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Aeon Metals Limited (AML)

Major Resource upgrade sets the tone

Recommendation

Buy (unchanged)

Price

\$0.28

Target (12 months)

\$0.48 (previously \$0.43)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	71.4%
Dividend yield	0.0%
Total expected return	71.4%

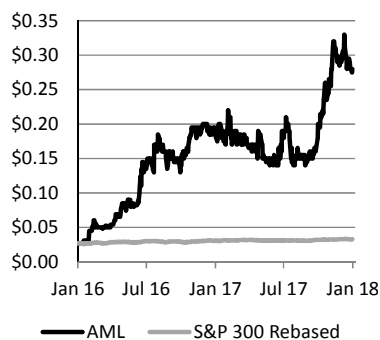
Company Data & Ratios

Enterprise value	\$156.8m
Market cap	\$162.6m
Issued capital	580.6m
Free float	70%
Avg. daily val. (52wk)	\$170,225
12 month price range	\$0.13-\$0.35

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.29	0.17	0.19
Absolute (%)	-1.8	69.7	47.4
Rel market (%)	-1.8	66.8	40.7

Absolute Price



SOURCE: IRESS

Resource estimate doubles

AML has released a major Resource upgrade for its 100%-owned Walford Creek copper-cobalt project in QLD. It reported a new copper-cobalt Resource of 15.7Mt @ 1.24% Cu and 0.15% Co for 194kt Cu contained and 24kt Co contained. This more than doubles the size of the previous Vardy Resource (6.6mt @ 1.25% Cu and 0.16% Co). The Resource was upgraded following last year's highly successful drilling campaign which was targeted using a new geological model for the deposit. AML has also declared a maiden Cobalt Peripheral Resource of 18.0Mt @ 0.11% Co for 19.5kt contained cobalt. This Resource is exclusive of and adjacent to the copper Resource and, combined, the two latest estimates contain a total of 43.5kt cobalt, making it one of the larger, higher grade sulphide hosted cobalt Resources in Australia.

Well-funded, risk profile reduced post raising

Following a successful equity raising of \$30.0m in December 2017 a repayment of \$15.5m was made to OCP leaving a current balance of approximately \$14.2m. This amount can be substantially repaid with the proceeds of OCP's 85m warrants (exercisable at \$0.16 before December 2019 for \$13.6m). This materially reduces AML's risk profile and leaves it extremely well positioned for 2018. A further 30,000m of drilling is planned to commence in April to further expand the Resource. Given the successful targeting of the 2017 program and positive geological indications of scale and continuity it is, in our view, highly likely this is just the start of a major Resource expansion at Walford Creek.

Investment thesis – Buy, (Speculative), valuation \$0.48/sh

We reiterate our view that AML has entered an exciting period of cost effective discovery and growth. The increased Resource extends the mine life of the base-case production scenario at Walford Creek and increases our NPV-based valuation by 12% to \$0.48/sh. AML remains one of our Top Picks for 2018 and we retain our Buy (Speculative) recommendation.

Earnings Forecast

Year end 30 June	2017a	2018e	2019e	2020e
Sales (A\$m)	-	-	-	60
EBITDA (A\$m)	(8)	(3)	(0)	28
NPAT (reported) (A\$m)	(8)	(6)	(2)	11
NPAT (adjusted) (A\$m)	(8)	(6)	(2)	11
EPS (adjusted) (cps)	(2)	(2)	(0)	3
EPS growth (%)	na	na	na	na
PER (x)	(11.8)	(16.1)	(58.0)	9.5
FCF Yield (%)	-5%	-7%	-13%	-30%
EV/EBITDA (x)	(18.8)	(60.9)	(1,567.7)	5.6
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-29%	-16%	-4%	20%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Major Resource upgrade sets the tone

Resource estimate doubles

AML has released a major Resource upgrade for its 100%-owned Walford Creek copper-cobalt project in QLD. It reported a new copper-cobalt Resource of 15.7Mt @ 1.24% Cu and 0.15% Co for 194kt Cu contained and 24kt Co contained. This more than doubles the size of the previous Vardy Resource (6.6mt @ 1.25% Cu and 0.16% Co). The Resource was upgraded following last year's highly successful drilling campaign which was targeted using a new geological model for the deposit.

The previous and updated Resource estimates are summarised below:

Table 1 – Walford Creek Project – Vardy Zone Mineral Resource as at December 2016 (JORC 2012 compliant)

Category	Mt	% Cu	Cu (kt)	% Pb	Pb (kt)	% Zn	Zn (kt)	g/t Ag	Moz Ag	ppm Co	Co (kt)
Measured	1.0	1.14%	11.4	0.84%	8.4	0.83%	8.3	25.9	0.8	1,700	1.7
Indicated	2.2	1.26%	27.7	0.80%	17.6	0.93%	20.5	26.4	1.9	1,800	4.0
Inferred	3.4	1.28%	43.5	0.68%	23.1	0.63%	21.4	25.0	2.7	1,500	5.1
Total	6.6	1.25%	82.6	0.74%	49.1	0.76%	50.2	25.6	5.4	1,630	10.8

SOURCE: COMPANY REPORTS. NUMBERS MAY NOT ADD DUE TO ROUNDING

Table 2 – Walford Creek Project – Copper Lode Mineral Resource as at January 2018 (JORC 2012 compliant)

Category	Mt	% Cu	Cu (kt)	% Pb	Pb (kt)	% Zn	Zn (kt)	g/t Ag	Moz Ag	ppm Co	Co (kt)
Measured	1.2	1.25%	14	0.89%	10	0.81%	9	26.3	1.0	1,600	1.8
Indicated	3.8	1.19%	45	0.69%	26	0.88%	34	23.6	2.9	1,400	5.4
Inferred	10.7	1.25%	134	1.09%	118	0.81%	86	37.8	13.1	1,600	16.8
Total	15.7	1.24%	194	0.98%	154	0.82%	129	33.5	16.9	1,500	24.0

SOURCE: COMPANY REPORTS. NUMBERS MAY NOT ADD DUE TO ROUNDING

Resource robust at higher cut-off grade

The base-case Resource is estimated on a 0.0% Cu cut-off grade. AML has also stated the copper Resource at a higher cut-off grade of 0.5% Cu as:

13.4Mt @ 1.39% Cu and 0.16% Co for 186kt Cu and 21.5kt Co contained

This is a positive first-pass indicator of the economic robustness of the new Resource and represents an increase in the copper grade of 11.2% over the previous Vardy Resource. We also note good increases in the grades of lead, zinc and silver. At present this is not reflected in the recovered value of the ore (as presented in the table 3, below) as our recovery assumptions are based on the Preliminary Economic Assessment (PEA) of March 2017. The higher grades and larger Resource are likely to justify changes to the processing route, increasing recoveries and adding upside to our estimates.

This characteristic also shows how clear-cut the mineralisation is: i.e. the deposit is defined by a geological cut-off as opposed to an economic cut off, which in general we view as a positive for mining.

Table 3 – Estimated recovered value and copper equivalent grades

	%Cu	% Co	% Pb	% Zn	Ag g/t	US\$/t	Cu eq %
Vardy Resource Dec-16	1.25%	0.16%	0.74%	0.76%	25.6		
Recovered value	\$103.59	\$77.55	-	\$24.34	-	\$205	2.29%
% split	50%	38%		12%			
Copper Resource Jan-18	1.24%	0.15%	0.98%	0.82%	33.5		
Recovered value	\$102.76	\$72.35	-	\$26.26	-	\$201	2.24%
% split	51%	36%		13%			
Copper Resource Jan-18 (0.5% cog)	1.39%	0.16%	0.95%	0.79%	33.7		
Recovered value	\$115.19	\$76.13	-	\$25.30	-	\$217	2.41%
% split	53%	35%		12%			

SOURCE: BELL POTTER SECURITIES ESTIMATES

Assumed recoveries: Cu 93%, Co 49%, Zn 73% Assumed prices: Cu US\$6,900/t, Co US\$75,000/t, Zn US\$3,400/t

AML has also declared a maiden Cobalt Peripheral Resource of 18.0Mt @ 0.11% Co for 19.5kt contained cobalt. This Resource is exclusive of and adjacent to the copper Resource and, combined, the two latest estimates contain a total of 43.5kt cobalt, making it one of the larger, higher grade sulphide hosted cobalt Resources in Australia.

Table 4 – Walford Creek Project – Cobalt Peripheral Mineral Resource as at January 2018 (JORC 2012 compliant)

Category	Mt	% Cu	Cu (kt)	% Pb	Pb (kt)	% Zn	Zn (kt)	g/t Ag	Moz Ag	ppm Co	Co (kt)
Measured	1.8	0.13%	2	0.54%	10	1.16%	21	17.4	1.0	1,200	2.1
Indicated	6.5	0.17%	11	0.66%	43	1.13%	73	17.8	3.7	1,000	6.2
Inferred	9.7	0.16%	16	1.03%	100	0.95%	92	25.2	17.9	1,200	11.2
Total	18.0	0.16%	30	0.85%	152	1.03%	186	21.8	12.6	1,100	19.5

SOURCE: COMPANY REPORTS. NUMBERS MAY NOT ADD DUE TO ROUNDING

This Resource represents an economic subset of the previous global Resource reported in March 2015 of 73.3Mt @ 813ppm Co for 59.6kt Co contained. We point out that the March 2015 Resource was also reported at a higher cut-off-grade, for 27.7Mt @ 0.13% Co for 36.6kt Co contained.

While not directly comparable, the January 2018 Cobalt Peripheral Resource has also been estimated with more rigorous economic parameters (effectively a higher cut-off-grade). When we summate it with the Copper Resource we estimate 33.6Mt @ 0.13% Co for 43.5kt Co contained (note this is **not** a Resource calculation).

In our view this is a superior result as more conservative and relevant criteria have been applied, making it more representative of a mineable inventory and also lower risk.

Well-funded, reduced risk profile post raising

Following the successful equity raising of \$30.0m in December 2017, a repayment of \$15.5m was made to OCP leaving a current balance of approximately \$14.2m. This amount can be substantially repaid with the proceeds of OCP's 85m warrants (exercisable at \$0.16 before December 2019 for \$13.6m). This materially reduces AML's risk profile and leaves it extremely well positioned for 2018.

A further 30,000m of drilling is planned to commence in April to further expand the Resource. Given the successful targeting of the 2017 program and positive geological indications of scale and continuity it is, in our view, highly likely this is just the start of a major Resource expansion at Walford Creek.

Longer life, lower risk project

Following this latest Resource update AML will further optimise the project development scenario. The base case Preliminary Economic Assessment (PEA) of March 2017 contemplated a much smaller project and we expect the increase in scale will result in several changes. Apart from a larger processing plant it is likely that the larger Resource will justify changes to the processing route to maximise the recovery of metal that was not economically viable from a smaller Resource. For example, the higher recoveries from a cobalt roasting circuit did not justify its higher CAPEX when applied to a small Resource. However, the additional cobalt recovered from a larger Resource over the life of the project will now likely justify that investment.

Furthermore, the longer mine-life sustained by a larger Resource will expose the project to a longer price cycle, mitigating the impact of short term price movements.

Changes to our valuation

We make a number of changes to our risk adjusted NPV-based valuation for the Walford Creek project. We approximately double our assumed mining inventory from 5.1Mt to 10.0Mt, extending our modelled mine life from 8 years to 16 years. We point out that this is still less than the latest copper Resource. We also marginally lift our assumed copper grade from 1.25% Cu to 1.30% Cu. We also update for our latest commodity price and exchange rate assumptions which includes long-term prices (nominal) at US\$3.35/lb for copper and US\$65,000/t for cobalt.

Our exploration valuation of \$150m remains unchanged, with the definition of the cobalt Resource offsetting some of the value we had previously attributed to Resource upside (now captured in our mining scenario). We also remain convinced of the prospectivity of the Walford Creek project, which we see as having genuine potential to compete with some of the key base metals discoveries of the past decade.

We have pushed out our production scenario (and hence earnings) by 12 months, allowing for the re-scoping of the Feasibility Study. We expect this work to continue into 2018, now based upon this latest Resource.

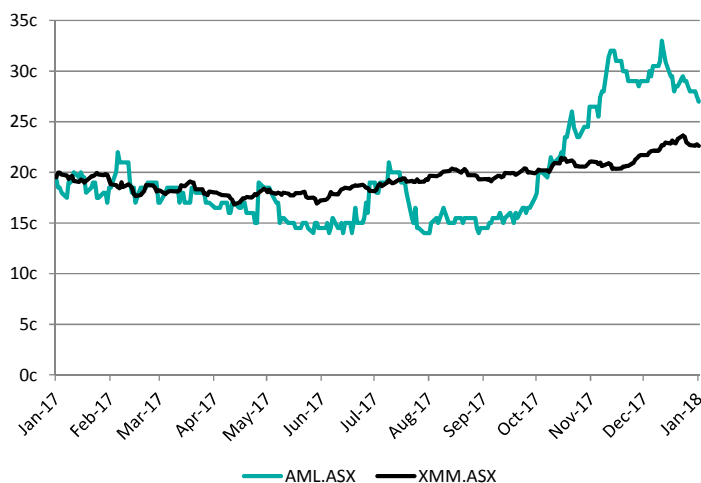
Our valuation increases 12% to \$0.48/sh and we retain our Buy (Speculative) recommendation, for upside from the current share price of 71.4%.

Upcoming catalysts

Upcoming catalysts for AML include:

- Commencement in April 2018 of a 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; and
- Updates from the ongoing technical studies based on the larger, upgraded Resource at Walford Creek.

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 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. Most recently, efforts have been focussed on a high grade subset of the main Resource, the Vardy Zone.

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.

Investment thesis – Buy, (Speculative), valuation \$0.48/sh

We reiterate our view that AML has entered an exciting period of cost effective discovery and growth. The increased Resource extends the mine life of the base-case production scenario at Walford Creek and increases our NPV-based valuation by 12% to \$0.48/sh. AML remains one of our Top Picks for 2018 and we retain our Buy (Speculative) 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 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.

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 5 - 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	-	-	-	-	60.1	VALUATION						
Expense	\$m	(2.6)	(8.3)	(2.6)	(0.1)	(32.1)	NPAT	\$m	(2)	(8)	(6)	(2)	11
EBITDA	\$m	(2.6)	(8.3)	(2.6)	(0.1)	28.0	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)	21.5	PER	x	-38.5x	-11.8x	-16.1x	-58.0x	9.5x
Net interest expense	\$m	0.2	0.1	(3.8)	(1.7)	(10.0)	DPS	c/sh	-	-	-	-	-
PBT	\$m	(2.5)	(8.2)	(6.4)	(1.9)	11.5	Franking	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	-	Yield	%	0%	0%	0%	0%	0%
NPAT	\$m	(2.5)	(8.2)	(6.4)	(1.9)	11.5	FCF/share	c/sh	(1)	(1)	(2)	(4)	(8)
							P/FCFPS	x	-31.5x	-20.5x	-14.3x	-7.9x	-3.4x
							EV/EBITDA	x	-59.7x	-18.8x	-60.9x	-1567.7x	5.6x
							EBITDA margin	%	nm	nm	nm	nm	47%
							EBIT margin	%	nm	nm	nm	nm	36%
							Return on assets	%	-5%	-14%	-10%	-2%	8%
							Return on equity	%	-8%	-29%	-16%	-4%	20%
							LIQUIDITY & LEVERAGE						
							Net debt (cash)	\$m	17	30	3	17	49
							ND / E	%	52%	123%	6%	33%	78%
							ND / (ND + E)	%	34%	55%	6%	25%	44%
							EBITDA / Interest	x	-	-	-	-	-2.8x
							MINERAL RESOURCES						
							Walford Creek, QLD						
							Total resource	Mt	73	0.40%	296	813	60
							Measured		-	-	-	-	-
							Indicated		16	0.46%	75	914	15
							Inferred		57	0.39%	221	785	45
							Vardy Zone						
							Total resource		15.7	1.24%	194.0	1,552	24.4
							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
							PROJECT ASSUMPTIONS - Vardy Zone evaluation						
							Year ending June 30						
							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	\$65,000	\$65,000	\$65,000	\$65,000
							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
							VALUATION						
							Ordinary shares (m)						580.6
							Options in the money (m)						85.0
							Assumed equity raise (m)						-
							Diluted m						665.6
							SOTP						\$m
							Walford Ck (unrisked NPV10)						217
							Walford Ck (risk discount 25%, NPV10)						162
							Other exploration						150
							Corporate overheads						(14)
							Net cash (debt)						6
							Total (undiluted)						304
							Cash from options						13
							Assumed equity raise						-
							Total (fully diluted)						318
													0.48
							MAJOR SHAREHOLDERS						
													%
													m
							OCP Holdings		29.7%				172.4
							Regal Funds Management		4.5%				26.2
							Bliss Investments		4.0%				23.5
							Washington H Soul Pattinson		3.6%				20.9
							SLW Minerals Corporation		2.8%				16.0
							Top 5		44.6%				259.0

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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