

Avalon Minerals Ltd (AVI.ASX)

Fully funded for aggressive drill program at Viscaria

EVENT:

- Avalon Minerals Ltd (AVI.ASX) recently completed an \$8.4m equity raising.
- Further scoping study analysis completed on Discovery Zone acquisition.

DETAILS:

- AVI has completed a placement of 119.3m shares at \$0.07/sh to institutional investors, raising a total of \$8.4m. The placement has broadened the register with institutions including Acorn Capital who have become a substantial shareholder with a ~12% holding and diluted the existing substantial Malaysian shareholders from ~35% to ~25%.
- Following the completion of the placement, AVI will have ~\$10m in cash and hence be fully funded to complete the planned 25,000m drill program at Viscaria set to commence in coming weeks.
- Further scoping study analysis has been completed by mining consultants Xstract on the Discovery Zone prospect, which is currently subject to due diligence and is to be acquired from Hannans Reward Ltd for \$4m. The economic assessment has indicated that the existing resource at Discovery Zone has the potential to add US\$140m to the base case project NPV of ~US\$60m to an updated NPV of ~US\$200m on a stand-alone basis (i.e. excluding resource growth from planned drill program). Based on the 'Development Case D' scenario which assumes resource growth at the A and D Zones following the upcoming drill program and completion of the Discovery Zone acquisition, the NPV increases to ~US\$350m with a production profile of 29ktpa Cu and almost 1Mtpa Fe over a 9 year mine life.

ANALYSIS:

- Broadening of institutional register a positive:** In our view the pre-placement register had previously acted as a deterrent to potential investors, with the limited free float and the large investment by Malaysian shareholders whose names were largely unfamiliar to the Australian resources investment community. Our understanding is that, whilst the Malaysian shareholders were willing to provide follow on support in the recent placement, they opted not to do so to enable the introduction of new institutional investors to the register. We consider this to be a positive and should also lead to increased liquidity over time.
- Fully funded to complete aggressive 25,000m drill program, expected to deliver significant resource growth and value creation:** A 25,000m drill program is scheduled to commence in coming weeks targeting both the A and D Zone deposits at Viscaria, prior to further resource upgrades in H1 2013, DFS commencement in mid 2013 and ultimately first production in early 2016. The recently released Scoping Study confirmed the technical and economic viability of Viscaria and provided a clear pathway to deliver a 29ktpa Cu operation and NPV of up to ~\$350m following the upcoming drill program and Discovery Zone acquisition.

RECOMMENDATION:

- We continue to rate AVI as a BUY with a price target of \$0.20/sh.**
- We consider the current enterprise valuation of ~\$25m to offer an attractive entry point for investors wishing to gain leverage to exploration success over the coming 12 months in a mining friendly jurisdiction (Sweden) and with a proven management team.
- Following the recent equity issue the financing risk and 'cum-issue' overhang has been removed and we expect regular news flow over the coming 6-8 months as drilling is carried to increase resources and associated valuation.
- AVI management (Jeremy Read – MD) have a proven track record of exploration success and have delivered significant shareholder value with previous vehicles Discovery Metals and most recently Meridian Minerals.

Rating	BUY
Previous	BUY
Price Target (A\$)	\$0.20
Previous (A\$)	\$0.20

Share Price (A\$)	\$0.075
52 week low - high (A\$)	\$0.03 - \$0.17
Valuation (A\$/share)	\$0.18
Methodology	Risked DCF
Risk	High

Capital Structure	
Shares on Issue (m)	464.8
Market Cap (A\$m)	34.9
Net Debt/(Cash) (A\$m)	-10.0
EV (A\$m)	24.9
Options on issue (m)	28.3
12mth Av Daily Volume ('000)	498

Board and Management	
Abu Sahid Bin Mohamed	Chairman
Siew Mun Chuang	Deputy Chairman
Jeremy Read	Managing Director
Seng Han Garry Goh	Non Executive Director
Paul Niardone	Non Executive Director
Siew Mun Wai	Non Executive Director

Major Shareholders	
Acorn Capital	12%
Abu Sahid Bin Mohamed	12%
Siew Mun Chuang	7%
Galena Fund	7%

Catalysts	
25,000m drilling program commences	Nov-12
Resource increase (interim)	Q1 2013
Resource increase (main)	Q2 2013
DFS commences	mid 2013



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Fully funded for drill program at Viscaria post placement

- AVI recently completed an \$8.4m equity capital raising, key features of which included:
 - Placement of 119.3m shares;
 - Priced at \$0.07/sh which represented a ~5% discount to last close;
 - Broadened the register with institutions including Acorn Capital who have become a substantial shareholder with a ~12% holding; and
 - Diluted the existing substantial Malaysian shareholders from ~35% to ~25%.
- Following the completion of the placement, AVI will have ~\$10m in cash and hence be fully funded to complete the planned 25,000m drill program at Viscaria set to commence in coming weeks.
- In our view the pre-placement register had previously acted as a deterrent to potential investors, with the limited free float and the large investment by Malaysian shareholders whose names were largely unfamiliar to the Australian resources investment community.
- Our understanding is that, whilst the Malaysian shareholders were willing to provide follow on support in the recent placement, they opted not to do so to enable the introduction of new institutional investors to the register. We consider this to be a positive and should also lead to increased liquidity over time.

Placement has broadened the register with institutions and fully funds the drilling program at Viscaria.

Discovery Zone assessment outlines pathway to production profile of 29ktpa Cu

- Further scoping study analysis has been completed by AVI's mining consultants Xstract on the Discovery Zone prospect, which is currently subject to due diligence and is to be acquired from Hannans Reward Ltd for \$4m. Discovery Zone is within trucking distance (~10kms) of the Viscaria Project and with similar mineralogy to D Zone at Viscaria.

Figure 1: Discovery Zone Prospect Location



Source: Avalon Minerals Ltd

Discovery Zone acquisition will cost AVI \$4m but is expected to lead to ~\$140m in NPV growth at Viscaria.

- The economic assessment has indicated that the existing resource at Discovery Zone has the potential to add US\$140m to the base case project NPV of ~US\$60m to an updated NPV of ~US\$200m on a stand-alone basis (i.e. excluding resource growth from planned drill program).
- Based on the 'Development Case D' scenario which assumes resource growth at the A and D Zones following the upcoming drill program and completion of the Discovery Zone acquisition, the NPV increases to ~US\$350m with a production profile of 29ktpa Cu and almost 1Mtpa Fe over a 9 year mine life.
- Figure 2 below highlights the various economics and scenarios analysed by Xstract, including Development Case D which incorporates the Discovery Zone acquisition and resource growth targeted upon completion of the upcoming drill program.

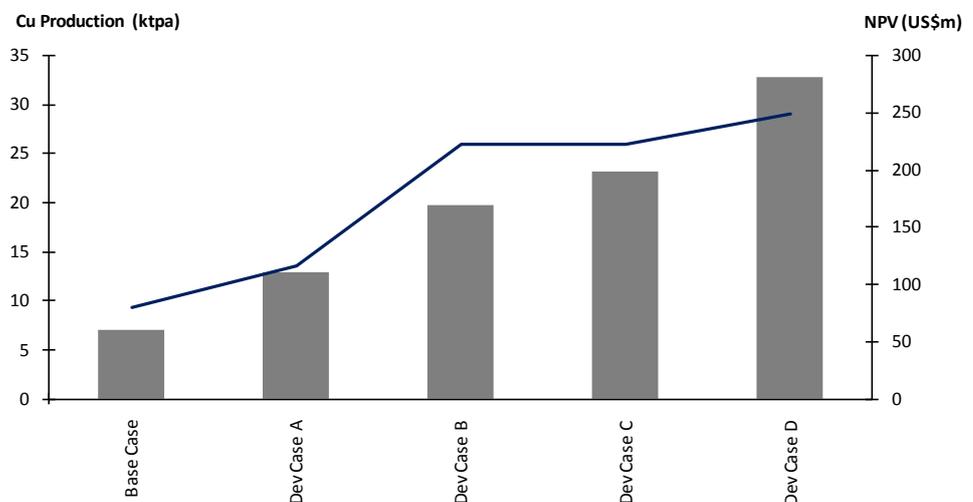
Figure 2: Scoping Study Scenarios

	BASE CASE	DEVELOPMENT CASE A	DEVELOPMENT CASE B	DEVELOPMENT CASE C	DEVELOPMENT CASE D
Requirements	<i>Status quo</i>	<i>D Zone deposit extended 35m (depth) and 300m (strike)</i>	<i>Dev. case A + increase A Zone underground resource by 3Mt @ 2.5% Cu</i>	<i>Dev. case B + increase D Zone underground resource by 1.75Mt @ 1.6% Cu and 26% Fe</i>	<i>Dev. case C + Discovery Zone acquisition</i>
Tonnage and grade	11Mt @ 0.5% Cu and 22.2% Fe	15.5Mt @ 0.5% Cu and 23.1% Fe	18.5Mt @ 0.8% Cu and 19.4% Fe	20.2Mt @ 0.9% Cu and 20% Fe	28Mt @ 0.8% Cu and 25% Fe
Deposits mined	A Zone and D Zone	A Zone and D Zone	A Zone and D Zone	A Zone and D Zone	A Zone, D Zone and Discovery Zone
Operation type	Open pit (A and D Zone)	Open pit (A and D Zone)	Open pit (A and D Zone) Underground (A Zone)	Open pit (A and D Zone) Underground (A and D Zone)	Open pit (A, D Zone and Discovery Zone) Underground (A and D Zone)
Throughput	2.1Mtpa	3.0Mtpa	3.3Mtpa	3.1Mtpa	3.5Mtpa
Production profile (steady state)	9.4ktpa Cu and 0.4Mtpa Fe	13.5ktpa Cu and 0.6Mtpa Fe	26ktpa Cu and 0.5Mtpa Fe	26ktpa Cu and 0.5Mtpa Fe	29ktpa Cu and 1Mtpa Fe
Mine life (yrs)	5.5	5.3	5.6	5.6	9.0
LOM Capex (US\$m)	155.0	194.0	315.0	350.0	369.0
Cash costs (US\$/lb)	\$0.65	\$0.47	\$1.03	\$1.03	TBA
NPV @ 10% (US\$m)	61.0	111.0	170.0	198.0	342.0
Addition to NPV (US\$m)	0.0	50.0	109.0	137.0	281.0

Note: NPV based on US\$3.25/lb Cu, US\$150/t Fe

Source: Avalon Minerals, FSB Research

Figure 3: NPV's and Production Profiles



Source: FSB Research, Avalon Minerals Scoping Study

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