

29 January 2018

Avanco Resources Limited (AVB) BUY Share Price: A\$0.086

Setting up for a strong CY18 and beyond

Target Price:

A\$0.15

AVB has reported DecQ production in-line with updated expectations as outlined on 22 Dec 2017. Production of 3.3kt Cu & 2.5koz Au ensured original CY17 output guidance was exceeded, with costs coming in-line with the updated range. The Antas operation remained cash flow positive, despite increased costs resulting from challenges in the open pit & higher power costs; increased stripping & lower grades will linger into Q1 CY18 before improving as part of an updated life-of-mine plan & CY18 guidance due for release later this quarter. The improved cash flow from Antas will continue to fund exploration and development of AVB's portfolio of quality assets. Maintain BUY, PT of A\$0.15/sh (unchanged).

Strong CY17 allows rational decision making at YE

- 3.3kt Cu & 2.5koz Au produced in DecQ
- DecQ Cu output 3% below our forecasts (-11% QoQ), Au 14% below our forecast (-21% QoQ)
- Production limited by voluntary plant shut at end of Dec to allow mining to catch up & only after CY17 output guidance had been exceeded
- C1 cash costs of US\$2.05/lb, up 31% QoQ due to higher strip ratio, lower grades, higher power costs and US20¢/lb stockpile adjustment as ROM stocks were drawn down. CY17 C1 costs of US\$1.64/lb within updated guidance of US\$1.55-1.65/lb Cu
- Cash balance US\$24.3m, down US\$4.3m QoQ, although this is after spending \$2.8m on exploration/evaluation work & \$2m cash as part of the new CentroGold deal

Open pit performance to improve from Q2 CY18

- Mining impacted by drill & blast delays earlier in the year; DecQ mine plan restricted to higher strip, lower grade area in Stage 2 pit
- Lower grades & higher strip ratio will continue in Q2 CY18 as Stage 2 waste movements are accelerated before mining moves into higher grades & lower strip ratio areas in the centre of the pit
- New mine plan & reserve due in March; expected to outline a robust production profile as strip ratios reduce and grades improve over the remaining mine life

Growth portfolio moving ahead as planned

- Development activities continuing to advance Pedra Branca & CentroGold as planned; significant news flow expected over coming months

Price target A\$0.15/sh (unchanged)

Company Data

Shares – ordinary (M)	2,456.9
Market capitalisation (\$M)	211.3
12 month low/high (\$)	\$0.076 / \$0.135
Average monthly turnover (\$M)	\$5.5m
GICS Industry	Materials / Metals & Mining

Financial Summary (fully diluted/normalised)

Year end	June	2016A	2017F	2018F	2019F	2020F
Revenue (\$M)	59	91	104	108	221	
Costs (\$M)	44	70	76	72	131	
EBITDA (\$M)	16	21	28	36	90	
NPAT (\$M)	-3	2	10	13	48	
EPS (¢ps)	0	0	0.4	0.5	1.7	
EPS Growth (%)	0	0	0	0	0	
PER (x)	na	106	19	15	4	
Cashflow (\$M)	12	22	30	35	82	
CFPS (¢ps)	0.4	0.8	1.1	1.3	3.0	
PCFPS (x)	16	9	6	6	2	
Enterprise Value (\$M)	148	141	100	142	166	
EV / EBITDA (x)	9	7	4	4	2	
Payout ratio (%)	0%	0%	0%	0%	0%	
Dividends (¢ps)	0	0	0	0	0	
Yield (%)	0	0	0	0	0	
Franking (%)	0	0	0	0	0	

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



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Analysis

Avanco Resource (AVB)

27-Jan-18

Year End December

PROFIT & LOSS	2016A	2017F	2018F	2019F	2020F
Revenue	US\$M 59.3	91.2	103.9	108.0	220.7
Operating Costs	US\$M 42.5	60.8	68.1	64.9	113.2
Exploration	US\$M 1.0	3.2	2.5	2.5	2.5
Other	US\$M 0.1	6.4	5.0	5.0	15.0
EBITDA	US\$M 15.7	20.8	28.3	35.6	90.0
Depreciation & Amort.	US\$M 11.4	15.3	17.3	19.1	31.5
EBIT	US\$M 4.2	5.5	10.9	16.5	58.6
Net Interest	US\$M 3.2	1.5	(1.0)	0.9	2.3
Pre-Tax Profit	US\$M 1.0	4.0	11.9	15.6	56.3
Tax	US\$M 3.7	2.2	1.8	2.4	8.6
Net Profit	US\$M (2.7)	1.8	10.1	13.2	47.7
Abnormal	US\$M 0.0	0.0	0.0	0.0	0.0
Reported Profit	US\$M (2.7)	1.8	10.1	13.2	47.7
Dividends Paid	US\$M 0.0	0.0	0.0	0.0	0.0
Adjustments	US\$M 0.0	0.0	0.0	0.0	0.0

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\$211M	US\$171M

CASHFLOW

Net Op Cash Flow	US\$M 11.9	21.2	30.8	38.1	92.5
Net Interest	US\$M 0.4	0.5	1.0	(0.9)	(2.3)
Tax Paid	US\$M 0.0	(0.1)	(1.8)	(2.4)	(8.6)
Operating Cash Flow	US\$M 12.3	21.6	29.9	34.9	81.7
Net Capex	US\$M (19.7)	(2.4)	(13.9)	(71.7)	(101.5)
Exploration	US\$M (3.2)	(9.6)	(5.0)	(5.0)	(5.0)
Investing Cash Flow	US\$M (22.9)	(12.0)	(18.9)	(76.7)	(106.5)
<i>Free cash flow</i>	<i>US\$M (10.6)</i>	<i>9.6</i>	<i>11.1</i>	<i>(41.8)</i>	<i>(24.8)</i>
Net Borrowings	US\$M 0.0	0.0	30.0	0.0	0.0
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
Other	US\$M 1.7	(2.0)	0.0	0.0	0.0
Financing Cash Flow	US\$M 1.7	(2.0)	60.0	0.0	0.0
Net IncreaseCash	US\$M (8.8)	7.6	71.1	(41.8)	(24.8)

BALANCE SHEET

Cash	US\$M 22.9	30.4	101.5	59.7	34.9
Other Current	US\$M 16.8	15.8	15.8	15.8	15.8
Current Assets	US\$M 39.7	46.2	117.3	75.5	50.7
Fixed Assets	US\$M 61.1	56.0	69.8	141.5	243.0
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
Non Current Assets	US\$M 84.5	84.4	98.2	169.9	271.4
Total Assets	US\$M 124.1	130.6	215.5	245.4	322.1
Borrowings	US\$M 0.0	0.0	0.0	0.0	0.0
Payables	US\$M 10.4	9.6	9.6	9.6	9.6
Other	US\$M 7.5	7.2	7.2	7.2	7.2
Current Liab	US\$M 17.9	16.8	16.8	16.8	16.8
Borrowings	US\$M 0.0	0.0	30.0	30.0	30.0
Provisions	US\$M 7.2	7.8	7.8	7.8	7.8
Other	US\$M 10.7	10.5	10.5	10.5	10.5
Non Current Liab	US\$M 17.8	18.3	48.3	48.3	48.3
Total Liabilities	US\$M 35.7	35.1	65.1	65.1	65.1
Total Equity	US\$M 88.4	95.5	150.4	180.3	257.0

RATIO ANALYSIS

	US\$	US\$	US\$	US\$	US\$
EPS	¢ (0.1)	0.1	0.4	0.5	1.7
PER	x na	106.1	19.1	14.5	4.0
EPS Growth	% (305.3)	(168.1)	456.8	31.2	260.7
CFPS	¢ 0.4	0.8	1.1	1.3	3.0
PCFR	x 15.6	8.9	6.4	5.5	2.4
DPS	¢ 0.0	0.0	0.0	0.0	0.0
Yield	% 0%	0%	0%	0%	0%
Payout Ratio	% 0%	0%	0%	0%	0%
Gearing ND/E	% -26%	-32%	-48%	-16%	-2%
Interest Cover	x 1.3	3.7	na	19.0	25.9
EBITDA Margin	% 26.4	22.8	27.2	33.0	40.8
EBIT Margin	% 7.1	6.0	10.5	15.3	26.5
Return On Assets	% 3.4	4.2	5.1	6.7	18.2
Eff Tax rate	% 25	25	25	25	25

	Resource	Reserve
Antas		
Tonnes	Mt 16.46	3.63
Copper grade	% 1.43%	2.53%
Gold grade	g/t 0.32	0.55
Contained copper	t 237,000	91,621
Contained gold	oz 167,000	64,294
Pedra Branca		
Tonnes	Mt 10.48	10.8
Copper grade	% 2.80%	2.1%
Gold grade	g/t 0.6	0.49
Contained copper	t 289,000	222,480
Contained gold	oz 221,000	170,142

Antas	2016A	2017F	2018F	2019F	2020F
Production					
Ore milled	Mt 0.51	0.71	0.70	0.70	0.70
Grade - copper	% 2.29%	2.05%	2.11%	2.20%	2.40%
Grade - gold	g/t 0.58	0.60	0.55	0.55	0.55
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
Recovery Gold/Silver	% 86%	83%	85%	85%	85%
Copper in concentrate	t 11,188	14,102	14,249	14,938	16,296
Gold in concentrate	oz 7,779	11,365	10,446	10,521	10,521
Silver in concentrate	oz 0	0	0	0	0
C1 Costs	US\$/lb 1.17	1.64	1.51	1.34	1.05
AISC	US\$/lb 1.58	1.94	1.91	1.72	1.39

Pedra Branca	2016A	2017F	2018F	2019F	2020F
Production					
Ore milled	Mt 0.0	0.0	0.0	0.0	0.7
Grade - Copper	% 0.00%	0.00%	0.00%	0.00%	2.20%
Grade - Gold	g/t 0.0	0.0	0.0	0.0	0.6
Recoveries - Copper	% 0.0	0.0	0.0	0.0	1.0
Recoveries - Gold	% 0.0	0.0	0.0	0.0	0.9
Copper in concentrate	t 0	0	0	0	14,005
Gold in concentrate	oz 0	0	0	0	11,117
C1 Costs	US\$/lb 0.00	0.00	0.00	0.00	1.07
AISC	US\$/lb 0.00	0.00	0.00	0.00	1.58

REVENUE

Antas	US\$M 59	99	104	108	116
Pedra Branca	US\$M 0	0	0	0	104
Total	US\$M 59	99	104	108	221

COSTS

Antas	US\$M 46	68	68	65	59
Pedra Branca	US\$M 0	0	0	0	54
Corporate	US\$M 3	5	5	5	5
Total	US\$M 49	73	73	70	118

CAPEX

Antas	US\$M 18.2	2.6	3.3	3.0	2.0
Pedra Branca	US\$M 0.0	0.0	10.6	68.7	99.5
Total	US\$M 18.2	2.6	13.9	71.7	101.5

ASSUMPTIONS

Exchange Rate	A\$/US\$ 0.74	0.77	0.77	0.75	0.75
Copper price	US\$/lb 2.21	2.80	3.00	3.00	3.00
Copper price	A\$/lb 2.97	3.65	3.90	4.00	4.00
Gold price	US\$/oz 1,247	1,258	1,310	1,275	1,250
Gold price	A\$/oz 1,677	1,641	1,701	1,700	1,667

NPV (+1Yr)

	A\$M	A\$/sh.
Antas	174	\$ 0.06
Pedra Branca East	197	\$ 0.07
Exploration (incl Centrogold & Pantera)	39.1	\$ 0.01
Corporate costs	(43.0)	\$ (0.02)
Net Cash (Debt)	39.7	\$ 0.01
Total	406.9	\$ 0.15

Source: Petra Capital

Figure 1: Quarterly production and cost summary for Antas

		Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	QoQ	Petra	% var
Copper	kt	4.01	3.51	3.59	3.70	3.31	-11%	3.40	-3%
Gold	Oz	2,839	2,783	2,961	3,142	2,479	-21%	2,869	-14%
C1	US\$/lb	1.22	1.52	1.46	1.57	2.05	31%	1.39	47%
AISC	US\$/lb	1.53	1.82	1.88	1.78	2.24	26%	1.89	18%

Source: Company reports, Petra Capital

Figure 2: Summary of changes

		CY17e			CY18e			CY19e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	98	95	3%	104	100	4%	108	101	6%
EBITDA	US\$m	14	14	1%	28	28	1%	36	35	2%
EBIT	US\$m	5.5	5.2	5%	10.9	10.5	4%	16.5	16.1	2%
NPAT	US\$m	1.8	1.6	14%	10.1	9.8	3%	13.2	12.9	3%
EPS	USc/sh	0.07	0.06	14%	0.37	0.35	3%	0.48	0.47	3%
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	14.1	14.2	-1%	14.2	14.6	-2%	14.9	14.9	0%
Gold	koz	11.4	11.8	-3%	10.4	10.5	-1%	10.5	10.5	0%
C1 costs	US\$/lb	1.64	1.48	11%	1.51	1.37	11%	1.34	1.18	14%
AISC	US\$/lb	1.94	1.89	3%	1.91	1.82	5%	1.72	1.62	6%
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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