

9 February 2018

Avanco Resources Limited (AVB) BUY Share Price: A\$0.08

CentroGold getting bigger & better

Target Price:

A\$0.15

AVB continue to demonstrate the quality of the CentroGold deposit, with another interim resource update delivering close to 2Moz at an impressive open pit grade of 1.9g/t Au. This result has come from just four additional drill holes, demonstrating the opportunities to infill and expand the resource base with little effort. A further resource update is due within weeks, with a focus on upgrading resources to ensure high conversion to reserves. A scoping study is due by the end of March followed by a PFS & DFS by mid-year; we feel the resource base could support a 100-150kozpa operation for 10-12yrs. CentroGold is shaping up to be an outstanding project given the potential for high grade, low strip ratio open pits, straightforward metallurgy and low capital intensity. The reinstatement of licenses remains a major catalyst. Maintain BUY, PT of A\$0.15/sh (unchanged).

CentroGold resource of 32.6Mt at 1.9g/t for 1.999Moz

- Four holes in Blanket Zone lift contained ounces by 20%
- CentroGold resources split across three deposits with the adjacent Blanket & Contact Zones comprising 71% (21Mt at 2.1g/t) & the balance at Chega Tudo (11.3Mt at 1.6g/t) located 8km to the southwest
- Overall increase in contained gold by 7.5% (from 1.86Moz), with grade up to 1.9g/t (from 1.8g/t)

Further drilling aiming to maximise reserves

- Resource drilling completed, further infill drilling to upgrade resources & ensure high reserve conversion
- Given the orebody is shallow, continuous and open-pittable, reserve conversation at 70-80% is possible

Study work completed by mid-2018

- Scoping study is due by the end of March, with the PFS & DFS expected by the end of June
- Reinstatement of environmental and construction licenses is expected by late June 2018

Nearby targets can grow open pit resources further

- Numerous walk-up targets close to existing resources, many with historical drilling and requiring minimal additional infill drilling to achieve JORC resources
- Significant exploration potential along 75km strike of greenstone belt yet to be tested; multiple small-scale artisanal workings offer obvious first-pass targets

Price target (1xP/NPV) A\$0.15/sh (unchanged)

- Valuation includes Antas and Pedra Branca only; nominal exploration value of \$40m (A1¢/sh)

Company Data

Shares – ordinary (M)	2,456.9
Market capitalisation (\$M)	196.5
12 month low/high (\$)	\$0.074 / \$0.135
Average monthly turnover (\$M)	\$6.8m
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	95	17	13	4
Cashflow (\$M)	12	22	30	35	82
CFPS (¢ps)	0.4	0.8	1.1	1.3	3.0
PCFPS (x)	14	8	6	5	2
Enterprise Value (\$M)	130	123	82	123	148
EV / EBITDA (x)	8	6	3	3	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)



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)

8-Feb-18

Year End December							Share Price	(\$)	A\$0.08	US\$0.06			
PROFIT & LOSS							Iss. Shares	(M)	2456.9	2456.9			
	2016A	2017F	2018F	2019F	2020F	Issued shares	(M)	300.0	300.0				
Revenue	US\$M	59.3	91.2	103.9	108.0	Fully Diluted	(M)	2756.9	2756.9				
Operating Costs	US\$M	42.5	60.8	68.1	64.9	Mkt Cap.	(\$M)	A\$197M	US\$153M				
Exploration	US\$M	1.0	3.2	2.5	2.5								
Other	US\$M	0.1	6.4	5.0	5.0								
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							
							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						
							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)						
							Antas	A\$M	174	\$	0.06		
							Pedra Branca East	A\$M	197	\$	0.07		
							Exploration (incl Centrogold & Pantera)	A\$M	39.1	\$	0.01		
							Corporate costs	A\$M	(43.0)	\$	(0.02)		
							Net Cash (Debt)	A\$M	39.7	\$	0.01		
							Total	A\$M	406.9	\$	0.15		
RATIO ANALYSIS							US\$	US\$	US\$	US\$	US\$		
EPS	¢	(0.1)	0.1	0.4	0.5	1.7							
PER	x	na	94.8	17.0	13.0	3.6							
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	13.9	8.0	5.7	4.9	2.1							
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							

Source: 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	brmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Resources):	Craig Brown	+61 (0)2 9239 9629	cbrown@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:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Iain Gow	+61 (0)2 9239 9608	igow@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@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

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