

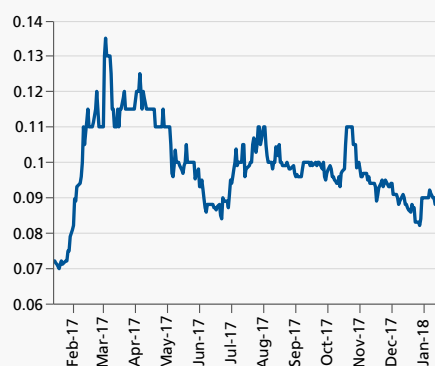
Australian Equity Research

15 January 2018

BUY

| | |
|---------------------|---------|
| PRICE TARGET | A\$0.17 |
| Price (12-Jan) | A\$0.09 |
| Ticker | AVB-ASX |

| | |
|------------------------|-------------|
| 52-Week Range (A\$): | 0.07 - 0.14 |
| Avg Daily Vol (000s) : | 1,725.25 |
| Shares Out. (M) : | 2,456.9 |
| Market Cap (A\$M): | 216.2 |
| Dividend /Shr (A\$): | 0.00 |
| Dividend Yield (%) : | 0.0 |



Source: FactSet

Priced as of close of business 12 January 2018

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Company Update

Paying Cents for a Dollar

Acquisition and key terms. AVB announced an option to acquire 100% of the Pantera project ("Pantera") owned by Vale (VALE3:BSP|Not Rated), located ~50km west of its existing development project at Pedra Branca in the Carajas. Key terms include:

- Non-refundable payment of US\$500,000 completed by AVB providing AVB with the right to acquire 100% of Pantera by either:
- i) Completing 14,000m of drilling within two years and declaring a Measured and Indicated Resource. This then leads to an acquisition price calculated at US\$0.04/lb of contained copper (ex Inferred Resources). Following exercising this option, beyond two years and up to five years AVB will need to completed further drilling with any contained copper above 400,000t incurring an acquisition price of US\$0.06/lb.
- ii) The option can be exercise at any time (independent of drilling) based on a non-JORC compliant estimate of 400,000t of contained copper valued at US\$0.04/lb.
- In both cases payment is capped at US\$3m p.a for a total acquisition cost in the range of US\$20m-US\$35m.

Pantera Project. The 9,700ha project is at an advanced exploration stage and comprises high grade IOCG Copper mineralisation less than 20m below surface that could be converted rapidly into Resource in our view with 5,000m of drilling planned over H1'18. Based on historic drilling data, we believe there is excellent potential to delineate a high grade Resource that could match or exceed Pedra Branca (CG valuation A\$149m). Historic drilling data include 26.m @2.58% Cu, 15m@ 2.82% Cu and 59m @ 1.36% Cu.AVB due diligence indicates the potential for strike extensions >4km with mineralisation open at depth in every section.

Whilst the project is unlikely to fit a major's hurdle for development, it could become a meaningful addition for AVB given its production profile and expertise. We highlighted in our [initiation](#) AVB's potential for further accretive deals with majors in the region. This proposed transaction further demonstrates the company's ability on this front.

Pipeline enhanced. This transaction enhances AVB's ambitious project development pipeline which now comprises:

- Pedra Branca - ~24-34ktpa Cu potential, DFS expected H1CY18
- CentroGold - ~100kozpa Au potential, Scoping Study expected H1CY18
- Pantera - Earlier stage Cu project with a maiden Resource expected in CY18

Valuation. We continue to be attracted to AVB's track record of project execution, operational delivery, FCF generation, solid balance sheet and strong growth potential. 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. BUY recommendation and Price Target of A\$0.17 maintained. Our price target is based on NPV8%/NPV10% for the operating assets and development assets net of corporate and other adjustments. We have not attributed a valuation to the Pantera project, but will likely do so as the project advances.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: January 15, 2018, 20:11 ET

Date and time of production: January 15, 2018, 20:11 ET

Target Price / Valuation Methodology:

Avanco Resources Limited - AVB

Our price target of A\$0.16 is based on 1x NPV_{8%}/NPV_{10%} 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.

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 the 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 mineable reserves.

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.

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 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.

Distribution of Ratings:

Global Stock Ratings (as of 01/15/18)

| Rating | Coverage Universe | | IB Clients |
|-----------------|-------------------|--------|------------|
| | # | % | % |
| Buy | 569 | 60.53% | 40.60% |
| Hold | 255 | 27.13% | 29.02% |
| Sell | 20 | 2.13% | 15.00% |
| Speculative Buy | 96 | 10.21% | 66.67% |
| | 940* | 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.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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