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# Aeon Metals Limited (AML)

## Promising start to diamond drilling program

### Recommendation

**Buy** (unchanged)

### Price

**\$0.155**

### Valuation

**\$0.25** (unchanged)

### Risk

**Speculative**

### GICS Sector

Materials

### Expected Return

Capital growth	<b>61.3%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>61.3%</b>

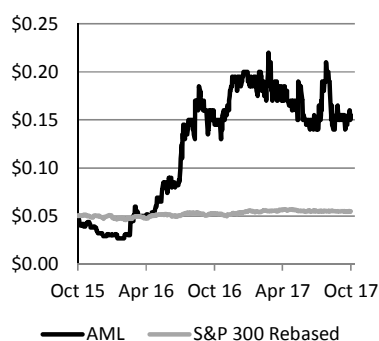
### Company Data & Ratios

Enterprise value	<b>\$90.6m</b>
Market cap	<b>\$62.1m</b>
Issued capital	<b>400.4m</b>
Free float	<b>80%</b>
Avg. daily val. (52wk)	<b>\$29,653</b>
12 month price range	<b>\$0.13-\$0.22</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.15	0.15	0.15
Absolute (%)	3.3	6.9	3.3
Rel market (%)	3.2	6.4	-0.7

### Absolute Price



SOURCE: IRESS

### Hitting its targets

AML has released the first update from its second phase of diamond drilling for 2017 at its 100%-owned Walford Creek copper-cobalt-zinc project in NW Queensland. Drilling has commenced in the last week, with 729m completed to date over three holes with a fourth hole underway. The first three holes have all intercepted the Py3 target horizon within a few metres of predicted depths and visual logging of the cores indicates copper mineralisation in each of these holes. Samples from the first hole have been delivered to the assay laboratory and the first results are likely to be available towards the end of the month.

### Current drill program pointing to potential

In our view the Walford Creek project is entering a very exciting phase. With the geological model continuing to be validated and the drill targeting delivering a high strike rate, we anticipate AML will add significantly to the current Vardy Zone Resource. Not only that, further exploration success also supports the prospectivity of the Fish River Fault, the main structural control of the deposit which runs for 22km across AML's tenements. With the geology well understood, this begins to present the opportunity to extend drilling along strike and test the true scale of the deposit. Also included in the announcement is a photo of a diamond core interval of ~3.3m showing semi-massive to massive chalcopyrite and pyrite mineralisation. We would expect this to return good copper grades once assayed.

### Investment thesis – Buy, (Speculative), valuation \$0.25/sh

This drilling update continues to validate the geological model and point to the prospectivity of the Fish River Fault. It also supports one of the key tenets of our investment thesis which is value creation on the back of exploration success and Resource growth. There are no changes to our earnings or valuation on this update and AML remains well funded following the recent \$5.5m equity raise. We retain our Buy (Speculative) rating with a valuation of \$0.25/sh.

### Earnings Forecast

Year end 30 June	2016a	2017e	2018e	2019e
Sales (A\$m)	-	-	-	60
EBITDA (A\$m)	(3)	(1)	(2)	26
NPAT (reported) (A\$m)	(2)	(4)	(5)	6
NPAT (adjusted) (A\$m)	(2)	(4)	(5)	6
EPS (adjusted) (cps)	(1)	(1)	(1)	1
EPS growth (%)	na	na	na	na
PER (x)	(21.3)	(14.5)	(12.5)	13.1
FCF Yield (%)	-6%	-10%	-92%	-31%
EV/EBITDA (x)	(34.5)	(90.6)	(44.7)	3.6
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-8%	-12%	-15%	10%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Promising start to drilling program

## Hitting its targets, confidence in deposit building

AML recently commenced its second phase of diamond drilling for 2017 at its 100%-owned Walford Creek copper-cobalt-zinc project in NW Queensland. Drilling has commenced in the last week, with 729m completed to date over three holes with a fourth hole underway. The first three holes have all intercepted the Py3 target horizon within a few metres of predicted depths and visual logging of the cores indicates copper mineralisation in each of these holes. First assay results are likely to be available towards the end of the month.

Included in the announcement is a photo of a diamond core interval of ~3.3m from hole WFDD265, the third hole drilled in the program. It shows semi-massive to massive chalcopyrite and pyrite mineralisation which we would expect to return good copper grades.

Figure 1 - Diamond drill core returned from hole WFDD265

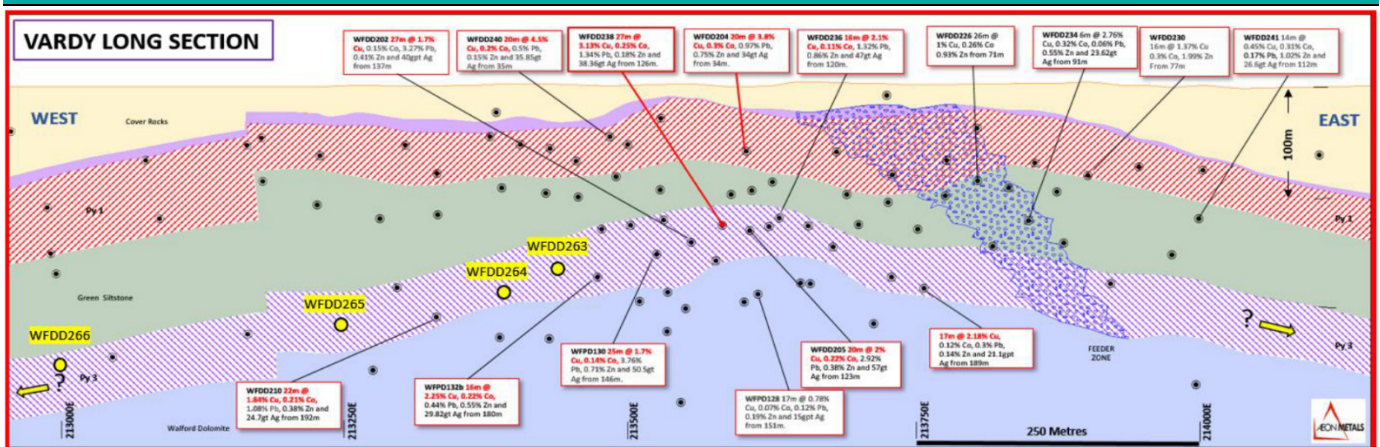


SOURCE: COMPANY DATA

Other key points to note from the program to date include:

- The accuracy of the drill hole targeting further validates the geological model for the deposit;
- the increased step-out distances of each subsequent hole (we estimate an initial step-out of 50m, increasing to ~250m with the current hole) show increasing confidence and predictability in the deposit;
- this in turn creates the opportunity to estimate a Resource in the higher confidence Indicated category with less drilling and for this to be converted to an Ore Reserve;

Figure 2 - Long section showing drill holes completed in current program – note the increasing step-out distances



SOURCE: COMPANY DATA

## Changes to our valuation

We make no changes to our valuation at this stage.

While this update is extremely encouraging in the context of Resource growth for the project and overall prospectivity, we await the Resource update at year-end before making changes to our project assumptions.

There are no changes to the capital structure and for the purposes of our fully diluted valuation, we assume all OCP's options are exercised, even though 85m are currently slightly out-of-the-money. We also point out that in the event they are exercised, the combined \$20.3m of proceeds will offset the debt with OCP.

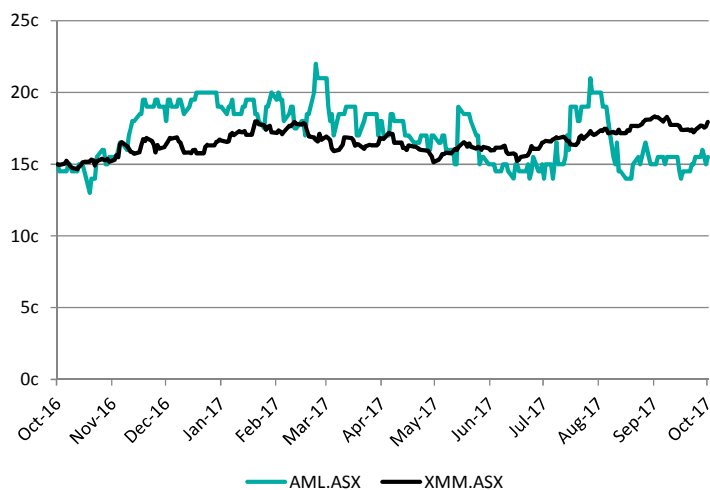
Our valuation continues to assume a potential equity raise (\$7m at \$0.15/sh) within the next 12 months in order to fund the completion of the Bankable Feasibility Study and a likely expanded exploration program at the project.

## Upcoming catalysts

Upcoming catalysts for AML include:

- An ongoing stream of drilling results, which we expect are likely to continue returning high grades;
- Following the completion of the drilling program, AML plans to calculate an updated Resource estimate, which we expect to deliver a material upgrade to the current Resource, likely in the December quarter;
- This will form the basis of a maiden Reserve estimate, likely in early CY18; and
- The completion of a Bankable Feasibility Study to follow, likely in 1HCY18.

**Figure 3 - AML share-price performance vs ASX Metals and Mining (re-based)**



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

# Aeon Metals Ltd (AML)

## Company description

AML is a Sydney-based company focused on the exploration and development of its flagship asset, the 100%-owned Walford Creek Copper-Cobalt Project, an advanced exploration stage project located approximately 350km north-west of Mt Isa, in Queensland. Since acquiring the project in 2014, AML has completed Resource infill and extension drilling, released updated Mineral Resource estimates, progressed permitting activities and completed a Preliminary Economic Assessment. The global Resource at Walford Creek comprises 73.3Mt at 0.40% Cu, 0.85% Zn and 813ppm Co for 296kt Cu, 623kt Zn and 60kt Co contained. Most recently, efforts have been focussed on a high grade subset of the main Resource, the Vardy Zone, which has a Resource of 6.6Mt at 1.25% Cu, 0.76% Zn and 1,630ppm Co for 82.6kt Cu, 50.2kt Zn and 10.8kt Co contained. We view this as a potential game-changer for AML, offering the potential for small-scale, high grade, copper-cobalt operation in the near term. Further extension of the Vardy Zone and identification of other high grade portions of the existing Resource are compelling opportunities for AML.

## Investment thesis – Buy, (Speculative), valuation \$0.25/sh

This drilling update continues to validate the geological model and point to the prospectivity of the Fish River Fault. It also supports one of the key tenets of our investment thesis which is value creation on the back of exploration success and Resource growth. AML is well funded following the recent \$5.5m equity raise and we retain our Buy (Speculative) rating with a valuation of \$0.25/sh.

## Valuation – risked discounted cash flow of key project

Our valuation for AML is broadly based on the parameters and assumptions the Vardy Zone PEA, which assumes a Mining Inventory of 3.6Mt @ 1.15% Cu, 1.06% Zn, 26g/t Ag and 1,842ppm (0.18%) Co being mined at a rate of 600ktpa. Over a six year mine-life this is planned to produce a total of 38.2kt copper in concentrate, 28.8kt zinc in concentrate and 3.2kt of cobalt in cobalt hydroxide. In addition to this, our valuation assumes some exploration success, modelling a Mining Inventory of 5.1Mt for a mine life of eight years and higher grades being front-ended in the production profile (as with the PEA).

**NPV premium:** In the case of AML, we have taken the step of applying a premium of 25% to our base-case valuation which in some circumstances we believe is justified. We believe this is the case for AML, due to a number of factors including:

- The scarcity of cobalt-exposed projects, particularly advanced stage projects, on the ASX;
- The buoyant, positive market outlook for cobalt demand; and
- A premium being paid by the market, over and above the valuations of exploration companies advancing more 'mainstream' commodity projects as a result of these factors.

Our valuation also includes a nominal valuation of \$60m for the balance of the exploration portfolio outside the Vardy Zone. Our valuation continues to assume a potential equity raise (\$7m at \$0.15/sh) within the next 12 months in order to fund the completion of the Bankable Feasibility Study and a likely expanded exploration program at the project.

# Resource sector risks

Risks to AML include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. As an exploration company with no sales revenues, AML is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company may relate to geological, mining and metallurgical performance vs design. These can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Construction and development of mining assets may be subject to approvals timelines, receipt of permits, weather events, access to skilled labour and technical personnel, as well as key material inputs and mechanical components which may cause delays to construction, commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates. As most metal prices are denominated in US dollars, their translation into Australian dollars are affected by fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives. Exploration success is dependent upon a wide range of factors and can deliver a wide range of results. Even once Reserves have been calculated, their economic viability remains dependent upon actual commodity prices and inputs to operating costs.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. AML's key assets are located in Australia, in the State of Queensland, a politically and socially stable jurisdiction, however changes to business conditions and government policies can and have occurred, with potential for adverse impacts on the economic and social viability of AML's operations.
- **Corporate/M&A risks.** Risks associated with M&A activity include differences between the entity's and the market's perception of value associated with completed transactions, the actual performance of an acquired asset vs its expected performance as assessed by the acquiror and the timing of an acquisition may all have a material impact on the value attributed by the market to that acquisition.

Table 1 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS									
Year ending June	Unit	2015a	2016a	2017e	2018e	2019e	Year ending June	Unit	2015a	2016a	2017e	2018e	2019e		
Revenue	\$m	-	-	-	-	59.7	<b>VALUATION</b>								
Expense	\$m	(9.3)	(2.6)	(1.0)	(2.0)	(34.2)	NPAT	\$m	(9)	(2)	(4)	(5)	6		
<b>EBITDA</b>	\$m	<b>(9.3)</b>	<b>(2.6)</b>	<b>(1.0)</b>	<b>(2.0)</b>	<b>25.5</b>	Reported EPS	c/sh	(3)	(1)	(1)	(1)	1		
Depreciation	\$m	-	-	(0.0)	(0.0)	(8.1)	EPS growth	%	na	na	na	na	na		
EBIT	\$m	(9.3)	(2.6)	(1.0)	(2.0)	17.4	PER	x	-5.0x	-21.3x	-14.5x	-12.5x	13.1x		
Net interest expense	\$m	0.1	0.2	(2.7)	(2.8)	(11.7)	DPS	c/sh	-	-	-	-	-		
<b>PBT</b>	\$m	<b>(9.2)</b>	<b>(2.5)</b>	<b>(3.7)</b>	<b>(4.8)</b>	<b>5.7</b>	Franking	%	0%	0%	0%	0%	0%		
Tax expense	\$m	-	-	-	-	-	Yield	%	0%	0%	0%	0%	0%		
<b>NPAT</b>	\$m	<b>(9.2)</b>	<b>(2.5)</b>	<b>(3.7)</b>	<b>(4.8)</b>	<b>5.7</b>	FCF/share	c/sh	(2)	(1)	(2)	(14)	(5)		
							P/FCFPS	x	-8.6x	-17.4x	-9.9x	-1.1x	-3.3x		
							EV/EBITDA	x	-9.8x	-34.5x	-90.6x	-44.7x	3.6x		
							EBITDA margin	%	nm	nm	nm	nm	43%		
							EBIT margin	%	nm	nm	nm	nm	29%		
							Return on assets	%	-19%	-5%	-7%	-5%	4%		
							Return on equity	%	-29%	-8%	-12%	-15%	10%		
							<b>LIQUIDITY &amp; LEVERAGE</b>								
							Net debt (cash)	\$m	14	17	22	66	60		
							ND / E	%	50%	52%	78%	181%	83%		
							ND / (ND + E)	%	33%	34%	44%	64%	45%		
							EBITDA / Interest	x	-	-	-	-	-2.2x		
							<b>MINERAL RESOURCES</b>								
							<b>Walford Creek, QLD</b>								
							<b>Total resource</b>	Mt	73	0.40%	296	ppm Co	813	Co (kt)	60
							Measured		-	-	-	-	-	-	-
							Indicated	16	0.46%	75	914	15			
							Inferred	57	0.39%	221	785	45			
							<b>Vardy Zone</b>								
							<b>Total resource</b>	6.6	1.25%	82.6	1,630	10.8			
							Measured	1.0	1.14%	11.4	1,700	1.7			
							Indicated	2.2	1.26%	27.7	1,800	4.0			
							Inferred	3.4	1.28%	43.5	1,500	5.1			
							<b>PROJECT ASSUMPTIONS - Vardy Zone evaluation</b>								
							<b>Year ending June 30</b>								
								FY16	FY17	FY18	FY19	FY20			
							Currency	US\$/A\$	0.73	0.75	0.77	0.75	0.75		
							Copper price	US\$/lb	\$2.22	\$2.44	\$3.06	\$3.16	\$3.26		
							Cobalt	US\$/t	\$35,000	\$55,000	\$55,000	\$55,000	\$55,000		
							Zinc	US\$/t	\$0.80	\$1.20	\$1.23	\$1.26	\$1.29		
							CAPEX - development	A\$m	-	-	(49)	(39)	(10)		
							CAPEX - sustaining	A\$m	-	-	(2)	(2)	(2)		
							Ore milled	Mt	-	-	-	0.30	0.60		
							Head grade	% Cu	-	-	-	1.25%	1.25%		
								ppm Co	-	-	-	1,950	1,950		
							Production	t Cu	-	-	-	3.6	7.1		
								t Co	-	-	-	0.293	0.585		
							<b>VALUATION</b>								
							<b>Ordinary shares (m)</b>								
							Options in the money (m)						158.0		
							Assumed equity raise (m)						46.7		
							<b>Diluted m</b>						<b>605.1</b>		
							<b>SOTP</b>								
							Walford Ck (unrisked NPV10)						\$m	\$/sh	
							Walford Ck (risk discount 25%, NPV10)						134	0.33	
							Other exploration						60	0.15	
							Corporate overheads						(9)	(0.02)	
							Net cash (debt)						(29)	(0.07)	
							<b>Total (undiluted)</b>						<b>122</b>	<b>0.31</b>	
							Cash from options						20	0.03	
							Assumed equity raise						7	0.01	
							<b>Total (fully diluted)</b>						<b>150</b>	<b>0.25</b>	
							<b>MAJOR SHAREHOLDERS</b>								
													%	m	
							OCP Holdings						20.5%	82.0	
							Regal Funds Management						5.9%	23.7	
							Bliss Investments						5.9%	23.5	
							Washington H Soul Pattinson						5.6%	22.3	
							SLW Minerals Corporation						4.0%	16.0	
							<b>Top 5</b>						<b>41.8%</b>	<b>167.5</b>	

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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