

17 January 2018

Avanco Resources Limited (AVB) BUY Share Price: A\$0.088

Continuing to build a solid copper growth portfolio Target Price: A\$0.15

AVB has acquired an option to purchase the highly prospective Pantera Cu-Au project from Vale. Pantera is located in the Carajás IOCG district of Brazil, close to AVB's Antas & Petra Branca projects. Mineralisation has been intersected in all 17 holes drilled at Pantera by Vale, with significant copper zones between 10-30m true width extending close to surface. Initial drilling indicates continuity of mineralisation over at least 1.5km of strike, however the deposit remains open in all directions; extensions to the east suggest up to 4-5km is possible. Pantera appears a perfect fit for AVB, given its position in the asset portfolio, location, size, scale and grade are well-suited to AVB's expertise in developing low cost, high grade projects in Brazil. Maintain BUY, PT of A\$0.15/sh (unchanged).

Pantera an exciting, earlier-stage project

- Total of 19 holes drilled by Vale, all hit Cu mineralisation; not a Vale-sized asset, but perfect for AVB
- Multiple high grade intersections over broad widths eg. 26m at 2.6% Cu incl 10m at 3.8% Cu (Figures 1 & 2)
- Mineralisation hosted by a steeply-dipping tabular shear zone within a granodiorite, open in all directions
- Preliminary 'mineralised envelope' potentially contains c.400kt Cu, with considerable upside as exploration steps-out along strike and at depth
- Potential development of both open pit & underground

Low cost and favourably-structured payment terms

- Initial US\$0.5m option fee already paid to Vale
- Total acquisition price either (i) fixed at US\$35.3m (400kt Cu at US\$4c/lb) or (ii) determined by Cu contained in Measure & Indicated resources in a pre-defined 'historical mineralised zone' within a 2yr timeframe
- AVB estimate an acquisition cost between US\$20-35m, with a maximum of US\$3m to be paid per year
- Any copper identified outside the 'mineralised envelope' is not included in the acquisition price

Pantera rounds-out the asset portfolio nicely

- Pantera is an earlier-stage asset, given requirement for further exploration, studies and permitting
- Pantera likely developed after CentroGold & PB
- Refocusses asset portfolio back toward copper

Very close to key infrastructure & services

- Close to Vale's Onca Puma Ni mine; all key infrastructure, labour, service providers etc are nearby

Price target (1xP/NPV) of A\$0.15/sh (unchanged)

Company Data

Shares – ordinary (M)	2,457
Market capitalisation (\$M)	\$216m
12 month low/high (\$)	\$0.07 / \$0.135
Average monthly turnover (\$M)	\$7.2m
GICS Industry	Materials / Metals & Mining

Financial Summary (fully diluted/normalised)

Year end Dec	2016A	2017F	2018F	2019F	2020F
Revenue (\$M)	59	88	100	101	214
Costs (\$M)	44	68	72	67	125
EBITDA (\$M)	16	21	28	35	89
NPAT (\$M)	-3	2	10	13	47
EPS (¢ps)	0	0	0.4	0.5	1.7
EPS growth (%)	0	0	0	0	0
PER (x)	na	121	20	15	4
Cashflow (\$M)	12	21	30	34	81
CFPS (¢ps)	0.4	0.8	1.1	1.2	2.9
PCFPS (x)	16	9	6	6	2
Enterprise Value (\$M)	149	141	100	142	168
EV / EBITDA (x)	10	7	4	4	2
Payout ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0

AVB – performance over one year (A¢/sh)



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Analysis

Avanco Resource (AVB)

16-Jan-18

Year End December

PROFIT & LOSS	2016A	2017F	2018F	2019F	2020F
Revenue	US\$M 59.3	88.5	99.7	101.4	214.1
Operating Costs	US\$M 42.5	58.2	64.2	59.0	107.4
Exploration	US\$M 1.0	3.2	2.5	2.5	2.5
Other	US\$M 0.1	6.4	5.0	5.0	15.0
EBITDA	US\$M 15.7	20.6	28.0	34.9	89.2
Depreciation & Amort.	US\$M 11.4	15.4	17.5	18.8	31.1
EBIT	US\$M 4.2	5.2	10.5	16.1	58.0
Net Interest	US\$M 3.2	1.5	(1.0)	0.9	2.2
Pre-Tax Profit	US\$M 1.0	3.8	11.5	15.2	55.8
Tax	US\$M 3.7	2.2	1.8	2.3	8.5
Net Profit	US\$M (2.7)	1.6	9.8	12.9	47.3
Abnormal	US\$M 0.0	0.0	0.0	0.0	0.0
Reported Profit	US\$M (2.7)	1.6	9.8	12.9	47.3
Dividends Paid	US\$M 0.0	0.0	0.0	0.0	0.0
Adjustments	US\$M 0.0	0.0	0.0	0.0	0.0

CASHFLOW	2016A	2017F	2018F	2019F	2020F
Net Op Cash Flow	US\$M 11.9	21.0	30.5	37.4	91.7
Net Interest	US\$M 0.4	0.5	1.0	(0.9)	(2.2)
Tax Paid	US\$M 0.0	(0.1)	(1.8)	(2.3)	(8.5)
Operating Cash Flow	US\$M 12.3	21.4	29.7	34.2	80.9
Net Capex	US\$M (19.7)	(1.8)	(13.6)	(71.7)	(101.5)
Exploration	US\$M (3.2)	(9.6)	(5.0)	(5.0)	(5.0)
Investing Cash Flow	US\$M (22.9)	(11.4)	(18.6)	(76.7)	(106.5)
Free cash flow	US\$M (10.6)	10.0	11.1	(42.5)	(25.6)

Net Borrowings	US\$M 0.0	0.0	30.0	0.0	0.0
Dividends	US\$M 0.0	0.0	0.0	0.0	0.0
Equity Issues	US\$M 0.0	0.0	30.0	0.0	0.0
Other	US\$M 1.7	(2.0)	0.0	0.0	0.0
Financing Cash Flow	US\$M 1.7	(2.0)	60.0	0.0	0.0
Net IncreaseCash	US\$M (8.8)	8.1	71.1	(42.5)	(25.6)

BALANCE SHEET	2016A	2017F	2018F	2019F	2020F
Cash	US\$M 22.9	30.9	102.0	59.6	34.0
Other Current	US\$M 16.8	15.8	15.8	15.8	15.8
Current Assets	US\$M 39.7	46.7	117.8	75.4	49.8
Fixed Assets	US\$M 61.1	55.3	68.9	140.6	242.1
Exploration	US\$M 21.2	24.4	24.4	24.4	24.4
Other	US\$M 2.2	4.1	4.1	4.1	4.1
Non Current Assets	US\$M 84.5	83.7	97.3	169.0	270.5
Total Assets	US\$M 124.1	130.5	215.2	244.4	320.3
Borrowings	US\$M 0.0	0.0	0.0	0.0	0.0
Payables	US\$M 10.4	9.6	9.6	9.6	9.6
Other	US\$M 7.5	7.2	7.2	7.2	7.2
Current Liab	US\$M 17.9	16.8	16.8	16.8	16.8
Borrowings	US\$M 0.0	0.0	30.0	30.0	30.0
Provisions	US\$M 7.2	7.8	7.8	7.8	7.8
Other	US\$M 10.7	10.5	10.5	10.5	10.5
Non Current Liab	US\$M 17.8	18.3	48.3	48.3	48.3
Total Liabilities	US\$M 35.7	35.1	65.1	65.1	65.1
Total Equity	US\$M 88.4	95.3	150.0	179.3	255.2

RATIO ANALYSIS	US\$	US\$	US\$	US\$	US\$
EPS	¢ (0.1)	0.1	0.4	0.5	1.7
PER	x na	121.3	19.8	14.9	4.1
EPS Growth	% (305.3)	(159.7)	513.9	32.2	266.5
CFPS	¢ 0.4	0.8	1.1	1.2	2.9
PCFR	x 15.6	9.0	6.5	5.6	2.4
DPS	¢ 0.0	0.0	0.0	0.0	0.0
Yield	% 0%	0%	0%	0%	0%
Payout Ratio	% 0%	0%	0%	0%	0%
Gearing ND/E	% -26%	-32%	-48%	-16%	-2%
Interest Cover	x 1.3	3.6	na	18.8	25.8
EBITDA Margin	% 26.4	23.3	28.0	34.4	41.7
EBIT Margin	% 7.1	5.9	10.5	15.9	27.1
Return On Assets	% 3.4	4.0	4.9	6.6	18.1
Eff Tax rate	% 25	25	25	25	25

Share Price	(\$)	A\$0.09	US\$0.07
Iss. Shares	(M)	2456.9	2456.9
Issued shares	(M)	300.0	300.0
Fully Diluted	(M)	2756.9	2756.9
Mkt Cap.	(\$M)	A\$216M	US\$172M

Resource	Reserve
Antas	
Tonnes	Mt 16.46
Copper grade	% 1.43%
Gold grade	g/t 0.32
Contained copper	t 237,000
Contained gold	oz 167,000
Pedra Branca	
Tonnes	Mt 10.48
Copper grade	% 2.80%
Gold grade	g/t 0.6
Contained copper	t 289,000
Contained gold	oz 221,000

Antas	2016A	2017F	2018F	2019F	2020F
Production					
Ore milled	Mt 0.51	0.71	0.70	0.70	0.70
Grade - copper	% 2.29%	2.06%	2.15%	2.20%	2.40%
Grade - gold	g/t 0.58	0.62	0.55	0.55	0.55
Grade - silver	g/t 0.00	0.00	0.00	0.00	0.00
Recovery Copper	% 0.96	0.97	0.97	0.97	0.97
Recovery Gold/Silver	% 86%	84%	85%	85%	85%
Copper in concentrate	t 11,188	14,188	14,599	14,938	16,296
Gold in concentrate	oz 7,779	11,755	10,521	10,521	10,521
Silver in concentrate	oz 0	0	0	0	0
C1 Costs	US\$/lb 1.17	1.48	1.37	1.18	0.90
AISC	US\$/lb 1.58	1.89	1.82	1.62	1.30

Pedra Branca	
Production	
Ore milled	Mt 0.0
Grade - Copper	% 0.00%
Grade - Gold	g/t 0.0
Recoveries - Copper	% 0.0
Recoveries - Gold	% 0.0
Copper in concentrate	t 0
Gold in concentrate	oz 0
C1 Costs	US\$/lb 0.00
AISC	US\$/lb 0.00

REVENUE	
Antas	US\$M 59
Pedra Branca	US\$M 0
Total	US\$M 59
COSTS	
Antas	US\$M 46
Pedra Branca	US\$M 0
Corporate	US\$M 3
Total	US\$M 49

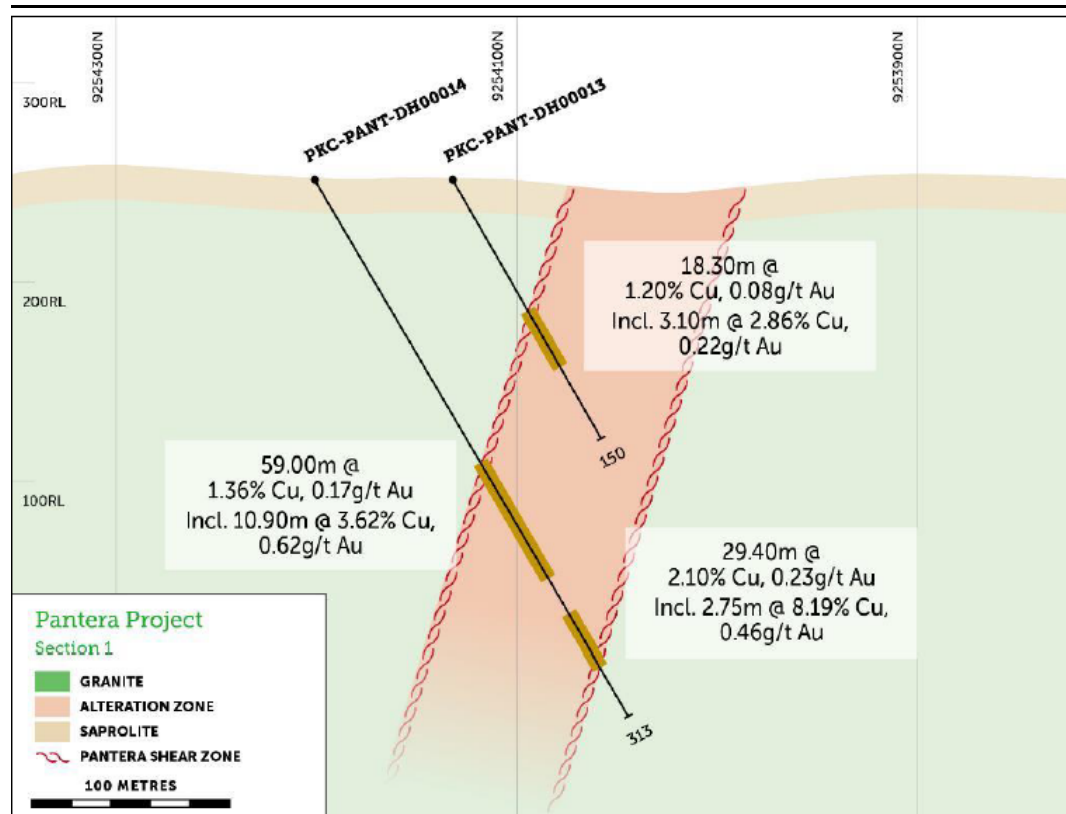
CAPEX	
Antas	US\$M 18.2
Pedra Branca	US\$M 0.0
Total	US\$M 18.2

ASSUMPTIONS	
Exchange Rate	A\$/US\$ 0.74
Copper price	US\$/lb 2.21
Copper price	A\$/lb 2.97
Gold price	US\$oz 1,247
Gold price	A\$oz 1,677

NPV (+1Yr)	A\$M	A\$/sh.
Antas	183	\$ 0.07
Pedra Branca East	195	\$ 0.07
Exploration (incl Centrogold)	39.1	\$ 0.01
Corporate costs	(43.0)	\$ (0.02)
Net Cash (Debt)	40.3	\$ 0.01
Total	414.5	\$ 0.15

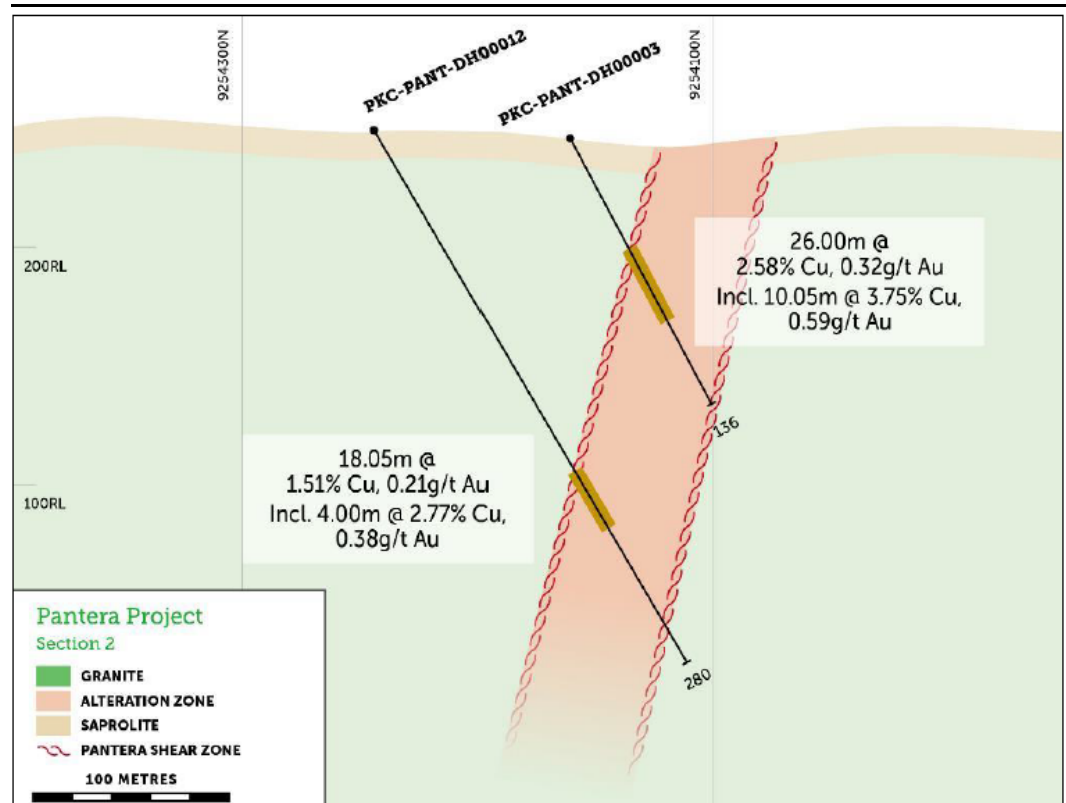
Source: Petra Capital

Figure 1: Drill section through Pantera



Source: Company Reports

Figure 2: Drill section through Pantera



Source: Company Reports



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