

5 June 2017

## Avanco Resources Ltd (AVB)

**BUY****Share Price: A\$0.095**

### Progressively de-risking Pedra Branca

**Target Price:****A\$0.16**

AVB has released the updated pre-feasibility study (PFS) on a standalone development of the Pedra Branca Cu-Au project (PB) located in the Carajás region, Brazil. PB is a robust underground project, with the Pedra Branca East (PBE) orebody expected to support 24ktpa Cu & 16kozpa Au over a c.10yr operating mine life. The introduction of the adjacent Pedra Branca West deposit could add an extra 10ktpa Cu at a later time. PBE is a straightforward deposit given its near-vertical & tabular geometry, competent granitic host rocks & clean metallurgy. The box cut and portal are already established, with the decline to begin in early CY18. Given the top of the deposit is just 35m below surface, the build time appears conservative, with first production not anticipated until mid-CY20; permitting, funding & plant construction are key variables. With the change in development strategy at PB, we have adjusted our valuations for both Antas & PB; the longer timeline to reach full production at PB is offset by a lift in output at Antas. Maintain BUY, PT of A\$0.16/sh (unchanged).

#### PB continues to offer copper production growth

- 1.2Mtpa underground & standard copper flotation plant to cost US\$169m, generating a NPV of A\$200m & IRR of 34% based on the Petra commodity price deck
- C1 costs of US\$1.30/lb (Petra US\$1.21/lb & AISC of US\$1.80/lb)
- 33 month development & ramp-up timeline; decline to start early CY18, plant construction in early CY19 and first concentrate in mid-CY20
- 10yr mine life producing 24ktpa Cu & 16kozpa Au
- Trial mining license expected soon
- Combined Cu output (PB & Antas) 43kt in 2021 (Petra)

#### PB to be developed as a standalone operation

- The previous plan to truck smaller tonnages of ore to Antas for treatment during the initial development period is no longer the focus
- Spare processing capacity at Antas currently being filled with additional ore from the Antas open pit

#### Price target A\$0.16/sh (1xP/NPV), unchanged

- Longer development timeline reduces NPV of PB by 15%, offset by production & NPV uplift at Antas
- NPV includes Antas & Pedra Branca only, A\$40m (1c/sh) nominal exploration value including CentroGold
- Longer timeline allows larger funding component from organic cash flows, funding shortfall just US\$60m (Petra: US\$30m debt & US\$30m equity)

#### Company Data

Shares – ordinary (M)	2,457
Market capitalisation (\$M)	\$233m
12 month low/high (\$)	\$0.048 / \$0.135
Average monthly turnover (\$M)	\$3.8m
GICS Industry	Materials / Metals & Mining

#### Financial Summary (fully diluted/normalised)

Year end June	2016A	2017F	2018F	2019F	2020F
Revenue (\$M)	59	97	93	98	213
Costs (\$M)	44	74	68	64	125
EBITDA (\$M)	16	23	25	34	88
NPAT (\$M)	-3	6	7	12	45
EPS (¢ps)	0	0	0.3	0.4	1.6
PER (x)	na	34	28	17	4
Cashflow (\$M)	12	28	27	33	80
CFPS (¢ps)	0	1.0	1.0	1.2	2.9
PCFPS (x)	16	7	7	6	2
Enterprise Value (\$M)	150	135	97	142	170
EV / EBITDA (x)	10	6	4	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)							Share Price	(\$)	A\$0.10	US\$0.07		
2-Jun-17							Iss. Shares	(M)	2456.9	2456.9		
							Issued shares	(M)	300.0	300.0		
							Fully Diluted	(M)	2756.9	2756.9		
Year End December							Mkt Cap.	(\$M)	A\$233M	US\$172M		
PROFIT & LOSS												
Revenue	US\$M	2016A	2017F	2018F	2019F	2020F	Resource		Reserve			
Operating Costs	US\$M	42.5	62.4	60.9	56.5	107.8	Antas					
Exploration	US\$M	1.0	5.0	2.5	2.5	2.5	Tonnes	Mt	16.46	3.63		
Other	US\$M	0.1	6.7	5.0	5.0	15.0	Copper grade	%	1.43%	2.53%		
EBITDA	US\$M	15.7	22.8	24.7	33.9	88.1	Gold grade	g/t	0.32	0.55		
Depreciation & Amort.	US\$M	11.4	16.9	17.7	19.4	32.5	Contained copper	t	237,000	91,621		
EBIT	US\$M	4.2	5.9	7.0	14.5	55.6	Contained gold	oz	167,000	64,294		
Net Interest	US\$M	3.2	(0.8)	(1.2)	0.8	2.2						
Pre-Tax Profit	US\$M	1.0	6.6	8.2	13.7	53.4	Pedra Branca					
Tax	US\$M	3.7	1.0	1.3	2.1	8.1	Tonnes	Mt	10.48	10.8		
Net Profit	US\$M	(2.7)	5.6	6.9	11.6	45.3	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)	5.6	6.9	11.6	45.3	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	27.8	27.2	36.4	90.6	Ore milled	Mt	0.51	0.68	0.70	0.70
Net Interest	US\$M	0.4	0.8	1.2	(0.8)	(2.2)	Grade - copper	%	2.29%	2.22%	2.15%	2.20%
Tax Paid	US\$M	0.0	(1.0)	(1.3)	(2.1)	(8.1)	Grade - gold	g/t	0.58	0.57	0.55	0.55
Operating Cash Flow	US\$M	12.3	27.6	27.1	33.5	80.2	Grade - silver	g/t	0.00	0.00	0.00	0.00
							Recovery Copper	%	0.96	0.97	0.97	0.97
Net Capex	US\$M	(19.7)	(2.9)	(14.6)	(72.7)	(103.5)	Recovery Gold/Silver	%	86%	85%	85%	85%
Exploration	US\$M	(3.2)	(10.0)	(5.0)	(5.0)	(5.0)	Copper in concentrate	t	11,188	14,733	14,629	14,969
Investing Cash Flow	US\$M	(22.9)	(12.9)	(19.6)	(77.7)	(108.5)	Gold in concentrate	oz	7,779	10,666	10,510	10,510
Free cash flow	US\$M	(10.6)	14.7	7.5	(44.2)	(28.3)	Silver in concentrate	oz	0	0	0	0
							C1 Costs	US\$/lb	1.17	1.33	1.29	1.12
Net Borrowings	US\$M	0.0	0.0	30.0	0.0	0.0	AISC	US\$/lb	1.58	1.81	1.86	1.73
Dividends	US\$M	0.0	0.0	0.0	0.0	0.0	Pedra Branca					
Equity Issues	US\$M	0.0	0.0	30.0	0.0	0.0	Production					
Other	US\$M	1.7	0.0	0.0	0.0	0.0	Ore milled	Mt		0.0	0.0	0.0
Financing Cash Flow	US\$M	1.7	0.0	60.0	0.0	0.0	Grade - Copper	%		0.00%	0.00%	0.00%
							Grade - Gold	g/t		0.0	0.0	0.6
Net IncreaseCash	US\$M	(8.8)	14.7	67.5	(44.2)	(28.3)	Recoveries - Copper	%		0.0	0.0	1.0
							Recoveries - Gold	%		0.0	0.0	0.9
BALANCE SHEET							Copper in concentrate	t		0	0	0
Cash	US\$M	22.9	37.5	105.0	60.8	32.6	Gold in concentrate	oz		0	0	11,117
Other Current	US\$M	16.8	16.8	16.8	16.8	16.8	C1 Costs	US\$/lb		0.00	0.00	1.09
Current Assets	US\$M	39.7	54.3	121.9	77.6	49.4	AISC	US\$/lb		0.00	0.00	1.58
Fixed Assets	US\$M	61.1	64.0	78.6	151.3	254.8	REVENUE					
Exploration	US\$M	21.2	21.2	21.2	21.2	21.2	Antas	US\$M	59	97	93	98
Other	US\$M	2.2	2.2	2.2	2.2	2.2	Pedra Branca	US\$M	0	0	0	0
Non Current Assets	US\$M	84.5	87.4	102.0	174.7	278.2	Total	US\$M	59	97	93	98
Total Assets	US\$M	124.1	141.7	223.8	252.3	327.5	COSTS					
Borrowings	US\$M	0.0	0.0	0.0	0.0	0.0	Antas	US\$M	46	62	61	57
Payables	US\$M	10.4	10.4	10.4	10.4	10.4	Pedra Branca	US\$M	0	0	0	0
Other	US\$M	7.5	7.5	7.5	7.5	7.5	Corporate	US\$M	3	5	5	5
Current Liab	US\$M	17.9	17.9	17.9	17.9	17.9	Total	US\$M	49	67	66	113
Borrowings	US\$M	0.0	0.0	30.0	30.0	30.0	CAPEX					
Provisions	US\$M	7.2	7.2	7.2	7.2	7.2	Antas	US\$M	18.2	2.9	4.0	4.0
Other	US\$M	10.7	10.7	10.7	10.7	10.7	Pedra Branca	US\$M	0.0	0.0	10.6	68.7
Non Current Liab	US\$M	17.8	17.8	47.8	47.8	47.8	Total	US\$M	18.2	2.9	14.6	72.7
Total Liabilities	US\$M	35.7	35.7	65.7	65.7	65.7	RATIO ANALYSIS					
Total Equity	US\$M	88.4	106.0	158.1	186.6	261.8	US\$					
RATIO ANALYSIS							US\$					
EPS	¢	(0.1)	0.2	0.3	0.4	1.6	ASSUMPTIONS					
PER	x	na	34.3	27.8	16.6	4.3	Exchange Rate	A\$/US\$	0.74	0.74	0.73	0.71
EPS Growth	%	(305.3)	(311.6)	23.4	67.3	289.2	Copper price	US\$/lb	2.21	2.60	2.60	2.70
CFPS	¢	0.4	1.0	1.0	1.2	2.9	Copper price	A\$/lb	2.97	3.49	3.56	3.80
PCFR	x	15.7	7.0	7.1	5.8	2.4	Gold price	US\$oz	1,247	1,217	1,220	1,200
DPS	¢	0.0	0.0	0.0	0.0	0.0	Gold price	A\$oz	1,677	1,635	1,671	1,690
Yield	%	0%	0%	0%	0%	0%	NPV (+1Yr)					
Payout Ratio	%	0%	0%	0%	0%	0%	Antas					
Gearing ND/E	%	-26%	-35%	-47%	-17%	-1%	Pedra Branca East					
Interest Cover	x	1.3	na	na	18.6	24.9	Exploration (incl Centrogold)					
EBITDA Margin	%	26.4	23.5	26.5	34.6	41.3						
EBIT Margin	%	7.1	6.0	7.5	14.8	26.1	Corporate costs					
Return On Assets	%	3.4	4.1	3.1	5.7	17.0	Net Cash (Debt)					
Eff Tax rate	%	25	25	25	25	25	Total					
							433.2 \$ 0.1%					

**Figure 1: Summary of changes**

		CY17e			CY18e			CY19e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	97	101	-4%	93	117	-21%	98	235	-58%
EBITDA	US\$m	23	27	-17%	25	36	-32%	34	98	-65%
EBIT	US\$m	6	10	-44%	7	19	-64%	14	65	-78%
NPAT	US\$m	6	10	-42%	7	16	-57%	12	53	-78%
EPS	USc/sh	0.20	0.33	-38%	0.25	0.54	-54%	0.42	1.80	-77%
DPS	USc/sh	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
<b>NPV/sh</b>	<b>A\$/sh</b>	<b>0.16</b>	<b>0.16</b>	<b>-2%</b>						
<b>Price target</b>	<b>A\$/sh</b>	<b>0.16</b>	<b>0.16</b>	<b>0%</b>						
<b>Antas</b>										
Copper	kt	14.7	14.2	4%	14.6	12.2	19%	15.0	14.6	3%
Gold	koz	10.7	10.3	4%	10.5	9.0	17%	10.5	8.0	32%
C1 costs	US\$/lb	1.33	1.33	0%	1.29	1.31	-2%	1.12	1.08	4%
AISC	US\$/lb	1.81	1.79	1%	1.86	1.92	-3%	1.73	1.68	3%
<b>Pedra Branca</b>										
Copper		0.0	1.1	-100%	0.0	5.9	-100%	0.0	20.9	-100%
Gold	koz	0.0	0.9	-100%	0.00	4.90	-100%	0.00	17.36	-100%
C1 costs	US\$/lb	0.00	1.18	-100%	0.00	0.98	-100%	0.00	1.05	-100%
AISC	US\$/lb	0.00	1.79	-100%	0.00	1.57	-100%	0.00	1.52	-100%

Source: Company reports, Petra Capital



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