

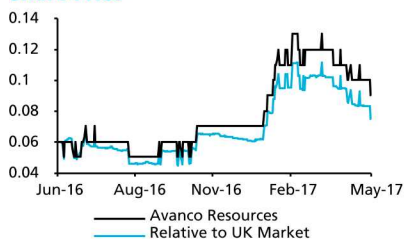
2 June 2017 06:00 BST

BUY

Current Share Price	AUc9.3
Target Price	AUc16.0
Market Capitalisation	AUD195.3m
Shares In Issue	2,457m
RIC/BLBG	AVBX.AX/AVB AU
Avg. Daily Volume (3M)	1,857,384
Net Cash/(Debt) (m) (12/16F)	AUD8.0m
Broker	Yes

Current share price(s) timed at 4:30pm on 31/05/17

Share Price



Performance (%)	1M	3M	12M
Absolute	-15	-15	55
Relative	-18	-19	30

Source: Datastream (relative to UK-DS Market index)

Analysts

Jonathan Guy
Tel: +44 (0)20 7260 1420
j.guy@numis.com

Justin Chan
Tel: +44 (0)207 260 1430
j.chan@numis.com

Specialist Sales
Matthew Hasson
Tel: +44 (0)20 7260 1235
m.hasson@numis.com

This research was prepared and approved by

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT
+44 (0)20 7260 1000 | mail@numis.com
www.numis.com

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Avanco Resources

Full Year Results

Pedra Branca PFS an incremental negative

AVB recently released the results of a pre-feasibility study at the company's Pedra Branca project. We view this as an incremental negative due to higher costs and a slower start up. Despite this, we retain a Buy recommendation based on 1x NAV for Antas, 0.75x Pedra Branca and an in-situ valuation for the Centrogold project. We continue to believe that AVB is being valued solely on the basis of Antas and we expect it to re-rate as Pedra Branca is advanced towards production and Centrogold is moved through the permitting process.

- **PFS largely in line but early processing of ore at Antas off the table** - Avanco recently announced results of a Pre-Feasibility Study for its Pedra Branca copper-gold project located in the Carajas mining district of Brazil. The deposit is hosted in adjacent, steeply dipping orebodies, PB East and PB West, and the study is based on the exploitation of PB East only. The PFS delivered similar results to the Sept 2016 scoping study and a Feasibility Study will commence immediately. The PFS set out a 9-year mine life at 1.2Mtpa with average annual production of 24kt of copper and 16koz of gold at C1 cash costs of US\$1.30/lb copper vs scoping study production of 24kt copper and 17koz gold with C1 costs of US\$1.14/lb Cu. The mining method in the PFS was underground open sub level open stoping with flotation to produce a concentrate. Copper recovery was +1% to 95% and gold recovery was unchanged at 86%. The LOM average head grade was unchanged at 2.06% copper and 0.49g/t gold. The initial capex estimate is US\$158m, 5% higher than the PEA. The primary study parameter changes were the removal of the early development option to truck ore to Antas, as Antas no longer has spare capacity, and an increase in the LT BRL:USD assumption to 3.2:1 from 4:1 (the short term assumption remains 3.2:1). The strengthening of the real increased assumed operating costs, however this was partially offset other assumed savings. The cash cost estimate of US\$1.30/lb is slightly higher than our previously modelled US\$1.19/lb but, in our view, the project remains attractive. AVB reported an NPV of US\$200m using a 7% discount rate. This is based on a copper price of US\$2.65/lb escalating to US\$2.94 from year 5 onwards, a gold price of US\$1,252/oz moving to a long term price of US\$1,270/oz.. We value the project at US\$117 million based on 0.75x NAV and using a 10% discount rate. Our LT gold price is US\$1,400/oz and our LT copper price of US\$3.00/lb.

- **Cutting TP to 16cps on slower start up and higher costs** - We retain a Buy recommendation but have trimmed our PT by 2cps to 16cps due to a later assumed start up and higher assumed costs. We have pushed back construction by a year to mid 2018 with a two year construction period and first production in Q3 2020. As noted, we have also removed the previous assumption trucking ore from Pedra Branca to Antas ahead of this. Our C1 costs are now US\$1.27/lb vs US\$1.30 in the PFS as we have higher gold by-product credits due to our higher assumed gold price.

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Figure 1: Avanco Summary Financials

Avanco	Ticker	AVB	Market Capitalisation	A\$221m	Financial Year End	June
BUY	Share Price	A\$0.090	Enterprise Value (EV)	A\$191m	Reporting Currency	A\$
A\$0.16	Implied Return	77%	Net Debt (Cash)	-A\$30m	Shares in Issue	2,457m
Valuation						
	Disc Rate	US\$m	US\$/sh	PNAV	A\$/sh	
Antas	10%	193	0.08	1.0x	A\$0.10	
Pedra Branca	10%	117	0.05	0.75x	A\$0.05	
Centrogold		26	0.01	0.75x	A\$0.01	
Cash		23	0.01	1.0x	A\$0.01	
Debt		-	-	1.0x	A\$0.00	
Equity raised		-	-	1.0x	A\$0.00	
Cash from options		-	-	1.0x	A\$0.00	
SG&A and central	10%	(30)	(0.01)	1.0x	-A\$0.02	
Valuation (fd)		329	0.13		A\$0.16	
Current NAV Multiple (Implied)					0.50x	
Valuation						
NAV valuation	Target multiple		0.75x - 1.0x		A\$0.16	
Other data						
Basic shares (m)	2,456.9			12M high:	A\$0.08	
Fully diluted shares (m)	2,456.9			12M low:	A\$0.05	
Sensitivity Analysis						
					NAVPS (A\$)	
Base case Cu price forecast					0.16	
Base case +10%					0.23	
Base case -10%					0.14	
Spot Cu price (US\$2.20/lb Cu, US\$1270/oz Au)					0.16	
News Catalyst (CY)						
Antas Commissioned Q1	Achieved					
Antas Commercial Production Q3	Achieved					
PB Scoping & Feasibility Work	Scoping	Feasibility				
PB Financing & Permitting						
PB Construction						
PB Commissioning						
Resource / Reserve						
	Tonnes	(%Cu)	Kt Cu	Koz Au	EV/lb CuEq	
Reserves (R&R)	3.0 Mt	2.64	80 kt	56.50	\$0.70	
Resources (M&I&I)	51.4 Mt	1.15	592 kt	1,749	\$0.07	
Production (100% basis)						
	2016A	2017E	2018E	2019E	2020E	
Copper Price (US\$/lb Cu)	2.32	2.70	2.70	3.00	3.00	
Production (kt Cu)	11.2	13.9	13.8	13.7	21.3	
C1 cash cost (ex royalties, \$/lb)*	1.10	1.13	0.83	0.74	1.00	
AISC (US\$/lb)	1.42	1.65	1.32	1.27	1.41	
*C1=site mining costs						
<div> <div> Cu Production (t 100% basis) C1 Cash Cost / AISC (\$/lb) </div> </div>						
<div> <div> Antas Pedra Branca C1 cost (ex. Royalties) AISC </div> </div>						
Assumptions						
	2015	2016	2017F	2018F	2019F	
Copper Price (US\$/lb)	2.50	2.32	2.70	2.70	3.00	
Exchange Rate (A\$:US\$)	0.78	0.75	0.75	0.75	0.75	
Exchange Rate (BRL:US\$)	2.68	3.66	3.69	4.13	4.50	
Ratio analysis						
	2015	2016	2017F	2018F	2019F	
Average shares out (m)	-	2,457	2,457	2,457	2,457	
Adj. EPS (US\$/sh)	(0.00)	(0.00)	0.01	0.01	0.01	
EPS growth (%)	-	-	-	114%	107%	
PE (x)	-	-	10.5x	9.2x	8.6x	
CFPS before w/c (US\$/sh)	(0.00)	0.01	0.01	0.01	0.02	
P/CF (x)	-	17.1x	9.0x	7.5x	5.9x	
FCFPS (US\$/sh)	(0.02)	(0.01)	0.01	(0.00)	(0.01)	
P/FCFPS	-	-	6.0x	-	-	
FCF yield (%)	-	(8%)	17%	(4%)	(21%)	
FCF margin (%)	-	(29%)	43%	(12%)	(52%)	
EV (US\$m)	-	143.0	114.5	123.4	164.5	
EV/EBITDA (x)	-	9.1x	3.1x	2.8x	3.0x	
EBITDA margin (%)	-	26%	43%	54%	60%	
ROA (%)	1.0%	(2%)	14%	10%	9%	
ROE (%)	1%	(3%)	19%	18%	16%	
ROCE (%)	(2%)	4%	21%	15%	16%	
Net Debt / EBITDA (x)	-	(1.5x)	(1.4x)	(1.0x)	(0.0x)	
Gearing (Debt/Equity) (x)	0.3x	0.4x	0.3x	0.8x	0.7x	
Interest Cover (x)	-	-	-	9.8x	4.4x	
Income statement (US\$m)						
	2015	2016	2017F	2018F	2019F	
Revenue	-	59.3	85.3	82.0	90.5	
Cost of sales	-	(34.1)	(34.6)	(25.1)	(22.2)	
D&A	-	(11.4)	(11.0)	(11.5)	(13.9)	
Gross profit	-	13.8	39.7	45.4	54.3	
Exploration	-	-	(1.5)	(1.5)	(1.5)	
Admin expense	(1.7)	(3.3)	(3.0)	(3.0)	(3.0)	
Net interest	0.2	(3.2)	0.2	(2.8)	(8.4)	
Other	(9.5)	(6.2)		(8.1)	(9.2)	
Tax	-	(3.7)	(5.3)	(6.0)	(6.4)	
Net income	(11.0)	(2.7)	30.1	24.0	25.7	
EBITDA	(2.5)	15.6	37.1	44.2	54.5	
Cash flow (US\$m)						
	2015	2016	2017F	2018F	2019F	
Net (loss) income :	1.1	(2.7)	21.1	24.0	25.7	
Non-cash adjustments	-	17.9	11.7	12.2	14.7	
Working capital movements	-	(4.9)	4.9	(1.5)	(0.5)	
Net interest & other	30.6	12.5	13.7	74.4	44.7	
Cash flow from operations	(1.8)	12.3	37.7	38.0	49.1	
PP&E	(25.0)	(19.7)	(7.6)	(43.6)	(81.1)	
Exploration	(14.6)	(3.2)	(1.6)	-	-	
Other	-	-	-	-	-	
Cash flow from investing	(39.6)	(22.9)	(9.2)	(43.6)	(81.1)	
Interest received / (paid)	-	-	-	3.3	9.2	
Share issue	49.6	-	-	-	-	
Debt drawn down	-	-	-	66.7	33.3	
Debt repaid	-	-	-	-	(16.7)	
Cash flow from financing	56.4	2.4	-	63.3	7.5	
Forex	1.5	(0.7)	-	-	-	
Net change in cash	15.0	(8.2)	28.5	57.8	(24.5)	
Cash at end of period	31.7	22.9	51.3	109.1	84.7	
Balance sheet (US\$m)						
	2015	2016	2017F	2018F	2019F	
Cash	31.7	22.9	51.3	109.1	84.7	
AR	0.8	7.8	5.3	5.1	5.7	
Inventories	-	9.0	7.8	7.8	7.7	
PPE	63.4	61.1	57.7	89.8	157.0	
Other	18.0	23.4	25.0	25.0	25.0	
Total assets	113.9	124.1	147.1	236.8	280.0	
AP	4.8	10.4	12.5	10.8	10.8	
Debt	-	-	-	66.7	83.3	
Deferred tax	-	0.5	0.5	0.5	0.5	
Other	19.8	24.8	23.8	23.8	23.8	
Total liabilities	24.6	35.7	36.9	101.8	118.6	
Shareholders equity	89.3	88.4	110.3	135.0	161.5	
Retained earnings	-	-	-	-	-	
Liabilities + equity	113.9	124.1	147.1	236.8	280.0	

Source: Company & Numis Securities Research

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As from 14 February 2005, the formula is:

Buy	>= +20%
Add	>= +10% to +19.99%
Hold	0% to +/-9.99%
Reduce	<= -10% to -19.99%
Sell	<= -20%

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Add	28.6%	27.2%	31.1%	26.1%
Hold	25.7%	6.1%	22.2%	7.4%
Reduce	3.5%	0.7%	2.6%	0.0%
Sell	1.4%	0.0%	1.9%	0.0%
Total	100%	100%	100%	100%
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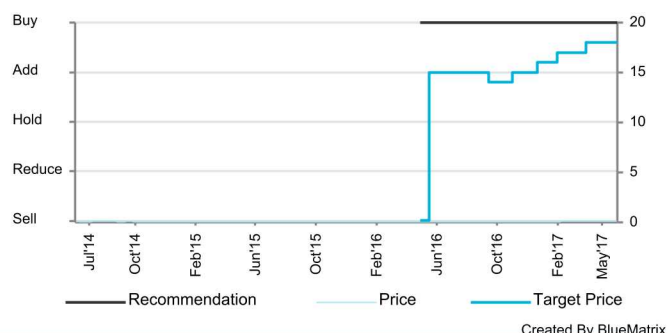
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Three Year - Recommendation, Target Price, Share History

Avanco Resources



Source: Numis Securities Research