

31 October 2017

Avanco Resources Limited (AVB) BUY Share Price: A\$0.10

Another strong quarter, cash keeps building

Target Price:

A\$0.15

AVB has reported a solid result from the SepQ leading to \$7.2m of operating cash flow for the period. Copper production of 3.7kt was up 3% QoQ, with gold continuing to beat expectations; YTD copper and gold output is tracking above the top end of CY17 guidance. AISC fell 5% QoQ to US\$1.78/lb, although were 6% above our estimate due largely to unfavourable FX translation. Antas continues to generate cash which is funding the advance of a number of quality exploration and development projects in Brazil, with the excess building the cash balance (US\$28.5m). Maintain BUY, PT of A\$0.15/sh (from A\$0.16/sh after updating commodity & currency assumptions).

Antas keeps delivering

- 3.7kt Cu & 3.1koz Au produced in SepQ
- Cu production 1% below our forecasts (+3% QoQ), Au 9% above our forecast (+6% QoQ)
- C1 cash costs of US\$1.57/lb, up 8% QoQ due to strengthening FX and recognition of a provision for recoverability of indirect taxes. YTD C1 costs of US\$1.51/lb are slightly above US\$1.35-1.50/lb guidance for CY17
- Cash balance US\$28.5m, up US\$2.2m QoQ, although this is after spending \$2.6m on exploration/evaluation work & \$2m cash as part of the new CentroGold deal

CY17 guidance likely to be exceeded

- YTD copper production of 10.8kt, leaving 3.2kt in DecQ to meet the top end of guidance (13.5-14kt Cu)
- YTD gold production of 8.9koz, leaving just 1.6koz in DecQ to meet the top end of 9.75-10.5koz range
- C1 costs likely at the top of US\$1.35-1.50/lb guidance range, mainly due to unfavourable FX translation; underlying costs in Brazilian Real remain within budget

Significant news flow expected over coming months

- Antas updated resource/reserve & mine plan by end CY17 after the recent completion of 5,000m of drilling
- Antas near-mine & regional exploration is ongoing
- Pedra Branca DFS will include several improvements & cost savings which will enhance project economics
- CentroGold being fast-tracked; drilling is underway with 3 rigs, a maiden resource for Chega Tudo is expected shortly, scoping study due by end CY17

Price target A\$0.15/sh, down from A\$0.16/sh

- NPV down slightly due mainly to revised commodity & currency forecasts

Company Data

Shares – ordinary (M)	2,456.9
Market capitalisation (\$M)	245.7
12 month low/high (\$)	\$0.055 / \$0.135
Average monthly turnover (\$M)	\$4.9m
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	132	21	16	4
Cashflow (\$M)	12	21	30	34	81
CFPS (¢ps)	0.4	0.8	1.1	1.2	2.9
PCFPS (x)	17	10	7	6	3
Enterprise Value (\$M)	164	156	115	157	183
EV / EBITDA (x)	10	8	4	5	2
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0

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



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

Brett McKay

+61 2 9239 9605



Analysis

Avanco Resource (AVB)						Share Price	(\$)	A\$0.10	US\$0.08					
30-Oct-17						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\$243M	US\$187M					
Year End December														
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	Pedra Branca							
Pre-Tax Profit	US\$M	1.0	3.8	11.5	15.2	55.8	Tonnes	Mt	10.48	10.8				
Tax	US\$M	3.7	2.2	1.8	2.3	8.5	Copper grade	%	2.80%	2.1%				
Net Profit	US\$M	(2.7)	1.6	9.8	12.9	47.3	Gold grade	g/t	0.6	0.49				
Abnormal	US\$M	0.0	0.0	0.0	0.0	0.0	Contained copper	t	289,000	222,480				
Reported Profit	US\$M	(2.7)	1.6	9.8	12.9	47.3	Contained gold	oz	221,000	170,142				
Dividends Paid	US\$M	0.0	0.0	0.0	0.0	0.0	Antas							
Adjustments	US\$M	0.0	0.0	0.0	0.0	0.0	Production							
CASHFLOW														
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	
Net Capex	US\$M	(19.7)	(1.8)	(13.6)	(71.7)	(101.5)	Recovery Copper	%	0.96	0.97	0.97	0.97	0.97	
Exploration	US\$M	(3.2)	(9.6)	(5.0)	(5.0)	(5.0)	Recovery Gold/Silver	%	86%	84%	85%	85%	85%	
Investing Cash Flow	US\$M	(22.9)	(11.4)	(18.6)	(76.7)	(106.5)	Copper in concentrate	t	11,188	14,188	14,599	14,938	16,296	
<i>Free cash flow</i>	<i>US\$M</i>	<i>(10.6)</i>	<i>10.0</i>	<i>11.1</i>	<i>(42.5)</i>	<i>(25.6)</i>	Gold in concentrate	oz	7,779	11,755	10,521	10,521	10,521	
Net Borrowings	US\$M	0.0	0.0	30.0	0.0	0.0	Silver in concentrate	oz	0	0	0	0	0	
Dividends	US\$M	0.0	0.0	0.0	0.0	0.0	C1 Costs	US\$/lb	1.17	1.48	1.37	1.18	0.90	
Equity Issues	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	
Other	US\$M	1.7	(2.0)	0.0	0.0	0.0	Pedra Branca							
Financing Cash Flow	US\$M	1.7	(2.0)	60.0	0.0	0.0	Production							
Net IncreaseCash	US\$M	(8.8)	8.1	71.1	(42.5)	(25.6)	Ore milled	Mt		0.0	0.0	0.0	0.7	
BALANCE SHEET														
Cash	US\$M	22.9	30.9	102.0	59.6	34.0	Grade - Copper	%		0.00%	0.00%	0.00%	2.20%	
Other Current	US\$M	16.8	15.8	15.8	15.8	15.8	Grade - Gold	g/t		0.0	0.0	0.0	0.6	
Current Assets	US\$M	39.7	46.7	117.8	75.4	49.8	Recoveries - Copper	%		0.0	0.0	0.0	1.0	
Fixed Assets	US\$M	61.1	55.3	68.9	140.6	242.1	Recoveries - Gold	%		0.0	0.0	0.0	0.9	
Exploration	US\$M	21.2	24.4	24.4	24.4	24.4	Copper in concentrate	t		0	0	0	14,005	
Other	US\$M	2.2	4.1	4.1	4.1	4.1	Gold in concentrate	oz		0	0	0	11,117	
Non Current Assets	US\$M	84.5	83.7	97.3	169.0	270.5	C1 Costs	US\$/lb		0.00	0.00	0.00	1.08	
Total Assets	US\$M	124.1	130.5	215.2	244.4	320.3	AISC	US\$/lb		0.00	0.00	0.00	1.57	
Borrowings	US\$M	0.0	0.0	0.0	0.0	0.0	REVENUE							
Payables	US\$M	10.4	9.6	9.6	9.6	9.6	Antas	US\$M	59	96	100	101	113	
Other	US\$M	7.5	7.2	7.2	7.2	7.2	Pedra Branca	US\$M	0	0	0	0	101	
Current Liab	US\$M	17.9	16.8	16.8	16.8	16.8	Total	US\$M	59	96	100	101	214	
Borrowings	US\$M	0.0	0.0	30.0	30.0	30.0	COSTS							
Provisions	US\$M	7.2	7.8	7.8	7.8	7.8	Antas	US\$M	46	66	64	59	53	
Other	US\$M	10.7	10.5	10.5	10.5	10.5	Pedra Branca	US\$M	0	0	0	0	54	
Non Current Liab	US\$M	17.8	18.3	48.3	48.3	48.3	Corporate	US\$M	3	5	5	5	5	
Total Liabilities	US\$M	35.7	35.1	65.1	65.1	65.1	Total	US\$M	49	71	69	64	112	
Total Equity	US\$M	88.4	95.3	150.0	179.3	255.2	CAPEX							
RATIO ANALYSIS														
EPS	¢	(0.1)	0.1	0.4	0.5	1.7	Antas	US\$M	18.2	2.0	3.0	3.0	2.0	
PER	x	na	131.8	21.5	16.2	4.4	Pedra Branca	US\$M	0.0	0.0	10.6	68.7	99.5	
EPS Growth	%	(305.3)	(159.7)	513.9	32.2	266.5	Total	US\$M	18.2	2.0	13.6	71.7	101.5	
CFPS	¢	0.4	0.8	1.1	1.2	2.9	ASSUMPTIONS							
PCFR	x	17.0	9.8	7.1	6.1	2.6	Exchange Rate	A\$/US\$	0.74	0.77	0.76	0.74	0.74	
DPS	¢	0.0	0.0	0.0	0.0	0.0	Copper price	US\$/lb	2.21	2.74	2.80	2.80	2.90	
Yield	%	0%	0%	0%	0%	0%	Copper price	A\$/lb	2.97	3.57	3.68	3.78	3.92	
Payout Ratio	%	0%	0%	0%	0%	0%	Gold price	US\$/oz	1,247	1,264	1,280	1,250	1,240	
Gearing ND/E	%	-26%	-32%	-48%	-16%	-2%	Gold price	A\$/oz	1,677	1,648	1,684	1,689	1,676	
Interest Cover	x	1.3	3.6	na	18.8	25.8	NPV (+1Yr)							
EBITDA Margin	%	26.4	23.3	28.0	34.4	41.7	Antas	A\$/sh.				183	\$ 0.07	
EBIT Margin	%	7.1	5.9	10.5	15.9	27.1	Pedra Branca East	A\$/sh.				195	\$ 0.07	
Return On Assets	%	3.4	4.0	4.9	6.6	18.1	Exploration (incl Centrogold)	A\$/sh.				39.1	\$ 0.01	
Eff Tax rate	%	25	25	25	25	25	Corporate costs	A\$/sh.				(43.0)	\$ (0.02)	
						Net Cash (Debt)						A\$/sh.	40.3	\$ 0.01
						Total						A\$/sh.	414.5	\$ 0.15

Source: Petra Capital

Figure 1: Quarterly production and cost summary for Antas

		Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	QoQ	Petra	% var
Copper	kt	3.25	3.33	4.01	3.51	3.59	3.70	3%	3.73	-1%
Gold	Oz	2,343	2,246	2,839	2,783	2,961	3,142	6%	2,869	9%
C1	US\$/lb	1.03	1.25	1.22	1.52	1.46	1.57	8%	1.22	29%
AISC	US\$/lb	1.46	1.80	1.53	1.82	1.88	1.78	-5%	1.68	6%

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	88	97	-8%	100	93	7%	101	98	4%
EBITDA	US\$m	21	20	5%	28	25	13%	35	34	3%
EBIT	US\$m	5	3	77%	11	7	45%	16	15	9%
NPAT	US\$m	2	3	-49%	10	7	38%	13	12	10%
EPS	USc/sh	0.06	0.11	-49%	0.35	0.26	38%	0.47	0.43	10%
DPS	USc/sh	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
NPV/sh	A\$/sh	0.15	0.16	-3%						
Price target	A\$/sh	0.15	0.16	-6%						
Antas										
Copper	kt	14.2	14.6	-3%	14.6	14.6	0%	14.9	15.0	0%
Gold	koz	11.8	11.5	2%	10.5	10.5	0%	10.5	10.5	0%
C1 costs	US\$/lb	1.48	1.36	9%	1.37	1.29	6%	1.18	1.12	5%
AISC	US\$/lb	1.89	1.80	5%	1.82	1.86	-2%	1.62	1.73	-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



Petra Capital
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Industrials):	Nick Berry	+61 (0)2 9239 9634	nberry@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	Daniel Porter	+61 (0)2 9239 9625	dporter@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Iain Gow	+61 (0)2 9239 9608	igow@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Corporate (ECM):	David Wallis	+61 (0)2 9239 9622	dwallis@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent.

Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

Key Risks – Resources Companies under Coverage

Key risks in relation to the resources sector and the resources companies that are the subject of research by Petra Capital's analysts include commodity price volatility, currency risk, technical/licencing/operational risks, litigation/political risk, development risk and sovereign risk for overseas assets, as well as feasibility, permitting and financing risks related to the development of growth projects.

Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at www.petracapital.com.au/research-disclosures.

Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

US Investors

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and "\$100 million investors" only and not the general investing public or retail customers. "\$100 million investors" means any entity, including any investment adviser (whether or not registered under the U.S. Investment Company Act of 1940) that owns or controls (or in the case on an investment adviser has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issues, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Global Alliance Securities, LLC ("Global Alliance"), a U.S. broker dealer. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.