

Aeris Resources Ltd

(AIS \$0.08) Buy



Analyst	Date	Price Target
Andrew Clayton	29 th May 2019	\$0.25/sh ▼ from \$0.30/sh

Company update

Investment case

Drilling at Torrens JV (AIS 70% ARE 30%) has been suspended after spending ~\$6m to drill four holes (two unsuccessfully). We believe this is prudent step to update the targets with new geological/geophysical interpretations and look at more cost efficient program. Torrens JV only accounts for 16% of our total \$0.24/sh valuation with the bulk ascribed to the operating Tritton 25kt Cu mine. A failed bid for the CSA mine and this news has resulted in AIS trading at 18 month lows when it was a completely different company - heavily indebted with a poor capital structure. We believe this in an over reaction and maintain our Buy.

Key points

- Torrens exploration program (AIS 70% and ARE 30%) has been suspended after drilling four holes - two unsuccessful due to hitting a shallow acquirer
- The most recent hole TD10 was drilled to target depth of 1.3km. Assays rec'd for TD7 reported no significant Cu mineralisation with the highest grade interval of 20m @ 0.15% Cu from 542m.
- Drilling costs have been significantly higher than budget. ARE in their announcement suggest the JV would have spent 120% of budget or ~ \$6m for four holes or >\$1m per hole compared to a budget of \$0.5-0.6m per hole.
- We believe the decision to suspend the drill program is prudent given the cost and the potential to further prioritise the targets via updated geophysical and geological interpretation.
- On 20/3/19 AIS disclosed it was in discussion to buy the CSA mine from Glencore for ~ US\$575m via a mixture of cash and scrip. On the 15th of April AIS advised it had been unable to come to agreeable terms with Glencore.
- AIS continues to operate the 25kt Cu Tritton Cu mine. This mine continues to generate reasonable cashflow.
- At the end of the Mar Q AIS had cash plus Cu receivables of \$23.9m. During the Q it had already spent \$2.7m on the Torrens JV.

Aeris Resources Ltd	Year End 30 June	
Share Price	0.08	A\$/sh
Price Target	0.25	A\$/sh
Valuation	0.24	A\$/sh (npv 10%)

Shares on issue	643	m, diluted *
Mkt Cap'n	51	A\$m
Enterprise Value	77	A\$m
Debt	-43	A\$m
Cash	18	A\$m
Largest Shareholder	SPOV - 30%	

Production F/Cast	2018a	2019f	2020f
Tritton Cu (kt)	27	25	25
C1 Cash Costs (A\$/lb)	2.46	2.72	2.77
AISC (A\$/lb)	3.95	2.75	2.73

Assumptions	2018a	2019f	2020f
Copper US\$/lb	3.06	2.37	2.33
AUDUSD	0.78	0.86	0.85
Copper A\$/lb	3.94	2.74	2.73

Key Financials	2018a	2019f	2020f
Revenue (A\$m)	233	228	222
EBITDA (A\$m)	48	37	47
NPAT (A\$m)	0	-3	10
Cashflow (A\$m)	24	6	23

CFPS (Ac)	5	1	4
P/CFPS (x)	3	9	2

EPS (Ac)	0	-1	2
EPS growth (%)	na	na	na
PER (x)	na	na	5.0

EV:EBITDA (x)	2.7	2.0	0.9
EV:EBIT (x)	5.7	14.5	2.3

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	52%	18%	na
Interest Cover (x)	na	na	2.8

Share Price Chart



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Analysis

We are surprised at the negative market reaction to this news that drilling at Torrens was being suspended. In our view there was little imputed value for this JV with the bulk of the value ascribed to the operating mine.

Whilst it is disappointing that only four holes were drilled we believe it is reckless to continue to spend >\$1m per hole without evaluating changes and opportunities to do things cheaper/better.

We have revised our valuation for the Torrens JV from \$35m to \$25m in line with ARE mkt capitalisation. This has reduced our valuation for AIS from \$0.28/sh to \$0.24/sh. If you assign zero for Torrens JV then our valuation would still be \$0.20/sh.

AIS is trading at 18 months lows when it was a heavily indebted company with a poor capital structure. We don't believe that AIS requires any equity with operations generating cash and current cash of >\$20m.

We maintain our Buy and believe the current price weakness is a knee jerk reaction to this drill suspension whilst the underlying value of the Tritton remains intact.

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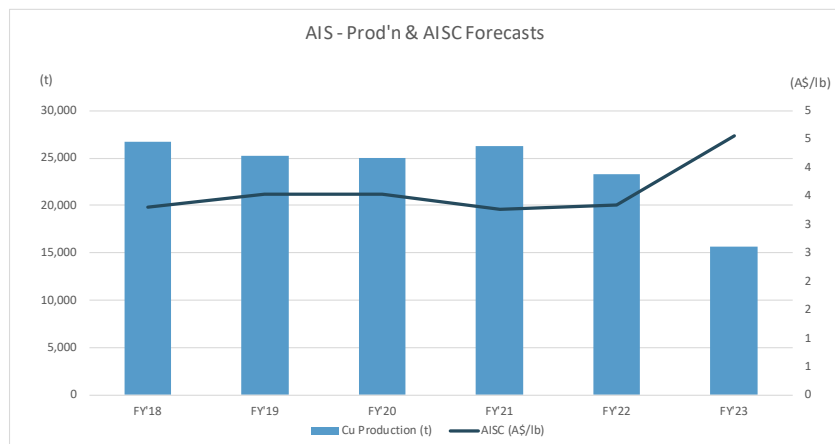
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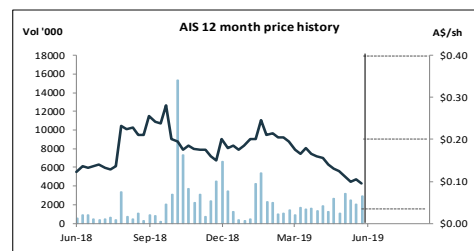
Key Variables

Val/ Sh	Copper \$									
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
AUDUSD	\$0.24									
20%	-0.03	0.00	0.04	0.07	0.10	0.14	0.17	0.20	0.24	
15%	-0.01	0.03	0.06	0.10	0.13	0.17	0.20	0.24	0.27	
10%	0.02	0.06	0.09	0.13	0.16	0.20	0.24	0.27	0.31	
5%	0.05	0.09	0.12	0.16	0.20	0.24	0.27	0.31	0.35	
0%	0.08	0.12	0.16	0.20	0.24	0.28	0.32	0.36	0.40	
-5%	0.11	0.15	0.20	0.24	0.28	0.32	0.36	0.41	0.45	
-10%	0.15	0.20	0.24	0.28	0.33	0.37	0.42	0.46	0.50	
-15%	0.19	0.24	0.29	0.33	0.38	0.43	0.47	0.52	0.57	
-20%	0.24	0.29	0.34	0.39	0.44	0.49	0.54	0.59	0.64	



Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Copper \$	\$3.06	\$2.37	\$2.33	\$2.66	\$2.72	\$2.72
AUDUSD	\$0.78	\$0.86	\$0.85	\$0.88	\$0.90	\$0.90

Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.24/sh

Price Target - \$0.25/sh

Bull Scenario - \$0.50/sh

Kurrajong prospect develops into a mineable project and adds 2-3yrs additional life to operations and Cu price tracks higher than our forecast.

Base Scenario - \$0.25/sh

Tritton continues to operate for the next five years in line with its current reserve estimate.

Bear Scenario - \$0.05/sh

Copper price falls and Tritton ceases to generate any free cash net of debt repayments.

Company Summary

Aeris Resources Ltd (AIS) is an Australian copper production company. Tritton Copper Mine remains its flagship asset and has been operating continuously since 2005. Production has varied at between 22kt to 30kt pa. We forecast average annual production of approximately 24,000 t of Cu for the remaining 5 yrs. Current Mineral Reserve Estimate of 10.5Mt at 1.5% Cu and a minimum LOM of 5 years.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Market Statistics

		Year End 30 June	
Share Price	0.08 A\$/sh	Directors	
Issued Capital		A. Labuschagne	Ex Charm
FP Ord	455.7 m	A. Morrison	Dir
Opts (Mgt)	93.4	M. Muscillo	Dir
Preference Share	93.4	M. Derwin	Dir
Total Dil. FP Ord	642.5 m	Shareholders	
Market Capitalisation	\$51 m	SPOV	30%
Enterprise Value	\$77 m	SCB	20%
Debt	\$43 m*	Dir + Mgt	20%
Cash	\$18 m*	Glencore	5%
Hedging 12kt @ A\$8,670/t			

Asset Valuation

	A\$m	A\$/sh
Tritton (npv 10%)	133	0.21
Corporate	-28	-0.04
Hedging	2	0.00
Tax losses	20	0.03
Exploration	25	0.04
Torrens JV	25	0.04
Debt	-15	-0.02
Working Capital (debt)	-27	-0.04
Cash	18	0.03
Total @ 10%	153	0.24

F/Cast Production (A\$m) 2018a June H'19 2019f 2020f 2021f

Tritton (100%)		2018a June	H'19	2019f	2020f	2021f
Cu Prod'n	kt	26.8	12.0	25.2	25.0	26.3
Cash Cost	A\$/lb	2.46	2.83	2.76	2.81	2.64
AISC	A\$/lb	3.30	3.76	3.53	3.53	3.26
Price Rec'd	A\$/lb	3.95	3.88	4.12	4.10	4.52
Assumptions						
Copper	US\$/lb	3.06	2.79	2.96	2.91	3.33
FX	US\$:A\$	0.78	0.72	0.72	0.71	0.74

Ratio Analysis (A\$m) 2018a June H'19 2019f 2020f 2021f

CF (A\$m)	24.5	(4.5)	5.8	23.1	67.5
CF / Sh (Ac/sh)	5.2	(0.7)	0.9	3.6	10.5
CF Ratio (x)	2.9	-	8.8	2.2	0.8
Earnings (A\$m)	(0.1)	(2.8)	(3.4)	10.3	36.7
EPS (Ac/sh)	(0.0)	(0.4)	(0.5)	1.6	5.7
EPS Growth (%)	na	0%	na	na	258%
Earnings Ratio (x)	na	-	na	5.0	1.4
E'prise Val. (A\$m)	129	73	73	40	(25)
EV : EBITDA (attr)(x)	2.7	2.6	2.0	0.9	na
EV : EBIT (attr)(x)	5.7	na	14.5	2.3	na
Net Debt / ND+Eq (%)	52%	18%	18%	na	na
Net Debt : Equity (%)	107%	22%	22%	na	na
Interest Cover (x)	na	-	na	2.8	na
EBIT Margin (%)	10%	0%	2%	8%	20%
ROE (%)	0%	-3%	-3%	8%	21%
ROA (%)	0%	-2%	-2%	5%	15%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	-	-	-	-	-
Div. Yield	0%	0%	0%	0%	0%
Div. Franking	0%	0%	0%	0%	0%

Profit and Loss (A\$m) 2018a June H'19 2019f 2020f 2021f

Sales Revenue	231	100	224	221	257
Hedging Revenue	0	3	3	-	-
Interest Revenue	2	1	1	1	2
Other Revenue	-	-	-	-	-
TOTAL REVENUE	233	104	228	222	259
Operating Costs	171	85	179	167	165
Dep/Amort	25	12	28	29	33
O/H + New Bus Dev	13	4	12	8	8
Prov&W/O	-	2	4	-	-
EBITDA	48	14	37	47	83
EBIT	23	(0)	5	18	50
Interest Expense	19	4	8	5	2
Net Profit bef Tax	6	(4)	(2)	14	50
Tax	6	(1)	2	4	14
Minority Interest	-	-	-	-	-
NET PROFIT	(0)	(3)	(3)	10	37
Net Adjustment	54	-	-	-	-
Net Profit After Adjustment	54	(3)	(3)	10	37

Cash Flow (A\$m) 2018a June H'19 2019f 2020f 2021f

Net Profit	0	-3	-3	10	37
+ Working Capital Adj	19	0	-1	0	0
+ Dep/Amort	25	12	28	29	33
+ Provisions	0	2	4	0	0
+ Tax Expense	6	-1	2	4	14
- Tax Paid	0	0	0	0	0
Operating Cashflow	49	11	29	43	83
-Capex + Development	25	15	23	20	16
-Exploration	4	4	9	4	2
-Assets Purchased	0	0	3	0	0
+Asset Sales	0	0	0	0	0
Investing Cashflow	-29	-19	-34	-24	-18
+ Equity Issues	0	0	33	0	0
+Loan Drawdown	5	0	0	14	-1
+Other	0	0	0	0	0
-Loan Repayment	13	0	33	14	0
-Dividends	0	0	0	0	0
Financing Cashflow	-8	0	0	0	-1
Period Sur (Def)	12	-8	-6	19	64
Cash Balance	23	17	17	36	100

Balance Sheet (A\$m) 2018a June H'19 2019f 2020f 2021f

Assets					
Cash	23	17	17	36	100
Current Receivables	10	10	10	10	10
Other Current Assets	20	20	20	20	20
Non-Current Assets	132	137	137	132	117
Total Assets	184	183	183	197	246
Liabilities					
Borrowings	82	39	39	25	24
Current Accounts Payable	26	25	25	25	25
Other Liabilities	21	21	21	21	21
Total Liabilities	129	85	85	71	70
Net Assets	55	99	99	126	177

Reserves and Resources

	Reserves			Resources		
	mt	grade	kt cont	mt	grade	kt cont
Tritton (100%) Cu	10.5	1.5	150.00	21.0	1.5	320.00

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Contact Details

Euroz Securities Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Michael Emery - Resources Analyst	+61 8 9488 1430
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Seth Lizee - Associate Research Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Ian Harrison - Investment Adviser	+61 8 9488 1422
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Steve Wood - Investment Adviser	+61 8 9346 0305
Tom Kenny - Investment Adviser	+61 8 9488 1431
Zac Vinten - Associate Adviser	+61 8 9488 1473

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