

Avanco Resources Ltd

(AVB \$0.10) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	19 th September 2017	\$0.18/sh

CentroGold Acquisition

Investment case

Avanco is a high growth, debt free, Brazilian based emerging copper miner. It has established an excellent development and operating track record with the performance of the Antas Nth mine to date. CentroGold project now acquired, and with abundant historical information, appears to offer a quicker, more achievable growth increment with lower risk subject completion of permitting. The larger Pedra Branca project will be FID ready end 2018. 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 are currently being tested both at Antas and Pedra Branca. AVB's development and operating reputation positions it well for other acquisition opportunities in Brazil. We value Avanco at \$0.18/sh.

Key points

Avanco Resources has accelerated the acquisition of the CentroGold project in Maranhao state, Brazil, from TSX listed Jaguar Minerals.

Consideration is US\$9m in instalments, plus a royalty:

- US\$2m upon signing;
- US\$2m in 60days or (Transfer of Title);
- US\$5m in 10 monthly instalments upon permitting; NSR of 1.0% on 1st 0.5moz produced, 2.0% on next 1.0moz, 1.0% thereafter.
- Avanco will also assume pre-existing 3rd party royalties totalling 1.75%.

Jaguar had previously acquired CentroGold (aka Gurupi) from Kinross for US\$42.5m in 2009. Avanco had agreed to acquire 100% of CentroGold in October 2016 subject to "perfecting title". Consideration then was US\$8.5m, with equity and payment staged on certain technical milestones.

CentroGold is currently a near surface 1.3moz Au project, grading 2.0g/t. AVB is contemplating a development to produce 100kozpa for +10 years from open pit mining and CIL processing.

A scoping study be completed by end 2017, following infill drilling of the resource. The scoping study is 6 months later than previously guided. A DFS is then expected by mid 2018, and final permitting in 2H'18. Gold production could commence within 12 months of permitting.

Undeveloped gold deposits capable of producing ~100kozpa in single asset entities are typically valued in a range of A\$50m-A\$100m depending on perceived risk. We currently have ascribed A\$17m to CentroGold. We will review this and all AVBs asset values upon completion of a site visit this week.

CentroGold complements AVB's portfolio because it:

- Can be developed quicker than Pedra Branca (by approx 12 mths) as it has already been through the environmental licence process.
- Is low capex compared to Pedra Branca (say US\$90m v US\$150m); Is low risk compared to Pedra Branca (open pit, shallow, low strip ratio); Can be more readily financed.

Avanco's proven skill-set, based on the success of Antas, is discovering, permitting, building and mining of modest scale open pit in Brazil.

Avanco Resources Ltd	Year End 30 June	
Share Price	0.10	A\$/sh
Price Target	0.18	A\$/sh
Valuation	0.18	A\$/sh

Shares on issue	2457	m, diluted *
Market Capitalisation	246	A\$m
Enterprise Value	215	A\$m
Debt	0	A\$m
Cash	31	A\$m
Largest Shareholder		Appian 18%

Production F/Cast	2016a	2017f	2018f
Cu Prod'n (kt)	11.19	14.09	15.01
Au Prod'n (koz)	7.76	10.66	10.22
C1 Cash Costs (US\$/lb)	1.29	1.44	1.41

Assumptions	2016a	2017f	2018f
Copper (US\$/lb)	2.21	2.76	3.00
Gold (US\$/oz)	1249	1259	1313
FX Rate (A\$/US\$)	0.73	0.77	0.78

Key Financials	2016a	2017f	2018f
Revenue (US\$m)	59	85	100
EBITDA (US\$m)	17	28	41
NPAT (US\$m)	-3	10	22
Cashflow (US\$m)	-8	9	23

CFPS (USc)	10	0	8
P/CFPS (x)	0	0	0

EPS (USc)	0	0	0
EPS growth (%)	na	0	-5
PER (x)	-47	0	20

EV:EBITDA (x)	6	0	6
EV:EBIT (x)	20	0	11

DPS (Ac)	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 is satisfied that it can resolve the permitting issues over CentroGold, based on its DD work over the last +12 mths. An environmental licence had already been issued but subsequently injunctioned under Jaguar's management of the project.

Avanco's willingness to acknowledge artisanal mining and engagement with the local community and regulatory authorities should see the injunction lifted. Thereafter a mining lease can be granted and a re-issue of the construction licence.

The CentroGold resource is based on the Cipoeira deposit which contains two zones of equal endowment:

- Blanket - shallow, sub-horizontal, lower grade -1.7g/t, 0.7moz 86% JORC Indicated; Contact - steep dipping, elongate, higher grade -2.3g/t, 0.6moz 72% JORC Inferred.

The infill drilling program, comprising 38 holes for 4,700m, has commenced. It will mainly focus on conversion of the Contact zone Inferred resource to Indicated category. While this zone is deeper than Contact, the higher grade should result in improved returns despite the probable higher mining cost.

The Chega Tudo deposit featured in the mineral resource inventory by Jaguar, however this has not yet been validated by Avanco, and therefore is not quoted in a JORC inventory. This presents as the next most likely exploration target.

Avanco is also excited by less mature exploration targets, of which it has listed 10 priorities for future exploration.

We envisage CentroGold hosting a 2.0moz mineral resource inventory before production commences in 2019.

Our instincts are that CentroGold has significantly greater production capability than 100kozpa, based on the overall resource inventory, grade, orebody geometry and exploration blue sky potential.

CentroGold is well serviced by infrastructure. It is located adjacent to the highway connecting the ports of Sao Luis and Belem in NE Brazil. It is located 26km from the town of Centro Novo. Electricity, water and labour are readily available.

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Market Statistics Year End 30 June

Share Price	\$0.10	A\$/sh	Directors
Issued Capital			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	L Ferraz NE Dir
Total Dil. FPOrd	2,457	m	P Chapman NE Dir
Market Cap'n (dil)	\$246	m	Shareholders
Enterprise Value	\$215	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	258	0.11
Pedra Branca	167	0.07
Centro Gold	17	0.01
Other Expl'n	1	0.00
Corporate	(20)	(0.01)
Working Capital	(1)	(0.00)
Unpaid Capital	-	-
Debt	-	-
Cash	31	0.01
Total	453	0.18

F/Cast Production (A\$m) 2016a JH 17a 2017f 2018f 2019

Antas Nth (100% AVB)		2016a	JH 17a	2017f	2018f	2019
Cu Prod'n	kt	11.2	7.1	14.1	15.0	13.2
Au Prod'n	koz	7.8	5.7	10.7	10.2	9.0
C1 Cash Costs	US\$/lb	1.29	1.49	1.44	1.41	1.29

Pedra Branca (100% AVB)		2016a	JH 17a	2017f	2018f	2019
Cu Prod'n	kt	-	-	-	-	0.0
Au Prod'n	koz	-	-	-	-	0.0
C1 Cash Costs	US\$/lb	-	-	-	-	-

Group Prod'n (100% AVB)		2016a	JH 17a	2017f	2018f	2019
Cu Prod'n	kt	11.2	7.1	14.1	15.0	13.3
Au Prod'n	koz	7.8	5.7	10.7	10.2	9.1
C1 Cash Costs	US\$/lb	1.29	1.49	1.44	1.41	1.40

Assumptions		2016a	JH 17a	2017f	2018f	2019
Copper	US\$/lb	2.21	2.61	2.76	3.00	3.13
Gold	US\$/oz	1,249	1,238	1,259	1,313	1,350
FX Rate	A\$/US\$	0.73	0.75	0.77	0.78	0.78

Ratio Analysis (A\$m) 2016a JH 17a 2017f 2018f 2019

Cashflow (US\$m)	12	9	25	36	35
Cashflow per Share (c/sh)	1	0	1.0	1.5	1.4
Cashflow Ratio (x)	10	0	8	5	6

Earnings (US\$m)	-3	1	10	22	21
Earnings per Share (c/sh)	0	0	0	1	1
EPS Growth (%)	na	0%	-461%	128%	-6%
Earnings Ratio (x)	-47	0	20	9	9

Enterprise Value (A\$m)	136	132	204	176	222
EV : EBITDA (x)	6	0	6	3.4	4.4
EV : EBIT (x)	20	0	11	5.2	6.9

Net Debt : Net Debt+Equity (%)	0%	0%	0%	0%	0%
EBIT Margin (%)	9%	0%	17%	27%	27%
Return on Equity (%)	-3%	0%	10%	18%	15%
Return on Assets (%)	4%	0%	11%	17%	14%

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 (A\$m) 2016a JH 17a 2017f 2018f 2019

Sales Revenue	59	39	85	100	92
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
Total Revenue	59	39	85	100	92
Opex	39	25	52	57	50
O/H	3	2	4	3	3
Provisions	-2	-2	-2	0	0
Other	3	1	1	0	0
EBITDA	17	11	28	41	39
D&A	11	7	14	14	14
EBIT	5	4	14	27	25
Finance costs	3	2	2	0	0
PBT	1	3	14	27	25
Tax	4	2	4	5	4
NPAT	-3	1	10	22	21

Cash Flow (A\$m) 2016a JH 17a 2017f 2018f 2019

Net Profit	1	1	10	22	21
Working Capital	3	1	1	0	0
+ Dep/Amort	5	7	14	14	14
+ Tax Expense	4	2	4	5	4
- Tax Paid	0	2	4	5	4
= Operating Cashflow	12	9	25	36	35
-Capex + Development	2	1	7	13	71
-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	-4	-14	-13	-71

+ Equity Issues (Rts,plc,opts)	0	0	0	0	0
+Loan Drawdown	0	0	0	0	0
+Other	4	-2	-2	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	-2	-2	0	0

Period Surplus	-8	3	9	23	-36
FX Adjustments	0	0	0	0	0

CASH 2016a JH 17a 2017f 2018f 2019

CASH	23	26	32	55	18
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Balance Sheet (A\$m) 2016a JH 17a 2017f 2018f 2019

Assets		2016a	JH 17a	2017f	2018f	2019
Cash		23	26	32	55	18
Current Receivables		8	6	6	6	6
Other Current Assets		9	10	10	10	10
Total Current Assets		40	42	47	70	34
PP&E, MineProp, EE&D		61	54	57	56	113
Other		23	28	28	28	28
Total NC Assets		84	83	86	85	142
Total Assets		124	125	133	155	176

Liabilities		2016a	JH 17a	2017f	2018f	2019
Borrowings		0	0	0	0	0
Trade Payables		11	10	10	10	10
Provisions		7	7	7	7	7
Other Liabilities		17	18	18	18	18
Total Liabilities		36	35	35	35	35

Net Assets 2016a JH 17a 2017f 2018f 2019

Net Assets	88	90	98	120	141
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Reserves and Resources

Mineral Resources		tonnes mt	grade % Cu	metal contained	
				g/t Au	kt Cu koz Au
Antas Nth	M+I+I	6.4	2.4	0.5	152
Antas Sth	M+I+I	10.1	0.8	0.2	85
Pedra Branca	M+I+I	17.7	2.4	0.7	427
CentroGold (Gurupi)		52.8	-	1.4	-
Ore Reserves					
Antas Nth	P+P	3.0	2.64	0.6	80

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