12: Antas project location**



Source: Company Reports, AMS

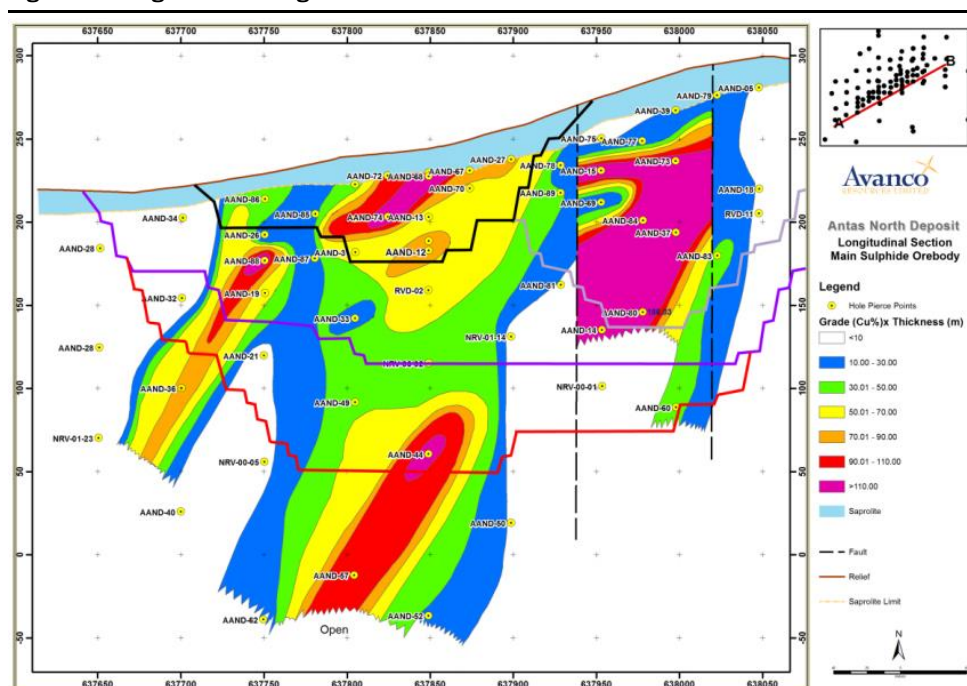
### Geology, Resources and Reserves

The Antas North deposit is typical of Iron-Oxide-Copper-Gold (IOCG) deposits in the Carajás, featuring a steeply dipping mineralised breccia with high concentration of copper. These deposits are structurally controlled by regional-scale WNW striking, brittle-ductile shear zones.

The main economic mineral is chalcopyrite, although a minor amount of other copper minerals also exist. The simplicity facilitates off-the-shelf processing technology and high metallurgical recoveries.

Small offsetting features exist along the deposit.

Figure 13: Long section with grade x width contour



Source: Company Reports

Reserves and Resources at Antas as at 30<sup>th</sup> December 2016 are presented in Figure 14 below.

Figure 14: Reserve and Resources, Antas

Antas North Resources					
	Mt	Cu (%)	Au (g/t)	Cu (kt)	Au (koz)
Measured	2.0	3.4	0.8	67	48
Indicated	1.6	2.2	0.4	36	22
Inferred	1.9	1.6	0.2	30	14
<b>Total</b>	<b>5.5</b>	<b>2.4</b>	<b>0.5</b>	<b>133</b>	<b>84</b>

Antas South Resources					
	Mt	Cu (%)	Au (g/t)	Cu (kt)	Au (koz)
Measured	0.6	1.3	0.2	8	3
Indicated	7.5	0.7	0.2	53	49
Inferred	2.0	1.2	0.2	24	13
<b>Total</b>	<b>10.1</b>	<b>0.8</b>	<b>0.2</b>	<b>85</b>	<b>65</b>

Antas Sulphide Ore Reserves					
	Mt	Cu (%)	Au (g/t)	Cu (kt)	Au (koz)
Antas Mine	2.9	2.7	0.6	78	54
Stockpiles	0.1	2.3	0.5	3	2
<b>Total</b>	<b>3.0</b>	<b>2.6</b>	<b>0.6</b>	<b>80</b>	<b>57</b>

Source: Company Reports

### Mining

The mining operation is a conventional truck and shovel open pit operation utilising staged pit designs. Mining is carried out on 5m benches and 2.5m flitches to facilitate selectivity. LOM stripping ratio is estimated at 6.4:1.

Maca (ASX-MLD : A\$1.93 | BUY, Cameron Bell, CG Ltd (AU)) is the open pit mining contractor providing drill and blast, as well as load and haul services. The seasoned operator also contracts for Beadell (ASX-BDR : A\$0.21 | BUY, Tim McCormack, CG Ltd (AU)) at its Tucano operation in Amapá.

Grade control is done using RC drilling at a density of 5m x 10m to 30m vertical.

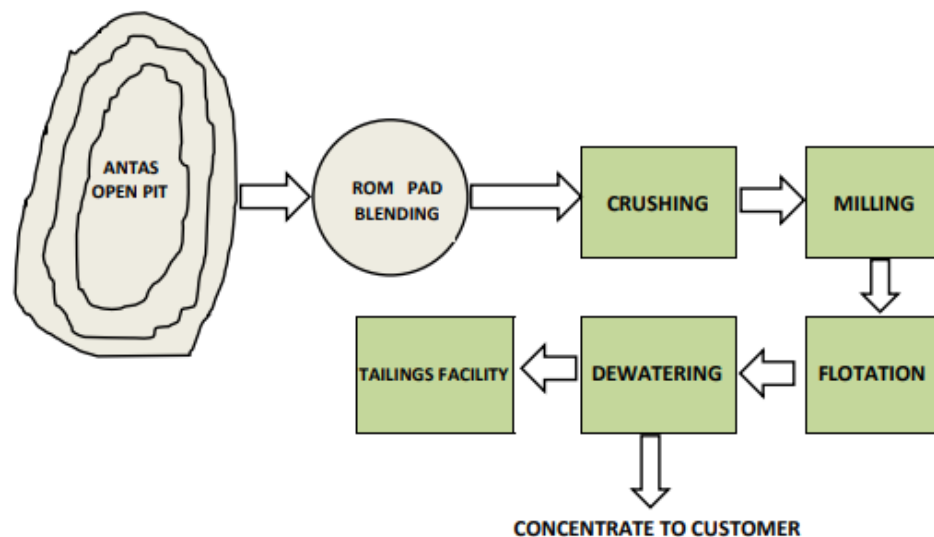
As per Brazilian regulation, the mine operates in three eight-hour shifts. All operational personnel are Brazilian nationals and residents and Antas does not utilise fly-in-fly-out workforces.

### Metallurgy and processing

The processing facility is a conventional flotation plant. Many parts of the plant were sourced second hand to reduce capex. The mill utilises Outotec flotation cells, Metso ball mill and Denver cleaner cells.

Despite the approach taken during construction, the processing plant has outperformed its design capacity since day one and is operating at ~680ktpa. Minor issues with crushing were rectified with the installation of additional tertiary capacity.

**Figure 15: Antas simplified operational flow sheet**



Source: Company Reports

### Offtake

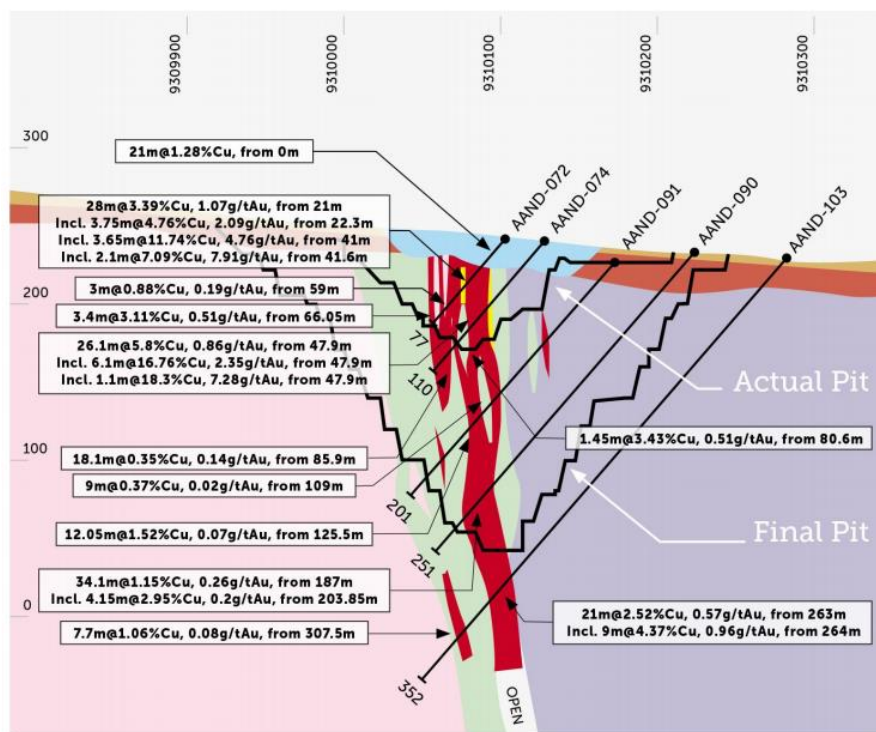
Due to the orebody's mineralogy, the concentrate produced is clean with negligible impurities. Marketing and sales of the concentrate are being handled by AVB and its agents. Currently, the concentrate is sold to Chinese smelters and Asian traders. The Port of Vila do Conde located in northern Pará is used for shipping the concentrate.

**In-mine extensions and underground potential**

We note significant potential for further extensions, particularly at depth. This is supported by recent drilling results including 21m @ 2.5% Cu, 0.6g/t Au from 263m, below the current pit design.

Given the typical vertical continuation of IOCG deposits and drilling results, scope for a future underground operation at Antas is high, in our view.

**Figure 16: Antas cross section showing recent results below planned pit**



Source: Company Reports

Recent results from near mine targets, including visual copper from Azevedo, located ~400m from the existing pit are considered highly encouraging.

**Antas South**

Antas South was the initial focus of the company in the early years. However, the oxide and sulphide mineralisation pales in comparison to the Antas North orebody in terms of grade and continuity. Potential production from Antas Oxide would also require an alternative processing route (e.g. Solvent Extraction and Electrowinning), offering limited synergy with the existing infrastructure.

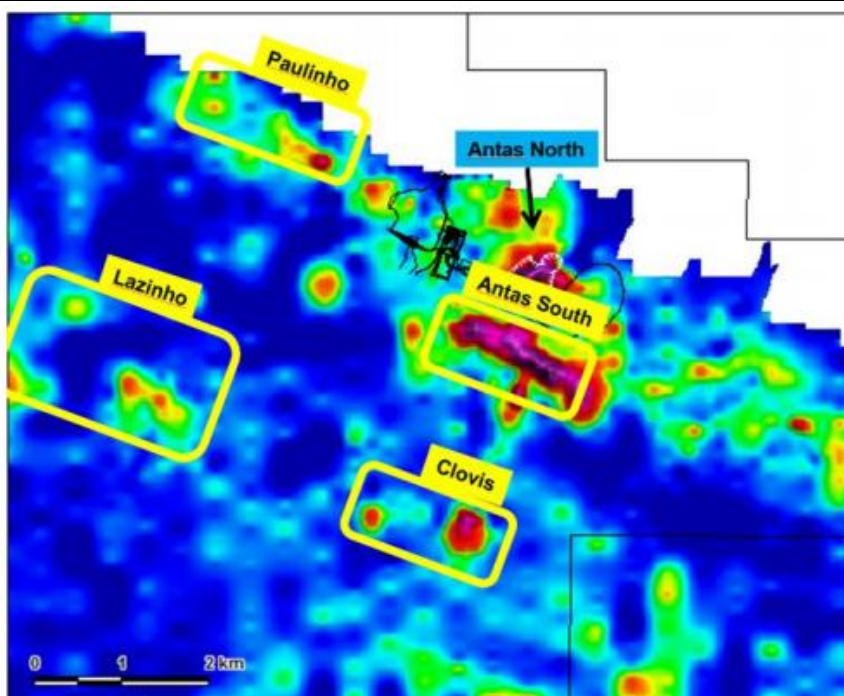
As such, we do not expect it to become a priority for the company in the near term. Longer term, AVB could examine the potential of a low cost heap leaching operation, particularly if more oxide material is identified in the region.

### Near mine exploration

A number of targets have been identified near the Antas Mine, providing opportunities to further extend mine life. Given the mine is cash flow positive, we believe management can now allocate a greater amount of time and expenditure on exploration.

Due to the well-understood nature of the mineralisation (IOCG, controlled by WNW striking structures), targets can be effectively generated using a combination of geochemical and geophysical methods. Specifically, chalcopyrite, the principal mineral of interest, responds well to Electromagnetic (EM) surveys.

**Figure 17: Near mine targets generated through geochemistry (Cu-in-soil anomaly)**



Source: Company Reports

In addition to the conductors proximal to Antas North, a number of other targets warrant further exploration, including:

- Clovis – historic intersection of 14.1m @ 1.7% Cu, 0.2g/t Au from 77.1m
- Lazinho – historic intersection of 17.0m @ 0.9% Cu from 12.0m
- Paulinho – historic intersection of 39.3m @ 0.3% Cu, 0.1g/t Au from 121.3m



## Pedra Branca

### Project Background

PB was an Xstrata asset, acquired through the acquisition of Falconbridge in 2006. Prior to that, initial exploration was conducted by Noranda in early 2000, which merged with Falconbridge in 2005.

Xstrata drilled a further 12 holes which demonstrated a mineralisation strike of ~1.5km.

AVB acquired the PB Project from Xstrata in April 2012 in return for a ~15% shareholding in AVB. In addition, upon reaching commercial production, AVB will be required to pay monthly cash payments to Glencore totalling US\$10m over one year. The project has a pre-existing 1% royalty.

Since acquisition, AVB has upgraded the Resource through drilling and released a Pre-Feasibility Study in May 2017. A Definitive Feasibility Study is underway and expected mid-CY18.

### PFS highlights

AVB completed a Scoping Study on the project in September 2016. Subsequently, the company finalised a Pre-Feasibility Study in May 2017. The study incorporated inputs from external consultants as well as actual cost from the existing Antas North operation.

Key highlights include:

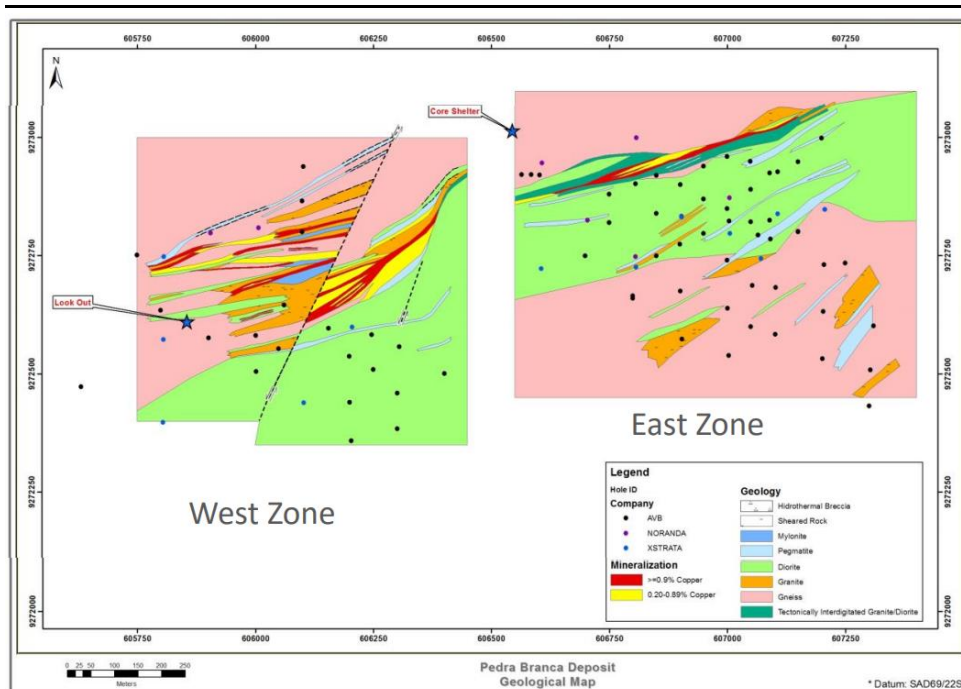
- A 1.2Mtpa operation, steady state production of 24ktpa Cu and 16kozpa Au
- Mine life of ~10 years post construction
- Pre-production capex of US\$158m
- C1 cost of ~US\$1.3/lb (using BRL:USD of 3.2)
- Underground Mining cost of US\$29.3/t
- Milling cost of US\$15.25/t
- G&A cost of US\$3.2/t
- Metallurgical recoveries of 95% for Cu and 86% for Au

### Geology, Resources and Reserves

PB shares numerous similarities with the Antas North orebody. It is an IOCG type deposit located within the Carajás Basement, and is hosted predominantly within diorite and sheared granite. The deposit is structurally controlled and occurs along an E-W striking shear zone containing mylonite and intense silica alteration. Regional north-south, NE and NW striking faults and offsets are present.



Figure 18: Plan view, showing PB West and East mineralisation



Source: Company Reports

AVB has not declared a Reserve for PB and the Mineral Resource was estimated by CSA Global in Perth. Reserve definition drilling has commenced in July 2017.

Figure 19: PB East and PB West Mineral Resource Estimate

Pedra Branca East Resource					
	Mt	Cu (%)	Au (g/t)	Cu (kt)	Au (koz)
Measured	2.0	2.7	0.7	53	43
Indicated	5.7	2.8	0.7	161	123
Inferred	2.8	2.7	0.6	75	55
<b>Total</b>	<b>10.5</b>	<b>2.8</b>	<b>0.7</b>	<b>289</b>	<b>221</b>

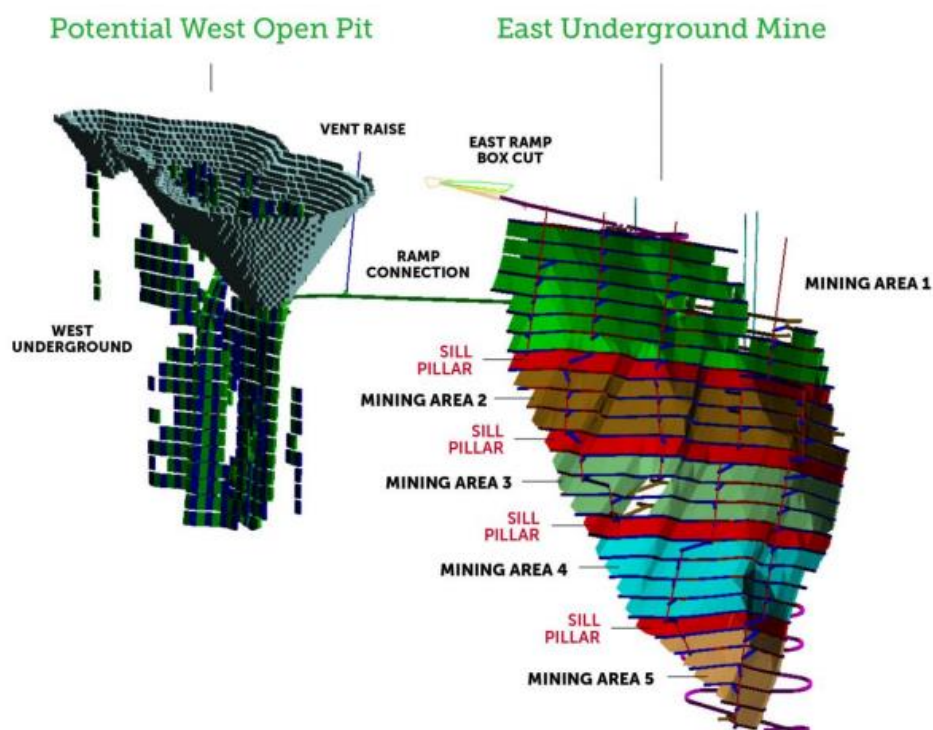
Pedra Branca West Resource					
	Mt	Cu (%)	Au (g/t)	Cu (kt)	Au (koz)
Indicated	4.5	2.0	0.6	91	87
Inferred	2.7	1.7	0.6	47	49
<b>Total</b>	<b>7.2</b>	<b>1.9</b>	<b>0.6</b>	<b>138</b>	<b>136</b>

Source: Company Reports

**Proposed mining operation**

The proposed mining method for PB East in the PFS is Sublevel Open Stopping with delayed filling. A remote controlled bogger is planned to be used for ore loading and 50t-63t trucks are planned to be used for hauling. Sublevels will be 30m sill to sill and stopes will be 4-20m wide. Backfill is anticipated to be cemented paste fill, to be supplied using borehole and pipes connected to the backfill plant at surface.

The adjacent PB West deposit could potentially be mined using a combination of truck and shovel open pit mining, as well as underground stopping. We have not modelled PB West pending further exploration and evaluation.

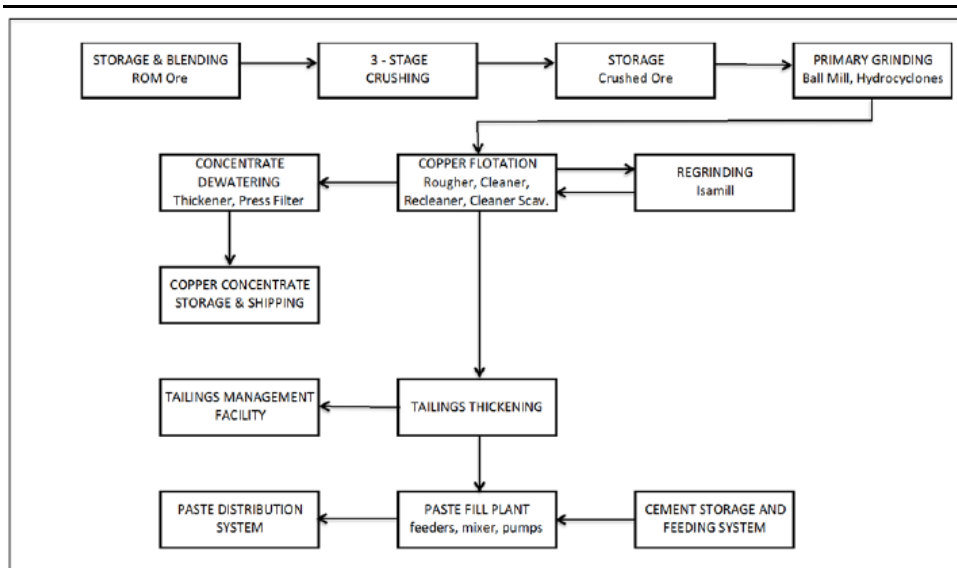
**Figure 20: Plan view showing geology**

Source: Company Reports

**Proposed processing**

The project is envisaged to utilise a new, 1.2Mtpa standalone plant. The processing circuit would be similar to the existing Antas North plant (see Figure below), and comprise three-stage crushing, single ball mill milling and conventional flotation circuits to produce a concentrate containing ~28% Cu.

A box and portal was completed in late 2016 to expedite further development.

**Figure 21: PB process flowsheet**

Source: Company Reports, Canaccord Genuity estimates

### Infrastructure and funding requirement

Pre-production capex is estimated at US\$158m in the PFS and comprise US\$103m in plant, surface infrastructure and initial paste fill capital. The residual capex is attributed to mine capex.

Being a significant minerals production region, Carajás is well serviced in terms of infrastructure, mining services and skilled labour. The PB Project also benefits from existing infrastructure established at Antas including access, offices and communications.

### Trial Mining License

A trial mining license has been granted, allowing decline works to commence at AVB's discretion.

A full Environmental License is expected in H2'18. We anticipate an Installation License to be granted thereafter.

### Potential upside

The FS will examine potential extensions to the orebody, and we note the mineralisation remains both along strike and at depth at PB East and PB West. Additionally, the FS will examine capex and opex and assess delaying some upfront capex to result in a more favourable NPV.

Our base case valuation does not include an upside case for the lower grade PB West development, which could contribute an additional ~10ktpa Cu.

## CentroGold

### Background and operational history

In Oct 2016, AVB entered into an agreement with JAG to earn up to 100% of the Gurupi Gold Project (renamed to CentroGold). The terms were:

- AVB 20% within 12 months for US\$1.7m cash, US\$0.5m in cash or shares, and US\$0.3m to “perfect title and establish access”
- AVB 31% (51% total) by delineating a JORC Reserve >500koz Au
- AVB 29% (80% total) upon demonstrating adequate funding coupled with the start of construction of a process plant with capacity >50koz pa. If AVB fails to demonstrate project funding, JAG will have a one-time right to buy back 31% by paying AVB reasonable expenses incurred to date
- AVB 20% (100% total) by paying the greater of US\$6.25m or sum of US\$12.50/oz per Reserve ounce defined
- JAG will retain a Net Smelter Royalty (NSR) upon reaching commercial production. This NSR is 1% on first 500koz, 2% to 1.5Moz and 1% on production >1.5Moz

At the time of announced deal, the project has an NI-43-101 Resource of 3.14Moz @ 1.1g/t, using a 0.3g/t cut-off, and a Feasibility Study released in Jan 2011. The study highlighted a base case scenario in which the operation will construct a ~5.0Mtpa facility to extract ~150kozpa for 13 years.

Subsequently, AVB completed a maiden Resource and Resource updates at the project (see next section, Geology, Resources and Reserves).

**Figure 22: Centro Gold Project Location**



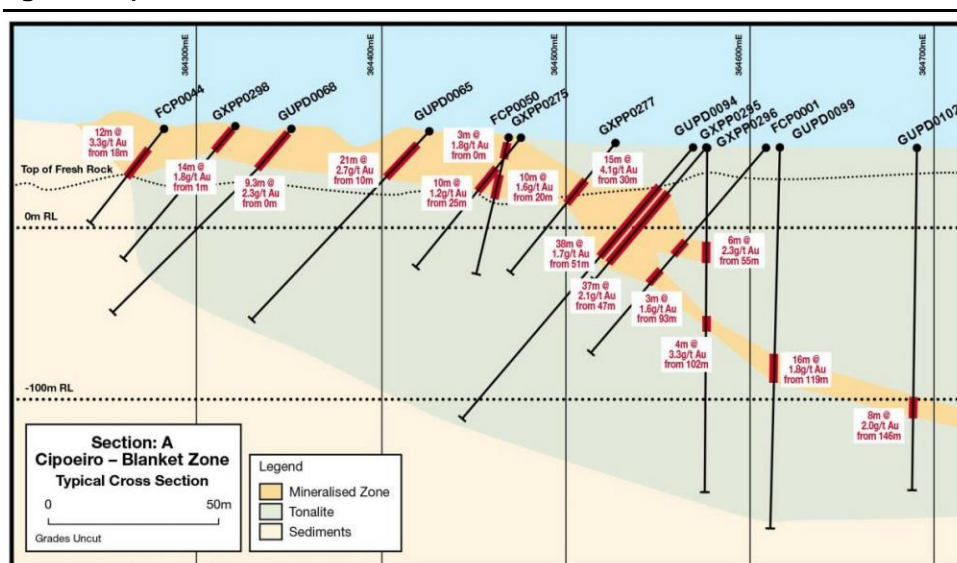
Source: Company Reports

### Geology, Resources and Reserves

The project area lies within an elongate NW-SE trending shear zone developed along the boundary between the Lower Proterozoic Gurupi greenstone Belt and the SW margin of the Archean Sao Luis craton. Mineralisation is located in two main deposits:

- Cipoeiro – contains two distinct zones, the higher Blanket Zone and the Contact Zone, separated by an NS striking fault. Gold mineralisation is closely associated with pyrite concentrate and hydrothermal alteration, and confined to ductile-brittle shear zones within the tonalite adjacent to its contact with the metasediments.
- Chega Tudo – occurs along the Tengugal shear zone, with mineralisation hosted by a foliated dacite metavolcanic. Gold grade is related to pyrite content, and similar to Cipoeiro, associated with hydrothermal alteration, specifically quartz-sericite-pyrite alteration which corresponds to grade.

**Figure 23: Cipoeiro - Blanket Zone cross section**



Source: Company Reports

AVB's updated Resource utilised historic drilling and new Quality Assurance Quality Control (QAQC) work. It focused only on the Cipoeiro deposit.

**Figure 24: CentroGold MRE**

CentroGold Mineral Resources - April 2017				
Cipoeiro Deposit	Category	Million Tonnes	Au (g/t)	Gold Metal (Oz)
Contact Zone	Indicated	2.1	2.5	168,000
	Inferred	5.9	2.2	424,000
	Total	8.0	2.3	592,000
Blanket Zone	Indicated	10.8	1.7	597,000
	Inferred	1.4	2.2	97,000
	Total	12.2	1.8	694,000
<b>CentroGold Total</b>		<b>20.2</b>	<b>2.0</b>	<b>1,286,000</b>

Source: Company Reports

**Tenure and permitting**

Both Cipoeiro and Chega Tudo are on Mining Lease Applications. Both applications are pending the prerequisite of a valid Environmental license. While both had environmental licenses previously granted, they were suspended due to an apparent legal oversight. The issue appears to be related to conflicting land usage, specifically, the proposed mine sits on an agricultural resettlement area as designated by the National Institute for Colonization and Agrarian Reform (INCRA).

In January 2012, JAG received the Installation License, which authorised the construction of Gurupi's processing plant.

On October 14, 2013, JAG became aware that the Federal Public Prosecutor in São Luis, Maranhão, Brazil, filed a lawsuit against MCT, the subsidiary of the company that holds the Gurupi project. In a preliminary decision, the judge decided to:

- suspend the environmental licenses granted to JAG
- prohibit any construction at the gold beneficiation plant, and
- stop any kind of negotiation with settlers without the participation of INCRA.

JAG was formally notified this injunction in Q4'CY15.

**Infrastructure**

The project is located proximal to existing infrastructure, including power and water. Access to high tension power is ~40km from project and water is abundant ~15km to the west.

**Likely development scenario**

Pending resolving permitting issues, AVB will likely focus on the higher margin zones (i.e. Blanket and Contact zones) and use a more selective mining method. By doing so, the company could deliver a project that is higher grade but lower tonnes than envisaged by the previous owner.

**Exploration upside**

Due to stalled permitting and JAG's focus on restructuring and implementation of the production programs at its operations in Minas Gerais, regional exploration efforts have been limited in recent times despite the prospectivity.

The Gurupi concession includes 12 additional identified targets (by JAG) in mineral rights totalling 137,000 ha, identified through favourable geology, structures, old artisan mine works, soil and channel sampling anomalies and exploration drilling, and represent the tangible upside for further inventory expansion following systematic exploration.

## Investment risks

### Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of Inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

### Operating risks

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical, scheduling and other technical issues. Any increase in costs from those outlined in the restart study could reduce the profitability and free cash generation from the operating assets considerably and negatively impact our valuation. Further, the actual characteristics of an ore deposit (grade, recovery, hardness etc) may differ significantly from initial interpretations which could also materially impact forecast production from original expectations.

### Funding risks

AVB is a cash flow positive company. However, it is reliant on debt and / or equity markets to achieve its growth aspirations. A funding decision is not required immediately as the company is still progressing a DFS on the project. Pre-production capex on PB is estimated at US\$158m. The funding risk is mitigated, in our view, by the quality of the asset, current buoyant base metal markets and management's track record.

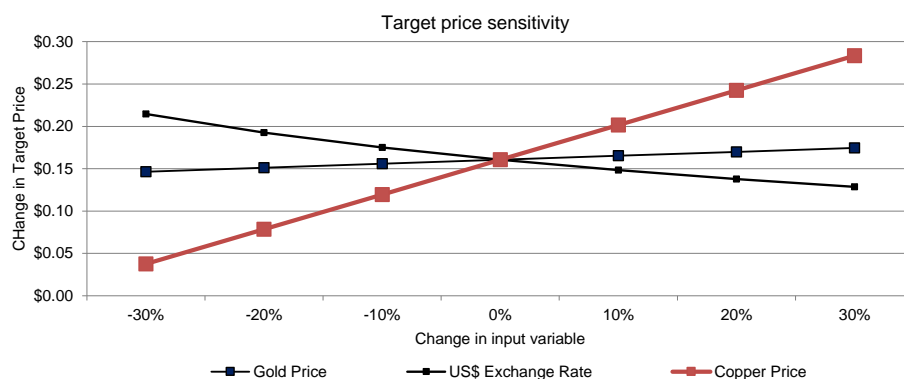
### Sovereign risks

AVB is subject to sovereign risks as its core assets are all located in Brazil. We note that Brazil has established mining code and the significant number of mining companies operating in the country. Furthermore, we note AVB's in-country management team and track record at permitting, developing and operating Antas.

### Commodity price and currency fluctuations

Mining companies are directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business. Sensitivity to the underlying commodity and FX prices are presented below.

**Figure 25: Valuation sensitivity to Copper and Gold price and FX movements**



Source: Canaccord Genuity estimates



## Directors and management

### **Vern Tidy - Non-Executive Director, Interim Chairman**

Mr Tidy's skills encompass corporate governance, financial compliance and exceptional accounting, tax and audit. He is well known in the Australian resources sector, having formerly been the Senior Audit Partner at Ernst & Young where he led the mining and metals industry group. He has worked extensively with the largest multinationals to junior explorers, in Australia, South America, Asia and Africa for companies listed on the ASX, LSE and TSX. Currently Mr Tidy consults to the sector and is involved in industry transactions, notably project identification and financing. Mr Tidy has a BComm Business from the West Australian Institute of Technology. He is a qualified accountant, a Fellow of the Institute of Chartered Accountants in Australia and an Associate of the Australian Institute of Company Directors.

### **Tony Polglase – Managing Director and CEO**

Mr Polglase has been Managing Director of Avanco since the company was formed and listed on the ASX in December 2007. Mr Polglase started his career at the South Crofty Mine in Cornwall. Subsequently he studied a degree in metallurgy at the Camborne School of Mines, which helped launch his career internationally, working for over 40 years across different mining disciplines for companies including Ashanti, Rio Tinto, TVX and Invernias in Africa, Europe, the FSU and for the last decade in Brazil. Mr Polglase is recognised for his project management skills in the mining sector, notably critical evaluation, implementation and commissioning of mining projects. Mr Polglase has a BEng Metallurgy from the Camborne School of Mines. He is fluent in Portuguese and resides in Brazil.

### **Simon Mottram – Executive Director (Exploration)**

Mr Mottram joined Avanco in January 2011 as Executive Director of Exploration. He is a geologist with over 20-years management and exploration experience in Australia, Asia and Brazil, predominantly in iron oxide copper gold and precious metals. Mr Mottram has been part of several significant exploration successes, and also seen a number of these discoveries advance through to commercial development. Indeed, Mr Mottram and his team are accredited for discovering Antas North, the deposit that is now the company's operating Antas Mine. Mr Mottram is an expert in the application of modern exploration techniques, large-scale drill programmes and feasibility studies. Mr Mottram has a BSc in Applied Geology from RMIT University and is a Fellow of the AusIMM. He is fluent in Portuguese and works in Brazil.

### **Luis Azevedo –Executive Director (Legal)**

Mr Azevedo joined Avanco as a Non-Executive Director in December 2012, though he has been involved with the company since inception. He subsequently became an Executive Director with responsibility for Brazilian legal, licensing and regulatory matters. He has 35 years of experience across a range of companies and commodities, enhanced by the fact that he is also a qualified and experienced geologist. He has held senior positions at Western Mining, Barrick and Harsco, and presently runs a successful legal and accounting practice called FFA which provides specialist legal and technical support to resource companies operating in Brazil. Mr Azevedo has a BSc in Geology from the University of Rio de Janeiro, and LL.B from the University of Candido Mendes and LL.M from the Pontifical Catholic University Rio de Janeiro. He is a Brazilian national and resident.

**Luis Ferraz - Non-Executive Director**

Mr Ferraz was appointed to the Board in July 2016 as an Independent Non-Executive Director. Mr Ferraz is a well-respected Brazilian businessman, with considerable experience and expertise in the Brazilian resources and finance sectors. He was formerly the CFO and subsequently CEO of Paranapanema, the largest copper smelter in Brazil, which he developed into strong business, increasing production significantly. Consequently, Mr Ferraz is well known to Brazilian and international copper producers and commodity traders. Having held senior positions at Banco Bandeirantes, Mr Ferraz also has considerable financial experience, notably with regards to debt financing. Mr Ferraz has a BA in Business Administration from Fundação Getúlio Vargas in São Paulo. He is currently a partner of Brasil Agro, a São Paulo based specialist agribusiness investment fund. He also sits on the board of a number of industrial companies. He is a Brazilian national and resident.

**Paul Chapman - Non-Executive Director**

Mr Chapman joined the Avanco Board in April 2017 as an Independent Non-Executive Director. Mr Chapman has considerable commercial skills gained across corporate finance and treasury, and a deep understanding of financial markets and the resources sector. His career has spanned senior commercial management roles at Western Mining, Alcoa and Minara Resources, before transitioning to board positions across a range of ASX mid and small-cap mining and development companies, notably Silver Lake Resources, where as a founding shareholder, he grew Silver Lake into an ASX 200 company, acting as Chairman until 2015. Mr Chapman has a BComm Commerce from the University of Melbourne, and a Graduate Diploma in Taxation from the Royal Melbourne Institute of Technology. He is a member of The Australian Institute of Company Directors and The Australian Institute of Mining and Metallurgy and The Institute of Chartered Accountants. He is resident in Australia. Mr Chapman is currently the Non-Executive Chairman of Encounter Resources.

**Wayne Philips – Head of Projects**

Mr Philips has been with Avanco since the company started. In January 2013, he was appointed as Director of Operations, a position that he later relinquished as the Board sought to be independent. Today, although no longer a board member, he continues his work as the Head of Projects. Mr Phillips specialises in providing innovative practical solutions to complex metallurgy, with particular expertise in flotation and hydrometallurgy including copper oxide leaching and SX-EW. Mr Phillips has worked for engineering companies including SNC Lavalin, Kvaerner and Minproc in a wide variety of mining projects. Before joining Avanco, he was the Technical Director for Kinross in South America with responsibility for exploration, project development and operations. Mr Phillips has a BEng in Chemical Engineering from the University of Rhodesia. He is a Brazilian national, resident and fluent in Portuguese.

**Scott Funston – CFO and Company Secretary**

Mr Funston joined Avanco when the company was started and has been instrumental from the December 2007 IPO onwards. He was a Director of the company until October 2016 when he relinquished this position so that Board could transition to more independence and he focussed on his CFO and Company Secretarial roles. Mr Funston is experienced in financial management, regulatory compliance and corporate advice, having worked for a number of Australian resource companies with operations globally. Mr Funston has a BBus in Business from the Edith Cowan University. He is a qualified Chartered Accountant (CA) and Company Secretary (AICS). He is resident in Australia.

**Otávio Monteiro – General Manager**

Mr. Monteiro was appointed General Manager at the Antas Mine in March 2016. is a chemical engineer with 25 years' experience, working in the metallurgical and chemical industries. He worked for over 20 years with Vale, Rio Verde Minerals, and Jarcel. Mr Monteiro has a BEng Chemical Engineering from the Federal University of Pará and an MBA from the Fundação Dom Cabral. Mr Monteiro is a Brazilian natural and resident and fluent in English.

**Nicholas Bias – Head of Corporate Affairs**

Mr Bias joined Avanco in 2017 and manages corporate, investor and public relations for Avanco. Mr Bias started his career as an equity analyst at Schroders and Citibank in London, after which he moved into industry, where he managed investor relations for high-growth ASX listed mining companies Aquarius Platinum and LionOre Mining, and later, led investor relations for the flotation of Glencore, the largest IPO ever in the metals and mining sector. He holds a BA in Law from Durham University and an MBA with a specialisation in Commodity Trading, Shipping and Finance from Université de Genève in Switzerland. He is resident in the UK.

## Appendix: Important Disclosures

### Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

Analysts employed outside the US are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity Inc. and therefore may not be subject to the FINRA Rule 2241 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### Investment Recommendation

Date and time of first dissemination: September 07, 2017, 16:29 ET

Date and time of production: September 07, 2017, 16:24 ET

### Target Price / Valuation Methodology:

Avanco Resources Limited - AVB

Our price target of A\$0.16 is based on 1x NPV<sub>8%</sub>/NPV<sub>10%</sub> for the operating assets and development assets net of corporate and other adjustments.

### Risks to achieving Target Price / Valuation:

Avanco Resources Limited - AVB

**Operating risks** - Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical, scheduling and other technical issues. Any increase in costs from those outlines in the restart study could reduce the profitability and free cash generation from the operating assets considerably and negatively impact our valuation. Further, the actual characteristics of an ore deposit (grade, recovery, hardness etc) may differ significantly from initial interpretations which could also materially impact forecast production from original expectations.

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**Funding risks** - AVB is a cash flow positive company. However, it is reliant of debt and / or equity markets to achieve its growth aspirations. A funding decision is not required immediately as the company is still progressing a DFS on the project. Pre-production capex on PB is estimated at US\$158m. The funding risk is mitigated, in our view, by the quality of the asset, current buoyant base metal markets and management's track record.

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### Distribution of Ratings:

#### Global Stock Ratings (as of 09/07/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	594	60.86%	39.56%
Hold	276	28.28%	23.91%
Sell	22	2.25%	9.09%
Speculative Buy	84	8.61%	70.24%
	976*	100.0%	

\*Total includes stocks that are Under Review

**Canaccord Genuity Ratings System**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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