

17 November 2017

Avanco Resources Limited (AVB) BUY Share Price: A\$0.089

CentroGold resource increases to 1.86Moz
Target Price:
A\$0.15

AVB continues to rapidly advance the recently acquired CentroGold Project in Brazil. CentroGold is shaping up to be a significant project, with the introduction of the Chega Tudo prospect boosting resources by 45% to 1.86Moz (67% Indicated) at 1.8g/t. Drilling is underway with 4 rigs, with further resource upgrades and assay results due over coming months, followed by scoping and feasibility studies in 1H CY18. Production at CentroGold is likely to be fast-tracked, with permit resolution allowing development of a simple, low strip ratio open pit and CIL operation from 2H CY18. Maintain BUY, PT of A\$0.15/sh (unchanged).

CentroGold resource at 31.5Mt at 1.8g/t for 1.86Moz

- Additional JORC resource for Chega Tudo of 11.3Mt at 1.6g/t for 577koz located 7km west of Ciperio
- Including Ciperio (Blanket & Contact Zones), total JORC resources now stand at 1.86Moz
- Impressive grade of 1.8g/t for an open pit development

Scoping study due Q1 CY18, PFS in Q2 CY18

- Chega Tudo to now be integrated into the scoping study which will allow an optimised mine sequence to be developed across three deposits
- Likely low strip ratio will drive strong project economics
- High tonnages suggest long mine life and >100kozpa
- Extensive historical dataset including extensive metallurgical testing, geotechnical, hydrology etc. Simple CIL process flowsheet expected
- Reinstatement of construction license expected in 1H CY18, development activities expected to commence in 2H CY18 with first gold in 2H CY19

Aggressive infill drilling program with four drill rigs

- Four rigs focused on infill drilling at Blanket & Contact Zones to confirm and improve resource confidence
- Aiming to upgrade the higher grade Contact Zone into majority Indicated category so it can be prioritised in the mining schedule to ensure better grades and stronger production delivered at the start of the operation
- High conversion of resource into reserve expected
- Attention yet to turn to the extensive exploration potential throughout the 75km long greenstone belt which is 100% owned & contains numerous targets

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

- We are yet to incorporate CentroGold into our production & financial forecasts, instead include it in our nominal A\$40m (A¢1/sh) exploration value

Company Data

Shares – ordinary (M)	2,457
Market capitalisation (\$M)	\$219m
12 month low/high (\$)	\$0.065 / \$0.135
Average monthly turnover (\$M)	\$6.5m
GICS Industry	Materials / Metals & Mining

Financial Summary (fully diluted/normalised)

Year end June	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
PER (x)	na	117	19	14	4
Cashflow (\$M)	12	21	30	34	81
CFPS (¢ps)	0.4	0.8	1.1	1.2	2.9
PCFPS (x)	15	9	6	5	2
Enterprise Value (\$M)	143	135	94	136	162
EV / EBITDA (x)	9	7	3	4	2
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0

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



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Analysis

Avanco Resource (AVB) 16-Nov-17 Year End December							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\$219M	US\$166M					
PROFIT & LOSS															
Revenue	US\$M	59.3	88.5	99.7	101.4	214.1			Resource		Reserve				
Operating Costs	US\$M	42.5	58.2	64.2	59.0	107.4	Antas								
Exploration	US\$M	1.0	3.2	2.5	2.5	2.5	Tonnes	Mt	16.46			3.63			
Other	US\$M	0.1	6.4	5.0	5.0	15.0	Copper grade	%	1.43%			2.53%			
EBITDA	US\$M	15.7	20.6	28.0	34.9	89.2	Gold grade	g/t	0.32			0.55			
Depreciation & Amort.	US\$M	11.4	15.4	17.5	18.8	31.1	Contained copper	t	237,000			91,621			
EBIT	US\$M	4.2	5.2	10.5	16.1	58.0	Contained gold	oz	167,000			64,294			
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	Pedra Branca								
Tax	US\$M	3.7	2.2	1.8	2.3	8.5	Tonnes	Mt	10.48			10.8			
Net Profit	US\$M	(2.7)	1.6	9.8	12.9	47.3	Copper grade	%	2.80%			2.1%			
Abnormal	US\$M	0.0	0.0	0.0	0.0	0.0	Gold grade	g/t	0.6			0.49			
Reported Profit	US\$M	(2.7)	1.6	9.8	12.9	47.3	Contained copper	t	289,000			222,480			
Dividends Paid	US\$M	0.0	0.0	0.0	0.0	0.0	Contained gold	oz	221,000			170,142			
Adjustments	US\$M	0.0	0.0	0.0	0.0	0.0									
							Antas			2016A	2017F	2018F	2019F	2020F	
CASHFLOW							Production								
Net Op Cash Flow	US\$M	11.9	21.0	30.5	37.4	91.7	Ore milled	Mt	0.51	0.71	0.70	0.70	0.70		
Net Interest	US\$M	0.4	0.5	1.0	(0.9)	(2.2)	Grade - copper	%	2.29%	2.06%	2.15%	2.20%	2.40%		
Tax Paid	US\$M	0.0	(0.1)	(1.8)	(2.3)	(8.5)	Grade - gold	g/t	0.58	0.62	0.55	0.55	0.55		
Operating Cash Flow	US\$M	12.3	21.4	29.7	34.2	80.9	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		
Net Capex	US\$M	(19.7)	(1.8)	(13.6)	(71.7)	(101.5)	Recovery Gold/Silver	%	86%	84%	85%	85%	85%		
Exploration	US\$M	(3.2)	(9.6)	(5.0)	(5.0)	(5.0)	Copper in concentrate	t	11,188	14,188	14,599	14,938	16,296		
Investing Cash Flow	US\$M	(22.9)	(11.4)	(18.6)	(76.7)	(106.5)	Gold in concentrate	oz	7,779	11,755	10,521	10,521	10,521		
Free cash flow	US\$M	(10.6)	10.0	11.1	(42.5)	(25.6)	Silver in concentrate	oz	0	0	0	0	0		
							C1 Costs	US\$/lb	1.17	1.48	1.37	1.18	0.90		
Net Borrowings	US\$M	0.0	0.0	30.0	0.0	0.0	AISC	US\$/lb	1.58	1.89	1.82	1.62	1.30		
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	Pedra Branca								
Other	US\$M	1.7	(2.0)	0.0	0.0	0.0	Production								
Financing Cash Flow	US\$M	1.7	(2.0)	60.0	0.0	0.0	Ore milled	Mt		0.0	0.0	0.0	0.7		
							Grade - Copper	%		0.00%	0.00%	0.00%	2.20%		
Net IncreaseCash	US\$M	(8.8)	8.1	71.1	(42.5)	(25.6)	Grade - Gold	g/t		0.0	0.0	0.0	0.6		
							Recoveries - Copper	%		0.0	0.0	0.0	1.0		
							Recoveries - Gold	%		0.0	0.0	0.0	0.9		
							Copper in concentrate	t		0	0	0	14,005		
							Gold in concentrate	oz		0	0	0	11,117		
							C1 Costs	US\$/lb		0.00	0.00	0.00	1.08		
							AISC	US\$/lb		0.00	0.00	0.00	1.57		
BALANCE SHEET															
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	REVENUE								
Non Current Assets	US\$M	84.5	83.7	97.3	169.0	270.5	Antas	US\$M	59	96	100	101	113		
Total Assets	US\$M	124.1	130.5	215.2	244.4	320.3	Pedra Branca	US\$M	0	0	0	0	101		
Borrowings	US\$M	0.0	0.0	0.0	0.0	0.0	Total	US\$M	59	96	100	101	214		
Payables	US\$M	10.4	9.6	9.6	9.6	9.6	COSTS								
Other	US\$M	7.5	7.2	7.2	7.2	7.2	Antas	US\$M	46	66	64	59	53		
Current Liab	US\$M	17.9	16.8	16.8	16.8	16.8	Pedra Branca	US\$M	0	0	0	0	54		
Borrowings	US\$M	0.0	0.0	30.0	30.0	30.0	Corporate	US\$M	3	5	5	5	5		
Provisions	US\$M	7.2	7.8	7.8	7.8	7.8	Total	US\$M	49	71	69	64	112		
Other	US\$M	10.7	10.5	10.5	10.5	10.5	CAPEX								
Non Current Liab	US\$M	17.8	18.3	48.3	48.3	48.3	Antas	US\$M	18.2	2.0	3.0	3.0	2.0		
Total Liabilities	US\$M	35.7	35.1	65.1	65.1	65.1	Pedra Branca	US\$M	0.0	0.0	10.6	68.7	99.5		
Total Equity	US\$M	88.4	95.3	150.0	179.3	255.2	Total	US\$M	18.2	2.0	13.6	71.7	101.5		
RATIO ANALYSIS															
EPS	¢	(0.1)	0.1	0.4	0.5	1.7	Exchange Rate	A\$/US\$	0.74	0.77	0.76	0.74	0.74		
PER	x	na	117.2	19.1	14.4	3.9	Copper price	US\$/lb	2.21	2.74	2.80	2.80	2.90		
EPS Growth	%	(305.3)	(159.7)	513.9	32.2	266.5	Copper price	A\$/lb	2.97	3.57	3.68	3.78	3.92		
CFPS	¢	0.4	0.8	1.1	1.2	2.9	Gold price	US\$oz	1,247	1,264	1,280	1,250	1,240		
PCFR	x	15.1	8.7	6.3	5.4	2.3	Gold price	A\$oz	1,677	1,648	1,684	1,689	1,676		
DPS	¢	0.0	0.0	0.0	0.0	0.0									
Yield	%	0%	0%	0%	0%	0%	NPV (+1Yr)								
Payout Ratio	%	0%	0%	0%	0%	0%	Antas						183 \$	0.07	
Gearing ND/E	%	-26%	-32%	-48%	-16%	-2%	Pedra Branca East						195 \$	0.07	
Interest Cover	x	1.3	3.6	na	18.8	25.8	Exploration (incl Centrogold)						39.1 \$	0.01	
EBITDA Margin	%	26.4	23.3	28.0	34.4	41.7									
EBIT Margin	%	7.1	5.9	10.5	15.9	27.1	Corporate costs						(43.0) \$	0.01	
Return On Assets	%	3.4	4.0	4.9	6.6	18.1	Net Cash (Debt)						40.3 \$	(0.02)	
Eff Tax rate	%	25	25	25	25	25	Total						414.5 \$	0.13	

Figure 1: Summary of changes

		CY17e			CY18e			CY19e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	88	88	0%	100	100	0%	101	101	0%
EBITDA	US\$m	21	21	0%	28	28	0%	35	35	0%
EBIT	US\$m	5	5	0%	11	11	0%	16	16	0%
NPAT	US\$m	2	2	0%	10	10	0%	13	13	0%
EPS	USc/sh	0.06	0.06	0%	0.35	0.35	0%	0.47	0.47	0%
DPS	USc/sh	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
NPV/sh	A\$/sh	0.15	0.15	0%						
Price target	A\$/sh	0.15	0.15	0%						
Antas										
Copper	kt	14.2	14.2	0%	14.6	14.6	0%	14.9	14.9	0%
Gold	koz	11.8	11.8	0%	10.5	10.5	0%	10.5	10.5	0%
C1 costs	US\$/lb	1.48	1.48	0%	1.37	1.37	0%	1.18	1.18	0%
AISC	US\$/lb	1.89	1.89	0%	1.82	1.82	0%	1.62	1.62	0%
Pedra Branca										
Copper		0.0	0.0	na	0.0	0.0	na	0.0	0.0	na
Gold	koz	0.0	0.0	na	0.00	0.00	na	0.00	0.00	na
C1 costs	US\$/lb	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
AISC	US\$/lb	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na

Source: Company reports, Petra Capital



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