

14 March 2018

Avanco Resources Limited (AVB) BUY Share Price: A\$0.076

More high grade at CentroGold

Target Price:

A\$0.19

AVB has completed infill drilling at Contact, one of three large gold deposits at CentroGold. Drilling has now been completed on 40m spaced sections across the deposit, with new results showing broad, near surface, high grade zones in areas with minimal historical drilling. An updated resource is in progress, with a high proportion of Indicated resources expected and potential for grade to improve. The Scoping Study will then schedule higher grades early in the mine life to ensure project economics are optimised. Maintain BUY with a PT of A\$0.19/sh (unchanged).

Broad high grade zones at Contact

- Infill drilling has focused on the central and southern areas, particularly where previous owners didn't drill below artisanal open pits
- The entire deposit is now drilled on 40m spaced sections with holes spaced 40m apart, sufficient for Indicated resources and high conversion into reserves
- Results include 51m at 4.3g/t from 22m, 10m at 26.3g/t from 130m and 25m at 5.2g/t from 57m

Sound understanding of the geology at Contact

- Infill drilling has provided the data for a more comprehensive geological model for Contact
- The new model increases confidence in the orientation of mineralisation and clarity around the structural setting
- Mineralisation at Contact typically hosted in rafts of sedimentary rock either on or near the contact with a tonalite intrusive (Figure 1 & 2)

Quick turnaround of Scoping & Pre-Feas. studies

- Completion of updated resource for Contact will ensure the Scoping Study can include the scheduling of high grade early in the mine life
- Pre-Feasibility Study work is continuing in parallel, assisted by the extensive historical data set, comprising drilling, metallurgy test work and studies
- Study work and mine design finalised by mid-CY18
- Permit resolution continues to advance with an outcome as early as mid-CY18

Potential for a solid, low cost 100-150kozpa mine

- We believe CentroGold could support a 100-150kozpa operation over a life of 10-12 years

Price target (1xP/NPV₁₀) unchanged at A\$0.19/sh

- We include CentroGold in our group valuation at 50% risk weighting due to the permitting and study status
- Current share price valuing Antas only

Company Data

Shares – ordinary (M)	2,456.9
Market capitalisation (\$M)	194.1
12 month low/high (\$)	\$0.074 / \$0.125
Average monthly turnover (\$M)	\$4.6m
GICS Industry	Materials / Metals & Mining

Financial Summary (fully diluted/normalised)

Year end December	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	59	90	104	108	304
Costs (\$M)	44	68	76	72	158
EBITDA (\$M)	16	22	28	36	146
NPAT (\$M)	-3	3	10	12	86
EPS (¢ps)	-0.1	0.1	0.3	0.4	3.0
EPS growth (%)	0	>100%	300%	19%	625%
PER (x)	na	112	28	24	3
Free Cashflow (\$M)	12	21	30	33	124
FCFPS (¢ps)	0.4	0.7	1.0	1.2	4.3
PFCFPS (x)	23	13	9	8	2
Enterprise Value (\$M)	214	213	191	241	289
EV / EBITDA (x)	14	10	7	7	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



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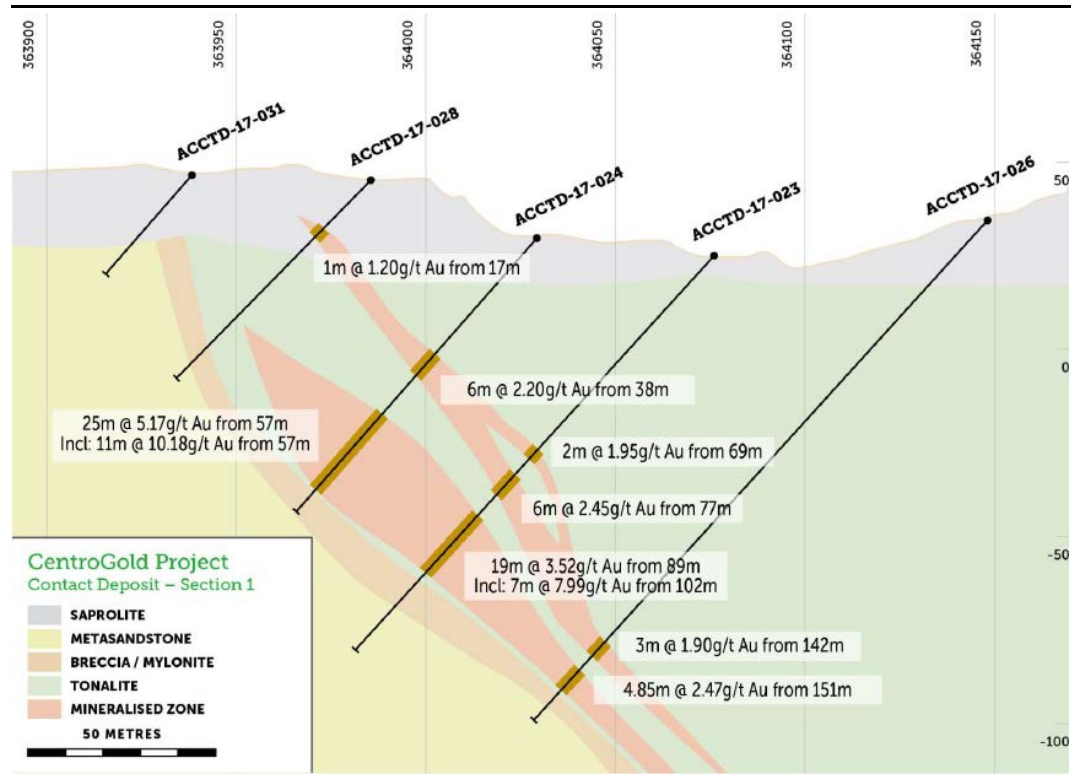
Analysis

Avanco Resource (AVB)

13-Mar-18							Share Price	(\$)	A\$0.08	US\$0.10		
							Iss. Shares	(M)	2456.9	2456.9		
							Issued shares	(M)	448.7	448.7		
							Fully Diluted	(M)	2905.6	2905.6		
							Mkt Cap.	(\$M)	A\$187M	US\$237M		
Year End December												
PROFIT & LOSS												
	2016A	2017A	2018F	2019F	2020F	Antas	Resource	Reserve				
Revenue	US\$M	59.3	90.3	103.9	108.0	304.0	Tonnes	Mt	16.46	3.63		
Operating Costs	US\$M	42.5	56.6	68.1	64.9	151.0	Copper grade	%	1.43%	2.53%		
Exploration	US\$M	1.0	0.0	2.5	2.5	2.5	Gold grade	g/t	0.32	0.55		
Other	US\$M	0.1	11.8	5.0	5.0	5.0	Contained copper	t	237,000	91,621		
EBITDA	US\$M	15.7	22.0	28.3	35.6	145.5	Pedra Branca	Tonnes	Mt	10.48	10.8	
Depreciation & Amort.	US\$M	11.4	14.5	17.3	19.1	35.6	Copper grade	%	2.80%	2.1%		
EBIT	US\$M	4.2	7.5	10.9	16.5	109.9	Gold grade	g/t	0.6	0.49		
Net Interest	US\$M	3.2	4.2	(0.9)	2.5	8.4	Contained copper	t	289,000	222,480		
Pre-Tax Profit	US\$M	1.0	3.3	11.8	14.0	101.5	CentroGold	Tonnes	Mt	33		
Tax	US\$M	3.7	0.8	1.8	2.1	15.5	Grade	g/t	1.9			
Net Profit	US\$M	(2.7)	2.5	10.0	11.9	86.0	Contained gold	Moz	1.999			
Abnormal	US\$M	0.0	0.0	0.0	0.0	0.0						
Reported Profit	US\$M	(2.7)	2.5	10.0	11.9	86.0						
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						
CASHFLOW												
	2016A	2017A	2018F	2019F	2020F	Antas	2016A	2017A	2018F	2019F	2020F	
Net Op Cash Flow	US\$M	11.9	22.0	30.8	38.1	148.0	Production					
Net Interest	US\$M	0.4	0.2	0.9	(2.5)	(8.4)	Ore milled	Mt	0.51	0.71	0.70	0.70
Tax Paid	US\$M	0.0	(1.2)	(1.8)	(2.1)	(15.5)	Grade - copper	%	2.29%	2.05%	2.11%	2.20%
Operating Cash Flow	US\$M	12.3	21.0	29.8	33.5	124.1	Grade - gold	g/t	0.58	0.60	0.55	0.55
Net Capex	US\$M	(19.7)	(6.6)	(3.3)	(113.0)	(168.0)	Copper in concentrate	t	11,188	14,102	14,249	14,938
Exploration	US\$M	(3.2)	(8.5)	(5.0)	(5.0)	(5.0)	Gold in concentrate	oz	7,779	11,365	10,446	10,521
Investing Cash Flow	US\$M	(22.9)	(15.1)	(8.3)	(118.0)	(173.0)	C1 Costs	US\$/lb	1.17	1.64	1.51	1.34
Free cash flow	US\$M	(10.6)	6.0	21.6	(84.5)	(48.9)	AISC	US\$/lb	1.58	1.94	1.91	1.72
Net Borrowings	US\$M	0.0	0.0	0.0	60.0	0.0	Pedra Branca					
Dividends	US\$M	0.0	0.0	0.0	0.0	0.0	Production					
Equity Issues	US\$M	0.0	0.0	0.0	35.0	0.0	Ore milled	Mt		0.0	0.0	0.0
Other	US\$M	1.7	(4.5)	0.0	0.0	0.0	Grade - Copper	%		0.00%	0.00%	0.00%
Financing Cash Flow	US\$M	1.7	(4.5)	0.0	95.0	0.0	Grade - Gold	g/t		0.0	0.0	0.0
Net Increase/Cash	US\$M	(8.8)	1.5	21.6	10.5	(48.9)	Copper in concentrate	t		0	0	0
							C1 Costs	US\$/lb		0.00	0.00	0.00
							AISC	US\$/lb		0.00	0.00	0.00
BALANCE SHEET												
	2016A	2017A	2018F	2019F	2020F	Antas	2016A	2017A	2018F	2019F	2020F	
Cash	US\$M	22.9	24.4	45.9	56.4	7.6	CentroGold					
Other Current	US\$M	16.8	19.1	19.1	19.1	19.1	Production					
Current Assets	US\$M	39.7	43.5	65.0	75.5	26.7	Ore milled	Mt		0.0	0.0	0.0
Fixed Assets	US\$M	61.1	50.1	53.4	166.4	334.4	Grade - Gold	g/t		0.0	0.0	2.5
Exploration	US\$M	21.2	38.6	38.6	38.6	38.6	Gold production	koz		0	0	150
Other	US\$M	2.2	4.0	4.0	4.0	4.0	C1 Costs	US\$/oz		0	0	551
Non Current Assets	US\$M	84.5	92.8	96.0	209.0	377.0	AISC	US\$/oz		0	0	667
Total Assets	US\$M	124.1	136.2	161.1	284.5	403.7	REVENUE					
Borrowings	US\$M	0.0	0.0	0.0	0.0	0.0	Antas	US\$M	59	99	104	108
Payables	US\$M	10.4	15.5	15.5	15.5	15.5	Pedra Branca	US\$M	0	0	0	0
Other	US\$M	7.5	5.3	5.3	5.3	5.3	CentroGold	US\$M	0	0	0	188
Current Liab	US\$M	17.9	20.7	20.7	20.7	20.7	Total	US\$M	59	99	104	108
Borrowings	US\$M	0.0	0.0	0.0	60.0	60.0	CAPEX					
Provisions	US\$M	7.2	9.6	9.6	9.6	9.6	Antas	US\$M	18.2	2.6	3.3	3.0
Other	US\$M	10.7	14.5	14.5	14.5	14.5	Pedra Branca	US\$M	0.0	0.0	0.0	158.0
Non Current Liab	US\$M	17.8	24.0	24.0	84.0	84.0	CentroGold	US\$M	0	0	0	110
Total Liabilities	US\$M	35.7	44.8	44.8	104.8	104.8	Total	US\$M	18.2	2.6	3.3	113.0
Total Equity	US\$M	88.4	91.4	116.3	179.8	298.9	ASSUMPTIONS					
RATIO ANALYSIS												
	2016A	2017A	2018F	2019F	2020F	Antas	2016A	2017A	2018F	2019F	2020F	
EPS	¢	(0.1)	0.1	0.3	0.4	3.0	Exchange Rate	A\$/US\$	0.74	0.77	0.77	0.75
PER	x	na	112.1	28.0	23.6	3.3	Copper price	US\$/lb	2.21	2.80	3.00	3.00
EPS Growth	%	(305.3)	(193.9)	300.0	18.6	625.1	Copper price	A\$/lb	2.97	3.65	3.90	4.00
CFPS	¢	0.4	0.7	1.0	1.2	4.3	Gold price	US\$/oz	1,247	1,258	1,310	1,275
PCFR	x	22.7	13.3	9.4	8.4	2.3	Gold price	A\$/oz	1,677	1,641	1,701	1,700
DPS	¢	0.0	0.0	0.0	0.0	0.0	NPV (+1Yr)					
Yield	%	0%	0%	0%	0%	0%	Antas	A\$M	173	\$	0.06	
Payout Ratio	%	0%	0%	0%	0%	0%	Pedra Branca East	A\$M	204	\$	0.07	
Gearing ND/E	%	-26%	-27%	-40%	2%	18%	CentroGold (50% risked)	A\$M	128	\$	0.04	
Interest Cover	x	1.3	1.8	na	6.6	13.1	Exploration (incl Pantera)	A\$M	40	\$	0.01	
EBITDA Margin	%	26.4	24.4	27.2	33.0	47.9	Corporate costs	A\$M	(43)	\$	(0.01)	
EBIT Margin	%	7.1	8.3	10.5	15.3	36.2	Net Cash (Debt)	A\$M	60	\$	0.02	
Return On Assets	%	3.4	5.5	6.8	5.8	27.2	Total	A\$M	561.6	\$	0.19	
Eff Tax rate	%	25	25	25	25	25						

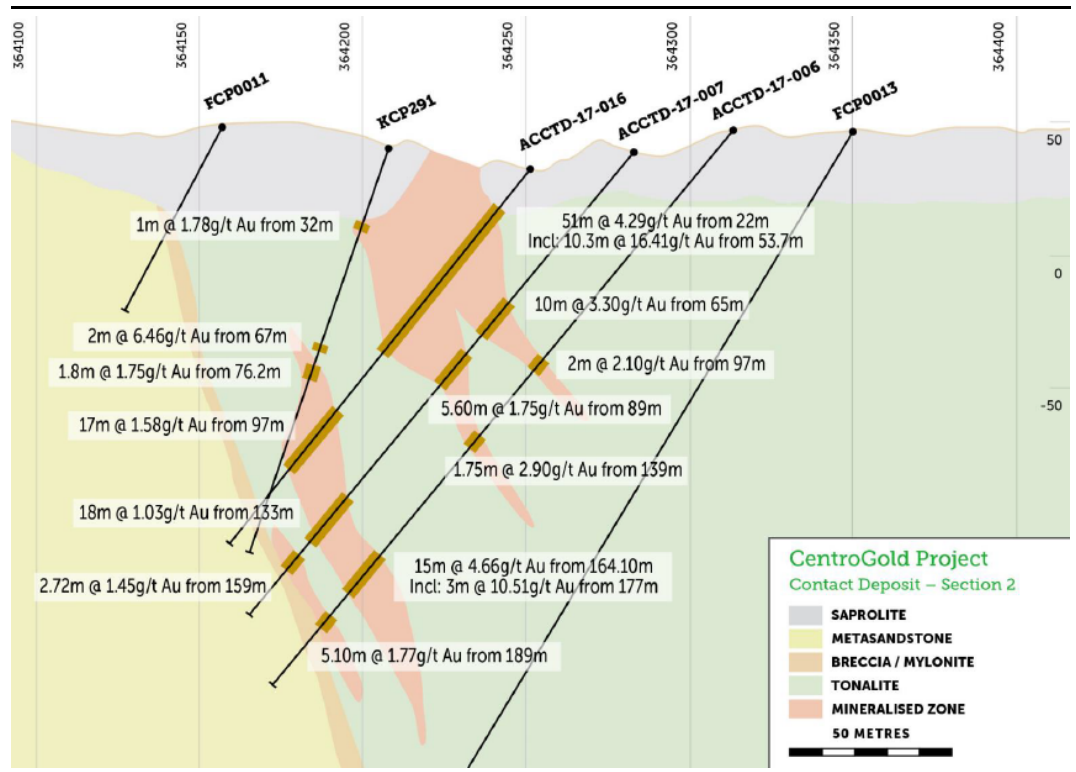
Source: Petra Capital

Figure 1: New section drilled by AVB at Contact



Source: Company reports

Figure 2: high grade infill drill results between old holes



Source: Company reports

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