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# Aeon Metals Limited (AML)

## Good numbers coming in

### Recommendation

**Buy** (unchanged)

Price

**\$0.37**

Valuation

**\$0.54** (unchanged)

Risk

**Speculative**

### GICS Sector

Materials

### Expected Return

Capital growth	<b>45.9%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>45.9%</b>

### Company Data & Ratios

Enterprise value	<b>\$215.2m</b>
Market cap	<b>\$216.8m</b>
Issued capital	<b>586.0m</b>
Free float	<b>71%</b>
Avg. daily val. (52wk)	<b>\$352,816</b>
12 month price range	<b>\$0.13-\$0.45</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.35	0.27	0.19
Absolute (%)	7.2	37.0	94.7
Rel market (%)	7.0	30.7	85.5

### Absolute Price



SOURCE: IRESS

### Excellent step-out drilling results

AML has recently released assays from wide step-out drilling that demonstrate the presence of high grade copper-cobalt zones along strike from the known Resource at its 100%-owned Walford Creek project in Queensland. These results, in our view, significantly bolster the case for the extension of the known Resource – one of the key tenets of our investment thesis. The results reported were:

From hole **WFPD292 drilled 2.5km to the west** of the current Resource:

- **18m @ 1.39% Cu, 0.11% Co** and 32g/t Ag from 390m;

And from hole **WFPD304, drilled 3.7km to the west** of the current Resource:

- **19m @ 1.20% Cu, 0.10% Co** and 23g/t Ag from 348m;

These are very positive developments and additional evidence of the continuity of high grade copper and cobalt zones 3.7km to the west of the existing Resource.

### Where there's smoke...

In addition to the assays returned from the holes listed above, AML has also reported the visual logging of an intersection of 42m of the copper-bearing mineral chalcopyrite in one of the latest holes, WFDH352 – this time drilled 4.6km to the west of the current Resource. Should the 42m turn out to be well mineralised it will be one of the widest intercepts achieved to date at Walford Creek. In the context of previous visual logging, it is further evidence for a potential significant Resource increase.

### Investment thesis – Buy, (Speculative), valuation \$0.54/sh

AML's exploration has been very efficient, driven by the robust geological model of the deposit. We reiterate our view that AML has entered an exciting period of cost effective discovery and growth and news flow from this program may deliver strong, positive catalysts for the share price. Our NPV-based valuation is unchanged at \$0.54/sh. AML remains one of our Top Picks for 2018 and we retain our Buy (Spec) recommendation.

### Earnings Forecast

Year end 30 June	2017a	2018e	2019e	2020e
Sales (A\$m)	-	-	-	63
EBITDA (A\$m)	(8)	(3)	(0)	30
NPAT (reported) (A\$m)	(8)	(6)	(2)	14
NPAT (adjusted) (A\$m)	(8)	(6)	(2)	14
EPS (adjusted) (cps)	(2)	(2)	(0)	3
EPS growth (%)	na	na	na	na
PER (x)	(15.6)	(22.1)	(82.0)	11.0
FCF Yield (%)	-4%	-5%	-9%	-20%
EV/EBITDA (x)	(25.8)	(83.6)	(2,152.1)	7.1
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-29%	-16%	-4%	24%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Good numbers coming in

## Excellent step-out drilling results

AML has recently released assays from wide step-out drilling that demonstrate the presence of high grade copper-cobalt zones along strike from the known Resource at its 100%-owned Walford Creek project in Queensland. These results, in our view, significantly bolster the case for the extension of the known Resource – one of the key tenets of our investment thesis. The results reported were:

From hole **WFPD292 drilled 2.5km to the west** of the current Resource:

- **18m @ 1.39% Cu, 0.11% Co** and 32g/t Ag from 390m, including;
  - **7m @ 2.35% Cu, 0.19% Co** and 38g/t Ag from 398m.

And from hole **WFPD304, drilled 3.7km to the west** of the current Resource:

- **19m @ 1.20% Cu, 0.10% Co** and 23g/t Ag from 348m, including;
  - **2m @ 3.28% Cu, 0.17% Co, 10.08% Pb**, 6.17% Zn and 58g/t Ag from 359m.

These are very positive developments and additional evidence of the continuity of high grade copper and cobalt zones along strike from the existing Resource, now 3.7km to the west of it.

While previous holes up to 7.5km west of the Resource have not hit high grade copper, they have intersected the high grade peripheral mineralisation – as holes adjacent to these high grade copper hits also did. Specifically, WFPD292 was designed to test the lower PY3 copper-cobalt zone after a previous hole (WFPD173) had drilled just above the target and intersected high grade peripheral lead and zinc mineralisation. As such, we see the prospectivity of the deposit remaining wide open over a long strike length.

## Latest drilling: 42m intercept 4.6km west of Resource

In addition to the assays returned from the holes listed above, AML has also reported the visual logging of an intersection of 42m of the copper-bearing mineral chalcopyrite. This is from one of the latest holes drilled at the project, WFDH352 – this time drilled 4.6km to the west of the current Resource.

We clearly need to await the assays, but visual logging has been a good indicator in the past. Again, hole WFPD292 is a good example of this: it successfully intersected approximately 20m of overprinting chalcopyrite rich mineralisation. The high grade copper assays subsequently announced are now the best returned to date in the PY3 outside the current Resource.

Should the 42m turn out to be well mineralised it will be one of the widest intercepts achieved to date at Walford Creek. In the context of previous of visual logging correlating with strong mineralisation, combined with the wide step-out, it is further evidence for the potential of a significant increase to the Resource. In our view announcement of this result was certainly required in order for AML to maintain its continuous disclosure obligations.

This is also very efficient exploration, with drilling success driven by AML's understanding of the deposit and the robust geological model they have developed. This is consistent with another of the key tenets of our investment thesis for AML, being that AML has entered an exciting period of cost effective discovery and growth.

### Changes to our valuation

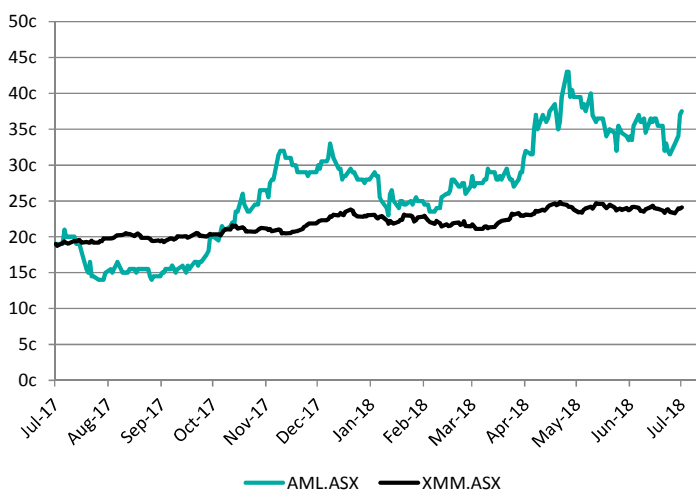
We make no material changes to our valuation other than updating for the current capital structure. These results and developments are consistent with our view that the Walford Creek deposit will exhibit significant growth over the coming 12 months. Our valuation remains unchanged at \$0.54/sh, implying a 45.9% return from the last closing share price. We retain a Buy (Speculative) recommendation.

### Upcoming catalysts

Upcoming catalysts for AML include:

- Ongoing newsflow including drilling progress and assay results from the major 30,000m infill and extension drilling program at Walford Creek. Newsflow from this program has the potential to provide strong positive catalysts for the stock price;
- Updates from the ongoing technical studies based on the larger, upgraded Resource at Walford Creek; and
- Later in 2018 or early in 2019, the next Resource updates.

**Figure 1 - 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 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.

In mid-2017 a new understanding of the deposit resulted in the development of a geological model which was subsequently used to target a diamond drilling program testing for high grade extensions of the Vardy Zone. This program was highly successful and defined an upgraded copper-cobalt Resource of 15.7Mt @ 1.24% Cu and 0.15% Co for 194kt Cu contained and 24kt Co contained. Further extension of this Resource will be targeted in 2018 and is a compelling opportunity for AML. A 30,000m diamond core and RC drilling program is underway to test this and will be the single biggest ever undertaken at the project.

## Investment thesis – Buy, (Speculative), valuation \$0.54/sh

AML's exploration has been very efficient, driven by the robust geological model of the deposit. We reiterate our view that AML has entered an exciting period of cost effective discovery and growth and news flow from this program may deliver strong, positive catalysts for the share price. Our NPV-based valuation is unchanged at \$0.54/sh. AML remains one of our Top Picks for 2018 and we retain our Buy (Spec) recommendation.

## 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 further conversion from the existing Resource (15.7Mt) for a total Mining Inventory of 9.9Mt. It also allows for higher grades being front-ended in the production profile (as with the PEA). We also include an exploration valuation of \$180m to reflect Resource upside and the prospectivity of AML's tenements and the likelihood of further value being added through exploration success.

**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.

# 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	2016a	2017a	2018e	2019e	2020e	Year ending June	Unit	2016a	2017a	2018e	2019e	2020e
Revenue	\$m	-	-	-	-	62.6	<b>VALUATION</b>						
Expense	\$m	(2.6)	(8.3)	(2.6)	(0.1)	(32.2)	NPAT	\$m	(2)	(8)	(6)	(2)	14
<b>EBITDA</b>	<b>\$m</b>	<b>(2.6)</b>	<b>(8.3)</b>	<b>(2.6)</b>	<b>(0.1)</b>	<b>30.4</b>	Reported EPS	c/sh	(1)	(2)	(2)	(0)	3
Depreciation	\$m	-	-	(0.0)	(0.0)	(6.5)	EPS growth	%	na	na	na	na	na
EBIT	\$m	(2.6)	(8.3)	(2.6)	(0.1)	23.9	PER	x	-50.9x	-15.6x	-22.1x	-82.0x	11.0x
Net interest expense	\$m	0.2	0.1	(3.8)	(1.7)	(10.0)	DPS	c/sh	-	-	-	-	-
<b>PBT</b>	<b>\$m</b>	<b>(2.5)</b>	<b>(8.2)</b>	<b>(6.4)</b>	<b>(1.9)</b>	<b>13.9</b>	Franking	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	-	Yield	%	0%	0%	0%	0%	0%
<b>NPAT</b>	<b>\$m</b>	<b>(2.5)</b>	<b>(8.2)</b>	<b>(6.4)</b>	<b>(1.9)</b>	<b>13.9</b>	FCF/share	c/sh	(1)	(1)	(2)	(3)	(7)
							P/FCFPS	x	-41.6x	-27.0x	-19.6x	-11.2x	-5.1x
							EV/EBITDA	x	-81.9x	-25.8x	-83.6x	-2152.1x	7.1x
							EBITDA margin	%	nm	nm	nm	nm	49%
							EBIT margin	%	nm	nm	nm	nm	38%
							Return on assets	%	-5%	-14%	-10%	-2%	9%
							Return on equity	%	-8%	-29%	-16%	-4%	24%
							<b>LIQUIDITY &amp; LEVERAGE</b>						
							Net debt (cash)	\$m	17	30	3	17	47
							ND / E	%	52%	123%	6%	33%	72%
							ND / (ND + E)	%	34%	55%	6%	25%	42%
							EBITDA / Interest	x	-	-	-	-	-3.0x
							<b>MINERAL RESOURCES</b>						
							<b>Walford Creek, QLD</b>	<b>Mt</b>	<b>% Cu</b>	<b>Cu (kt)</b>	<b>ppm Co</b>	<b>Co (kt)</b>	
							<b>Total resource</b>	<b>73</b>	<b>0.40%</b>	<b>296</b>	<b>813</b>	<b>60</b>	
							Measured	-	-	-	-	-	
							Indicated	16	0.46%	75	914	15	
							Inferred	57	0.39%	221	785	45	
							<b>Vardy Zone</b>						
							<b>Total resource</b>	<b>15.7</b>	<b>1.24%</b>	<b>194.0</b>	<b>1,552</b>	<b>24.4</b>	
							Measured	1.2	1.25%	15.0	1,600	1.9	
							Indicated	3.8	1.19%	45.2	1,400	5.3	
							Inferred	10.7	1.25%	133.8	1,600	17.1	
							<b>PROJECT ASSUMPTIONS - Vardy Zone evaluation</b>						
							<b>Year ending June 30</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	
							Currency	US\$/A\$	0.73	0.75	0.78	0.77	0.76
							Copper price	US\$/lb	\$2.22	\$2.44	\$3.17	\$3.42	\$3.39
							Cobalt	US\$/t	\$35,000	\$75,000	\$75,000	\$75,000	\$75,000
							Zinc	US\$/t	\$0.80	\$1.27	\$1.30	\$1.33	\$1.37
							CAPEX - development	A\$m	-	-	-	(10)	(49)
							CAPEX - sustaining	A\$m	-	-	-	-	(3)
							Ore milled	Mt	-	-	-	-	0.30
							Head grade	% Cu	-	-	-	-	1.35%
								ppm Co	-	-	-	-	1,800
							Production	t Cu	-	-	-	-	3.8
								t Co	-	-	-	-	0.270
							<b>VALUATION</b>						
							<b>Ordinary shares (m)</b>						<b>586.0</b>
							Options in the money (m)						85.0
							Assumed equity raise (m)						27.0
							<b>Diluted m</b>						<b>698.0</b>
							<b>SOTP</b>						<b>\$m</b>
							Walford Ck (unrisked NPV10)						243
							Walford Ck (risk discount 25%, NPV10)						183
							Other exploration						180
							Corporate overheads						(14)
							Net cash (debt)						2
							<b>Total (undiluted)</b>						<b>350</b>
							Cash from options						13
							Assumed equity raise						10
							<b>Total (fully diluted)</b>						<b>373</b>
													<b>0.54</b>
							<b>MAJOR SHAREHOLDERS</b>						
													<b>%</b>
													<b>m</b>
							OCP Holdings						29.4%
							Regal Funds Management						5.4%
							Management and Board						4.1%
							Bliss Investments						4.0%
							<b>Top 4</b>						<b>42.9%</b>
													<b>251.3</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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