

Date: 31 January, 2018

Recommendation: Buy

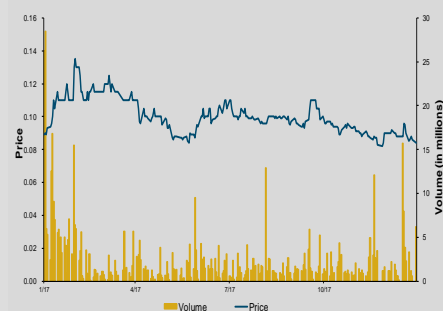
Valuation: \$0.22

Company Information

ASX Code	AVB
Last Price (\$)	\$0.09
12-month share low	\$0.06
12-month share high	\$0.14
Shares on Issue (m)	2457m
Market Capitalisation	\$216m
Daily Volume	1.63m

CapIQ, DJC Research
Financial Summary

	2016a	2017f	2018e	2019e
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
EBIT (US\$m)	4.2	(4.4)	4.5	23.8
Net Interest (US\$m)	3.2	(0.1)	(1.0)	7.5
Tax (US\$m)	3.7	0.0	7.7	9.6
Underlying NPAT	(2.7)	(4.2)	(2.2)	6.7
Reported NPAT (\$m)	(2.7)	(4.2)	(2.2)	6.7
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

Avanco Resources Ltd (AVB)

December Q Production Report, 2017

Avanco Resources Limited (ASX:AVB) released its production report for the December (4th) Q. Although AVB achieved production guidance for copper and gold, production issues with blast hole drilling has kept costs higher than anticipated. Higher costs are likely through the first part of Q1 2018 but should stabilise and improve through Q2.

KEY POINTS

- Higher open pit mining costs:** AVB are still dealing with blast rig drilling issues in Stage 2 that has resulted in the mining being focused towards the periphery of the ore body where confidence in tonnes and grade are lower. As a result, lower ore tonnes were mined at a lower grade than predicted in the reserve model. Increased waste movement, lower grades stockpile adjustments during Dec Q resulted in increased unit operating costs q-o-q.
- Production guidance achieved:** However, AVB comfortably achieved FY17 copper (14,101 tonnes) and gold (11,366 ounces) updated production guidance. Management wisely dialled back the processing plant during December to undertake maintenance and to take the pressure off the open pit. This has allowed the mine to accelerate waste movement and replenish ROM stocks before the onset of seasonal rains. An updated resource estimate for Antas is scheduled for completion by end Q1 to define the FY2018 production schedule and FY18 production guidance. We anticipate lower production costs as FY18 progresses.
- Operating Cash flow:** AVB still made operating cashflow of US\$2.1m for the Dec Q resulting in US\$16.8m for the FY. However, US\$5.6m was received post 31 December. AVB had cash of US\$24.3m at Q end after having paid US\$3.9m in capex, project and exploration costs plus US\$2.0m for the accelerated acquisition of CentroGold.
- Development studies on-track:** AVB also increased resources at it's Centro Gold project by 45% during the Q with the addition of a maiden resource at Chega Tudo. The Centro Gold Scoping Study is due for completion during Q1 with a decision on licencing anticipated by the end of Q2. The Pedra Branca Feasibility Study remains on track for completion by end Q2 2018
- New exploration project, Pantera:** Subsequent to the end of the Q, AVB agreed terms for an option to acquire (100%) the Pantera Project from Vale at an acquisition cost of \$0.04 per lb. Pantera is located 110km west of Pedra Branca and close to existing infrastructure. The project has the potential to significantly add resources and reserves and fits into AVB's strategy for expanding its footprint of development projects in the Carajas of Brazil.
- Slight change to Antas valuation:** We make some changes to our forecast costs, recoveries and metal production for Antas to reflect higher operating costs in 1H 2018. We drop our valuation for Antas slightly to US\$114.2m compared to our original valuation of US\$124.9m. This drops our AVB valuation by 1c per share (rounded) to \$0.22 from \$0.23.
- Recommendation:** We maintain a Buy recommendation on AVB and a valuation of \$0.22 per share, assuming development of CentroGold and Pedra Branca.

Avanco Resources Ltd

Shares on Issue (m)	2,457	Date	31/01/2018
Fully Diluted (m)	2,649	Share Price:	\$0.09/share
Market Capitalisation (\$m)	216.2	Valuation:	\$0.22/share
Diluted Market Capitalisation (\$m)	233.1	Price Target:	\$0.22/share

Equity Valuation, Return	A\$m	A\$/share
Antas Mine	152.3	0.06
Pedra Branca Project	197.0	0.07
Centro Gold Project	217.1	0.08
Net Cash/(Debt)	24.4	0.01
Unpaid Capital	19.2	0.01
Corporate Costs	-25.0	(0.01)
Total	585.0	0.22

Financial Ratios

Key Metrics	2016a	2017e	2018e	2019e
Revenue Growth	na	88%	-4%	44%
EBIT Growth (Adj)	317%	-204%	-203%	431%
NPAT Growth (Adj)	na	na	-48%	-406%
EBITDA Margin (Adj)	32%	11%	17%	28%
EBIT Margin (Adj)	9%	-5%	5%	18%
EPS - Reported (cps)	-0.1	-0.2	-0.1	0.3
EPS Growth	na	na	-51%	-401%

Earnings Multiples (A\$)	2016a	2017e	2018e	2019e
P/E (x)	na	-51.0	-104.1	34.6
EV/EBIT	na	-44.3	45.2	14.0
EV/EBITDA	na	19.7	13.1	9.3

Balance Sheet	2016a	2017e	2018e	2019e
Gearing (Debt/Equity)	0.4%	0.2%	0.2%	1.0%
Gearing (Net Debt/Equity)	0.1%	(0.0)%	0.1%	1.0%
EBIT Interest Cover (x)	1.3x	na	na	3.2x
ROE	na	na	(0.0)%	(0.0)%

Dividends	2016a	2017e	2018e	2019e
Dividend Per Share	0.0¢	0.0¢	0.0¢	0.0¢

Resources	Mt	Cu (%)	Au (g/t)	Cu (KT)
Copper				
Antas North	5.5	2.4	0.5	133.0
Antas South	10.1	0.8	0.2	85.0
Pedra Branca East	10.5	2.8	0.7	289.0
Pedra Branca West	7.2	1.9	0.6	138.0
Total Copper Resources	33.2	2.0	0.5	645.0

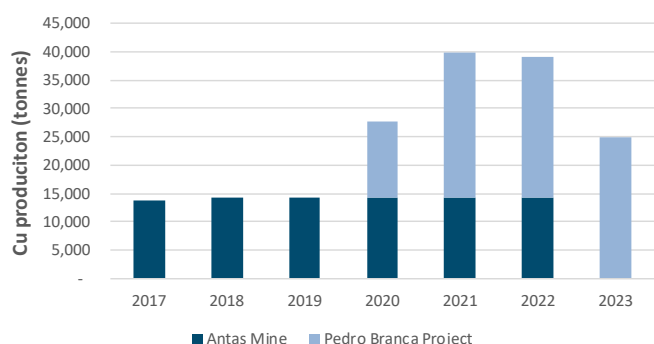
Resources	Mt	Au (g/t)	Au (Moz)
Gold			
CentroGold	31.5	1.8	1.86

Reserves	Mt	Cu (%)	Au (g/t)	Cu (KT)
Antas Mine	3.04	2.6	0.6	80.4

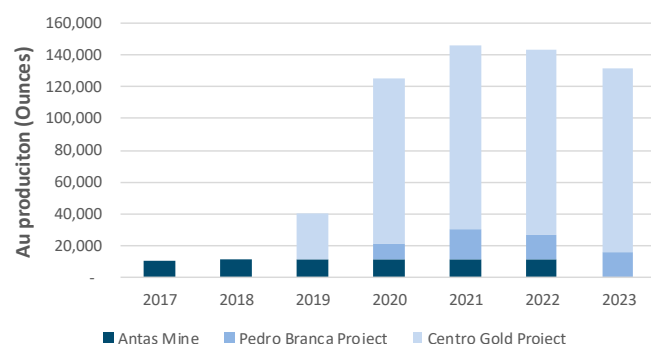
Directors		Institutional Shareholders	
Vern Tidy	Non-Exec Chair	Appian	18%
Tony Polglase	Managing Dir	Greenstone	17%
Simon Mottram	Exec Director	Blackrock	13%
Luis Azevedo	Exec Director	Glencore	8%
Luiz Ferraz	Non-Exec Dir		
Paul Chapman	Non-Exec Dir		

Company Production Estimate

AVB group copper production



AVB group gold production



Income Statement (US\$m)	2016a	2017e	2018e	2019e
Sales Revenue	49.6	93.3	89.6	129.2
Operating Costs	32.8	70.9	64.6	85.3
Exploration	1.0	8.6	6.0	4.0
Other	0.1	4.0	3.5	4.0
EBITDA	15.6	9.8	15.5	35.9
Depreciation & Amort.	11.4	14.2	11.1	12.1
EBIT	4.2	-4.4	4.5	23.8
Finance costs	3.2	-0.1	-1.0	7.5
Profit Before Tax	1.0	-4.2	5.5	16.3
Income Tax Expense	3.7	0.0	7.7	9.6
Underlying NPAT	-2.7	-4.2	-2.2	6.7
Non-recurrent items	-	-	-	-
Reported NPAT	-2.7	-4.2	-2.2	6.7
Normalised Earnings	-2.7	-4.2	-2.2	6.7

Cash Flow Statement (US\$m)	2016a	2017e	2018e	2019e
Net operating cash flow	11.9	16.9	25.6	38.9
Net interest	0.4	(0.1)	1.0	(7.5)
Tax Paid	0.0	0.0	(7.7)	(9.6)
Operating Cash Flow	12.3	16.7	18.9	21.8
Capital Expenditure	19.7	2.6	21.0	140.0
Exploration & Eval	3.2	8.6	6.0	4.0
Other	0.0	4.0	1.0	0.0
Investing Cash fFlow	22.9	15.2	28.0	144.0
Free Cash Flow	(10.6)	1.5	(9.1)	(122.2)
Equity Raised	0.0	0.0	0.0	0.0
Inc/(Dec) in Borrowings	0.0	0.0	0.0	109.0
Dividends Paid	0.0	0.0	0.0	0.0
Other	2.4	(1.9)	(4.0)	0.0
Financing Cash Flow	2.4	(1.9)	(4.0)	109.0
Effects of Exchange Rates	0.0	0.0	0.0	0.0
Movement in Net Cash	(8.2)	(0.4)	(13.1)	(13.2)

Balance Sheet (US\$m)	2016a	2017e	2018e	2019e
Cash	22.9	22.4	9.4	(3.8)
Other	16.8	18.5	20.3	22.4
Current Assets	39.7	40.9	29.7	18.6
PP&E	61.1	63.7	84.7	224.7
Exploration & Eval	21.2	29.8	35.8	39.8
Other	2.2	4.0	4.0	4.0
Total Assets	124.1	138.4	154.2	287.0
Current Liabilities	17.9	19.1	19.1	19.1
Borrowings	9.2	0.0	0.0	109.0
Other Liabilities	8.7	10.0	10.0	10.0
Total Liabilities	35.7	29.1	29.1	138.1
Total Shareholders' Equity	88.4	109.3	125.1	148.9

Valuation assumptions		2017	2018	2019	2020	2021	2022
Gold	US\$/oz	1,250	1,275	1,300	1,300	1,300	1,250
Copper	US\$/lb	2.80	2.90	3.00	3.00	3.05	2.80
AUD:USD		0.75	0.75	0.75	0.75	0.75	0.75

AVB FY Production vs DJC assumptions

AVB FY Production vs Assumptions		AVB Actual	DJC Assumption	% Difference
Copper production	(t)	14,101	13,640	3%
Gold production	(ozs)	11,366	10,532	7%
Tonnes ore processed	(t)	708,113	709,026	0%
Copper grade	(%)	2.05	2.10	-2%
Gold grade	(g/t)	0.60	0.55	8%
Copper recovery	(%)	97.0%	95.0%	2%
Gold recovery	(%)	83.0%	84.0%	-1%
Tonnes concentrate	(t)	50,827	50,498	1%
Concentrate copper grade	(%)	27.8%	28.0%	-1%
C1 Cash Costs	(US\$)	1.57	1.53	3%

Figure 1. AVB Actual vs DJC Model Assumptions for FY 2017

Updated Antas Model Assumptions for 2018

Change in model assumptions for 2018

	Old	New	Change (%)
Copper production (t)	14,137	14,285	1%
Gold production (ozs)	10,915	10,785	-1%
Copper Recovery (%)	95.0%	96.0%	1%
Gold recovery (%)	84.0%	83.0%	-1%
Operating Cash Costs (US\$/lb)	1.28	1.63	27%
AISC (US\$/lb, net gold credits)	1.60	1.97	23%

Figure 2. Changes in Model assumptions for FY 2018

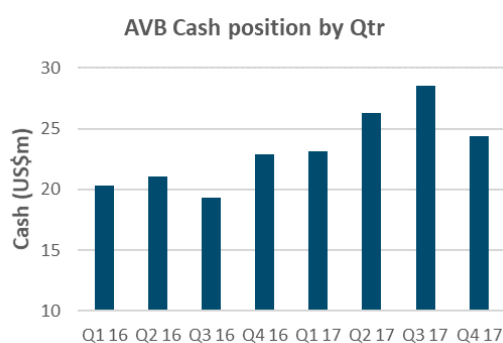


Figure 3. AVB quarterly cash balance Since Antas production start

Private Client Dealing		Email	Telephone
Hugo McChesney	Institutional Adviser	hmccchesney@djcmichael.com.au	+61 8 9263 5214
Chad South	Head of Retail Advisory	csouth@djcmichael.com.au	+61 8 9263 5225
Tim Bennett	Investment Adviser	tbennett@djcmichael.com.au	+61 8 9263 5351
Matthew Blake	Executive Director - Investment Adviser	mblake@djcmichael.com.au	+61 8 9263 5248
Eve Broadley	Investment Adviser	ebroadley@djcmichael.com.au	+61 8 9263 5324
Gregory Chionh	Investment Adviser	gchionh@djcmichael.com.au	+61 8 9263 5302
Andrew Cox	Investment Adviser (Equities & Derivatives)	acox@djcmichael.com.au	+61 8 9263 5237
Toby Jefferis	Investment Adviser (Equities & Derivatives)	tjefferis@djcmichael.com.au	+61 8 9263 5217
Michael Marano	Investment Adviser	mmarano@djcmichael.com.au	+61 8 9263 5238
Zac Paul	Investment Adviser	zpaul@djcmichael.com.au	+61 8 9263 5272
Adam Russo	Investment Adviser	arusso@djcmichael.com.au	+61 8 9263 5290
Derek Steinepreis	Investment Adviser	dsteinepreis@djcmichael.com.au	+61 8 9263 5292
Chris Eccles	Dealers Assistant	ceccles@djcmichael.com.au	+61 8 9263 5314
Chris Jones	Dealers Assistant	chris.jones@djcmichael.com.au	+61 8 9263 5265
Julie Martino	Dealers Assistant	jmartino@djcmichael.com.au	+61 8 9263 5260
Paul Rebelo	Dealers Assistant	prebelo@djcmichael.com.au	+61 8 9263 5399
Vanessa Scott	Dealers Assistant	vscott@djcmichael.com.au	+61 8 9263 5325
Wealth Management		Email	Telephone
Brad Clarke	Wealth Adviser	bclarke@djcmichael.com.au	+61 8 9263 5224
Paul Elkington	Wealth Adviser	pelkington@djcmichael.com.au	+61 8 9263 5285
Daniel Fonseca	Wealth Adviser	dfonseca@djcmichael.com.au	+61 8 9263 5296
Domenic Macri	Wealth Adviser	dmacri@djcmichael.com.au	+61 8 9263 5263
Nick Casale	Portfolio Administration Manager	ncasale@djcmichael.com.au	+61 8 9263 5215
Research		Email	Telephone
Paul Adams	Director - Head of Research	padams@djcmichael.com.au	+61 8 9263 5234
Michael Eidne	Director - Research	meidne@djcmichael.com.au	+61 8 9263 5213
Michael Ron	Research Analyst	mron@djcmichael.com.au	+61 8 9263 5264
Corporate Finance		Email	Telephone
Davide Bosio	Managing Director & Head of Corporate Finance	dbosio@djcmichael.com.au	+61 8 9263 5210
Matthew Hall	Director – Corporate Finance	mhall@djcmichael.com.au	+61 8 9263 5291
Oliver Morse	Director – Corporate Finance	omorse@djcmichael.com.au	+61 8 9263 5257
Carly Terzanidis	Manager - Corporate Finance	ccircosta@djcmichael.com.au	+61 8 9263 5268
Administration		Email	Telephone
Cadell Buss	Chief Executive Officer	cbuss@djcmichael.com.au	+61 8 9263 5204
Belinda Roychowdhury	Administration Manager	broychowdhury@djcmichael.com.au	+61 8 9263 5216
Gabrielle Bouffler	Head of Risk and Compliance	gbouffler@djcmichael.com.au	+61 8 9263 5221
Janelle Whyte	Chief Financial Officer	jwhyte@djcmichael.com.au	+61 8 9263 5241
Michelle Perrett	Assistant Accountant	mperrett@djcmichael.com.au	+61 8 9263 5220
Kerry Morrice	Administration Assistant	kmorrice@djcmichael.com.au	+61 8 9263 5279

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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.

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