

# Avanco Resources Ltd

## (AVB \$0.10) Buy

EUROZ

Analyst	Date	Price Target
Greg Chessell	28 <sup>th</sup> August 2017	\$0.18/sh

### Interim Financial Results 2017

#### 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. Avanco has now generated a maiden profit in June H'17 on EBITDA of US\$11m. The larger Pedra Branca project will be FID ready mid 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. The CentroGold strategy should become clearer once environmental licencing is resolved and the scoping study is completed. AVB's development and operating reputation positions it well for other acquisition opportunities in Brazil. We value Avanco at \$0.18/sh.

#### Key points

- EBITDA of US\$10.9m on revenue of US\$39m for 1H'17 compares favourably on the full CY'2016 result of EBITDA of US\$16.6m on revenue of US\$50m.
- The improvement is driven by higher copper price of US\$2.60/lb average June H 2017 v's US\$2.21/lb in 2016, and the mine being commissioned in early 2016.
- The result is driven by production of 7.1kt Cu and 5.7koz Au at a C1 cost of US\$1.49/lb. Production and costs are tracking at the upper end of annual guidance.
- We expect production rates to continue and costs to trend towards the middle of the US\$1.35/lb – US\$1.50/lb range over the balance of 2017.
- The higher costs (v's US\$1.29/lb in 2016) were largely the result of lower grades while mining of a cutback.
- EBITDA was marginally shy of our US\$12m forecast.
- NPAT of US\$1.1m was a maiden profit result for Avanco, and compares with our US\$4m forecast. The result was impacted by higher than expected tax expense and accretion in value of the Blackrock royalty.
- Cashflow from operations was US\$10m, resulted in the cash balance growing from US\$23m to US\$26m. Avanco holds NIL debt.
- Cashflow leverage to copper price is US\$1m/mth per \$0.50/lb change in Cu price. The copper price is presently -US\$3.00/lb, some US\$0.40/lb higher than average for June H'17.
- Exploration and evaluation expenditure was US\$4m. Avanco committed to a US\$10.6m exploration and development budget for 2017 in March. Exploration expenditure is occurring several fronts:
  - Antas mine ore reserve extension below and along strike from existing known ore reserves, recent result 12m @ 7.6% Cu from 72m;
  - Antas near mine targets, new Azevedo prospect, 9m @ 1.3% Cu in greenfields discovery 400m from open pit;
  - Pedra Branca, resource extension drilling, 1st hole 19m @ 2.4% Cu along strike from known resources, at 455m depth;
- Pedra Branca development schedule is subject to full environmental approval expected in mid-late 2018. The DFS is expected to be completed in May 2018. The decline may be mined ahead of this as a trial mining licence is already granted. Process plant construction is expected later in 2018.
- CentroGold project advancement is subject to resolving issues with the environmental licence that was suspended under the vendor's management. Avanco expects to have the licence re-instated in the Dec H'17 which should facilitate clarity on ownership and development. A scoping study is pending these developments. Mineral rights and mining licence remain in good standing.

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	1.40

Assumptions	2016a	2017f	2018f
Copper (US\$/lb)	2.21	2.71	2.95
Gold (US\$/oz)	1249	1269	1350
FX Rate (A\$/US\$)	0.73	0.76	0.77

Key Financials	2016a	2017f	2018f
Revenue (US\$m)	59	84	99
EBITDA (US\$m)	17	27	39
NPAT (US\$m)	-3	9	21
Cashflow (US\$m)	-8	8	22

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

EPS (USc)	0	0	0
EPS growth (%)	na	0	-4
PER (x)	-47	0	22

EV:EBITDA (x)	6	0	6
EV:EBIT (x)	20	0	12

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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(AVB \$0.10) Buy

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## Market Statistics

Year End 30 June

<b>Share Price</b>	<b>\$0.10</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>2,457</b>	<b>m</b>	L Ferraz NE Dir
			P Chapman NE Dir
Market Cap'n (dil)	\$246	m	
Enterprise Value	\$215	m	
Cash	\$31	m	
Debt	\$-	m	
			<b>Shareholders</b>
			Appian 18.0%
			Greenstone 16.7%
			BlackRock 12.9%
			Glencore 8.3%

## Asset Valuation

A\$m

A\$/sh

Antas Nth	255	0.10
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
<b>Total</b>	<b>450</b>	<b>0.18</b>

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

<b>Antas Nth (100% AVB)</b>					
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	1.40	1.29

## Pedra Branca (100% AVB)

Cu Prod'n kt	-	-	-	-	0.0
Au Prod'n koz	-	-	-	-	0.0
C1 Cash Costs US\$/lb	-	-	-	-	-

## Group Prod'n (100% AVB)

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	1.40	1.40

## Assumptions

Copper US\$/lb	2.21	2.61	2.71	2.95	3.13
Gold US\$/oz	1,249	1,238	1,269	1,350	1,350
FX Rate A\$/US\$	0.73	0.75	0.76	0.77	0.77

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

Cashflow (US\$m)	12	9	24	35	35
Cashflow per Share (c/sh)	1	0	1.0	1.4	1.4
Cashflow Ratio (x)	10	0	8	5	5
Earnings (US\$m)	-3	1	9	21	21
Earnings per Share (c/sh)	0	0	0	1	1
EPS Growth (%)	na	0%	-420%	145%	-1%
Earnings Ratio (x)	-47	0	22	9	9
Enterprise Value (A\$m)	136	132	206	178	225
EV : EBITDA (x)	6	0	6	3.5	4.4
EV : EBIT (x)	20	0	12	5.4	6.9

Net Debt : Net Debt+Equity (%)	0%	0%	0%	0%	0%
EBIT Margin (%)	9%	0%	15%	26%	27%
Return on Equity (%)	-3%	0%	9%	18%	15%
Return on Assets (%)	4%	0%	10%	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 2019f

Sales Revenue	59	39	84	99	92
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
<b>Total Revenue</b>	<b>59</b>	<b>39</b>	<b>84</b>	<b>99</b>	<b>92</b>
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
<b>EBITDA</b>	<b>17</b>	<b>11</b>	<b>27</b>	<b>39</b>	<b>39</b>
D&A	11	7	14	14	14
<b>EBIT</b>	<b>5</b>	<b>4</b>	<b>13</b>	<b>25</b>	<b>25</b>
Finance costs	3	2	2	0	0
PBT	1	3	12	25	25
Tax	4	2	4	4	4
<b>NPAT</b>	<b>-3</b>	<b>1</b>	<b>9</b>	<b>21</b>	<b>21</b>

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

Net Profit	1	1	9	21	21
Working Capital	3	1	1	0	0
+ Dep/Amort	5	7	14	14	14
+ Tax Expense	4	2	4	4	4
- Tax Paid	0	2	4	4	4
<b>= Operating Cashflow</b>	<b>12</b>	<b>9</b>	<b>24</b>	<b>35</b>	<b>35</b>
-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
<b>= Investing Cashflow</b>	<b>-23</b>	<b>-4</b>	<b>-14</b>	<b>-13</b>	<b>-71</b>
+ 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
<b>= Financing Cashflow</b>	<b>2</b>	<b>-2</b>	<b>-2</b>	<b>0</b>	<b>0</b>
<b>Period Surplus</b>	<b>-8</b>	<b>3</b>	<b>8</b>	<b>22</b>	<b>-36</b>
FX Adjustments	0	0	0	0	0
<b>CASH</b>	<b>23</b>	<b>26</b>	<b>31</b>	<b>52</b>	<b>16</b>

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

<b>Assets</b>					
Cash	23	26	31	52	16
Current Receivables	8	6	6	6	6
Other Current Assets	9	10	10	10	10
<b>Total Current Assets</b>	<b>40</b>	<b>42</b>	<b>46</b>	<b>68</b>	<b>32</b>
PP&E, MineProp, EE&D	61	54	57	56	113
Other	23	28	28	28	28
Total NC Assets	84	83	86	85	142
<b>Total Assets</b>	<b>124</b>	<b>125</b>	<b>132</b>	<b>153</b>	<b>174</b>
<b>Liabilities</b>					
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
<b>Total Liabilities</b>	<b>36</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>
<b>Net Assets</b>	<b>88</b>	<b>90</b>	<b>97</b>	<b>118</b>	<b>139</b>

## Reserves and Resources

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

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