

Date: 27 March, 2018

 Recommendation: **Hold**

 Valuation: **\$0.22**
**Company Information**

ASX Code	AVB
Last Price (\$)	\$0.16
12-month share low	\$0.06
12-month share high	\$0.16
Shares on Issue (m)	2457m
Market Capitalisation	\$380m
Daily Volume	1.63m

*CapIQ, DJC Research*
**Financial Summary**

	2016 a	2017f	2018 e	2019 e
Revenue (US\$m)	49.6	93.3	89.6	129.2
EBITDA (US\$m)	15.6	9.8	15.5	35.9
D&A (US\$m)	11.4	14.2	11.1	12.1
<b>EBIT (US\$m)</b>	<b>4.2</b>	<b>(4.4)</b>	<b>4.5</b>	<b>23.8</b>
Net Interest (US\$m)	3.2	(0.1)	(10)	7.5
Tax (US\$m)	3.7	0.0	7.7	9.6
<b>Underlying NPAT</b>	<b>(2.7)</b>	<b>(4.2)</b>	<b>(2.2)</b>	<b>6.7</b>
<b>Reported NPAT (\$m)</b>	<b>(2.7)</b>	<b>(4.2)</b>	<b>(2.2)</b>	<b>6.7</b>
EPS (USc)	na	(0.2)	(0.1)	0.3
EPS Growth (%)	na	na	(0.5)	(4.0)
DPS (Ae)	0.0	0.0	0.0	0.0
Cash (\$m)	22.9	24.4	11.3	(1.9)
Net Debt (\$m)	(0.0)	0.0	0.0	0.0
Net Debt/Equity (%)	14.5%	-2.0%	5.0%	93.4%
P/E (x)	na	(51.0)	(104.1)	34.6
EV/EBITDA (x)	na	19.5	12.9	9.2

**12 Month Performance**


Source: Capital IQ

**Analyst Details**

 Paul Adams  
 +618 9263 5200  
[padams@djcarmichael.com.au](mailto:padams@djcarmichael.com.au)

# Avanco Resources Ltd (AVB)

## AVB receives scrip and cash offer from OZL

AVB has received an off-market takeover offer for 100% of the shares in AVB. The offer is composed of a 50/50 cash and scrip offer that together values AVB at \$418m, or 17 cents per share, and represents 16% of OZL's market capitalisation. We have long believed that AVB held a suite of growth assets almost unparalleled in the ASX-listed copper space. OZL recognise this opportunity with an earnings accretive acquisition that also adds significantly to the organic growth potential of the expanded group.

**KEY POINTS**

- Half cash, half scrip:** Should the acquisition be successful, AVB shareholders will receive \$0.085 in cash and 0.009 OZL shares for every one remaining share in AVB. AVB shareholders will therefore own up to 7.3% of the expanded group. This represents a 121% premium to the share price on the day immediately before the offer (\$0.077) and a 119% premium to the 1-month VWAP of \$0.078. OZL has stated that, in the absence of a superior proposal, the bid will not be increased.
- Pre-bid indications represent 30.6% of AVB:** Private equity group Appian Natural Resource Fund, with 18.45%, has entered a pre-bid acceptance deed. Black Rock Investment Management, representing 11.6%, and AVB directors and management, representing 0.57%, have also indicated their acceptance of the offer. Total shareholding under deed or indication to accept the offer is already at 30.6%. A minimum acceptance condition of 50.1% is required as a condition precedent.
- AVB provides a suite of growth assets to OZL:** OZL has been looking for some time to diversify its portfolio to grow its assets beyond Carrapateena and Prominent Hill. OZL entered into an agreement to acquire the Nebo-Babel and Succoth assets from Cassini Resources (ASX:CZI). The AVB acquisition will grow their advanced growth asset portfolio from 3 projects to 7 whilst at the same time adding incremental copper production.
- Acquisition cost looks attractive to OZL in our view:** We take the view that at 16% of OZL's market capitalisation, the acquisition of AVB, with its string of development assets, looks very attractive and diversifies OZL's asset base whilst maintaining its focus on copper and gold, after the deal with Cassini (nickel and platinum). Importantly, OZL has stated they intend to keep the AVB management team. We think this will be crucial to the success of the acquisition as AVB's management has demonstrated their ability to successfully operate in Brazil. There has been a number of examples where ASX-listed companies have not made the most of the opportunities in Brazil and we, in part, put this down to management not embedding themselves in-country.
- Is the offer a good deal for AVB shareholders?:** We believe so. Although the offer price of \$0.17 is lower than our valuation, at \$0.22, AVB shareholders are able to get the majority of the value gap up front, and importantly, without the execution and financing risk associated with the development of the next one or two projects. It also circumvents a less than ideal capital structure, which could have proved problematic in further financing arrangements.
- Recommendation:** HOLD. Potential for a superior bid may materialise.

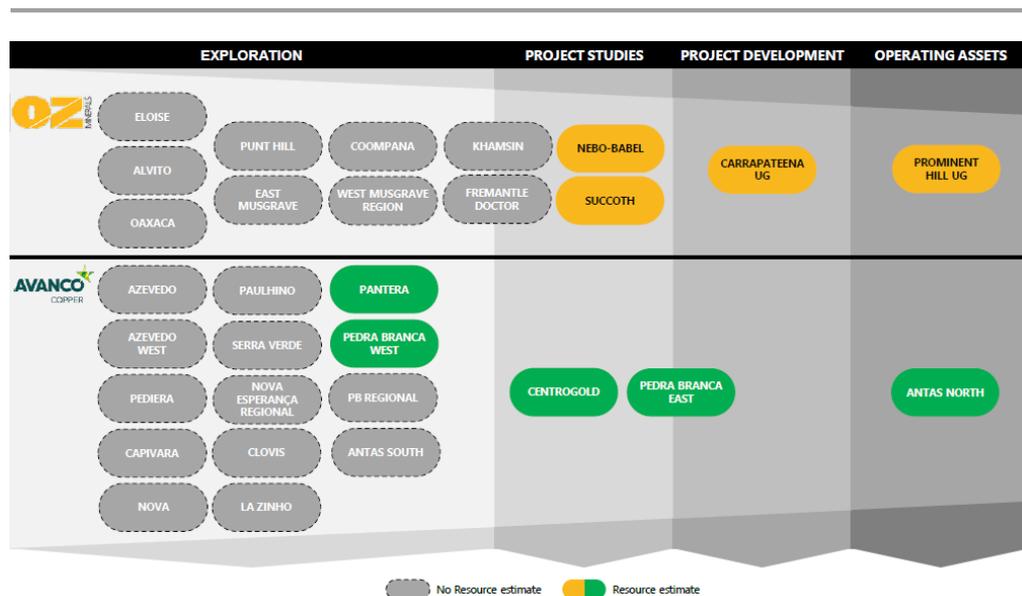


Figure 1. Combined OZL asset portfolio after AVB acquisition

Source: OZL

- **Usual conditions precedent:** OZL has imposed a number of conditions that are required to be met. These are:
  - 50.1% minimum acceptance condition
  - No material adverse change or prescribed occurrences in relation to Avanco
  - No adverse regulatory event affecting Avanco or its assets
  - Receipt of change of control consents for one Avanco material contract
  - Other customary conditions for a transaction of this type

A “no shop”, “no talk” and “no due diligence” restriction, as well as notification and matching rights in the event of competing proposals, has also been enacted, to maintain exclusivity for OZL.

### Timing

Event	Indicative Date
Announcement of takeover bid	27 March 2018
OZ Minerals lodges Bidder’s Statement with ASIC and serves it on Avanco and ASX	Mid April 2018
Completion of dispatch of Bidder’s Statement to Shareholders	Mid April 2018
Offer Period opens	Mid April 2018
Avanco lodges Target’s Statement with ASIC and serves it on OZ Minerals and ASX	Late April 2018
Completion of dispatch of Target’s Statement to Shareholders	Late April 2018
Offer Period ends (unless extended)	Mid May 2018

Figure 2. Indicative timing of offer

Source: OZL

Private Client Dealing		Email	Telephone
Hugo McChesney	Institutional Adviser	<a href="mailto:hmccchesney@djcmichael.com.au">hmccchesney@djcmichael.com.au</a>	+61 8 9263 5214
Chad South	Head of Retail Advisory	<a href="mailto:csouth@djcmichael.com.au">csouth@djcmichael.com.au</a>	+61 8 9263 5225
Tim Bennett	Investment Adviser	<a href="mailto:tbennett@djcmichael.com.au">tbennett@djcmichael.com.au</a>	+61 8 9263 5351
Matthew Blake	Executive Director - Investment Adviser	<a href="mailto:mblake@djcmichael.com.au">mblake@djcmichael.com.au</a>	+61 8 9263 5248
Eve Broadley	Investment Adviser	<a href="mailto:ebroadley@djcmichael.com.au">ebroadley@djcmichael.com.au</a>	+61 8 9263 5324
Gregory Chionh	Investment Adviser	<a href="mailto:gchionh@djcmichael.com.au">gchionh@djcmichael.com.au</a>	+61 8 9263 5302
Andrew Cox	Investment Adviser (Equities & Derivatives)	<a href="mailto:acox@djcmichael.com.au">acox@djcmichael.com.au</a>	+61 8 9263 5237
Toby Jefferis	Investment Adviser (Equities & Derivatives)	<a href="mailto:tjefferis@djcmichael.com.au">tjefferis@djcmichael.com.au</a>	+61 8 9263 5217
Michael Marano	Investment Adviser	<a href="mailto:mmarano@djcmichael.com.au">mmarano@djcmichael.com.au</a>	+61 8 9263 5238
Zac Paul	Investment Adviser	<a href="mailto:zpaul@djcmichael.com.au">zpaul@djcmichael.com.au</a>	+61 8 9263 5272
Adam Russo	Investment Adviser	<a href="mailto:arusso@djcmichael.com.au">arusso@djcmichael.com.au</a>	+61 8 9263 5290
Derek Steinepreis	Investment Adviser	<a href="mailto:dsteinepreis@djcmichael.com.au">dsteinepreis@djcmichael.com.au</a>	+61 8 9263 5292
Chris Jones	Dealers Assistant	<a href="mailto:chris.jones@djcmichael.com.au">chris.jones@djcmichael.com.au</a>	+61 8 9263 5265
Julie Martino	Dealers Assistant	<a href="mailto:jmartino@djcmichael.com.au">jmartino@djcmichael.com.au</a>	+61 8 9263 5260
Paul Rebelo	Dealers Assistant	<a href="mailto:prebelo@djcmichael.com.au">prebelo@djcmichael.com.au</a>	+61 8 9263 5399
Vanessa Scott	Dealers Assistant	<a href="mailto:vscoff@djcmichael.com.au">vscoff@djcmichael.com.au</a>	+61 8 9263 5325
Wealth Management		Email	Telephone
Brad Clarke	Wealth Adviser	<a href="mailto:bclarke@djcmichael.com.au">bclarke@djcmichael.com.au</a>	+61 8 9263 5224
Paul Elkington	Wealth Adviser	<a href="mailto:pelkington@djcmichael.com.au">pelkington@djcmichael.com.au</a>	+61 8 9263 5285
Daniel Fonseca	Wealth Adviser	<a href="mailto:dfonseca@djcmichael.com.au">dfonseca@djcmichael.com.au</a>	+61 8 9263 5296
Domenic Macri	Wealth Adviser	<a href="mailto:dmacri@djcmichael.com.au">dmacri@djcmichael.com.au</a>	+61 8 9263 5263
Nick Casale	Portfolio Administration Manager	<a href="mailto:ncasale@djcmichael.com.au">ncasale@djcmichael.com.au</a>	+61 8 9263 5215
Research		Email	Telephone
Paul Adams	Director - Head of Research	<a href="mailto:padams@djcmichael.com.au">padams@djcmichael.com.au</a>	+61 8 9263 5234
Michael Eidne	Director - Research	<a href="mailto:meidne@djcmichael.com.au">meidne@djcmichael.com.au</a>	+61 8 9263 5213
Michael Ron	Research Analyst	<a href="mailto:mron@djcmichael.com.au">mron@djcmichael.com.au</a>	+61 8 9263 5264
Corporate Finance		Email	Telephone
Davide Bosio	Managing Director & Head of Corporate Finance	<a href="mailto:dbosio@djcmichael.com.au">dbosio@djcmichael.com.au</a>	+61 8 9263 5210
Matthew Hall	Director – Corporate Finance	<a href="mailto:mhall@djcmichael.com.au">mhall@djcmichael.com.au</a>	+61 8 9263 5291
Oliver Morse	Director – Corporate Finance	<a href="mailto:omorse@djcmichael.com.au">omorse@djcmichael.com.au</a>	+61 8 9263 5257
Carly Terzanidis	Manager - Corporate Finance	<a href="mailto:ccircosta@djcmichael.com.au">ccircosta@djcmichael.com.au</a>	+61 8 9263 5268
Administration		Email	Telephone
Cadell Buss	Chief Executive Officer	<a href="mailto:cbuss@djcmichael.com.au">cbuss@djcmichael.com.au</a>	+61 8 9263 5204
Belinda Roychowdhury	Administration Manager	<a href="mailto:broychowdhury@djcmichael.com.au">broychowdhury@djcmichael.com.au</a>	+61 8 9263 5216
Gabrielle Bouffler	Head of Risk and Compliance	<a href="mailto:gbouffler@djcmichael.com.au">gbouffler@djcmichael.com.au</a>	+61 8 9263 5221
Janelle Whyte	Chief Financial Officer	<a href="mailto:jwhyte@djcmichael.com.au">jwhyte@djcmichael.com.au</a>	+61 8 9263 5241
Michelle Perrett	Assistant Accountant	<a href="mailto:mperrett@djcmichael.com.au">mperrett@djcmichael.com.au</a>	+61 8 9263 5220
Kerry Morrice	Administration Assistant	<a href="mailto:kmorrice@djcmichael.com.au">kmorrice@djcmichael.com.au</a>	+61 8 9263 5279

**Disclosure and Disclaimer****RCAN1472**

This Research report expresses the personal view of the Author. The Author does not hold any securities in **Avanco Resources Limited**.

DJ Carmichael Pty Limited, members of the Research Team; including authors of this report, its directors and employees advise that they may hold securities, may have an interest in and/or earn brokerage and other benefits or advantages, either directly or indirectly from client transactions in stocks mentioned in this report.

DJ Carmichael Pty Limited is a wholly owned subsidiary of DJ Carmichael Group Pty Limited ACN 114 921 247.

In accordance with Section 949A of the Corporations Act 2001 D J Carmichael Pty Limited advises this email contains general financial advice only. In preparing this document D J Carmichael Pty Limited did not take into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Accordingly, before acting on any advice contained in this document, you should assess whether the advice is appropriate in light of your own financial circumstances or contact your D J Carmichael Pty Limited adviser. D J Carmichael Pty Limited, its Directors employees and advisers may earn brokerage or commission from any transactions undertaken on your behalf as a result of acting upon this information. D J Carmichael Pty Limited, its directors and employees advise that they may hold securities, may have an interest in and/or earn brokerage and other benefits or advantages, either directly or indirectly, from client transactions. D J Carmichael Pty Limited believe that the advice herein is accurate however no warranty of accuracy or reliability is given in relation to any advice or information contained in this publication and no responsibility for any loss or damage whatsoever arising in any way for any representation, act or omission, whether express or implied (including responsibility to any persons by reason of negligence), is accepted by DJ Carmichael Pty Limited or any officer, agent or employee of D J Carmichael Pty Limited. This message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If you are not the intended recipient or employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication and its attachments is strictly prohibited.

The Author of this report made contact with the **Avanco Resources Limited** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on **Avanco Resources Limited**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

**Recommendation Definitions**

SPECULATIVE BUY – Potential 10% or more outperformance, high risk

BUY – Potential 10% or more outperformance

HOLD – Potential 10% underperformance to 10% over performance

SELL – Potential 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

To elect not to receive any further direct marketing communications from us, please reply to this email and type 'opt out ' in the subject line. Please allow two weeks for request to be processed.

© 2018 No part of this report may be reproduced or distributed in any manner without permission of DJ Carmichael Pty Limited.