

# Avanco Resources Ltd

## (AVB \$0.09) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	16 <sup>th</sup> January 2018	\$0.20/sh

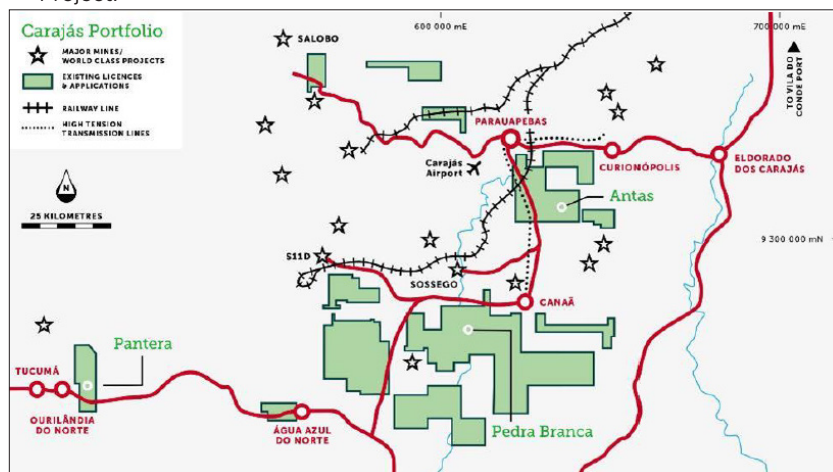
### Acquisition of Pantera Project from Vale

#### Investment case

AVB is a debt free Brazilian Cu-Au miner with significant growth opportunities. This option deal to acquire the Pantera Project looks like a stunning deal with continuous mineralisation identified over a 1.5km strike length and some excellent intercepts. The anticipated acquisition cost (US\$20-35m) equates to a contained copper resource of 225-400kt with a potential grade of >1.5% Cu (EZL estimate). Ultimately, we see potential for AVB to become a mid cap Cu/Au producer of 40-50kt of Cu and >100koz pa generating cashflow of >\$100m pa and we retain our Buy.

#### Key points

- AVB has an option to acquire 100% of the Pantera Copper Project from Vale. The license is ~ 100 sqkm and located 110km west of AVB's Pedra Branca Project.



Source: Avanco Resources Ltd

- Based on AVB's estimated acquisition cost of US\$20-US\$35m (payable at a maximum of US\$3m pa) implies Pantera will deliver a contained (Measured and Indicated) copper resource of 225kt to 400kt.
- We calculated an average width and grade on all historical drilling (17 holes) of 18.6m @ 1.55 % Cu and 0.13g/t Au. There were also 10 reported higher grade zones within the mineralised envelope with an average width and grade of 5.95m @ 3.8% Cu and 0.4 g/t Au.
- This implies a potential resource of 14.5mt to 25.8mt @ 1.55% Cu and if we assume on average 30% is higher grade (ie 5.95m from 18.7m) this could indicate a higher grade resource of 4.2-7.5mt @ 3.85% Cu as a potential subset.
- We stress these are very preliminary numbers in terms of tonnage and grade and only based on limited drilling but the contained copper estimates is based on AVB's estimate of the acquisition cost.

Avanco Resources Ltd	Year End 31 December	
Share Price	0.09	A\$/sh
Price Target	0.20	A\$/sh
Valuation	0.20	A\$/sh

Shares on issue	2457	m, diluted *
Market Capitalisation	221	A\$m
Enterprise Value	185	A\$m
Debt	0	A\$m
Cash	36	A\$m
Largest Shareholder	Appian 18%	

Production F/Cast	2017f	2018f	2019f
Cu Prod'n (kt)	14.1	14.1	14.2
Au Prod'n (koz)	0.0	0.0	28.9
C1 Cash Costs (US\$/lb)	0.00	0.00	807.15

Assumptions	2017f	2018f	2019f
Copper (US\$/lb)	3.00	3.00	3.13
Gold (US\$/oz)	1278	1313	1350
FX Rate (A\$/US\$)	0.78	0.78	0.78

Key Financials	2017f	2018f	2019f
Revenue (US\$m)	86	94	138
EBITDA (US\$m)	30	39	58
NPAT (US\$m)	11	21	31
Cashflow (US\$m)	11	57	-57

CFPS (USc)	0	7	5
P/CFPS (x)	0	0	0

EPS (USc)	0	0	1
EPS growth (%)	0	-5	1
PER (x)	0	17	8

EV:EBITDA (x)	0	5	2
EV:EBIT (x)	0	10	3

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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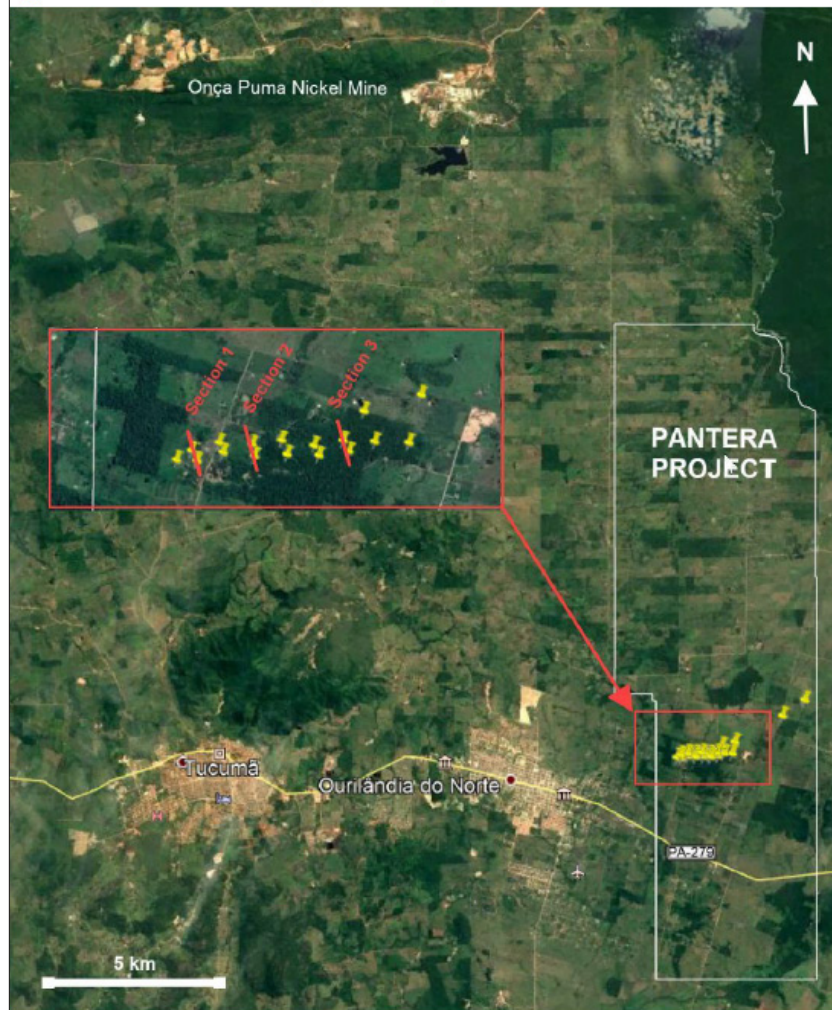
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### Pantera Copper Project

- Pantera is located in the Carajas Mineral Province, dominated by Vale and is a typical IOGC style of deposit – steeply dipping tabular ore zone predominantly copper (chalcopyrite rich with lesser bornite) and minor gold.
- Vale completed 17 diamond drill holes on 200m spaced sections and defined a 1.5km zone of continuous mineralisation.

Figure 5: Location of the Pantera Project in the Carajás



Source: Avanco Resources Ltd

- Better results include
  - 26m @ 2.58 % Cu from 81m incl 10.05m @ 3.75% Cu from 87m
  - 15m @ 2.82% Cu from 113m incl 6m @ 5.28 % Cu from 120m
  - 59m @ 1.36% Cu from 172.9m incl 10.9m @ 3.62% Cu from 172m
- Mineralisation has been intersected at a downhole depth of 27.8m (~ 20m vertically) to a maximum downhole depth of 326m (~ 270m vertically).

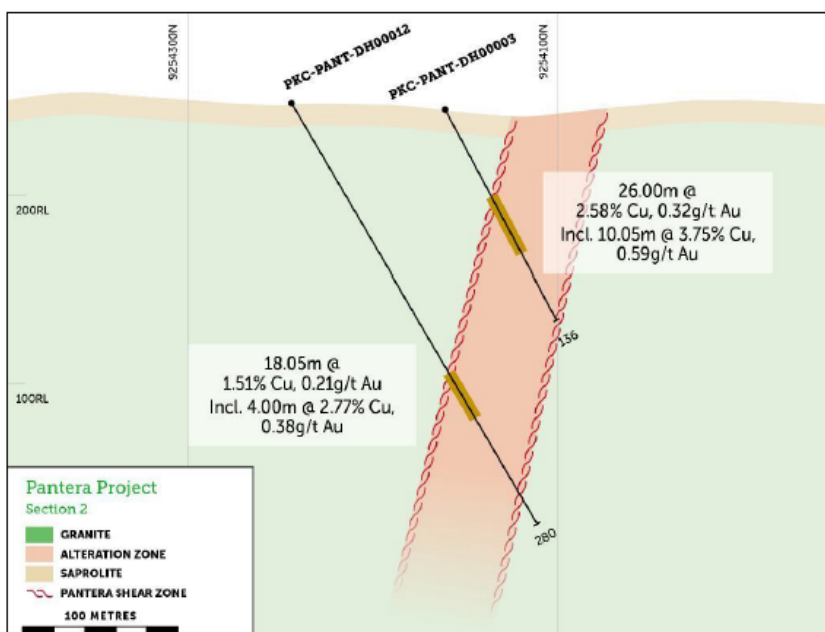
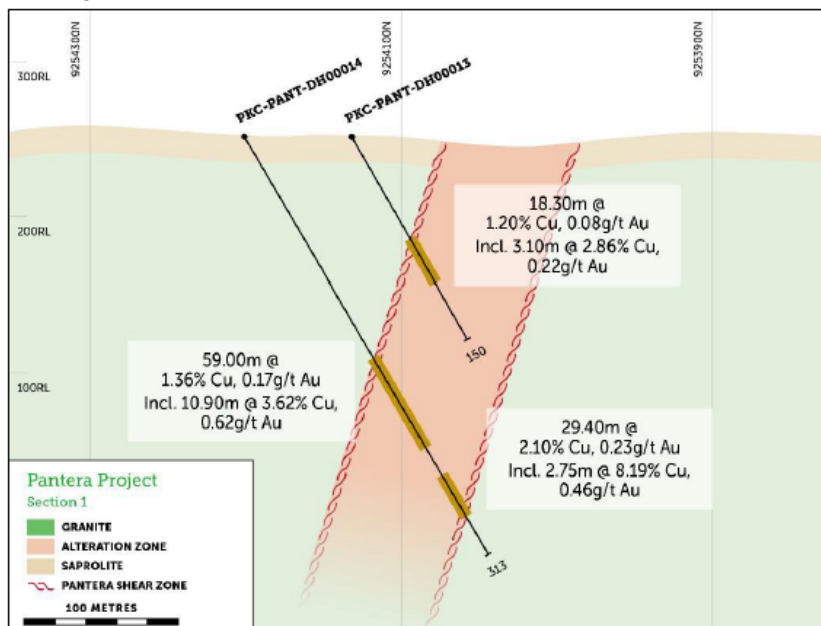
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- The sections below show mineralisation appears continuous down dip and along strike.



Source: Avanco Resources Ltd

- AVB plan an initial 5,000m drill programme to infill the 200m spacing to 100m centres which should be sufficient for a maiden JORC resource.
- AVB also believes there is a potential strike of ~ 4km with mineralisation identified by historical drill further to the west.
- AVB also see significant upside on the eastern side of the tenement where massive sulphides are being mined from small artisanal shaft.
- Metallurgical testwork is underway, however, as an typical Carajas IOGC style of mineralisation and very similar to Antas and Pedra Branca its likely to respond to conventional flotation.

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## Avanco Resources Ltd

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### Key Acquisition Terms are;

- US\$0.5m non-refundable acquisition option payment (done)
- Complete 14km of drilling within two years and calculate a Measured and Indicated resource within the Historical Mineralised zone. The acquisition price is then calculated at US\$0.04/lb of contained Cu. If contained Cu exceeds 400kt then a higher Acquisition price based on \$0.06/lb will be incurred.
- The Option can be exercised at any time (with or without drilling by agreeing an Acquisition Price on a non-JORC compliant estimation of 400kt of contained Co valued at US\$0.04/lb – ie US\$35.2m
- In either case Acquisition Price to Vale are capped at \$3m pa. AVB estimate the acquisition cost will likely range between US\$20-35m, hence it is anticipated payment will be spread over 7-12yrs.
- Any Cu resources discovered outside the Historical Mineralised Zone will not attract an increase to the Acquisition Price.
- AVB will honour an underlying royalty previously assigned to BNDES of 1.5% gross revenue.
- Any future production from resources hosted of the Historical Mineralised Zone will be subject to a NSR royalty of 1% on copper

### Analysis

We believe this is stunning deal to acquire a project that looks to have, at a minimum, 225kt of contained Cu and potentially up to 400kt of Cu for US\$20-35m.

The option deal is structured nicely so that there is not one large cash payment looming once a resource has been defined and is capped at a maximum of US\$3m pa. This will give AVB sufficient time to adequately explore the tenement, complete feasibility studies etc,

On the flip side, if AVB want to fast track the project then it does have the option to pay US\$35m to acquire 100%. If >400kt is defined then the additional cost of US\$0.02/lb is minute in comparison to the deposit size.

It was always hoped that with AVB's operating credentials firming established after building and successfully operating Antas that some of Vale's 'crumbs' might fall into their hands. We understand AVB has been working on this deal for sometime.

We are excited with the potential of this project. Continuous mineralisation over 1.5km strike is an excellent start and the grade and tenor of the deposit is appealing.

We believe this could develop into a >2% Cu reserve with potential production of say 20-25kt of Cu pa. As an open pit development it could leap frog Pedra Branca in the development schedule.

At this stage we have left our valuation unchanged at \$0.20/sh with the maiden resource estimate the key catalyst but there is clear upward bias should this develop.

Ultimately, we see potential for AVB to become a mid cap Cu/Au producer with 40-50kt of Cu and >100koz of Au pa generating operating cashflow >\$100m over the med-long term.

AVB has underperformed it peers, despite generating solid cashflow from Antas. We believe that if permitting issues are sorted at its Centro Gold project and Pantera develops as we expect, then AVB can be significantly re rated. We maintain our Buy.

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## Avanco Resources Ltd

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## Market Statistics Year End 30 June

<b>Share Price</b>	<b>\$0.090</b>	<b>A\$/sh</b>	<b>Directors</b>	
Issued Capital			V Tidy	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
<b>Total Dil. FPOrd</b>	<b>2,457</b>	<b>m</b>	P Chapman	NE Dir
Market Cap'n (dil)	\$221	m	<b>Shareholders</b>	
Enterprise Value	\$185	m	Appian	18.0%
Cash	\$36	m	Greenstone	16.7%
Debt	\$-	m	BlackRock	12.9%
			Glencore	8.3%

<b>Asset Valuation</b>	<b>A\$m</b>	<b>A\$/sh</b>
Antas Nth	254	0.10
Pedra Branca	125	0.05
Centro Gold	114	0.05
Other Expl'n	13	0.01
Corporate	(47)	(0.02)
Working Capital	(1)	(0.00)
Unpaid Capital	-	-
Debt	-	-
Cash	36	0.01
<b>Total</b>	<b>493</b>	<b>0.20</b>

## F/Cast Production (A\$m) JH 17a 2017f 2018f 2019f 2020f

<b>Antas Nth (100% AVB)</b>					
Cu Prod'n	kt	7.1	14.1	14.1	14.1
Au Prod'n	koz	5.7	10.7	9.6	9.6
C1 Cash Costs	US\$/lb	1.49	1.44	1.28	1.24

<b>Pedra Branca (100% AVB)</b>					
Cu Prod'n	kt	-	-	-	0.0
Au Prod'n	koz	-	-	-	0.0
C1 Cash Costs	US\$/lb	-	-	-	2.7

<b>Centro Gold (100% AVB)</b>					
Au Prod'n	koz	-	-	-	29
Total Cash Costs	US\$/oz	-	-	-	807

Group Prod'n - Cu	kt	7.1	14.1	14.1	14.2
Group Prod'n - Au	koz	6	11	10	39

<b>Assumptions</b>					
Copper	US\$/lb	2.61	3.00	3.00	3.13
Gold	US\$/oz	1,238	1,278	1,313	1,350
FX Rate	A\$/US\$	0.75	0.78	0.78	0.78

## Ratio Analysis (A\$m) JH 17a 2017f 2018f 2019f 2020f

Cashflow (US\$m)	9	26	35	51	103
Cashflow per Share (c/sh)	0	1.1	1.4	2.1	4.2
Cashflow Ratio (x)	0	7	5	3	2

Earnings (US\$m)	1	11	21	31	68
Earnings per Share (c/sh)	0	0	1	1	3
EPS Growth (%)	0%	-503%	91%	52%	120%
Earnings Ratio (x)	0	17	8	6	3

Enterprise Value (A\$m)	132	190	105	178	189
EV : EBITDA (x)	0	5	2.1	2.4	1.3
EV : EBIT (x)	0	10	3.3	3.7	1.8

Net Debt : Net Debt+Equity (%)	0%	0%	0%	0%	0%
EBIT Margin (%)	0%	18%	26%	27%	31%
Return on Equity (%)	0%	11%	11%	15%	24%
Return on Assets (%)	0%	12%	12%	15%	26%

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%

<b>Profit and Loss (A\$m)</b>	<b>JH 17a</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>
Sales Revenue	39	86	94	138	267
Interest Revenue	0	0	0	0	0
Other Revenue	0	0	0	0	0
<b>Total Revenue</b>	<b>39</b>	<b>86</b>	<b>94</b>	<b>138</b>	<b>267</b>

Opex	25	52	49	72	141
O/H	2	4	6	8	8
Provisions	-2	-2	0	0	0
Other	1	1	0	0	0
<b>EBITDA</b>	<b>11</b>	<b>30</b>	<b>39</b>	<b>58</b>	<b>118</b>
D&A	7	14	14	20	35
<b>EBIT</b>	<b>4</b>	<b>16</b>	<b>25</b>	<b>38</b>	<b>83</b>
Finance costs	2	2	0	0	0
PBT	3	15	25	38	83
Tax	2	4	4	7	14
<b>NPAT</b>	<b>1</b>	<b>11</b>	<b>21</b>	<b>31</b>	<b>68</b>

<b>Cash Flow (A\$m)</b>	<b>JH 17a</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>
Net Profit	1	11	21	31	68
Working Capital	1	1	0	0	0
+ Dep/Amort	7	14	14	20	35
+ Tax Expense	2	4	4	7	14
- Tax Paid	2	4	4	7	14
<b>= Operating Cashflow</b>	<b>9</b>	<b>26</b>	<b>35</b>	<b>51</b>	<b>103</b>

-Capex + Development	1	6	38	108	112
-Exploration	3	7	0	0	0
-Assets Purchased	0	0	0	0	0
+Asset Sales	0	0	0	0	0
+Other	0	0	0	0	0
<b>= Investing Cashflow</b>	<b>-4</b>	<b>-13</b>	<b>-38</b>	<b>-108</b>	<b>-112</b>

+ Equity Issues (Rts,plc,opts)	0	0	60	0	0
+Loan Drawdown	0	0	0	0	0
+Other	-2	-2	0	0	0
-Loan Repayment	0	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>60</b>	<b>0</b>	<b>0</b>

<b>Period Surplus</b>	<b>3</b>	<b>11</b>	<b>57</b>	<b>-57</b>	<b>-9</b>
FX Adjustments	0	0	0	0	0

<b>CASH</b>	<b>26</b>	<b>34</b>	<b>90</b>	<b>33</b>	<b>25</b>
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## Balance Sheet (A\$m) JH 17a 2017f 2018f 2019f 2020f

<b>Assets</b>					
Cash	26	34	90	33	25
Current Receivables	6	6	6	6	6
Other Current Assets	10	10	10	10	10
<b>Total Current Assets</b>	<b>42</b>	<b>50</b>	<b>106</b>	<b>49</b>	<b>41</b>
PP&E, MineProp, EE&D	54	56	80	168	245
Other	28	28	28	28	28
<b>Total NC Assets</b>	<b>83</b>	<b>85</b>	<b>109</b>	<b>197</b>	<b>274</b>
<b>Total Assets</b>	<b>125</b>	<b>134</b>	<b>215</b>	<b>246</b>	<b>314</b>

<b>Liabilities</b>					
Borrowings	0	0	0	0	0
Trade Payables	10	10	10	10	10
Provisions	7	7	7	7	7
Other Liabilities	18	18	18	18	18
<b>Total Liabilities</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>

<b>Net Assets</b>	<b>90</b>	<b>99</b>	<b>180</b>	<b>211</b>	<b>279</b>
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## 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) I+I		20.2	-	2.0	-	1,286
<b>Ore Reserves</b>						
Antas Nth	P+P	3.0	2.64	0.6	80	57

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## Contact Details

**Euroz Securities Limited** +61 8 9488 1400

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Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

### Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jerome Paz - Associate Research Analyst	+61 8 9488 1414

### Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Blair Spaulding - Institutional Adviser	+61 8 9488 1418
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

### Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Duncan Relf - Associate Director	+61 8 9346 0322
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Scott Fraser - Investment Adviser	+61 8 9488 1436
Steve Wood - Investment Adviser	+61 8 9346 0305

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